



**A Blueprint for Sensible Health Care Reform
Adopted by the Self-Insurance Institute of America, Inc. (SIIA)**

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Introduction

As we are now immersed in our country's most comprehensive debate over health care reform, it is important to remember that the U.S. health care system works well for the vast majority of Americans. The enactment of ERISA in 1974 created a system of uniform benefits regulation that has expanded coverage to roughly 76% of the US workforce. While this system is working well for those with access to it, incremental improvements need to be made both inside and outside the employer-based system of health care. The primary focus needs to begin with the increasingly high cost of care. Skyrocketing costs have impeded the ability of some citizens to access affordable health coverage and quality care. Regretfully, this has led to a dramatic increase in the number of uninsured Americans.

Over the past 3 years, the diverse membership of the Self-Insurance Institute of America, (SIIA) proactively examined the current health care system. During that time, we conducted numerous surveys and interviews with employer-sponsors of self-insured plans, covered employees and administrators of those plans, Managing General Underwriters (MGUs), excess/stop-loss insurance carriers, health care providers and other companies that make up the U.S. health care system. We also presided over various health care forums that focused on the health care issues affecting our Country. After studying and digesting all of the information collected, SIIA drew up this proposal to offer a comprehensive solution to fix the ailing U.S. health care system.

SIIA believes that the current employment-based system of health care provides a strong foundation to build upon. We start with the notion that employers know their workers and families on a first-hand basis and are in the best position to oversee their health benefits. We also address the commonly agreed upon notion that something is wrong with the direction and foundation of the health care pricing system. In addition, as approximately half of the estimated uninsured in the U.S. work for small businesses that cannot afford to provide health care benefits to their employees, we offer some valuable solutions that will help ease the burden for small businesses. We also highlight tax incentives in areas of preventative health care and ways to expand the consumer-driven health care system.

This paper identifies some of the most important health policy challenges and provides solutions on how SIIA believes they should be addressed. These reforms are targeted to problems that prevent people from gaining access to affordable health insurance and quality care. They are important steps that build upon the employer-based system to significantly improve the state of health care in the country. As health care reform resides as a top-domestic agenda item, the

membership of the Self-Insurance Institute of America, and the over 73 million employees and their families who receive health coverage through self-insured plans, offer the following proposal.

Employer-Based Health System Protection

Background:

Employment-based group health plans provide health coverage to more than 162 million Americans, with roughly 73 million covered by self-insured plans. The main factor contributing to the success of employment-based health plans is the broad preemption provision of ERISA. Employers are more likely to offer health benefits that are subject to uniform regulation rather than a hodgepodge of conflicting and inconsistent State and local laws. Congress must preserve ERISA preemption and other aspects of the system that are working.

Problems we seek to address:

Many States and even counties and cities are looking at creative ways to avoid ERISA preemption in order to carry out their health policy initiatives. ERISA preemption allows an employer with a nationwide workforce to maintain a nationwide health program, with all of the cost savings and administrative efficiencies such a program entails. ERISA also promotes fairness among workers of varying positions and geographic locations by ensuring that each worker is offered the same plan options. Erosion of ERISA will lead to a patchwork of state regulations and severe administrative difficulties with unnecessary expenses for employers as they attempt to comply with rules that differ from locality to locality.

Solutions:

Defend ERISA Preemption: Federal preemption fosters uniform administration and reduces the costly burden of multi-state regulation. Without ERISA preemption, many employers will be forced to choose between increasing the employee share of health coverage or eliminate coverage entirely. The complexity of administering a health plan that treats workers differently across State lines is inefficient and costly. SIIA supports:

- A sense of Congress resolution declaring its intention to protect ERISA preemption and oppose granting states waivers to ERISA preemption.
- Allowing small businesses to pool their resources to self-insure employee benefits while having the ability, through ERISA, to circumnavigate conflicting State laws.

Cost Containment

Background:

Spending nationwide on health care has increased far greater than rates of inflation or wages. While some of this can be attributed to advancements in medical and bio-technology, a significant portion is a result of increasing inefficiencies in our health care system.

While there is a strong foundation through our employer-based system for a successful health care system, full achievement is currently constrained by an outdated and inept delivery system and marketplace. We currently spend more nationally on health care, in terms of a nominal dollar amount and in percent of GDP, than any other country in the world. Unfortunately, we are getting far less than the desired results from such a financial commitment.

