Dr. Hsiao's Draft Report
Basic Concepts and FAQs about Option 3
February 2nd, 2011

1. Who is covered?

    All Vermont residents providing proof of residency are covered. There are no premiums and there is no connection between your coverage and where you work or how much you pay.

2. How is this single payer plan funded and what will it cost me?

    In addition to the current state and federal spending on health programs, which will continue as before, the new system would be funded through a payroll contribution on Vermont wages that is split between employers and employees. In 2015, employers would pay 10.9% of eligible wages and employees would pay 3.6% of their wages. Furthermore, the new system creates better controls on health care cost inflation and **the contribution rate is projected to decrease over time**.

    In 2015, when the program starts, many employers would pay less than if no state reforms happened. In 2009 Vermont employers paid, on average, 11.3% of payroll in health care premium costs. At the current rate of health care cost inflation and wage growth that would be 12% by 2015. As such, on average, employers who currently offer insurance and employees who get their coverage through their employers will pay the same or less than they are paying today. Some employers and employees may pay substantially less while employers who do not offer insurance will pay more, as may some employers who offer shallow benefits.

    In our proposal, not all wages are subject to the contribution. There is a cap on wages at $106,800 in 2011 (the same cap as for Social Security payroll taxes) that creates a maximum contribution level. Furthermore, employers who pay very low wages would be exempted from the payroll contribution. Some low wage earners and their families would also not have to pay. Regardless, they would still be covered.

    Self-employed individuals would pay only the employer share.

    Unlike insurance, there is no connection between how much you pay and the benefits that you get.

3. What are the benefits like?

    If you are currently covered by Medicare or Medicaid your benefits will not change. Likewise, this will not affect MediGap or Medicare supplemental insurance.
    If you are covered as a Federal Employee or as a member of the military, retired or active, your benefits will not change.

Everyone else will get, at a minimum, the Essential or Standard Benefit Package. The Standard Benefit Package is similar to what large employers are offering in Vermont right now in terms of the overall richness and covered services, where the plan pays 87% of total costs and the remaining 13% are paid by patients out of pocket. Compared to the standards set out in the federal health reform bill (PPACA) the Vermont Standard Benefit package is almost at the highest or "**Platinum**" level (where the plan pays 90%; "Gold" is 80%).

As a point of comparison from within Vermont, the two main Vermont State Employee Plans, among the most generous plans currently offered in the state, cover about 94% of all health expenses for enrollees.

Dr. Hsiao designed the Standard Benefit Package with broad principles to ensure it was of the same value as the current typical Vermont plan right now and to encourage the use of prevention and early detection and treatment of disease. However, there are many specific details that will have to be decided moving forward. Broadly, however, the package includes physician visits and visits to other health professionals (chiropractors, psychologists etc), urgent care visits, drugs, mental health and substance abuse, hospital visits (inpatient and outpatient, surgeries etc) and durable medical equipment.

The savings generated by the single payer were enough to also include some dental care (for example, primary and restorative care for children) and vision care (for example, eye exams). However the exact determination of those benefits will need to be further refined. Like major medical coverage in Vermont today, the Standard Benefits Package does not include long-term care (for example, nursing home care).

Under the Standard Benefit Package, Vermonters will have to pay modest amounts when they seek care.

i. There will be no overall deductible (the amount you have to pay each year before your coverage starts).
ii. There will be no cost to you at all for preventive care, such as mammograms
iii. There will be co-pays (a fixed payment amount) or coinsurance (a percent of the costs) for other services and drugs.
iv. There will be a total cap on patient spending. This total cap will be per family and based on the Vermont average wage.

Your employer will have the option to offer additional coverage .

4. Why a payroll contribution?

Currently when employers buy health care for their workers, the premium paid by the employers is a federally non-taxable benefit to the employees. This preferential tax treatment of health benefits is worth about $250 billion nationwide (approximately $500 million in Vermont). By continuing to use employer contributions, we retain this favorable federal tax treatment because employers can deduct their contributions against their income. If we used income taxes on individuals, this tax benefit would be largely lost.

5. How can we cover everyone with no additional total spending in Option 3?

   Option 3 is able to cover all Vermonters because it saves money in several ways

   i. Lower administrative costs

      The current way we pay for health care is very complicated, with many different insurers and government programs, all of which have different benefit packages and rules of payment. Under a state-based single payer, there will only be one set of rules for the vast majority of transactions. Because out-of-state individuals will still use Vermont services and vice-versa, as well as the fact that Medicaid and Medicare will continue to have different benefits, the savings are not as great is if Vermont were an island, but they are still measurable. Savings are also to be found by having just one insurance fund, reducing duplication of functions across different payers, and eliminating sales, marketing and underwriting expenses that private insurers incur to compete with each other.

   ii. Reduced waste, fraud, and abuse

      While the vast majority of health care providers do the right thing, a small number take advantage of the complexity of the system to get paid for services that weren't provided, to bill for more expensive services than were actually provided, or to deliver unnecessary care. This is very hard to detect when so many different insurers are paying bills. A single payer will make it much easier to identify those few providers who abuse the system.

   iii. Changes in how care is delivered and paid for

      Currently, most health care is paid for using "piece rate" – payment for each service provided. This payment system encourages providers to do more, rather than do better. A system of individual providers worked well when health care was primarily for acute illnesses such as the flu. As the focus shifts to chronic diseases such as asthma or diabetes, care is much more of a team process. Better communication and coordination is essential to both improving the quality of care and saving money.

   iv. Changes to the medical malpractice system

      Ways to compensate patients who are injured during the care process are essential, but a system that relies on law suits is expensive and inefficient. In fear of malpractice law suits, physicians and other professional practitioners perform some medically unnecessary services to avoid possible law suits. This is called defensive medicine. It can be measurably reduced by reforming the medical malpractice law.

