President-Elect Obama’s National Health Care Reform Plan

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For decades, Washington policymakers have focused on health care coverage, cost, and quality issues. For most, the overarching goal has been to develop a first-rate health care system that improves health care quality and coverage while at the same time reducing the rate of increase in cost. Because there are so many players in the health care system, making a change in one part of the landscape could have significant consequences for the others. As a result, efforts to enact comprehensive reform have failed, and have left in place a patchwork of laws and regulations that address health care in a piecemeal fashion.

In 2009, we are likely to see an effort to pass comprehensive reform legislation, and all of the players in the health care system are likely to be affected. Since Barack Obama has been elected as our President, his plan will provide the starting point for debate and discussions in Congress.

Obama’s Plan

Health care reform is a top priority for Barack Obama. In his campaign for president, Obama presented the broad outline of his plan to focus reform efforts where the current system is not working. President-elect Obama has promised health reform that will increase coverage, improve quality of care, decrease costs, and promote prevention efforts.

Coverage. Under Obama’s proposal, most individuals would continue to receive coverage through their employers. Individuals who do not have access to a group health plan or are uninsured would have access to a new public plan—modeled on the current plan for federal workers (Federal Employees Health Benefits Plan or FEHBP) or to individual health coverage through a “National Health Insurance Exchange.” This Exchange would also reform the individual and small group insurance market, incorporating a ban on excluding coverage due to health status. The plan includes a “pay or play” mandate for employers to provide insurance or contribute a percentage of payroll toward the cost of the national plan.

Small businesses (parameters have not yet been defined) would be exempt from this mandate and would receive tax benefits to help purchase coverage. Subsidies would be provided to low income persons. As an incentive for employers to continue to offer coverage and for employers that do not provide coverage to offer a group health plan, the Obama plan provides for catastrophic reinsurance for employers who provide coverage. The plan also includes a coverage mandate for all children, and Medicaid and the State Children’s Health Insurance Program (SCHIP, the federal government program that gives funding to states and allows moderate flexibility for states to design eligibility requirements for health insurance to families with children) would be expanded.
Quality and Cost. President-elect Obama’s proposal includes an array of health system changes to improve quality, reduce waste, and drive down health care costs. Proposed system changes include the use of comparative effectiveness research, disease management and care coordination, transparent quality and cost, and reform of medical malpractice policies. Another series of proposals is aimed at reducing health care costs: investing in electronic health information technology; preventing Medicare waste and fraud; and increasing competition in the insurance and drug industry. Many elements of these reforms have support from Democrats and some Republicans. While all of these reforms have the potential to impact savings and coverage, some will likely require additional spending by the federal government.

> Prescription drugs. Obama has proposed a number of policies to bring down prescription drug costs, including: policies that would increase the use of generic drugs; a repeal of the ban on direct negotiation by the government with drug companies participating in Medicare and other government programs; and drug reimportation—allowing individuals to buy medicines from other countries. Many in Congress support drug reimportation, though safety concerns could pose an obstacle for Congressional action on this issue.

Prevention. Obama’s plan would expand and reward worksite prevention strategies. He has also proposed to increase funding targeted to train the workforce, expand community-based prevention initiatives, and increase support for state and local government public health programs.

The Path to Reform

With the House and Senate in Democratic hands in 2009, Democrats will lead the way on health care reform. As of November 5, 2008, Democrats picked up 18 seats in the House (with 11 races too close to call). Democrats picked up five seats in the Senate (with four undecided or subject to recall). Democrats in Congress have said they are committed to making a comprehensive effort to reform our health care system, and work is underway now to lay the foundation for legislation next year. While Democratic members of Congress have refrained from public activity during the presidential campaign, many are working behind the scenes to craft or re-craft their own proposals, bills, and principles. The unveiling of these proposals will be guided by President Obama in coordination with House and Senate Democratic Leadership and Committee Chairmen.

Reaching Consensus. While Democrats are sure to rally around health care reform, maneuvering through the diverging views within the party will be challenging. For example, some Democrats have argued for an individual mandate, while others believe in capping the tax exclusion for health benefits as a way to finance reform. Neither of these issues has consensus among Democrats. Champions of reform will have to negotiate many complex policy and political issues, such as:

> Will states be allowed to continue their own reform efforts in the context of comprehensive reform at the federal level?

> Can the interests of small and large businesses be balanced to maintain the support these groups have voiced for reform?
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> Will the Congressional Budget Office update its scoring model to credit savings found in private sector health plans (such as preventive benefits)?

By all accounts, Obama’s experience in the Senate and ability to create a dialogue with all members of the Democratic caucus bodes well for a strong working relationship between a Democratic Congress and an Obama Administration. President-elect Obama’s blueprint for reform threads the needle in a way that avoids certain pitfalls experienced in 1994:

> Small businesses (as yet undefined) are exempt from his “pay or play” mandate, and large businesses that provide coverage now could continue in much the same manner as today. However, larger employers could be impacted by “pay or play” mandates by federally mandated minimum benefit levels and minimum contribution levels.

> Obama’s plan provides a clear view of reform, yet omits much of the second level detail. That will ensure Congress plays a significant role in shaping the plan.