Problem we seek to address:

Inefficiencies, lack of competition, over-use or inappropriate use of services as well as a lack of a technologically-modern system, all significantly adds to the high cost of health care in this country. Improvements must be made to reverse this trend to ensure access to and adequate coverage for all Americans.

Solutions:

Price Simplification: While the delivery of medical care is complicated, the payment for such care should not be. In an effort to help consumers compare the relative cost of services and/or procedures offered by different providers, a simplified pricing system is necessary to promote full price transparency. Consumers should be able to easily understand the cost for medical services..

Price Transparency: Most consumers take advantage of comparison-shopping when they are in the market for a new car, electronics and everyday items. Unfortunately, it is a different story when it comes to health care. Medical providers charge different rates depending on the nature of the insurance the consumer possesses. Consumers need consistency in pricing and the medical providers need to be able to set clear and consistent rates for their services to reduce administrative burdens of managing multiple payment schedules. Consumers most hurt by the lack of price transparency are the uninsured themselves. SIIA supports:

- Price transparency in the health care system so that consumers (and insurers) can shop around for the best prices and plan for health care expenditures.
- Providers should be able to supply consumers the expected cost of a visit, procedure or service.
- Greater nationwide access to price information (consumer rankings) for medical services.
- Make available for consumers public program reimbursement rates for easy viewing and understanding.
- Dedicate resources within Health and Human Services (HHS) to collect health care data by region and list prices for services, treatments and procedures, as well as quality assessments by consumers. Patients will be able to know, by procedure or type of illness, which hospitals, physicians and other providers meet established, industry-accepted quality standards.

The Department should provide:

1. A registry (updated monthly) of the average cost charged by pharmacies of the 100 most frequently used drugs.

2. A registry (updated semi-annually) of the cost of the 100 most common services provided by hospitals.
3. A registry (updated semi-annually) of the cost of the 100 most common services provided by providers.

Health Information Technology: Improvements to our Health Information Technology (HIT) system will significantly improve the quality of care for those in our health care system while also achieving noticeable cost savings through an efficiency of administration. As patients move either geographically, or even from provider to provider, often times their medical history or personal requirements get lost in the process. SIIA supports:

- Creation of a lifetime personal electronic medical record so consumers could have control over the use of their personal health records. The electronic record would be privately owned, portable and would ensure privacy protection.
- Support programs such as e-prescribing and e-billing.
- Tax credits and financial grants to help providers and payors purchase, implement and keep current electronic health-record systems and other components of a fully wired health care practice.
- Adoption of uniform health IT standards that must be implemented within 5 years. Government should mandate the goal and let the entrepreneurs facilitate the transition to that goal.
- Ensure compliance with Federal requirements to protect the privacy of individually identifiable health information.

Preventative Health and Wellness: Certain lifestyle and dietary patterns for today's population have significantly increased their risk for poor health. A large percentage of health care costs in our country go toward treating complications that result from being overweight and a lack of exercise. Also, many expensive major procedures and diseases could be prevented by less-costly screenings and testing, such as cholesterol tests and screenings. SIIA supports:

- Federal medical education loan reimbursement for health care providers who receive board certification in preventative medicine.
- Tax credits and other rewards to employers that offer wellness programs and preventative care methods (including on-site doctors and medical staff).
- Individual financial incentives (in proportion to premiums paid) as rewards for healthy behavior.

Quality Incentives: Incentives should be provided to reward quality care by providers and we must improve the reporting system. This will help move closer to a consumer and value-based health care system that will allow free-market principles to make our health care system more efficient. SIIA supports:

- Pay for Performance - Payors should consider reimbursing providers based upon actual health outcomes and standards, rather than procedures.
- Standards and protocols to be developed in order to help payors, employers and individuals ensure the most efficient results.
- Continue the development and implementation of national, uniform quality standards.
- A national database listing provider outcomes on quality and medical errors.

Tax Incentives

Background:

Tax incentives for employers that offer health coverage has been credited as one of the most significant vehicles to entice businesses to provide this benefit. Small employers (S-corporations – less than 100 shareholders) and self-employers are at a tax code disadvantage, thus factoring in a smaller percentage of these businesses being able to provide health benefits. Small businesses are also disadvantaged as their plans tend to be more expensive – less employees means less negotiating power with insurance carriers and health care providers and means less ability to spread risk and administrative expenses across their plan’s beneficiaries. Also, businesses who do not self-insure must comply with costly, politically-driven State benefit mandates.

