

Key Findings

- The Kreidler plan would give all WA residents catastrophic insurance coverage for health care costs that exceed \$10,000 per year
- The law would allow residents to buy additional health care coverage at their own expense to cover other routine medical care
- Participation in the plan is mandatory in law and the state defines what benefits are covered
- Funding for the plan would come from a new statewide 3% to 5% payroll tax
- Virtually every state, as well as the federal government, that has attempted a form of mandatory universal coverage has failed
- The Kreidler plan would likely lead to rationing as state managers seek to control costs

Analysis of the Guaranteed Health Benefits Plan

A major health care reform proposed by Insurance Commissioner Mike Kreidler

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Introduction

Washington Insurance Commissioner Mike Kreidler has proposed a universal, state controlled, high-deductible health insurance plan for all Washington residents who are not covered by another government program, such as Medicare and Medicaid.

The plan, called Guaranteed Health Benefits (GHB), is currently being reviewed and will be formally presented to the legislature at the start of the next session in January. If passed by the legislature, the public would then vote, most likely in the fall of 2009, on whether to adopt the plan and put it into effect across the state.

The details of the proposed plan are still subject to change. As released so far, the basics of the Guaranteed Health Benefits proposal are:¹

1. All Washington residents would automatically receive catastrophic insurance coverage for health care costs that exceed \$10,000 per year.
2. All Washington residents would automatically receive limited preventive care services, including an annual checkup, immunizations, cancer screening and a yearly dental visit.
3. The law would allow residents to buy additional health care coverage at their own expense to cover other routine medical care.
4. All insurance coverage—whether for catastrophic, routine or preventive care—would be provided by private insurance companies.
5. Funding for the plan would come from a new statewide payroll tax.

Under the GHB plan, employees would pay an added 1% tax on their monthly earnings and employers would pay an additional 3% to 5%, depending on the total size of their payroll. Actually, however, employees would pay all of the new tax, because the part paid by the employer would already be figured into the total cost of retaining each worker on the payroll. In economic terms, the portion of the tax paid by the employer would otherwise be given to the employee in the

¹ “Guaranteed Health Benefits, Isn’t it about time?” Overview of the Commissioner’s Guaranteed Health Benefit Plan, Office of the Insurance Commissioner, Olympia, Washington, updated August 2008, at www.insurance.wa.gov/consumers/reform/documents/2179A-ghbhandout.pdf.

form of higher salary.

Proponents also argue that there could be additional budget savings from lower health care costs due to efficiencies created by the program itself.

The initial cost of the program is estimated at \$6.5 billion per year, a figure based on the current cost of privately-provided catastrophic insurance in Washington.² For comparison purposes, the state's current annual General Fund budget is about \$17 billion per year.

Plan Features

Features of the plan include:

- Benefits would be determined by a nine-member board composed of people from business, labor, the public, insurers and health care providers. The proposal does not yet specify how the board members would be selected.³
- People already enrolled in the Medicare and Medicaid programs would not be affected. In Washington there are currently approximately 900,000 people in Medicare and 1.2 million in Medicaid, plus those enrolled in the S-CHIP (State Children's Health Insurance Program) program, out of a total population of 6.5 million people.⁴
- All state residents would be guaranteed a certain level of annual preventive care.
- The waiting period after declaring permanent residency in Washington would be six months. For people with pre-existing medical conditions, the waiting period would be twelve months, after the law goes into effect.
- There would be no limit to how much the program would pay for a resident's health care costs above the initial \$10,000 per year.
- Health coverage would be fully portable from job to job and from place to place anywhere within Washington. Like other health insurance, the coverage would not be portable if a resident moved to another state.

For people who could not afford the first \$10,000 in health care costs, the state Basic Health Plan would be expanded from 200% of the federal poverty level (FPL) to 300% of the FPL, which is \$62,000 per year in income for a family of four.⁵

According to some interpretations, this plan could be described as "government-run health care" or "universal state-managed care" due to the basic structure of the plan: 1) participation is mandatory in law; 2) the state defines what benefits are covered, and 3) funding for plan coverage is provided by tax revenue.

² Ibid.

³ Author interview with Barb Flye, Policy Advisor, Office of the Insurance commissioner, August 8, 2008.

⁴ "Guaranteed Health Benefit Plan Q&A," Office of the Insurance Commissioner, June 12, 2008, at www.insurance.wa.gov/consumers/reform/documents/health-care-qa.pdf.

⁵ "Guaranteed Health Benefits, Isn't it about time?" Overview of the Commissioner's Guaranteed Health Benefit Plan, Office of the Insurance Commissioner, Olympia, Washington, updated August 2008, at www.insurance.wa.gov/consumers/reform/documents/2179A-ghbhandout.pdf.

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However, Commissioner Kreidler is emphatic that his plan is “not controlled by the government,” and should not be described as government-run health care, due to the following key elements.

- Voters themselves would decide in an election whether or not they want to enact the plan; it would not be imposed by elected officials.
- Consumers choose their own health plans and doctors.
- Patients would receive health services from private doctors, hospitals and clinics.
- Private insurers would provide the actual coverage, though funded by government.
- The appointed nine-member board would determine benefits, not a government agency.

The Commissioner’s office further states that he is not “... trying to promote a government-run health system. This plan preserves the elements of the system that work today: a private market together with strong government oversight of the insurance industry, and choice in the marketplace.”⁶

Assumptions for Success

There are a number of assumptions built into the Guaranteed Health Benefits Plan:

- Health insurance rates for employers would decrease by 30% to offset the new payroll tax.
- Employers would not drop coverage of the \$10,000 deductible altogether if total costs increase.
- \$10,000 is the appropriate amount for the deductible.
- Self-insured companies would be willing to participate.
- The state can obtain an Employee Retirement Income Security Act (ERISA) waiver from the federal government that allows self-insured companies to participate.
- Insurers would be able to afford to provide the coverage required by the stated catastrophic plan (for all health expenses above \$10,000 a year per patient per year) at the rates set by the state board.
- There would be significant savings because of preventive care, as the plan anticipates.
- The cost of routine care would decrease significantly because of the expected efficiencies of the new system.
- The adoption of evidence-based medicine would result in the level of savings expected by the plan.

