

# Washington Business Health Update

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- DEAL TO KEEP THE GOVERNMENT OPEN WOULD CUT EMPLOYEE FREE CHOICE, OR “CASH OUT,”VOUCHERS

Late last Friday, the President, Senate Majority Leader Harry Reid (D-NV) and House Speaker John Boehner (R-OH) reached an agreement to [temporarily](#) keep the government open until April 14<sup>th</sup> (midnight Thursday). The deal cut an additional \$2 billion, none of which came from the Department of Health and Human Services (HHS). An additional agreement would cut \$39 billion across a variety of government programs and fund the federal government for the rest of the congressional fiscal year (September 30, 2011).

The deal would cut the health care law’s employee free choice vouchers. This provision would require employers to offer employees who make premium contributions for group health plan coverage between 8% and 9.8% of their household incomes the option to “cash out” the value of their health subsidy (the largest portion that employers contribute to any plan) and buy exchange coverage.

The [agreement](#) would also require federal [studies](#) on the impact on insurance premiums that people will incur from the law’s insurance mandates (guaranteed issue, guaranteed renewal, community rating); a full audit of the waivers HHS has granted to “mini-med” plans from the annual limits in the law; a full audit of federal comparative effectiveness research; and a report on all of the contractors hired to implement the law.

**IMPACT ON EMPLOYERS AND EMPLOYEES:** Allowing employees to use employer subsidies to obtain coverage through new State Exchanges could increase the risk of adverse selection against employer plans if younger, healthier employees leave employer plans. Employers and many employees would also face increased administrative costs to provide vouchers to eligible employees seeking to buy coverage in the Exchanges. Employees remaining on their employers’ coverage would pay more for it.

**OUTLOOK:** *The House will approve the deal to fund the federal government this week if Speaker Boehner can maintain the support of a majority of the conservative Tea Party members who want larger cuts. While the agreement may face some opposition in the Senate, the support from Majority Leader Reid means*

*that it should pass, possibly with separate votes on individual parts of the agreement to repeal the health care law, including the employee free choice vouchers.*

**BACKGROUND:** Congress and the Administration needed the funding deal because Congress never passed a full budget for the 2011 fiscal year, which is now half over. It has already passed two smaller funding extensions coupled with funding cuts to keep the federal government temporarily open. Overall discretionary spending would be set at about \$1.05 trillion—down from \$1.09 trillion in 2010. The President’s initial budget request for 2011 called for an increase in spending to \$1.13 trillion.

The House originally passed a 7-month funding bill opposed by Senate Democrats that would cut an additional \$65 billion from 2010 spending levels and bar funding for the health care law.

**NATIONAL BUSINESS GROUP ON HEALTH VIEW AND ACTION ON THESE ISSUES:** The Business Group believes that allowing employees to use employer subsidies to obtain coverage through new State Exchanges could increase the risk of adverse selection against employer plans if younger, healthier employees leave employer plans. Accordingly, employers would only cover older and sicker employees which would raise the cost of employer-sponsored coverage for both employers and employees. If employer plan costs increase, some employers would stop offering it altogether.

➤ **REPRESENTATIVE PAUL RYAN’S (R-WI) PROPOSAL TO REDUCE GOVERNMENT SPENDING WOULD SET UP MEDICARE EXCHANGE**

This week, the House will also consider Budget Committee Chair Paul Ryan’s (R-WI) budget plan that would cut about \$6 trillion in federal spending over the next 10 years.

Starting in 2022, Congressman Ryan’s proposal would:

- Increase the age of eligibility for Medicare by two months per year until it reached 67 in 2033.
- Move people who are currently 55 or younger from traditional Medicare into an exchange where they could choose from a variety of private plans.
- Contribute \$8,000 in direct federal premium support payments per beneficiary to the health care plans in the Medicare exchange. The federal government would use risk adjustment and vary premium support payments on the health status of beneficiaries. The federal government’s premium support payments would also vary with the income of the beneficiaries—seniors with the top 2% of the incomes would only receive 30% of the premium support; people in the next 6% would receive 50% of premium support; and people in the remaining 92% would receive the full premium support.
- Contribute an additional \$7,800 to Medical Savings Accounts (MSAs) for beneficiaries with dual eligibility for Medicare and Medicaid or with incomes below 150% of the federal poverty level (approximately \$27,795 for a family of 3).

- Covert the federal share of Medicaid spending into a block grant to States indexed for inflation and population growth.

