# New York Health Plus:

## Better Coverage for All of Us at Lower Cost

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*"Of all the forms of inequality, injustice in health care is the most shocking and most inhumane."*

*–Dr. Martin Luther King, Jr.*

*"The protection and promotion of the health of the inhabitants of the state are matters of public concern and provision therefor shall be made by the state and by such of its subdivisions and in such manner, and by such means as the legislature shall from time to time determine."*

*–New York State Constitution, Article XVII, Section 3*

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# I. INTRODUCTION

We have an historic opportunity to make our health care system dramatically *better*, more *affordable*, and *fairer* for everyone. Governor Eliot Spitzer is working to "develop a plan for affordable, universal health insurance for all New Yorkers."[1] If we do this right, it will be one of the most important public policy achievements in New York's history, comparable to creating universal public education.

We should build on what works: Offer New York's popular publicly-funded health insurance programs, Family Health Plus and Child Health Plus, to everyone – and save over $4 billion of the $63 billion that New York employers and individuals spend every year on premiums, deductibles, and co-payments. No New Yorker – individual or employer – would have to pay a health insurance premium or deductible ever again. And people who want to keep their current coverage could do that.

This issue is not only about people who are uninsured; *it is about all of us*:

- **People who have no coverage**, too little coverage, or lose coverage face serious health and financial damage.
- **People with health coverage** selected by their employer find their health plan seems only interested in holding down costs and not meeting their needs – refusing to pay for care or paying as little as possible. People who try to buy coverage on their own find the cost way beyond their means and the fine print makes intelligent consumer choice almost impossible.
- **Employers** – especially small businesses, low-margin businesses, or start-up companies – find the cost of coverage a burden. More employers are dropping coverage or shifting so much of the cost – especially with high deductibles and limits on coverage – to employees who cannot afford it.
- **Health care providers** face endless hassles in dealing with health plans, and are not rewarded for providing preventive care.

A universal coverage plan for New York needs to benefit people who *have* coverage, employers who *pay* for most of our coverage, health care providers who *live* with our coverage system, and taxpayers who *fund* most of the health care system. It should promote better health care and better outcomes, reasonably control costs, and fairly distribute costs.

Educating children is a parent's responsibility. But we expect our government to provide free quality education for every child. Shouldn't that also be true for health coverage for every New Yorker?

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[1] Governor Eliot Spitzer, speech at the Rockefeller Institute, January 26, 2007.

We can make New York dramatically more employer-friendly and job-friendly by eliminating the need for any employer to provide health coverage for its workers. This is especially important for start-up companies, small businesses, and low-margin businesses.

Today, we pay premiums and deductibles set by insurance companies, whether the person being covered is a receptionist, an assistant manager, or the company president, and regardless of whether an employer is a huge prosperous company or a small business struggling to get by.

***New York should offer publicly-sponsored health coverage, like Medicare or Child Health Plus but for everyone.***

This report proposes a plan to do this, called "New York Health Plus:"

**1. Build on what works:** Expand our well established and widely popular Family Health Plus and Child Health Plus programs and offer publicly-sponsored comprehensive health coverage, delivered through a variety of participating health plans. These programs consistently show higher patient satisfaction rates than private insurance plans.

**2. Open it to everyone:** Remove income eligibility limits for this coverage. Every New Yorker would be eligible to enroll.

**3. Guarantee choice:** Individuals who choose to enroll would pick their own participating health plan in the program, and individuals or employers could opt out and pay for private coverage if they choose. There would also be a public plan option, like traditional Medicare.

**4. Relief from high health care costs:** No longer would any employer or individual have to pay premiums, deductibles and co-pays. By taking over the financing (but not the actual care), New York would be able to control costs, improve care, and pass on the savings to taxpayers.

**Economic development.** New York employers and individuals now spend $63 billion a year for premiums, deductibles and co-payments for employer-sponsored or individual insurance, plus more for care for the uninsured. If everyone who now has private insurance or is uninsured enrolls in New York Health Plus, we would save over $4 billion. By eliminating the need for any employer to provide health coverage for its workers, we would make New York more job-friendly, especially for small businesses, start-ups and low-margin businesses -- while offering better and more secure coverage to every New Yorker.

**Property tax relief.** One group of employers – school districts and local governments – spends over $8.5 billion a year on health insurance premiums.[2] If

[2] $4.95 billion outside New York City (Office of the State Comptroller, unpublished data); $3.76 billion within New York City (New York City Comprehensive Annual Financial Report, 2005-06).

their employees and retirees choose New York Health Plus, that would save billions for local property tax payers.

**Better coverage.** New York Health Plus would more effectively control costs while also assuring better quality care and more preventive care.

Health plans today are accountable mainly to cost-conscious employers, so they are under extraordinary pressure to refuse to pay for care and to pay as little as possible. The pressure from employers is almost entirely "downward." Under New York Health Plus, there would certainly be pressure from taxpayers and elected officials to control costs. And the state as purchaser would be able to do so.

But the key difference is that there would also be pressure on our elected government from millions of vocal voting customers to make sure that the state uses its power – as sponsor and purchaser of the coverage –to make sure that participating health plans deliver quality care and deal fairly with patients and providers. So there would be a balancing of downward and upward pressure.

All patients who choose to join the plan – rich and poor – and health care providers would be in the same boat. That is the best guarantee that the Governor and the Legislature (not insurance companies) would make sure that the balancing of downward and upward pressure makes it the best possible boat. This is what has made Medicare such a successful and popular program.

Family Health Plus and Child Health Plus now provide comprehensive coverage at lower cost than anything employers or individuals can buy. New York sets the premium it pays. And *unlike* privately-sponsored coverage, New York has kept its premiums virtually flat for the last several years.

Under publicly-sponsored coverage, we can provide standards and incentives to improve the quality of care. But under privately-sponsored coverage, health plans have little incentive to promote quality or preventive care, because an individual patient is likely to have moved on to another employer or another health plan by the time an savings are seen.

New York Health Plus does not require complex new programs or bureaucracies. It is built almost entirely from existing components.

Universal health coverage is a major issue not just because a minority of the population lacks coverage, but because the overwhelming majority is fed up with our current system and wants it changed.

The strong bipartisan Congressional support for the expansion of the Federal State Child Health Insurance Program (SCHIP) in 2007 shows the great success of publicly-sponsored coverage. The extraordinary popularity of the Medicare program is well known.

Nevertheless, New York Health Plus will be attacked as "government health care" and "new taxes." But that attack will be leveled against almost any serious alternative for universal coverage. And if a plan is going to be attacked, it should be a

plan that actually delivers the benefits of a government role – real universal access, ability to control costs, ability to promote preventive care and quality care, fairness and equity. Otherwise, it will not win public support.

## THE PLAN AT A GLANCE

***Who is covered?*** Every New York resident would be eligible, regardless of age, income, where you work or whether you work. But individuals and employers could choose to keep buying the coverage they now have.

***What is covered?*** Full comprehensive health and mental health benefits.

***Can I choose my own plan?*** Yes. People would choose from any health plan that offers Family Health Plus. (Child Health Plus would be merged into Family Health Plus.) There would also be a public plan option, like traditional Medicare.

***What do I pay?*** Individuals and employers would not pay any premiums or deductibles, and co-payments under Family Health Plus are very limited.

