



THE GOVERNOR'S COMPREHENSIVE HEALTH CARE REFORMS

REFORMING HEALTH CARE COVERAGE

AN EXECUTIVE SUMMARY OF "MODELING HEALTH CARE REFORM IN CALIFORNIA"

Background

In his report "Modeling Health Care Reform in California," author Jon Gruber, PhD provides an in-depth analysis of the Governor's health care reforms as they impact individual and employer's health care coverage choices. Mr. Gruber is an MIT economist and health care expert. The report was prepared under the sponsorship of The California Endowment and the California HealthCare Foundation.

The report's analytical model is based on the assumption that the Governor's reforms will provide coverage for the 4.8 million Californians who are uninsured at any given time. Its base data set uses the 2001 Current Population Survey's California sample. This sample was then updated for population size and composition using the 2005 California Health Information Survey (CHIS) data. Data on employer insurance premiums and offering rates was updated using the 2004 Medical Expenditure Panel Survey—Insurance Component (MEPS-IC) data set, adjusted for 2007 dollars.

Key Findings

The report finds the following:

- **The Governor's reforms will provide the vast majority of uninsured Californians with coverage.** The Governor's reforms will provide health insurance to 4.1 of the 4.8 million uninsured residents of California (83 percent). Most of the remaining uninsured are individuals without green cards who will receive coverage through the counties.
- **These reforms will have little impact on how many employers cover their workers.** The Governor's reforms will effect little net change in direct employer-based insurance.
 - More than 800,000 people will gain employer-based coverage.
 - Approximately 300,000 people will leave employer-based coverage for public insurance, and 600,000 others will leave employer-based coverage for the new purchasing pool but take their employer contribution with them.
- **Businesses will make the lowest contribution to the purchasing pool.** The new purchasing pool will attract 1.9 million adults between 100 percent (\$9,800 for an individual, \$20,000 for a family of four) and 250 percent (\$24,500 for an individual, \$50,000 for a family of four) of poverty at a total public cost of \$2.4 billion.
 - The pool's costs are calculated to be \$5.1 billion (1.9 million persons x \$224 per member/month) x12 months), government contributions are \$2.4 billion, individual contributions \$1.4 billion and employer contributions \$1.3 billion.
- **Only 7.5 percent of businesses will pay the payroll fee.** The state will collect almost \$1 billion in fees from employers who do not offer insurance (1.2 million non-offered employees with an average earnings of \$20,000 each, assessed at 4 percent, equals \$1 billion). This assessment is levied on about 7.5 percent of California businesses, representing 5.7 percent of workers.

Scope of Research

The report analyzes the following elements of Governor's Schwarzenegger's reforms:

- **Expanded public insurance programs.** The Governor's reforms include expanding public insurance programs (Medi-Cal and Healthy Families) for legal resident adults up to 100 percent (\$9,800 for an individual, \$20,000 for a family of four) of the federal poverty line, and for all children up to 300 percent (\$60,000 for a family of four) of the federal poverty line, regardless of resident status.
- **A state purchasing pool.** The Governor's reforms make comprehensive insurance available through a statewide purchasing pool for legal resident adults between 100 percent (\$9,800 for an individual, \$20,000 for a family of four) and 250 percent (\$24,500 for an individual, \$50,000 for a family of four) of the poverty line, with costs shared between the government, enrollees, and their employers.
- **The individual mandate.** The Governor's reforms mandate that California residents purchase or maintain insurance coverage.
- **Fee on businesses with ten or more employees.** The Governor's reforms levy a payroll fee of 4 percent on firms with 10 or more employees who do not offer health insurance to their employees.

Key Assumptions

The report's conclusions are based on these assumptions:

- **In general, employees and firms choose options in their best economic interest.** This analysis also assumes that employees do have a preference for employer-based coverage rather than pool coverage when there is only a slight economic advantage for entering the pool.
- **California's Medi-Cal program is expanded.** This analysis assumes that California's Medi-Cal program will be expanded to cover:
 - Legal resident adults up to 100 percent (\$9,800 for an individual, \$20,000 for a family of four) of the federal poverty line; Medi-Cal and Healthy Families will be expanded for children up to 300 percent (\$60,000 for a family of four) of the federal poverty line.
 - The expansion's cost is based on the projected new per-member, per-month cost of Medi-Cal: \$177 for adults, \$103 for children.
 - The \$177 adult rate is calculated by multiplying the \$110 Medi-Cal blended rate (child and adult) by a 1.3 factor for adults and then applying a 1.237 Medi-Cal rate increase.
 - The \$103 child rate is equivalent to a weighted, blended (infant and child) 2006 Healthy Families rate.
- **California establishes a state purchasing pool.** This analysis assumes that adults between 100 percent (\$9,800 for an individual, \$20,000 for a family of four) and 250 percent (\$24,500 for an individual, \$50,000 for a family of four) of the poverty line can buy insurance through a new state purchasing pool.
 - The cost of the pool's policy is calculated at \$224/month. This roughly corresponds to a \$500 deductible policy at Medicare reimbursement rates. Individuals share the coverage's cost as follows:
 - 100-150 percent of poverty(\$9,800/individual-\$14,400/individual) 3 percent of gross family income;
 - 150-200 percent of poverty(\$14,400/individual - \$19,600/individual) 4 percent of gross family income;
 - 200-250 percent of poverty(\$19,600/individual-\$24,500/individual) 6 percent of gross family income;
 - Individuals will be able to purchase directly from the pool if they are not offered employer-based insurance. If individuals are offered employer-provided insurance, they may still buy pool insurance through a waiver option that requires them to bring a voucher equal to the value of their employer's contribution.
- **California establishes an individual mandate.** This analysis assumes an individual mandate, wherein all residents—documented or undocumented—maintain, at minimum, \$5,000 high deductible plan with maximum out-of-pocket limits of \$7,500/individual or \$10,000/family. This product is estimated to cost an average of approximately \$100/month.
 - The analysis assumes that 95 percent of documented individuals who would otherwise remain voluntarily uninsured buy insurance.
 - It also assumes a lower compliance rate by undocumented adults, in part because they are ineligible for state subsidies and are less likely to be able to afford the minimum benefit required to meet the mandate. The compliance rate for undocumented adults is 10 percent for those below the poverty line; 25 percent for adults between once and twice the poverty line; and 50 percent effective for those above 200 percent of the poverty line
 - It assumes that remaining undocumented adults will rely on county-level coverage.
- **Employers who don't offer insurance pay the payroll fee.** This analysis assumes that California will impose an assessment equal to 4 percent of the payroll at firms of 10 or more employees that do not offer health insurance (where payroll for these purposes is capped at the Social Security Taxable Maximum of \$94,000).