Congressman Ryan’s plan would not defund the entire health care law, but it would remove funding for:

- The individual coverage mandate, beginning in 2013;
- The state insurance exchanges and exchange subsidies for those up to 400% of federal poverty (about \$43,000 for individual or \$88,000 for a family of 4), beginning in 2014;
- The Medicaid expansion up to 133% of federal poverty (\$24,352 for a family of 3) or up to 138% of federal poverty with income offsets, beginning in 2014;
- The free rider assessment (employer penalties), beginning in 2014;
- The small employer tax credits; beginning in 2010;
- The Community Living Assistance Services and Supports (CLASS) program for long-term care insurance, likely beginning in 2013;
- Grant funding for the high risk pools program; beginning in 2010;
- The Early Retiree Reinsurance Program (ERRP); beginning in 2010;
- The \$1 billion Prevention and Public Health Fund; beginning in 2010—the House will also vote on a separate bill this week from House Energy and Commerce Health Subcommittee Chair Joe Pitts (R-PA) to repeal this fund;
- The Independent Payment Advisory Board (IPAB) which would make proposals for Medicare cuts that automatically go into effect unless Congress stops them when spending exceeds certain targets; and
- The expanded Medicare Part D subsidies to close the “donut hole” in coverage, beginning in 2010.

However, the Congressional Budget Office (CBO) also reported that Congressman Ryan’s proposal would still allow most of the other Medicare changes in the health care law, including Accountable Care Organizations (ACOs), patient safety provisions (reducing funding for healthcare-acquired conditions and readmissions) and the Center for Medicare and Medicaid Innovation or CMMI (which will test new payment models, beginning in 2012) to continue.

The President is expected to submit his own plan for reducing the annual deficit, and possible entitlement reform on Wednesday, before Congress begins consideration of raising the federal government’s \$14.3 trillion debt ceiling. The Treasury Department says the government will hit the legal borrowing limit no later than May 16.

**IMPACT ON EMPLOYERS AND EMPLOYEES:** Transforming Medicare to an effective, efficient, financially sound program would improve our economy and also reduce the risk of higher Medicare taxes for employers and employees, including payroll taxes, and increase the likelihood that Medicare will be there for current employees when they retire.

***OUTLOOK: The House may pass Congressman Ryan’s budget plan, but it will not pass the Senate. The Senate’s bipartisan “gang of six” including Richard Durbin (D-IL), Kent Conrad (D-ND), Mark Warner (D-VA), Mike Crapo (R-ID), Saxby Chambliss (R-GA) and Tom Coburn (R-OK) continue to work on their own proposal to reform entitlements based on the Fiscal Commission’s recommendations, which will likely incorporate a number of the President’s priorities from his speech on Wednesday.***

***Congress will consider a proposal to raise the federal debt ceiling before May 16.***

**BACKGROUND:** The current U.S. debt owed by the federal government stands at \$13.5 trillion and rising. In January, the CBO raised its [estimate](#) for the annual deficit (spending more than it takes in on revenues) from \$1.1 trillion to \$1.5 trillion. Spending on the government’s major mandatory health care programs—Medicare, Medicaid, the State Children’s Health Insurance Program (CHIP), and health insurance subsidies to be provided through insurance exchanges in 2014—along with Social Security will increase from roughly 10% of Gross Domestic Product (GDP) in 2011 to about 16% over the next 25 years. Medicare, Medicaid, and CHIP together account for 21% of total federal spending.

The bipartisan Fiscal Commission Co-Chairs released [recommendations](#) to balance the federal budget in November that included a number of items to shore up Social Security and Medicare, including:

- Taxing (fully or partially) employer-sponsored coverage (to finance Social Security);
- Expanding Medicare cost sharing and capping catastrophic costs;
- Identifying an additional \$200 billion savings in federal health spending from a variety of reforms that were included in the new health care law, such as expanding Medicare ACOs, bundling Medicare provider payments, cutting Medicare Advantage payments;
- Setting a global target for total federal health expenditures after 2020 (Medicare, Medicaid, CHIP, exchange subsidies, employer health exclusion), and reviewing costs every 2 years (holding growth to GDP+1%); and
- Requiring the President to submit and the Congress to consider reforms to lower Medicare spending if costs have grown faster than targets (on average of previous 5 years), including: increasing Medicare premiums or cost-sharing; overhauling the Medicare fee-for-service system; developing a premium support system for Medicare; adding a “public plan” option and/or all-payer system in the exchange; or expanding the authority of the IPAB.

**NATIONAL BUSINESS GROUP ON HEALTH VIEW AND ACTION ON THIS ISSUE:**

The Business Group also believes that Congress and the President need to come to an agreement to reform our nation’s expensive entitlement programs (Medicare and Social Security) and the state-federal Medicaid program to save the federal government from fiscal ruin and our economy too, before the Medicaid expansion begins in 2014, and both Medicare and Social Security run out of money, respectively in 2020 and 2037.

If you would like more details on these or other issues or would like a phone briefing on legislation, or want to express concerns about specific issues, please contact Steven Wojcik, Vice President, Public Policy at [wojcik@businessgrouphealth.org](mailto:wojcik@businessgrouphealth.org) or 202-558-3012. **Also, as part of our "Ask a Benefits Question" service, we are happy to respond within 24 hours to any health benefits question on policy, regulations or legislation.**

*This material is provided for information purposes only and is not a substitute for legal advice.*

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