



December 18, 2007

ASSEMBLY PASSES HEALTH CARE REFORM PACKAGE

On December 17, 2007, the Assembly passed AB X1 1 (Núñez), which would expand health coverage to an estimated 3.7 million uninsured Californians. The vote was 46-31 along party lines. Senate President pro Tem Perata has indicated that the Senate will not consider the bill until January. If the Senate passes and the Governor signs the measure, voters would be asked to approve financing for the plan in November 2008.

The following update provides a “quick and dirty” summary of the bill’s key provisions, pending legislative action during the upcoming days and weeks. Please check back for updates. Most provisions of the bill would be effective July 1, 2010, subject to available funding, although the expansion of children’s coverage would be effective July 1, 2009.

The measure would:

- Require Californians to carry health coverage, with certain exceptions. The Managed Risk Medical Insurance Board (MRMIB) would be required to define the minimum level of health coverage.
- Exempt Californians from the requirement to carry coverage if a family’s income is at or below 250 percent of the federal poverty line and the cost of buying minimum coverage is at least 5 percent of their income, if MRMIB determines that the minimum coverage is not affordable, or if MRMIB grants a family a hardship exemption.
- Expand public coverage for children with incomes up to 300 percent of the poverty line, or \$51,510 for a family of three, regardless of immigration status. Coverage would be provided through the Medi-Cal and Healthy Families programs.
- Expand public coverage for adults with incomes up to 250 percent of the poverty line, or \$42,925 for a family of three. This coverage would not be available for workers without children whose employers help pay for job-based coverage. Coverage would be provided:
 - Through public hospital networks for very low-income adults without children – those with incomes below the poverty line (\$10,210 for an individual).
 - Through a new purchasing pool for Californians whose incomes are higher than allowed for Medi-Cal. In addition to covering low-income families and individuals, the pool would cover the families of workers whose employers pay a payroll fee instead of providing coverage to their workers. Families and individuals with incomes below 150 percent of the poverty line would not pay premiums or copayments. Families with incomes between 150 percent and 250 percent of the poverty line would pay up to 5 percent of their income for premiums. The bill does not specify how much these families would pay for deductibles or other cost sharing.

- Provide a complicated state income tax credit to help offset certain families' health care premium costs. Specifically, families who do not have access to job-based coverage and have adjusted gross incomes (AGI) of between 250 percent and 400 percent of the poverty line would be eligible for the credit if they purchase coverage through the new purchasing pool. Workers who are eligible for job-based coverage or whose spouse is eligible for job-based coverage could not claim the credit. The amount of the credit would equal a portion of a family's health care premiums that exceed 5.5 percent of a family's AGI. The measure states the Legislature's intent to make the credit advanceable. However, a two-thirds vote of the Legislature would be needed to do so.
- Express the Legislature's intent to enact future legislation that would provide a health care tax credit for Californians between the ages of 50 and 64, subject to available resources.
- Require employers to offer "Section 125" cafeteria plans so that workers could use pre-tax dollars to purchase health coverage for themselves and their families.
- Require health insurers to offer health coverage to individuals and families, regardless of pre-existing conditions or health usage, also known as "guaranteed issue." The measure would also limit insurers' ability to base rates on health status and would require that insurers spend at least 85 percent of premiums on patient care.
- Increase payments to hospitals, physicians, and other providers who treat Medi-Cal recipients. However, the measure does not specify the rate increases for physicians and other providers and would require an appropriation of funds from the state's budget.
- Aim to constrain the growth of health care costs through a variety of strategies. These strategies include a new diabetes prevention and management program, bulk purchasing of prescription drugs for the purchasing pool, facilitating electronic submission of prescriptions, "community makeover grants" aimed at promoting "active living and health eating," requiring insurers to offer financial and other incentives to promote prevention and wellness, and creation of a commission charged with improving the transparency of health care cost and quality data.
- Require the Director of Finance to make a finding that sufficient resources are available to support the act for three years before implementation can begin. AB X1 1 does not contain a mechanism to discontinue or scale back parts of the bill if funding becomes insufficient in future years.
- Become inoperative in its entirety if a court finds any individual provision of the measure to be invalid.

Financing Would Appear on the November 2008 Ballot

The Assembly passed the policy provisions of the plan, but not the estimated \$14.4 billion needed to support the changes once fully implemented. Instead, voters will be asked to approve the major financing components of the plan, which would likely appear on the November 2008 ballot. Details of the ballot measure are not available; however, the plan passed by the Legislature includes intent language to include the following elements:

- Fees paid by employers that do not spend a certain amount on health expenditures for their workers. Although not specified in the bill, the ballot measure is expected to include payroll fees ranging from 1 percent to 6.5 percent, depending on the size of an employer's payroll. A legislative analysis indicates that employer contributions would total \$2.6 billion.
- Federal Medicaid and State Children's Health Insurance Program funds of approximately \$4.6 billion.
- A fee paid by hospitals equivalent to 4 percent of patient revenues, which would raise an estimated \$2.3 billion. The plan does not contain the assessment on physicians originally contained in the Governor's plan.
- County revenues that would otherwise be used to support care for low-income uninsured Californians.
- Individual contributions for premiums, copayments, and other out-of-pocket costs.
- An increase in the cigarette tax.
- State savings of approximately \$500 million from current health care programs.