***Who pays for the Plan?*** New York Health Plus would save over $4 billion of the $63 billion we now spend on premiums, deductibles and co-payments. There are a variety of ways we could choose to raise the revenue. What is key is that it must be fair, and must be separated from your individual coverage.

# II. THE PLAN

## Basic Elements

New York Health Plus would offer publicly-sponsored, publicly-designed, and publicly-funded health coverage available to every New Yorker, delivered through private carriers under contract with the state (as is done with Family Health Plus and Child Health Plus).

Individuals and employers would not pay any premium for the coverage or incur deductibles, and co-payments would be minimal. The state would pay the full premium.

Family Health Plus and Child Health Plus would be merged to form the core of New York Health Plus. These programs have been up and running for years, successfully providing quality care at lower cost (see "Public Sponsorship Means Better Quality and Cost Control," below). New York Health Plus would also add new options to Family Health Plus.

When fully implemented, every New Yorker, regardless of income or wealth, would be eligible to enroll in New York Health Plus, and anyone could choose to opt out.

***Better quality care.*** *Publicly-sponsored coverage can provide standards and incentives to control the cost and improve the quality of care. Under privately-sponsored coverage, health plans have little incentive or ability to promote preventive care. An individual patient is likely to have moved on to another employer or another health plan by the time any savings are seen. New York Health Plus gives New York the incentive and the ability to get better quality and preventive care.*

People who want to buy other coverage (or employers who want to do so for their employees) would be free to do so.[3]

New York Health Plus would not rely on income eligibility for premium subsidies to make coverage affordable. The plan would use the tax system to make sure the rich pay more than the poor – just as we use it to apportion the cost of putting out fires, catching criminals, and educating children.

Implementation could be phased in. The income eligibility for fully-publicly-funded Family Health Plus-Child Health Plus could be raised in stages and then eliminated. Proving eligibility would be radically simplified during the phase-in, since the

[3] Collective bargaining agreements would still apply.

the purpose is only to phase in implementation rather than to exclude ineligibles. During the phase-in, people above the existing income eligibility level could be allowed to enroll as individuals or through their employer and pay a sliding-scale premium, with the public funding of their coverage being increased in stages to completely replace premium payments. The recently-enacted Employer Buy-In and Premium Assistance programs can be used to encourage people with employment-based coverage to switch to Family Health Plus before and during implementation of New York Health Plus.

New Yorkers now spend $63 billion a year on premiums, deductibles and co-payments. Taxpayers now pay $11.3 billion of that for health coverage for state, local and school district public employees and retirees.[4] New York Health Plus would cut overall health coverage costs by over $4 billion (see "Appendix").

New York would need to determine how to raise the revenue to finance New York Health Plus. This is, obviously, a very important issue, and is discussed below (see "Which Public Funding Mechanisms?"). However, the threshold decision is to cut the cost and finance New York Health Plus through broad-based public financing rather than premiums, deductibles and co-payments paid by individuals or employers.

People talk of "building on the existing system," and Governor Spitzer has called for "a building-block approach." New York Health Plus builds on the parts of thee system that make sense and work, instead of the parts of the system that do not.

In 2007, Governor Spitzer and the Legislature took this very approach in expanding Child Health Plus, simplifying re-enrollment in publicly-sponsored coverage, and creating the Employer Buy-In.[5]

## Building Blocks Already in Place

New York Health Plus does not require creating any new program or new bureaucracy. Public health coverage programs already in place in New York provide the core of the plan. About 28 percent of non-elderly New Yorkers now have coverage under these programs. When the 2007 legislation expanding Child Health Plus and simplifying re-enrollment in Child Health Plus, Family Health Plus and Medicaid are implemented, the total number of New Yorkers with publicly sponsored, publicly funded health coverage under Medicaid, Family Health Plus, and Child Health Plus

[4] State: $2.6 billion appropriated in the 2007-08 state budget (Assembly Ways and Means Committee); school districts and local governments outside New York City: $4.95 billion (Office of the State Comptroller, unpublished data); New York City: $3.76 billion (New York City Comprehensive Annual Financial Report, 2005-06).

[5] Senate Majority Leader Joseph Bruno hailed the Employer Buy-In as "build(ing) on New York's legacy as a national leader in providing quality and affordable health care for its families."

will be 5.8 million people – about 36 percent of non-elderly New Yorkers.[6]

**Family Health Plus and Child Health Plus.** These are publicly-sponsored and publicly-designed comprehensive coverage programs, delivered through health plans that contract with the state. They have been up and running for years, with systems in place for setting the premiums the state pays to the participating plans, assessing the adequacy of plan provider networks, reviewing plan marketing and consumer information materials, etc. The programs are very popular.[7]

In both plans, individuals enroll in one of a variety of managed care health plans that have contracted with the state to offer the coverage. In the few mainly rural areas without a Family Health Plus managed care provider, the state offers direct fee-for-service coverage.

Under New York Health Plus, health plans would also be able to offer a variety of other models, including traditional fee-for-service plans, preferred provider organizations (PPOs), and "point of service" plans that enable a patient to go out of the network.

There would also be a publicly-run fee-for-service option, like traditional Medicare, with full choice of health care provider. This would offer wide choice of provider and would provide substantial savings from lower administrative costs. Family Health Plus now has a direct fee-for-service component in counties that lack a participating managed care plan.[8] Under New York Health Plus, that would be available statewide.

Today, the state pays the full premium for people who are income eligible. For Family Health Plus, that is 150% of the poverty level for adults who have dependent children and 100% of poverty for adults without dependent children. Under Child Health Plus, families at the upper levels of eligibility (160% to 250% of poverty[9]) pay a sliding-scale premium. Neither program has any deductibles. Family Health Plus has limited nominal co-payments for some services. Ideally, it should

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[6] These figures are derived from the 2006 Current Population Survey data, citied in the Health Department's July 2007 "Request for Proposal for Analysis of Proposals for Achieving Universal Health Coverage in New York," plus the estimated 1.3 million who will enroll through the Child Health Plus expansion and simplification. It is not known at this time how many people will join Family Health Plus through the Employer Buy-In law; how many people who now have Medicaid, Family Health Plus or Child Health Plus will enroll in employer-sponsored coverage through the Premium Assistance law; and how many of the Premium Assistance group will enroll in Family Health Plus through the Employer Buy-In.

[7] See "Public Sponsorship Means Better Quality and Cost Control."

[8] Under the new Premium Assistance program, Family Health Plus also provides fee-for-service payment for "wrap around" coverage, described below.

[9] Child Health Plus eligibility was raised to 400% of poverty as of September 1, 2007, but this was dependent on the Federal government agreeing to pay matching funds for that group. The Federal government has rejected the New York plan, and this is now being contested.

have none, like Child Health Plus.

Under New York Health Plus, there would be no premium for anyone to enroll.

Family Health Plus is technically a Medicaid expansion. It began enrolling participants in 2001 and now enrolls over 500,000 people. Child Health Plus is New York's program under the Federal State Child Health Insurance Program (SCHIP), although it began in the early 1990s. It was one of the models for the 1997 Federal SCHIP legislation. It now enrolls 390,000 children.[10]

In 2006, New York State enacted a mandate requiring private insurance plans to provide parity for mental health benefits with non-mental health benefits. Unfortunately, that legislation did not cover Family Health Plus and Child Health Plus. This would be corrected under New York Health Plus.[11]

Medicaid provides some benefits that are not provided by Family Health Plus and Child Health Plus. Under New York Health Plus, Medicaid-eligible enrollees would continue to receive those benefits. So there would need to be a greatly-simplified method for determining eligibility for Medicaid benefits once an individual is enrolled in New York Health Plus.

