Mahoney&Associates
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Health Care Reform–A Look at the Baucus Proposal

Health care reform proposals, particularly from the U.S. Senate, are coming so quickly and are changing so fast that it is difficult to offer sound commentary on their merits. Some of the most noteworthy proposals remain visible for such a short time they are almost like subliminal messages. Nevertheless, we have been able to glean a few common themes from the Baucus bill now before the Senate Finance Committee. Even with their 564 amendments (yes, true!) we think these provisions may remain in play for awhile.

Health Care Cooperatives:
Rather than the government-run exchanges proposed by the House Democrats in H.R. 3200, the Baucus bill would create member-owned insurance "cooperatives" that would enjoy tax-exempt status and operate much like mutual insurance companies. The proposal is being marketed as an alternative to the controversial "public option", however, according to some, including us, it is nothing but a Trojan Horse for a government-operated health care plan.

First, the federal government would provide startup grants and loans to state, county and local governments to get the cooperatives going. Since the federal government will have capital at risk, it will heavily monitor and regulate these entities. The Secretary of Health and Human Services will determine the levels of cost and coverage within the cooperatives. Although, in theory, the members will vote on all major decisions, after all the government regulating, there will be little left for them to decide.

The tax-exempt and highly-subsidized status of the cooperatives would make it extremely difficult for private insurance companies to compete, thwarting the stated goal of *increased* competition. If that all happens, the solution which could be put forward for this "failure" (some are already saying a *planned* failure) could be an outright government takeover of the health care system.

Cadillac Plans:
The Baucus bill now proposes a 40% excise tax (it was 35% until just a few days ago) on insurers for most high-cost group health plans, referred to as "Cadillac Plans". The "annual premium threshold" amounts to qualify as a Cadillac Plan have been increased since the original introduction of this concept. They are now $8,750 for individual plans and $23,000 for family plans. The tax will be imposed on the insurer's annual premium in excess of these thresholds.

For Your Consideration . . .

- Bill Mahoney, our founder and CEO has said for many years, "No insurance carrier has any plans whatsoever to invest any of *their* money in *your* company." The true cost of an experienced-rated group medical care plan is ***retention*** (administration - typically 10% or less) + ***claims*** (net of pooling for large claims).

- Thirty-three percent (33%) of all Americans are covered under self-funded or self-insured medical care plans. These plans are exempt from taxation per ERISA and are not operated to make a profit for the employer. Would they, too, be taxed under the Baucus proposal? It appears that the answer to this is 'yes' with the tax being imposed on the plan administrator (effectively the employer). This does not bode well for such plans, which are usually maintained by the larger employers, with many sick employees and dependents. Such individuals are looking at a potential huge cost increase or benefit reduction, unless the employer chooses to absorb the entire cost (an unlikely scenario).

- Plans with high premiums do not *necessarily* provide high levels of benefits. Premiums are a function of benefit levels *and* claims experience. Consider, for example, a plan with modest benefits but poor claims experience. If such a plan is experienced-rated, as most plans covering 50 or more employee are, its premiums will be high in spite of the modest benefits. Nevertheless, this plan would be labeled a "Cadillac Plan" under the proposed bill.

The Baucus proposal falsely assumes the reason for these high-cost plans is insurance industry gouging. It seems clear to us that sponsoring-lawmakers want to create a huge barrier to insurance companies being able to market such plans. The result would likely make the private insurers less competitive vis-à-vis the cooperatives. This is clearly a "double whammy" for the insurance industry and will be yet another advantage for the cooperatives and could further "crowd out" the very cost-controlling competition lawmakers say they want to promote.

Individual Mandate Penalties:
The Baucus bill would require virtually all uninsured Americans and legal U.S. residents to purchase health insurance. Originally, a penalty tax of up to $3,800 would have been imposed on those who refuse to comply. In the face of expressions of outrage from many sources, on Tuesday, September 22, 2009, Baucus proposed to cut that tax in half to $1,900. He has also proposed to increase the subsidies for financially-stressed people forced to buy health insurance. This came in the wake of a letter to Baucus from Congressional Budget Office (CBO) Director Douglas Elmendorf, estimating families with annual incomes of approximately $66,000 could end up spending as much as 20 percent of that in premiums and co-pays. These estimates have alarmed politicians on *both* sides of the aisle.

Pre-existing Conditions and Adverse Selection:
The CBO also released a study indicating that the cost of health coverage available through the proposed insurance exchanges (H.R. 3200) would tend to be higher than the average premiums available through the individual market today. The CBO informed Baucus that costs would be higher because issuers could not deny coverage to people with expensive pre-existing health problems.

Conclusion:
In addition to Swine Flu, there's another pandemic sweeping the country – Chronic Health Care Reform Fatigue (CHCRF). An increasing number of Americans are totally fed up with nothing on the evening news but endless health care discussions, bickering, protests, proposals and counter-proposals, all of which appear to be going nowhere. The nation's first attempt at health care reform took place in 1912 and the current campaign seems to have been going on ever since then. At 6:00pm, those with CHCRF turn off the news channels and, instead, watch reruns of Little House on the Prairie or Golden Girls!

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