

TO: Senate Finance Committee
FR: John H. Klesch, Vermont Retail Association
DA: 4/5/06
RE: H.861 – Insure More Vermonters and Reduce Premium Costs: Attack the Cost Shift

VRA supports the goals of improving health care quality, affordability, and access in Vermont. The Chronic Care Initiative piece of H.861 is a step in the right direction, as is the Common Sense Initiatives Bill S.310.

However, VRA has grave concerns about the Catamount Health piece of H.861, even as revised in recent Senate drafts of the House-passed version of the bill (see I below). VRA respectfully suggests the Senate recalibrate its goals to match what is attainable and what is affordable for our State (see II below).

I. WHAT YOU ARE PROPOSING

The Medicaid Cost Shift is the single biggest culprit responsible for the skyrocketing costs Vermont employers face in providing health insurance to their employees. According to BISHCA Commissioner John Crowley, while Medicare reimburses providers at 88 cents per dollar (88¢/\$1) of cost of hospital care, Medicaid only pays 66 cents per dollar (66¢/\$1) of cost. As a result of the overall cost shift, commercial insurance pays \$1.37 per dollar of cost (\$1.37/\$1). It is thus undeniable that private insurance heavily subsidizes Vermont's Medicare and Medicaid programs, and without this subsidy these programs would collapse.

The plan to provide a brand-new program to cover the uninsured, Catamount Health, has great potential to exacerbate the cost shift. While the most recent draft of H.861 (2.2) does not specify premium levels, it is safe to assume that the premiums mandated in the legislation would be less than the actuarial cost of a plan equivalent to the Vermont Freedom Plan \$200 deductible. (FN: 2 years ago, VRA eliminated the Freedom 200 Plan from its small group plans because the premium cost became so high). Moreover, inflationary increases to payments under Catamount are to be capped at Medicare payment increases. Thus, even if a hospital experiences a real-world increase of 10% cost increase in a given year, it will receive something less than a 10% increase in payments under Catamount for that year. The key point is: Catamount will increase the cost shift to private insurance. Medicare and Medicaid could not exist in their present states without the cost shift to keep Hospitals and other providers "in the black." Catamount will make things worse.

II. CURE THE PROBLEM INSTEAD

A more reasonable approach would be to use funding currently being earmarked for Catamount to attack the cost shift. According to BCBS estimates, 20% of premiums paid for private insurance is due to the total Vermont cost shift of \$94 million per year. Therefore, eliminating the cost shift would result in a 20% reduction of premiums.

Medicaid accounts for \$53 million of the \$94 million cost shift. This \$53 million cost shift could be eliminated with the investment of \$21 million in State of Vermont funds – a relatively modest

amount compared to the House's proposed tab for Catamount. \$21 million in state funds would produce a federal match under Global Commitment of \$32 million, thus providing a total of \$53 million.

Medicaid's \$53 million contribution to the \$94 million cost shift is 56% of the total cost shift. If eliminating 100% of the cost shift (both Medicaid and Medicare) would result in a 20% reduction of premium costs, then eliminating the \$53 million Medicaid cost shift should result in an 11% reduction (11% is 56% of a 20% reduction) of private premiums.

According to Dr. Ken Thorpe, for every 10% reduction in premium costs there will be a 5% increase in health insurance enrollment. Currently, roughly 91% of the Vermont population has health insurance coverage. Eliminating the Medicaid cost shift should produce slightly greater than a 10% reduction in health insurance premiums, and therefore a 5% increase in health insurance enrollment would result according to Dr. Thorpe. In other words, eliminating the Medicaid cost shift should increase the 91% coverage rate to approximately 96% of all Vermonters. In real terms, this outcome means coverage for roughly another 30,000 residents while at the same time producing an 11% reduction of premium costs for those already insured.

This approach would be far more promising in terms of long-range sustainability. Catamount Health's false cap on premium inflation, not tied to the real-world inflation of provider costs, would generate an ever-increasing cost shift onto private insurance. By funding the Chronic Care Initiative and the Common Sense Initiatives, the Legislature would be instituting meaningful reforms that will produce cost controls via savings across the entire system. Catamount, on the other hand, only gives the false hope of a mandated cap that ignores economic realities.

CONCLUSION

Aggressive reduction of the cost shift will result in tens of thousands more Vermonters being insured and reduced premium costs for all. VRA urges you to implement the Chronic Care Initiative and Common Sense Reforms, and to resolve the cost shift. Meaningful reform does not require a new unsustainable program that will require vast tax increases in future years.