Consolidating Child Health Plus into Family Health Plus would simplify administration of New York Health Plus and make participation easier for families. This is already being done for participants in the Employer Buy-In.

As more and more people choose Family Health Plus to receive their coverage, more and more health plans would seek to be part of the program and more and more health care providers would seek to participate in those plans.

**Employer Buy-In.** This new legislation, enacted in 2007,[12] allows employers and union health plans to purchase Family Health Plus for their employees or members. For most employees, the employer and the employee share the cost, as with other health coverage. If the employee is income-eligible for Family Health Plus, the state pays the employee's share of the premium. It can provide an important transition mechanism for introducing more people to publicly-sponsored coverage.

There is a limited provision in the legislation for state subsidy of the employer's share of the premium. That mechanism can be expanded to replace the employer share of premiums with public financing of coverage as New York Health Plus is phased in.

**Premium Assistance.** For employees who have access to employment-based coverage and are income-eligible for Medicaid or low-income Child Health

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[10] This includes both Medicaid and non-Medicaid Child Health Plus children.

[11] In 2007, the State Assembly passed a bill, A. 8617 (Tonko), to extend full parity to these programs, but the bill did not pass the State Senate. The bill is now A. 9354 (P. Rivera).

[12] Chapter 95, Laws of New York, 2007; Social Services Law §369-ff.

Plus, this 2007 legislation allows them to enroll in the employment-based plan, with the state paying the employee's share of the premium. Those in Family Health Plus and higher income Child Health Plus participants are required to participate in the employment-based program, with the state paying the employee's share of the premium.[13] This applies if the Health Commissioner determines it is cost-effective. Family Health Plus provides wrap-around benefits where the employment-based coverage leaves gaps.

For the phase-in of New York Health Plus, Premium Assistance can be used as a mechanism for replacing the employee share of premiums with public financing of coverage.

**Preferred Drug Program.** New York's Preferred Drug Program, enacted in 2005,[14] uses a preferred drug list to achieve substantial rebates from drug manufacturers for Medicaid and the state's Elderly Pharmaceutical Insurance Coverage (EPIC) programs. It uses a simplified prior authorization system for drugs not on the preferred drug list, rather than increased co-payments as most health insurance plans now use. Health plans under New York Health Plus could be allowed or required to use this program.

The Preferred Drug Program can obtain larger drug company rebates without violating the Federal "Medicaid best-price" rule because it applies to publicly-financed coverage. Ordinary health plans cannot achieve such savings. However, New York Health Plus is publicly-financed coverage, and so health plans participating in New York Health Plus could take advantage of the Preferred Drug Program.

## Making New York a Better Environment for Employers

New York Health Plus would eliminate the need for any employer to provide health coverage for its workers. New York State would become dramatically more employer-friendly and job-friendly.

A start-up business, a small business, or a low-margin business would not have to pay huge health premiums to offer coverage. What an employer pays – through taxes instead of premiums – would depend on how profitable it is. The ability to start a new business without worrying about how you will obtain health insurance for yourself and your employees would especially encourage entrepreneurship and small business, key components of a strong economy. This would have special importance for the Upstate economy.

Employers who provide health coverage are often at a disadvantage in the marketplace because they have to pass the cost of coverage on to their customers.

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[13] Chapter 54, Laws of New York, 2007; Public Health Law § 2511 (18) (Child Health Plus); Social Services Law § 369-ee (3-a) (Family Health Plus).

[14] Public Health Law Art. 2-A, Title I.

On the other hand, in some industries employers who do not offer coverage are at a disadvantage in recruiting or retaining employees. Offering health coverage for all through New York Health Plus eliminates both problems.

The unpredictability of private coverage premium increases is also a major problem for employers. But in recent years, while privately-sponsored health coverage has experienced substantial premium increases, Family Health Plus premiums paid by New York State have remained virtually flat.[15]

Today, we pay premiums and deductibles set by insurance companies, whether the person being covered is a receptionist, an assistant manager, or the company president, and regardless of whether an employer is a huge prosperous company or a small business struggling to get by. Undoing that unfairness will make a better environment for employers and employees.

The economy overall bears the cost of health care – about 16% of gross domestic product – whether it is through premiums for private coverage or taxes (especially property taxes) for public employee coverage and for public coverage like Child Health Plus.

By helping make health care more efficient and less costly in New York State, New York Health Plus reduces the burden of health care costs on the state's economy.

## Which Public Funding Mechanisms?

The important *health policy* issue is that New York Health Plus would reduce New York's health coverage costs by over $4 billion and would be publicly funded, rather than funded by premiums connected to an individual consumer. Separating coverage from a premium payment (whether the premium is paid by an employer or by an individual) is key to (1) making coverage universal and (2) making benefit design and clinical decisions based on reasonable cost/benefit concerns rather than marketing or profit concerns. (See "Public Sponsorship Means Better Quality and Cost Control," below.)

The choice of *which* public funding mechanism is used is more a question of tax policy and social justice. It is most important to make sure that a higher-income person or business pays a much larger share of the cost of New York Health Plus than a low- or middle-income person or business.

There are a variety of options. One would be a graduated surcharge on the personal income tax and a surcharge on business income taxes. Another option would be an assessment on payroll, similar to the FICA tax that pays for Social Security; employers, employees, and the self-employed would be assessed based on the

[15] New York State Department of Health, Office of Health Insurance Programs, unpublished data.

employee's income.

If employers no longer have to pay premiums for health insurance, it is not likely that they will give all the money they save to their employees in increased wages. To avoid a massive shift of burden to employees, the revenue for New York Health Plus should come largely from business, but apportioned fairly.

There would be no "local share" imposed on local governments under New York Health Plus. Family Health Plus and Child Health Plus already impose no cost on local governments.

School districts and local governments would actually see extraordinary savings. They now spend over $8.5 billion a year on health insurance premiums for their employees and retirees. If their employees and retirees choose New York Health Plus, that would save billions for local property tax payers.

For employers or individuals who choose to keep buying private coverage, New York Health Plus could include some relief from whatever financing mechanism is used to fund the new publicly-sponsored coverage.

## Using Existing Federal Funding

Under New York Health Plus, New York would continue to receive federal matching funds for a portion of what we spend on coverage for people who are income-eligible for Medicaid, Family Health Plus, and Child Health Plus.[16]

The fact that Federally-eligible people will be mixed in with non-eligible people is a bookkeeping matter, not a conceptual problem. The Federal government needs to be assured that we are not claiming Federal matching funds for non-Federally eligible people. New York already does that kind of bookkeeping, because we cover many immigrants who are not Federally-eligible. Under the new Employer Buy-In for Family Health Plus, New York will do similar bookkeeping.