6. How do you use the savings?

   The report made conservative estimates of the potential savings from the above categories. Some of these savings are "one time" savings, while others help bend the cost curve over time. In the first year the savings are predicted to be $590 million in 2010 dollars (there is an additional savings of about $50 million to Vermont for increasing Medicaid payment rates because the Federal government pays for 60% of this increase up to a certain level). In order to be conservative, and realizing that some savings may take more time to accrue, our recommended Option 3 did not "use" all the savings. Covering all uninsured Vermonters and bringing everyone up to the Standard Benefit Package in 2015 would cost about $300 million in 2010 dollars. We allocated

another $120 million for covering dental and vision services; investing in physician recruitment and retention and improving community hospitals would cost another $50 million. This leaves approximately $100 million in savings that are unused.

7. How much will you pay doctors? Won't they just leave?

   Our proposal recommends that providers be paid the same amount, in total, in their net income as what they earn now. The payment rates would change across programs - Medicaid and Medicare's payment rates would be raised from the current rates, but private insurance would reduce their payment rates. Today, private payers pay well above costs to hospitals and doctors. This allows them to stay in business because Medicaid and Medicare pay below costs. We often call this the "cost shift." We propose a single payment rate that is equal to the average across payers right now. This new uniform average payment rate is higher than Medicare payment rates today.

   As mentioned above, increasing Vermont Medicaid rates will bring in additional Federal funds. Together with the reduced payments on behalf of the privately insured population, moving to a uniform payment level could save the state about $50 million in 2010 dollars.

   Furthermore, our recommended Option 3 proposes to set aside a significant portion of the savings ($50 million every year) to invest in primary care physicians, nurse practitioners and health care facilities. For example, Vermont could recruit and retain more primary care physicians or other types of providers through generous loan repayment programs. The report also recommends that Vermont use some of these funds to update and improve several community hospitals to make sure there is an adequate supply of services when a single payer plan is implemented.

8. What about the cross-border issues?

   There are two types of cross-border issues. Where people live with respect to where they work (and where their wages are earned), and where people live and where they get care.

   Many Vermont residents get care outside of the state, most notably at Dartmouth-Hitchcock Medical Center. This is not a major hurdle for a single payer system. Just like Vermont Medicaid or Blue Cross Blue Shield of Vermont does today, the single payer entity would contract with out-of-state providers to provide care for Vermont residents and negotiate payments with them. The entity could furthermore "rent" networks to ensure that Vermont residents have access to care around the nation.

   The more difficult issue is for Vermont residents who work in neighboring states. By definition they are covered by the system, but their wages are earned outside of the state and the employer share of the payroll contribution cannot be collected. Out-of-state employers could be required to withhold the employee portion of the contribution, however. If these residents have employer-sponsored coverage, the employers' insurance plans could be the primary payer while the single payer would only pay the remainder of the eligible expenses. Employers could also be allowed to

"buy-in" to the Vermont system, as in many cases it would be less expensive than their current health care costs.

9. What kinds of federal waivers do you need to make this work?

    In order to implement our recommended Option 3, Vermont would need 3 different waivers: a Medicaid waiver, a Medicare waiver and a waiver from the PPACA's Exchange requirements.

    Medicaid Waiver. Vermont currently has a Medicaid waiver, called the Global Commitment waiver, which allows the states more flexibility in benefits, who is covered and payments to providers. The waiver required for Option 3 would be very similar to Global Commitment and we believe that the state would be able to receive this.

    Medicare Waiver. Even though Medicare benefits are not changing, Vermont would need a waiver to allow more flexibility in Medicare payments and administration to ensure that the single payer system can achieve greater savings. Federal law allows for a waiver to the Medicare program already and the new federal health reform law creates even more scope for state flexibility. Like the Medicaid waiver, this waiver could be granted by administrative action and does not require action by the US Congress.

    PPACA Exchange Waiver. The federal health reform law creates the opportunity for states to waive out of the Exchange requirements. Vermont would need to show that its new health system would cover, with equally good benefits, as many people as the Exchange would cover. This waiver furthermore makes it easier to coordinate the Exchange waiver with the Medicare and Medicaid waivers that Vermont would seek. However, this waiver is currently allowed for states starting in 2017. Vermont would have to argue to pull back this waiver date for Option 3 to begin in 2015.

10. What are the effects on jobs in Vermont under Option 3?

    The macroeconomic model (the same model Vermont State uses to forecast revenues for the budget) predicts that Vermont would see a net gain of approximately 5,000 jobs in 2015 under Option 3. Some new jobs would be created while some jobs would be lost in health care administration and insurance, but more would be gained overall.

    New jobs would be created for several reasons. First, Option 3 covers all Vermonters with an overall higher level of benefits. This increases medical spending, creating jobs at in-state health care providers. Second, the decrease in health care costs that results from the savings described above will lead to higher wages, which in turn increases household consumption in Vermont. Part of this increased consumption will occur locally, thus creating jobs in Vermont. Finally, moving the administration of Medicare's claim payment operation into Vermont would also increase jobs.

    Reduced administrative costs means a reduction in the number of health insurance and health care billing and administrative jobs. The consolidation of multiple private insurance plans into a single payer would also eliminate most sales, marketing and

underwriting personnel employed by these companies, though many would be lost at out-of-state insurance companies.