⁶ “Guaranteed Health Benefit Plan Q&A,” Office of the Insurance Commissioner, June 12, 2008, at www.insurance.wa.gov/consumers/reform/documents/health-care-qa.pdf.

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- Administration simplification would result in the level of savings expected by the plan.
- The state would not have to step in to provide the promised level of catastrophic coverage if private insurance companies discover they cannot meet costs and are forced to drop out.

The success of Commissioner Kreidler's plan depends on these eleven critical assumptions. If one or, as is more likely, several of these assumptions is wrong or does not achieve its financial goal, the entire program would be in jeopardy. The result would be a state-managed health care program with unknown, but likely exorbitant costs.

Policy Analysis

In spite of the Commissioner's pronouncements, the Guaranteed Health Benefits plan is clearly a further extension of government into our health care system. First of all, the plan mandates participation by all employers and employees in the state. Funding is through an additional mandated payroll tax. There is no provision for businesses or workers who might wish to opt out of the program. From the point of view of individual citizens and employers this is unquestionably a top-down, government controlled system.

Secondly, the nine-member board would eliminate all forms of free market choice. The board would set uniform rates (price controls) and uniform benefits packages (product controls) regardless of which insurance companies, or the number of insurance companies, that are willing to participate in the program.

Third, guaranteed access to uniform preventive care means the state would dictate at least part of the benefit package of the \$10,000 deductible plans. This mandatory preventive care, added to the mandatory catastrophic program and to the more than 50 health care mandates already imposed by the state, brings government control to a large portion of Washington's health care sector.

Fourth, a universal plan that is adopted by voters is still a government-run system, because a political process—an election—would be used to put it in place. Should the plan pass, a majority of the people who participate in the election would be using government power to impose the plan on everyone else. Also, once state residents became dependent on the program for all their health costs over \$10,000 a year, it is unlikely the initial political decision could be reversed. Adopting the GHB at an election would most likely be a case of one person, one vote, one time.

Lastly, the plan requires an increase in enrollment in the state's Basic Health Plan by raising the income threshold from 200% to 300% of the Federal Poverty Level (FPL). Currently, almost 25% of Washington state workers earn less than 200% of the FPL.⁷ This is clearly an expansion of the state health care entitlement program, and, as is so often the case, the cost of this increased enrollment is unknown.

Plans like this have failed in other states. The financing mechanism and the cost savings assumptions of the GHB plan completely disregard the dismal experience of other states that have tried to control costs and large budget deficits

⁷ "Comparing Standards of Economic Distress in Washington State," by Deb Came and Erica Gardner, Office of Financial Management, January 2007, at www.ofm.wa.gov/humanserv/poverty/economic_distress.pdf.

Based on the experiences of other states, the GHB plan is unlikely to be cost effective, especially with its massive reliance on assumed savings.

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through similar programs. Virtually every state, as well as the federal government, that has attempted a form of mandatory universal coverage has wound up with runaway deficits, or a higher tax burden on citizens, or both.⁸

Last month, Hawaii joined the ranks of states with failed top-down plans when officials were forced to repeal the program offering universal coverage for children because it proved financially unsustainable.⁹

Conclusion

There is no objective indication that the outcome of the proposed GHB plan would be markedly different than similar plans that have been tried before. Based on the experiences of other states, the GHB plan is unlikely to be cost effective, especially with its massive reliance on assumed savings. With so many complicated elements and assumptions, a lot of things would have to go right in order for the GHB plan to work.

The Washington legislature passed a form of universal health care in 1993. Only one year later, the citizens of the state forced lawmakers to repeal much of the program.¹⁰ While Commissioner Kreidler's proposal is considerably different than the sweeping plan enacted in 1993, it does contain troubling similarities, particularly the government-set price controls and the mandatory, board-defined set of benefits.

In addition, the promise by the state to pay every citizen's annual health care costs without limit above \$10,000 would likely prove financially unsustainable. Spiraling costs could force the state to attempt to limit its financial exposure by adopting health care access restrictions like waiting lists, denial of services, and rationed care. Waiting lists and rationed care are the most common cost-control policies adopted by managers of over-burdened national health systems which attempt to provide universal access, as in Canada or Great Britain.

Commissioner Kreidler is to be commended for his leadership in offering a bold, detailed proposal that seeks to tackle one of the most intractable problems facing the people of our state—how to provide access to affordable health services to every resident.

At the same time, the potential impact of the plan on the state budget, and on the accessibility and quality of health care in Washington, will be important considerations as lawmakers review the proposal in the upcoming legislative session.

⁸ "What Works and What Doesn't - A Review of Health Care Reform in the States," by Dr. Roger Stark, Policy Brief, Washington Policy Center, August 2008, at <http://www.washingtonpolicy.org/Centers/healthcare/policybrief/StateHealthCareReforms.pdf>.

⁹ "Hawaii's Hard Health Care Lesson," by Grace Marie Turner, *The New York Post*, October 27, 2008.

¹⁰ "The Rise and Repeal of the Washington State Health Plan: Lessons for America's State Legislators," by Robert Cihak, M.D., Bob Williams, and Peter J. Ferrara, Backgrounder #1121, The Heritage Foundation, June 11, 1997, at <http://www.heritage.org/research/healthcare/bg1121.cfm>.