People would not have to switch plans when they qualify for Medicare. A New York Health Plus participating plan could simply become their Medicare managed care plan if they choose, and New York Health Plus would receive a premium

[16] President Bush vetoed the bill to expand eligibility for Federal matching funds under the State Child Health Insurance Program (SCHIP) and has rejected New York State's effort to get Federal matching funds for the expansion of our own SCHIP program (Child Health Plus). While the Bush administration position is outrageous, it is not an argument against New York Health Plus. More Federal matching of SCHIP and Medicaid is important whether a state pursues almost any universal health coverage program, including this proposal, or none at all.

from Medicare.[17]

## Can One State Do It Alone?

Of course we can. New York and other states adopted a variety of laws like workers compensation well before there was national legislation. We created a senior citizen drug benefit (EPIC) seventeen years before the Federal government created Medicare Part D (and we did a better job), and we enacted Child Health Plus years before the Federal government created a plan modeled on New York.

New York Health Plus does not conflict with or require changes in Federal legislation. A state is free to provide coverage through Medicaid, a Medicaid expansion (like Family Health Plus) or its SCHIP program for people who are not eligible for Federal matching funds. For example, New York covered childless adults under Medicaid for more than thirty years before receiving Federal matching funds; we began Child Health Plus several years before the Federal program was even created; and we cover many immigrants without Federal matching funds.

The elimination of the need for anyone – employer or individual – to pay a health insurance premium ($52 billion a year in New York), or deductibles and co-payment ($11 billion a year in New York) would more than balance out the taxes that would finance the system.

For multi-state employers, it is important that, unlike some proposals for expanded coverage, New York Health Plus does not ask or pressure employers to do anything new or different. New York would not be imposing any new administrative burden on their operations here versus other states.

Multi-state employers might, at first, be puzzled by the fact that New York State offers their employees here comprehensive health coverage without charging them a premium. Those employers that provide health benefits could choose to continue to provide those benefits for their New York employees, but they would also be free to stop doing so.

Would there be a problem of people from other states coming to New York to "take advantage" of New York Health Plus? No. If the person is low income, he or she could already come to New York to enroll in Medicaid or Family Health Plus. Others moving to the state would pay fair taxes like the rest of us to pay for the coverage. Any plan that claims to make it easier for people to get coverage – or any plan to create good jobs with good benefits – would be subject to the same question, and would offer a similar answer.

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[17] Many retirees are part of an employer's retiree health benefit plan. The fine print on their cards says "Medicare." The health plan gets money from Medicare, but the individual does not see it happening. The same could be true under New York Health Plus.

## What Happens in a Recession?

New York Health Plus would be funded by public revenue, and public revenue goes down in a recession, but health care costs do not.[18] How would the plan deal with that?

Remember that this problem, in one form or another, pervades the current system and *any* proposed alternative. Any alternative that relies on employers or individuals to pay for their health coverage would be affected by the fact that a recession makes it harder for employers and individual households to pay for health coverage.

In a recession, just when public revenues go down, people lose jobs and employment-based health coverage. The number of enrollees in Medicaid, Family Health Plus and Child Health Plus goes up, maximizing the instability for the state treasury. Under New York Health Plus, at least enrollment would be steady (because it would include almost everyone) rather than increasing.

The state would create a trust fund in which New York Health Plus reserves could accumulate in times of higher revenue. The "rainy day" fund concept is a well-established part of New York State's finances.

## Additional Elements

A plan for universal health coverage should include a variety of elements to control costs and improve access and quality. Using publicly-sponsored coverage enables New York to implement many such elements.

The following two additional features would be part of New York Health Plus. Others could certainly be added.

**Health Systems Agencies.** New York State should re-establish the network of regional health planning agencies called health systems agencies (HSAs) it had until the mid-1990s. HSAs would promote health planning and help control the cost-driving health facility "arms race." HSAs gave each region a voice by giving advisory opinions to the Public Health Council and the State Hospital Review and Planning Council on certificate of need applications and other matters. They also did regional data-gathering and analysis. They still exist in statute. But when state funding was eliminated in the early 1990s, the HSAs went out of existence (except the Finger Lakes and Central New York HSAs).

**Collective negotiation.** Health care professionals are concerned about the power managed care companies have, and might view New York Health Plus as increasing that power. New York should allow health care practitioners to organize and collectively negotiate with health plans. Giving practitioners the ability to negotiate more effectively with managed care plans would help provide a reasonable coun-

[18] This same phenomenon affects public education and any program funded by the public.

terbalance to the power of health plans. A bill to allow this is strongly supported by the Medical Society of the State of New York.[19] Legislation is necessary because otherwise collective negotiation would be an illegal conspiracy in restraint of trade.

## Is New York Health Plus Achievable?

New York Health Plus would be good for economic development, provide property tax relief, let people keep the coverage they now have if they want to, and offer better coverage with fairer financing. Is it politically achievable?

Every New York governor has an extraordinary ability to shape and advance the state's policy agenda. If Governor Spitzer advances a plan like New York Health Plus, that would give the plan extraordinary momentum, credibility and authority.

In his first months in office, Governor Spitzer won enactment of major pieces of legislation that had been unachievable or stalemated for years: more equitable school aid, budget reform, ethics reform, workers compensation reform, civil confinement of sex offenders, Child Health Plus expansion, simplification of re-enrollment in public health plans, Medicaid reimbursement changes, etc. This did not happen by accident. It happened because the Governor had the will and the stature to take a stand and get people to sit at a table and work things out.

**In 2006, 96% of people who voted were people *with* health coverage**.[20] Yet health coverage is a top priority issue because our coverage is expensive and financed unfairly; it is run by insurance companies that are either unaccountable or accountable to the consumer's employer; people fear they can lose their coverage if they change jobs or become unemployed; and people are burdened by deductibles and co-payments. New York Health Plus offers all of us choice; lower cost; and better, more comprehensive coverage that is accountable to the public and cannot be taken away.

***Under New York Health Plus, all patients – rich and poor – and health care providers would be in the same boat. That's the best guarantee that the Governor and Legislature (not insurance companies) would make sure it's the best possible boat.***

In 1992, the first President Bush asked whether we want health coverage delivered with the efficiency and compassion of the post office. The obvious reply is that we do not want health coverage delivered with the efficiency and compassion of a commercial insurance company. President Bush lost that election, but the Clinton health plan then failed. It was hit with all the attacks about "government health care" and denying choice. Unfortunately, it was extraordinarily complicated and it was difficult for individuals to understand how it benefited them, so the Clinton plan could not overcome those attacks. New York should not make the same mistake.

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[19] Assembly bill A. 2177 (Canestrari).

[20] Kenneth E. Thorpe, "Reforming the Debate Over Health Care Reform: The Role of System Performance and Affordability," *Health Affairs*, 26, no. 6 (2007), 1561.

New York Health Plus avoids those pitfalls. It offers obvious tangible benefits to every New Yorker, including freedom from premiums and deductibles and health coverage that is accountable to the public rather than to insurance company stockholders and employers.

***What is not politically realistic*** is a plan that is seen as doing little or nothing for the vast majority – people who have coverage – while they hear charges of "government health care" and "new taxes." People will not want alternatives that limit their benefits; shift costs to patients' pockets by increasing deductibles or co-payments; raise taxes;[21] require more people to go through means testing and red tape to prove eligibility for subsidies; or get labeled as "socialized medicine" by any interest group that doesn't like the plan – but still do not relieve the problems of unfair financing and restricted access to care inherent in private health coverage. These alternatives benefit few and anger many.