Problem we seek to address:

The tax code needs to be reformed to ensure fairness for small and self-employed employers. The current tax code treats big business’ employee health care costs as a gross income exclusion, but for certain small businesses owners, health care costs are treated as an “above the line” deduction – or in simpler terms, subject to the 15.3% FICA tax. Tax fairness to all businesses that provide health coverage will significantly increase the number of insured and adequately-insured Americans. Tax incentives can also help increase the use of less traditional techniques in the fields of preventative health and wellness, which can help lead to lower long-term health care costs.

Solutions:

Small Business/Self-Employed Tax Incentives and Fairness: Tax credits to help small businesses afford their employees’ health care coverage and put them on a level playing field with larger employers. Ensure tax fairness and allow small business that either join an employer-pooling arrangement, or that don’t and fall under a means-tested income limit TBD by the DOL, to receive targeted tax incentives. SIIA supports:

- Amending the Internal Revenue Code to allow *all* businesses the ability to deduct health coverage as a business expense.
- For businesses with fewer than 50 employees, additionally provide a sliding scale tax credit. Companies with fewer than ten employees would be eligible to claim a credit of 50 percent of the cost of each eligible employee's policy. Companies with 25 to 50 employees would be eligible to claim a credit of 35% and so on.

- A tax deduction for claims incurred for health insurance related to small group coverage and small business health plans or claims paid out by small self-insured employers.

Small Business Pooling Arrangements

Background:

The number of uninsured in this country has been growing steadily over the past several years. It is estimated that nearly 63 percent of the working uninsured work for, or depend on, small employers who lack the financial ability to provide health coverage.

Problem we seek to address:

A large percentage of uninsured individuals are self-employed or employed by small businesses that cannot afford to provide coverage largely due to the lack of competition in the health care marketplace. In fact, 65 percent of small-business owners indicate high cost as the main reason why they do not offer health insurance. Additionally, since small companies are governed by State law, they are subject to varying state regulations and mandates that can increase costs by as much as 45 percent. Solutions are needed that permit small businesses to work together and take advantage of economies of scale to obtain affordable health coverage for their employees.

Solution:

Small Business Assistance Pools: The Congressional Budget Office estimates that small business pooling arrangements would save the typical small-business owner between 15 – 30 percent on health insurance. SIIA supports:

- Allow certain pooling arrangements to be regulated by the Department of Labor.
- Extend ERISA preemption protection only to those arrangements and participants that adopt specified corporate governance standards, solvency protection standards and certification requirements. Plans that do not meet the enacted requirements would thus be subject to state regulation. The DOL would be responsible for oversight of the plans and would have the power to suspend or revoke the plans.
- The Department of Labor should issue a regulation authorizing small business pooling arrangements to be governed under ERISA.

Consumer Driven Health care

Background:

Consumer-driven health care (CDHC) puts the consumer in greater control of their own health care. It incorporates free-market principles, allowing consumers to make decisions based on quality and price, and for them to then have the ability to negotiate for lower prices and/or expanded services.

While CDHC might not be the best course for all Americans, having a strong CDHC system in place will take some of the burden off employers (especially in the small business sector) and help lower costs and increase quality for all health care consumers.

Problem we seek to address:

Under current IRS regulations, medical savings accounts used as part of CDHC, Health Savings Accounts (HSAs) and Flexible Savings Accounts (FSAs), are restricted and are thus not able to be implemented to their greatest benefit. Making small improvements to the contribution levels and to the way these accounts are taxed will play a role in health care cost-containment and improvements in quality.

Solutions:

Improvements to HSAs and FSAs: As these consumer-driven accounts have been limited, the following expansions are recommended. SIIA supports:

- Allow individuals participating in an HSA to deduct the premiums for the high-deductible health insurance policies from their taxable income in conjunction with an HSA.
- Increase contribution limits to HSAs (with attention to early retirees aged 55 – 64) and allow them to incorporate flexible spending and health reimbursement arrangements.
- Allow spouses to make increased “catch-up” contributions to a single HSA.
- Eliminating the “use it or lose it rule” which states that the money in FSAs must be spent within the "plan year" as defined by the cafeteria plan (commonly the calendar year), and any money that is left unspent at the end of the plan year is forfeited back to the company.

About SIIA

SIIA is a national trade association that represents companies involved in the self-insurance/alternative risk transfer marketplace. Additional information about the association can be accessed on-line at www.siiia.org, or by calling 800/851-7789.