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Health Care Reform Update

June 8, 2009

As measures to fix the current financial crisis are falling into place, the focus of the Obama Administration and Congressional leaders is fast turning to health care reform. In order to keep you well informed of this rapidly developing situation, SML is providing a bi-monthly publication to update you on what we expect to be an extremely fast paced and challenging legislative process. We will provide these overviews as we gain a clearer picture of how health care reform will change the current landscape of employer provided health insurance benefits. Our goal is to keep you informed so that you might capitalize on changes and prepare for any impacts.

SUMMARY

Last week President Obama met with Democratic Senate leaders and indicated that, while he could live with a health reform bill that includes an individual mandate for coverage which he opposed during his presidential campaign, he expects to see a final measure that includes a government-run plan option. Senators Baucus (D-Montana, chair of the Senate Finance Committee) and Kennedy (D-Massachusetts, chair of the Senate Committee on Health, Education, Labor and Pensions) have just announced that their respective committees will begin voting on proposals this month and will work towards producing a single, comprehensive piece of reform legislation to be sent to the Senate before the August recess.

While the Baucus/Kennedy collaboration is optimistic about their pending plans and the speed with which they can accomplish them, they face a set of daunting political and logistical challenges.

Among the issues that must be addressed include:

- **Universal Access:**
How to provide health care access for nearly 50 million Americans who are currently estimated to be without coverage and the healthy price tag that will result;

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- **How Coverage Will be Provided:**
How to restructure our current employer-based system, including consideration of politically charged proposals for a government run option or a single payer system;
- **Reducing Health Care Costs:**
How to control rising health care costs – an effort that may involve consideration of proposals for restrictions in treatment and will certainly not address short term funding needs that are sure to be created by any expansion of the current system;
- **How to Pay for Reform:**
Perhaps the most intriguing question and one that has already spawned a variety of proposals that range from taxing sugary soda products to eliminating or limiting the tax deductions for the cost of health care benefits provided to employees by their employers.

ITEMS TO LOOK FOR

- ***The Role of a Government Option or Single Payer System:***
The ability of the government to provide health care coverage on a cost effective basis will likely be the most politically charged issue that will be debated in this process. The President has recognized that there is strong opposition to government involvement from the Republican side of the aisle and has publicly urged Democratic leaders to seek a bipartisan result that will reflect these concerns. In addition to the abstract political considerations, we join others in worrying about the likelihood that a government option will shift costs to the private sector by limiting reimbursement and forcing providers to charge retail-plus for services rendered to private plans. This type of hidden subsidization could very well increase medical trends and potentially result in higher taxes to finance the estimated \$1 trillion of additional cost just to set-up the government plan.

We are also concerned that any proposed government option that reduces or restricts reimbursements to providers will force employer based plans to similarly reduce or restrict reimbursement in order to be competitive. Long term, this strategy could result in reductions in the quality and/or availability of health care.

- ***Taxation as a Funding Solution:***
Any health care reform proposal will have a significant price tag attached to it. Proposals that significantly expand access will incrementally increase cost. While

there has been much discussion about reducing health care costs, any effort to do so, will require a long term and coordinated plan. Among the funding solutions currently proposed are a variety of tax measures that could result in hidden costs that might unduly burden large segments of the American populace. Included among them is the elimination of the tax exclusion employees currently enjoy for employer provided coverage and/or, as mentioned above, reduction or even elimination of the employer tax deduction for premiums paid. We believe that funding concerns should temper the legislative process and additional taxes and/or tax measures should not be viewed as a quick fix to the long term funding dilemma.

➤ ***The “Massachusetts” Model and Mandatory Coverage:***

Among the proposals currently being discussed are designs that are modeled after the Massachusetts Health Care Reform Program. This type of proposal would mandate coverage for most Americans, offer some level of government funded coverage and require employers to pay for health care at a minimum level of coverage.

We believe that Congress should be careful in fully embracing any similar program as a means of addressing our national health care problems. Consideration should be given to the burden that might be imposed on small and mid-size employers in the current financially challenged environment by mandating specific levels of coverage or contribution.

➤ ***The Fast Track:***

Legislative proposals are already beginning to be issued from the various Congressional committees. In all likelihood, a comprehensive reconciled package will be sent before Congress by the August recess. This is an extremely ambitious timetable for such an important, far reaching and historical endeavor.

SML will be monitoring developments in the coming weeks and will be reporting the progress of this legislative effort to you. In the meantime, should you have any questions or concerns, please do not hesitate to contact us.