If a plan is going to be attacked, as any plan worth its salt will be, it should be a plan that actually delivers the benefits of a public role, namely: a more employer-friendly and job-friendly environment; relief for individuals and local taxpayers; real universal access; ability to control costs while promoting preventive care and quality care; fairness and equity; protecting consumer choice; and speed and simplicity of implementation.

New York Health Plus will do that.

A broad segment of the health care provider community – practitioners as well as institutional providers – is prepared to see the benefits of New York Health Plus for their ability to do their work. They are prepared to understand the benefit of dealing with health plans that are accountable to the public rather than to employers. They certainly know the benefit of patients coming in with comprehensive coverage.

At public hearings on expanding health coverage held by the Assembly Health, Labor, and Insurance committees around the state, the New York State Academy of Family Physicians testified that it has supported universal publicly-sponsored coverage since 1999.

The American Cancer Society testified that we could *prevent half of all cancer deaths* by applying existing best practices. New York Health Plus gives us the ability to achieve that by removing financial and red tape barriers to coverage and care for everyone, improving the quality of coverage for those who have coverage, and promoting preventive care (see "Public Sponsorship Means Better Quality and Cost Control," below). Nothing else (except a traditional single payer plan) comes close.

New York Health Plus is strengthened by the fact that it does not require complicated legislation or the creation of dramatic new programs or bureaucracies. It is built almost entirely from existing components.

Governor Spitzer campaigned on a platform of "no new taxes," but he has

[21] Politically, raising public spending and taxes a little is about as difficult as raising them a lot.

promised to develop a plan for universal health coverage. Any plan that fits the term "universal health coverage" will in some way involve the state acquiring revenue it does not currently acquire and therefore be labeled "new taxes." The question is how to raise and spend the revenue fairly and efficiently. People should be able to understand the plan and see how it benefits them – in their health and financially.

**The cost of New York Health Plus would not be new spending by taxpayers. It will be a substantial reduction in what they are now spending. When employers and individuals don't have to be "taxed" by insurance company premiums and deductibles, most people's take-home pay will go up.**

***We can make New York dramatically more employer-friendly*** *by eliminating the need for any employer to provide health coverage for its workers. This is especially important for start-up companies, small businesses, and low-margin businesses.*

New York Health Plus would cost substantially less than the $63 billion we now spend on premiums, deductibles and co-payments (see Appendix). And the cost would be more stable and predictable than private coverage premiums.[22]

Employers who now provide coverage for their employees are subsidizing the health care of people who work for employers who do not provide coverage – employers who are often their competition. Business leaders often mention the unfairness of the current cross-subsidizing phenomenon. Under New York Health Plus, the cost of health coverage would be fairly distributed.

New York Health Plus also would help make New York's health care system more efficient and productive, improve the quality of coverage for people who now have coverage (see "Public Coverage Means Better Quality and Cost Control," below), and be easy to understand. People will be able to understand what their money is buying and know that it is being spent on something that benefits *them*, not just someone else.

Tax dollars already pay for over 60 percent of health care in the United States, counting Medicare, Medicaid, the Federal State Child Health Insurance Program (SCHIP), public employee health benefits, and the tax subsidy of employer-sponsored health coverage.[23] Unfortunately, this $1.2 trillion subsidy is not spent in an organized way to maximize the benefits it should bring.

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[22] In recent years, while privately-sponsored health coverage has experienced substantial premium increases, Family Health Plus premiums paid by New York State have remained virtually flat, according to State Health Department data.

[23] "National Health Care? We're Halfway There," Daniel Gross, New York Times, Dec. 3, 2006.

# III. ADVANTAGES OF NEW YORK HEALTH PLUS

## Public Sponsorship Means Better Quality and Cost Control

As the sponsor and premium payer under New York Health Plus, New York would be in a unique position to promote a more modern, fair and efficient health care system. New York Health Plus could promote preventive care, care management, best practices, use of interoperable electronic medical records, and a variety of other positive developments that would produce better outcomes and reduce costs.

But our system of private coverage degrades the quality of coverage for people who *have* health coverage. With employment-based health coverage, the real *customer* – the person who decides whether the health plan gets to sell its product – is the employer, not the individual insured. And the health plan knows that the employer is – and must be – focused above all on keeping the premium down, to maximize what the employer can pay to its stockholders. Therefore, when the health plan is making decisions about benefit design, relations with providers, approving treatment or payment of a claim, etc., the pressure on the health plan is almost exclusively *downward* pressure.

Individually-purchased private coverage is not much better, if any. When individuals go out into the market as customers, their ability to make choices or have bargaining leverage is inherently limited. Low cost is an overwhelmingly compelling factor for an individual of ordinary means choosing a health plan, especially when other factors are a blizzard of hard-to-understand fine-print details about coverage and networks. And the individual is up against an insurance market increasingly dominated by a few huge plans.

Compare this with Medicare. There is certainly downward pressure, because Congress never wants to raise taxes. But this is balanced by *upward* pressure, because Congress knows that Medicare's beneficiaries are its voters, both rich and poor. As a result, health care providers over the years regard Medicare as the best third-party payer[24] and the easiest to deal with, and Medicare is enormously popular with its beneficiaries.

It is critically important that Medicare is a publicly-sponsored program for all seniors, not just those who are poor. Since all seniors are in the same boat, Congress protects the quality of the boat.

Similarly, all patients who choose to join New York Health Plus – rich and

[24] There is always grumbling about Medicare's payment levels, but hardly any provider thinks *any* health plan pays them well enough.

poor – and health care providers would be in the same boat. That is the best guarantee that the Governor and the Legislature (not insurance companies) would balance the downward and upward pressures and make it the best possible boat.

**Preventive care.** In a world of private coverage, the individual's health plan has little incentive to pay for preventive care, because in a few years the individual will likely be some other plan's customer and some other company's employee. So someone else will reap the financial benefit of the health plan's investment in preventive care.

In the current system, if a health plan does a *poor* job of serving patients with a particular condition, the plan may actually be *rewarded* by having those high-cost patients go somewhere else.

But if the *state* sponsors and pays for the coverage, it knows that over the years, even if the individual moves to another participating health plan or another part of the state, the state will still be paying the premium for that person's coverage. So it has a strong interest (financial as well as political) in incentivizing or requiring better health plan behavior, including investing in preventive care and care management.

Individuals who choose New York Health Plus would select from among participating health plans offering a product shaped and regulated by the state, not by a private employer. Participating health plans would not be competing on price, because the premium is set and paid by the state. So consumers and health plans would focus on meaningful factors such as provider networks and reputation.

It is no wonder that customer satisfaction is significantly higher for Family Health Plus and Child Health Plus than for other managed care coverage. The State Health Department's review of customer satisfaction found that satisfaction with Child Health Plus is at 83%, and satisfaction with Medicaid managed care is at 75%, but satisfaction with private commercial plans is at 63%.[25]

In short, moving to a system of publicly-sponsored coverage will mean better coverage for millions of New Yorkers, including those who already have coverage.

## Public Funding Means Fairness and Equity

There is no justification for having the maintenance worker, the store clerk, the manager, the company president, and the investment banker contribute the same amount (or an amount in the same ballpark) to the cost of health coverage. We would not fund schools that way. We should not fund health coverage that way.

For many things in life, we accept a market-based approach that means having

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[25] New York State Department of Health eQARR (Quality Assurance Reporting Requirements) 2007; http://www.health.state.ny.us/health_care/managed_care/reports/eqarr/2007/.

different alternatives available to lower-income people – you can get by on cheaper food, cheaper clothing, and cheaper housing. But we do not deny poor people or rich people police protection or education for their children if they do not pay a premium or a deductible.

We should not tolerate a world in which cost makes people walk away from health coverage, select inadequate health coverage, or go without care. Yet that is almost inevitable with privately-funded health coverage.

Trying to overcome the social injustice of privately-funded health coverage through means-tested sliding scales for subsidized coverage creates a nightmare of red tape and bureaucratic obstacles, even in a simplified system. People will inevitably fall through the cracks.

All this can be avoided by eliminating premiums and deductibles and, instead, relying on the tax system to fairly apportion the cost of health coverage.

## Overcoming Health Care Disparities

There is growing recognition of the serious problem of disparities in health status and access to health care for members of racial and ethnic minority groups, women, and low income people. They are more likely to lack coverage, have higher incidences of chronic conditions that can be avoided or better treated by proper primary and preventive care (such as diabetes, asthma, and heart disease), receive inadequate care, and have poorer health and higher death rates. This is not acceptable.

Groups that are disproportionately uninsured face obvious obstacles to primary, preventive and specialty care that contribute to their poorer health status.

But people with limited resources who have privately-sponsored health coverage are harder hit than others by the problems with that coverage. High deductibles, co-payments, limited benefits, limited provider networks, unfair denials of coverage for services, and inadequate reimbursement rates that require patients to pay more to providers all are more serious obstacles to care for people with limited financial resources or who have limited educational background to enable them to deal with health plan bureaucracies.

Even those who are covered by Medicaid often receive inadequate care. Because many Medicaid reimbursement rates are low – especially for office-based care – access to quality care is often limited. Unfortunately in our society, programs for the poor are often poor programs. It is all too easy for our political system to ignore programs that are specifically targeted at the poor.

(Despite this, Medicaid managed care, Family Health Plus, and Child Health Plus have significantly higher customer satisfaction rates than privately-sponsored managed care plans, as noted earlier. Medicaid managed care and Family Health Plus plans also are required by law to "implement procedures to communicate appro-

priately with participants who have difficulty communicating in English and to communicate appropriately with visually-impaired and hearing-impaired participants."[26])

Overcoming health care disparities requires not only that underserved groups get health coverage. They must have access to coverage that accommodates their limited resources and that meets the same standards that middle and upper income New Yorkers demand for themselves.

In underserved areas – both urban and rural – health care providers are undermined by the large number of uninsured patients who have no means to pay for their care and patients whose coverage provides inadequate rates of payment. New York Health Plus will help improve access to quality health care providers and strengthen safety net providers in those areas. All of their patients will have access to quality comprehensive coverage without financial barriers. And because New York Health Plus plans will serve all New Yorkers, not just the poor, there will be strong effective pressure to assure that provider reimbursement rates keep health care providers strong.

New York Health Plus would be an extraordinarily potent tool for attacking these disparities. Every New Yorker would have equal access to the same high quality New York Health Plus coverage, with no financial barriers. New York would set the standards for the coverage and would set and pay the premiums. So New York would have the tools to assure that health care providers have incentives to provide primary and preventive care, offer reimbursement rates that provide access to quality health care, and support language access.

## Overcoming ERISA

In 1974, Congress enacted the Employee Retirement and Income Security Act (ERISA). Among other things, it prohibits states from enacting any laws relating to employment benefits. Because of ERISA, a state is almost completely barred from telling employers what to do or not do about health coverage or offering rewards or penalties based on employer health benefits.

Most employment-based coverage is not actually "insurance;" it is provided through "self-insured" plans that are not subject to state regulation or consumer protections. ERISA allows New York to regulate the business of health insurance, but our laws do not apply to self-insured plans because they are not "insurance," even when they are administered by an insurance company and look like insurance to the employees.

Trying to build a plan around private coverage means building on a system where we cannot touch the biggest players in the system. This accounts for much of

[26] Social Services Law §§ 364-j(4)(p) and 369-ee(3)(d)(14).

the complex convoluted nature of so many proposals. But ultimately these mechanisms cannot break through the wall that ERISA has built around employers and self-insured plans.

New York Health Plus avoids ERISA entirely. The state would not be telling employers what to do, or rewarding them or punishing them for what they do or do not do. We would be offering a public program, through publicly-regulated carriers, and paying for it through public revenues, as we already do for people who are income-eligible for public coverage.

# IV. PROBLEMS WITH ALTERNATIVES

## What's Wrong with Other Approaches

Alternatives that rely largely on the existing system of privately-sponsored coverage perpetuate or create a host of problems.[27] Different plans have different deficiencies, but the problems tend to include:

- Most people's coverage would still be linked to their employment, creating problems if they lose or change jobs.
- They try to create the illusion of being "affordable" by using bare-bones benefits and high deductibles – i.e., shifting more of the cost of care to individuals (who are least able to bear that cost).
- Subsidies are limited to low-income individuals, ignoring the fact that the cost of coverage and care can be devastating to middle-income people, and requiring difficult and inefficient means-testing.
- Moderate- and middle-income people are expected to pay the same amount for coverage as the wealthiest.
- They mandate that people buy coverage even when it might not be reasonably affordable or adequate.
- To the extent most coverage would still be employment-based, and especially because most employment-based coverage is actually through a self-insured plan, it would be beyond the state's ability to provide consumer or provider protections (because of Federal ERISA preemption, described above).

Some proposals would use government subsidizing of premiums as a mechanism to ease the burden of coverage for lower-income people. But it is difficult to qualify for, even if paperwork is simplified. Raising the eligibility level does not make it any easier. If you make $20,000, it takes the same paperwork to prove you make less than $30,000 as it does to prove you make less than $300,000. If subsidies are limited to low-income individuals, then premiums will still be a huge burden for large numbers of middle-income people. If subsidies extend higher up the income scale using a sliding scale, then the burdens of means testing will affect even more people, creating more paperwork and more bureaucracy.

Many plans call for subsidizing premiums for some people, using tax benefits or direct cash payments. These plans accept the principle that there is a public re-

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[27] "You cannot carve rotten wood." Confucius, *The Analects*, V:10.

sponsibility for the cost of health coverage, but they rely on a system that fails to fully take on that responsibility while keeping in place almost all the failings of the private coverage system. These proposals, even though they are limited, are still attacked as being "government health care" or "socialized medicine" and for raising taxes. Unfortunately, they fail to provide the broad benefits and understandability that would enable them to withstand those attacks.

Some proposals use increased deductibles and co-payments and bare-bones benefits to cut the cost of coverage. These have serious unfair and unjustified impacts on people's family finances and on their health. The function of these mechanisms is to shift spending from third-party coverage to out-of-pocket spending by individuals. For many people, they are either an insurmountable barrier to care or impose a heavy financial burden. For wealthier people, they may be no more than a minor annoyance. Sliding-scale deductibles or co-payments have all the problems of means testing, and apply to more people further up the income scale.

Deductibles and co-payments serve no justifiable health purpose. There is little likelihood that a deductible or co-payment level will (as with Goldilocks) be "just right" – high enough to discourage a patient from seeking unnecessary care (as if people actually go to the doctor for care they recognize is unnecessary!) but not so high that it is an obstacle to necessary care.

Some talk about "mandating" individuals to buy health coverage. Some advocate this because their real agenda is to shift more of the burden for paying for coverage to the average individual. The rhetoric subtly suggests that lack of coverage is a matter of individual fault. But if we make coverage available to everyone without the need for paying a premium, there is almost no point in talking about a "mandate."

"Health savings accounts" provide some tax benefit to people who are compelled to spend more out-of-pocket for their health care and have enough income to benefit from a tax benefit.

High-deductible plans with health savings accounts are being called "consumer-directed" plans. They are actually consumer *burden* plans. Some say they are becoming "popular." Clinging to floating wreckage is popular with people whose ship sinks.[28]

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[28] Corruption of language is common in health policy discussions. The overriding goal of some interest groups is to make sure that as little as possible of their stockholders' money gets spent on health care. They know that they should not actually say that health care should increasingly be paid for by low-wage workers rather than by stockholders, or that people who cannot afford health care should fend for themselves. So instead, expressions like "consumer directed health plans" and "patients should take responsibility for their own health care decisions" are coined. George Orwell, in his 1946 essay "Politics and the English Language," wrote:

> In our time, political speech and writing are largely the defense of the indefensible[: things that] can indeed be defended, but only by arguments which are too brutal for

## What About A Single Payer Plan?

Ideally, no proposal would be better than a traditional-Medicare-for-all "single payer" program. Having everyone enrolled in one public health plan has all the advantages of publicly-sponsored and publicly-funded coverage, plus considerable administrative savings.

However, the single-payer concept has difficulty overcoming the charge that it would deprive people of choice. The fact that traditional Medicare is a hugely popular and efficient single-payer program has not been enough to overcome that concern. But New York Health Plus overcomes that concern by offering people a choice among participating health plans and a publicly-run fee-for-service plan, and the right to opt out of the plan and buy their own coverage if they choose to.

## Why Not a Much Smaller Plan?

New York State now has about 2.8 million uninsured people.[29] When the Child Health Plus expansion and simplification are fully implemented, we may have only about 1.5 million uninsured. Why not just offer coverage to those people? The short answer is that such a plan would not solve the problems that patients, health care providers and employers have with the current system. Yet they would be asked to pay higher taxes to make coverage available to the uninsured.

A small targeted plan would not provide the efficiency and quality improvements that come with broad publicly-sponsored coverage and the benefit for the economy that New York Health Plus provides.

Since many people have coverage at one moment and lose it the next, a smaller plan would be administratively cumbersome and undermine continuity of coverage and care.

Employers who now "do the right thing" by providing coverage would have a strong incentive to stop doing so and tell their employees to go sign up for the State's new coverage. Private sector employment-based coverage is already in long-term decline in New York. This would accelerate it. As more people lose coverage, a program designed to cover 1.5 million uninsured would eventually have to provide coverage to millions of people. We might as well do it in an intelligent responsible way.

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most people to face, and which do not square with the professed aims of the political parties. Thus political language has to consist largely of euphemism, question-begging and sheer cloudy vagueness. . . . Such phraseology is needed if one wants to name things without calling up mental pictures of them.

[29] United Hospital Fund, *Blueprint for Coverage*, New York, 2006.

# V. CONCLUSION

This approach is the most effective way – if not the only way – to achieve the five goals set out by Governor Spitzer in announcing the effort to develop his plan for universal health coverage:[30]

***1. Rapidly provide universal health coverage to the citizens of New York.*** New York Health Plus uses building blocks already in place which can be quickly expanded to cover all New Yorkers who choose to enroll. There would be no financial barriers to enrollment in a plan that offers high quality comprehensive coverage and choice to everyone – including the choice of keeping existing coverage.

***2. Control the cost of health insurance and health care.*** New York Health Plus would save New Yorkers over $4 billion of the $63 billion we spend on premiums, deductibles and co-payments. It is based on Family Health Plus, which provides comprehensive care at lower cost than anything employers or individuals can buy. The state sets the premiums it pays and has kept them stable, and it has extensive criteria for benefits, adequacy of provider networks, etc. Publicly-sponsored coverage gives New York the ability to provide standards and incentives to control the cost and improve the quality of care. But the state is preempted by Federal law from regulating most employment-based coverage.

***3. Fairly and equitably distribute the cost of health insurance and health care.*** New York Health Plus eliminates the unfairness built into a system of employers and individuals paying premiums set by insurance companies. The fairness and equity of the plan's financing will be determined by the choice of revenue mechanisms. Plans that rely on employers or individuals paying premiums may offer subsidies to approach fairness. But they require extensive, complex, and burdensome means testing to determine eligibility, and those subsidies have to be funded through taxes anyway.

***4. Improve the state's economy and the competitiveness of the state's businesses.*** New York would free employers from having to pay for health coverage for their employees. This would be especially important to start-up companies, small businesses, and low-margin businesses – essential parts of the state's economy. The New York economy would save over $4 billion of the $63 billion we now spend on premiums, deductibles and co-payments.

***5. Promote the economic viability of health care providers.*** Today,

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[30] Governor Eliot Spitzer and Lieutenant Governor David Paterson, press release, July 11, 2007.

health plans are accountable mainly to employers and are thus under extraordinary pressure to find ways to refuse to pay for care or pay as little as possible. Under New York Health Plus, health plans would be accountable to the public through our elected government. While there would be continued pressure to control costs, there would also be pressure to deal fairly with patients and providers. The state would also not have to be concerned, as it is today, that publicly-funded coverage is cross-subsidizing care for privately covered patients.

Governor Spitzer also called for consideration of "how the increased use of preventive medicine can both improve the quality of people's lives and reduce health care costs." Under privately-sponsored coverage, health plans have little incentive or ability to promote preventive care. But New York Health Plus would give New York the incentive and the ability to do that.

New York Health Plus offers clarity; consumer choice; better and more affordable health care for all; fairness and equity; a stronger economy; a stronger health care system; and speed and simplicity of implementation.

# APPENDIX: COSTS AND SAVINGS

This Appendix presents a rough estimate of the costs and savings for New Yorkers under New York Health Plus. First, it estimates what New York employers, employees and individuals now spend on private health coverage premiums, deductibles and co-payments. Next, it estimates what it would cost to cover every New Yorker who now has private coverage and every New Yorker who is uninsured, assuming they all choose New York Health Plus. The cost of publicly-sponsored coverage for New Yorkers who now have that coverage or are likely to obtain it under current legislation would also increase when Medicaid managed care, Family Health Plus and Child Health Plus are upgraded (as noted below) with the adoption of New York Health Plus.

This Appendix does not try to quantify the additional savings that would come from eliminating the cost of eligibility determinations, or reducing the cost of subsidizing indigent care provided by hospitals and clinics. However, these additional savings would be substantial.

The conclusion: New York Health Plus will **save** New Yorkers over $4 billion a year in comparison to the current $63 billion cost of the private coverage system.

There would be further savings from incentivizing primary and preventive care and improving outcomes, and more effective cost control over time, as more New Yorkers choose to join publicly-sponsored coverage.

## Costs of Private Coverage

Private health coverage costs New Yorkers about $52 billion a year in premiums. When the cost of deductibles and co-payments are included, the cost is about $63 billion a year.

There are 9.7 million New Yorkers (employees and dependents) covered by employment-based coverage.[31] Employers and employees together pay an average premium per person of $4844,[32] totaling $47 billion a year. The five hundred thou-

[31] United Hospital Fund, *Blueprint for Coverage*, New York, 2006.

[32] The average annual premium in New York for employment-based coverage was $4239 in 2005. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2005 Medical Expenditure Panel Survey-Insurance Component, table II.C.1. Compounded premium inflation since then is 14.3%. Henry J. Kaiser Family Foundation-Health Research Educational Trust, *Survey of Employer Health Benefits*, 2007.

sand individuals buying non-group coverage[33] spend $5 billion on premiums.[34] Total premiums for private health coverage cost New York employers, employees, and individuals $52 billion a year, including $11.3 billion paid by taxpayers for state and local public employee health benefits. The Lewin Group estimates out-of-pocket health spending in New York to be $22 billion a year.[35] The study does not break down the number. However, it may be reasonable to assume that about half that amount – $11 billion – is attributable to costs incurred by people with private health coverage but not covered by their coverage because of deductibles and co-payment requirements.

The number can be estimated through another approach. The average private insurance deductible is $710.[36] Assuming consumers spend about one and a half times that much satisfying the deductible plus co-payments yields approximately the same $11 billion figure.

Therefore, the total annual spending in New York for privately-sponsored health coverage premiums, deductibles and co-payments is reasonably estimated to be approximately $63 billion.

This does not count anything for the portion of health care provider bills not fully reimbursed by the patient's health coverage or denied for reasons other than medical necessity. Nor does it count the health care costs paid for by the uninsured.

## Costs and Savings With Publicly-Sponsored Coverage

In New York State, Family Health Plus costs about $255 a month ($3,060 a year) per covered life.[37] There are about 11.7 million people in New York who are covered by private coverage or are uninsured. If they all enroll in New York Health Plus, and the annual premium remained $3,060 a person, the total premium to be paid by the state would be $35.8 billion.[38]

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[33] United Hospital Fund, ibid.

[34] Assuming an annual premium of about $10,000.

[35] The Lewin Group, "Estimates of the Cost and Coverage Impacts of Proposals to Expand Health Coverage in New York," United Hospital Fund, New York, November, 2006.

[36] Leighton Ku, *Comparing Public and Private Health Insurance for Children*, Center on Budget and Policy Priorities, 2007.

[37] New York State Department of Health, Office of Health Insurance Programs, unpublished data.

[38] As of 2006, 9.7 million New Yorkers had employer-sponsored health coverage and about five hundred thousand had individual privately-purchased coverage. For the purpose of this calculation, we should assume all of them would enroll in New York Health Plus. About 6.1 million New Yorkers already have government-funded health coverage (Medicare, Medicaid, Family Health Plus, and Child Health Plus). United Hospital Fund, ibid. When the 2007 legislation expanding Child Health Plus and simplifying re-enrollment in Medicaid, Family Health Plus and Child Health Plus are implemented, that should grow to about 7.4 million. An estimated 1.5 million will then remain uninsured, and for this calculation we should as-

Family Health Plus now offers more comprehensive coverage at a lower premium than any commercial products on the market. This is true even though Family Health Plus has no deductibles and only negligible co-payments, the enrollees are (because of their low income) likely to be less healthy than commercial enrollees, and the "churning" that results from re-enrollment paperwork requirements means Family Health Plus carriers are often deprived of premium income until a recipient gets sick and decides to re-enroll.

In recent years, while privately-sponsored health coverage has experienced substantial premium increases, Family Health Plus premiums paid by New York State have remained virtually flat.[39]

However, we should assume that under New York Health Plus, the premium for the Family Health Plus coverage will increase.

First, the benefit package will be expanded to include full parity for mental health coverage. Family Health Plus now covers mental health care, but not at full parity. Based on experience with private coverage under Timothy's Law and experience with the Federal Employees Health Benefit Program, it would be fair to estimate that this will increase the premium by less than 1%.

Second, the provider networks of Family Health Plus carriers will have to grow and change to serve millions of middle- and upper-income patients. Since Family Health Plus patients are currently low-income people, presumably living mainly in low-income areas, the provider networks – especially for outpatient care – are presumably made up largely of predominantly lower-priced providers than those serving mainstream health plans. Enrolling the physicians and other providers who now serve middle- and upper-income patients will increase costs.

Under the public fee-for-service option, many provider reimbursement rates will have to be substantially higher than Medicaid or Family Health Plus fee-for-service rates. However, it would provide substantial savings in administrative costs.

Third, Family Health Plus pays for very little maternity care. Because of higher Medicaid eligibility levels for pregnant women, most Family Health Plus enrollees who become pregnant transfer to Medicaid.

On the other hand, there are factors that would substantially reduce the average Family Health Plus premium under New York Health Plus. All Family Health Plus enrollees are adults. When children are brought into Family Health Plus under this plan, they would substantially bring down the average premium. The Child

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sume all of them would enroll in New York Health Plus. So the potential enrollment in the plan of people who would not already have government-funded health coverage would be about 11.7 million (9.7 + .5 + 1.5 = 11.7). Multiplying this by $3,060 a person yields $35.8 billion.

[39] New York State Department of Health, Office of Health Insurance Programs, unpublished data.

Health Plus average monthly premium is $146, compared to the Family Health Plus premium of $255. Prescription drug costs can be substantially reduced if participating plans take advantage of the state's Preferred Drug Program. Also, with income eligibility removed from the program, participating plans would not experience the costly "churning" now associated with means-tested coverage.

Under Medicare, the traditional fee-for-service plan costs the Federal government substantially less than Medicare managed care plans. The fee-for-service option under New York Health Plus should, therefore, be affordable to the state, even with reasonable provider reimbursement rates.

Taking all these factors into account, it would be unrealistic to think that the cost of providing New York Health Plus to 11.7 million New Yorkers would be only $35.8 billion. However, it would also be unrealistic to think that the per person cost would almost double, which is what it would take for the cost to equal the $63 billion that New Yorkers now spend on private coverage premiums, deductibles and co-payments.

Balancing the factors that would increase and reduce the current per person cost of Family Health Plus, it is reasonable to estimate that New York Health Plus would spend fifty percent more than $35.8 billion, or about $53 billion. When the publicly-sponsored plans are upgraded, that would affect the cost of Medicaid, [40] Family Health Plus and Child Health Plus for those who are now covered and are anticipated to be covered under the 2007 expansion and simplification reforms. The additional cost to the state would be $6.2 billion, raising the figure to $59.2 billion.

However, there will be additional savings. Most of the hundreds of millions of dollars New York State now spends on "indigent care" subsidies to hospitals and clinics will not need to be raised and spent, because almost all uninsured patients will now have comprehensive quality health coverage. There would be hundreds of millions or more in administrative savings from reducing the cost of eligibility determinations. These savings are difficult to quantify, but would bring the number well below $59 billion.

*New Yorkers would, therefore, save over $4 billion a year* compared to the $63 we now spend on premiums, deductibles and co-payments.

This savings estimate does not count the additional substantial savings that would come from reducing the cost of health care through promoting primary and preventive care, improved quality and coordination of care that can come with publicly-sponsored coverage. However, these savings would be real and substantial.

[40] Note that the cost of significant portions of Medicaid spending, such as long term care, are not affected by New York Health Plus.