**Medicare will be a big part of this debate.** Many Democrats believe coverage through a public program is part of the solution for the uninsured. Obama’s plan would create a public program (similar to what members of Congress have through the FEHBP for the uninsured) and many leading Democrats have sponsored legislation that would allow pre-65 retirees to “buy-in” to Medicare. Congress could also turn to Medicare savings as a way to finance health reform. Obama and many Democrats have called for reductions in payments for Medicare Advantage and for Medicare prescription drugs, among others. And certainly any of the proposals for Medicare savings debated by Congress in 2007 and 2008 could be on the table, including proposals supported in the past by President Bush, Senator McCain and other Republicans. Depending on Congress’ appetite for deficit reduction, some members could turn to Medicare savings as a means to reduce the deficit, leaving fewer resources for reform legislation. Regardless, with the expiration of the Medicare “physician fix” in September 2009, Congress is likely to enact major Medicare policy changes next year.

**Republicans will play a key role—even with large margins for Democrats, history tells us that most large-scale policy changes need support from both parties.** In general, Republicans share the goal of improving coverage and quality while reducing cost. Some Republicans believe “affordability” is the biggest challenge facing our health care system and covering the uninsured without addressing affordability is problematic. Fundamental philosophical differences exist, however, between Republicans and Democrats on how best to achieve this. In the past, Republicans have resisted efforts to increase the federal government’s role in setting prices and making clinical decisions. They have been very cautious about enacting federal mandates that would dictate coverage decisions to states or to plans. Instead, Republicans have focused their attention on ways to enhance individual responsibility and patient-centered decision-making. Many Republicans are likely to oppose the Obama plan, believing many employers would drop coverage, leading to a nationalized health care system. Marketplace solutions such as Health Savings Accounts have been advanced under the theory that individuals who are invested in the up-front costs of their own health care will make more informed decisions that will ultimately reduce health care spending and utilization.
Republicans lost a significant number of Congressional seats in the November 4 election but to date, Democrats have not been able to garner a 60-vote, filibuster-proof Senate. If the Democratic majority does not grow to 60, the Senate will then become the primary tool for Republicans to influence legislation in the Obama Administration. Democrats expanded their majority in the Senate and currently hold 56 seats to the Republican 40 seats. (To date, four seats remain undecided.) Of the projected seats up for election, Democrats won 17 and Republicans won 14 (four seats undecided). The outcome of the four remaining undecided seats will be significant as to whether or not the current 56 seats will grow to 60, and therefore, allow Democrats to cut off debate on issues before the Senate. In the House, Democrats defeated 12 Republican incumbents and lost four of their own incumbents, giving the Democrats a majority of more than 80 seats (11 seats are undecided).

The dwindling number of moderate-leaning Republicans in both chambers could have an impact on health reform efforts. While Republicans would be expected to play a less active role in the initial year of an Obama Administration, they could be looked to on important issues such as health care in the remaining years of President-elect Obama's term of office. Interestingly, many of the more moderate, now-retired Senators expressed support for the broad concept of universal coverage—Senators such as John Chafee (RI), John Danforth (MO), Dave Durenberger (MN), Lincoln Chafee (RI), Bill Cohen (ME), Alan Simpson (WY) and John Warner (VA). Now, there are significantly fewer moderate Republican Senators such as Senators Olympia Snowe (ME), Susan Collins (ME), and Arlen Specter (PA). As a result, the Senate has become even more polarized, which could hinder attempts at bipartisan legislation on comprehensive health care reform. The House has seen similar declines in the number of moderate Republicans. Republican House members who have a moderate stance on health care are fewer in number. What remains in the House Republican Conference are, in general, conservative members who have more limited experience with health care reform legislation. Nearly all have been slow to embrace the concept of universal health coverage.

What Happens Next

Democrats have made significant gains in both the House and Senate. With these gains, coupled with an Obama Administration, the time could be ripe for enacting significant changes to health care. Some small to mid-size businesses now believe health care costs are so high in the small group market that a more comprehensive solution would make them more competitive when competing with firms from other countries. Some large employers, faced with rising premiums, are also calling for reform. This shifting of support could have significant consequences for passage of a comprehensive package in an Obama Administration.

Action on health care will start early. We will gain insight into our new President’s direction early in 2009. The SCHIP program has been extended by Congress to cover current enrollment levels through March 2009 and President-elect Obama and others have indicated strong interest in expanding the program. The SCHIP is up for reauthorization in March 2009. Some Democratic lawmakers would like to see passage of a SCHIP bill that would be similar in scope to last year’s bill (vetoed by Bush), which would provide an early victory for an Obama administration. Others argue that delaying the popular SCHIP policy changes could help to drive a more comprehensive reform
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effort. Still others may want to seize the opportunity of a Democratic Administration and improve on the earlier SCHIP legislation. One thing is certain—Congress must act by March to continue the SCHIP program. This will give us some clues about what lies ahead. A September 2009 deadline for passage of legislation to prevent Medicare cuts to physicians could also provide a vehicle for reform.

Senator Ted Kennedy, Chair of the Senate HELP Committee, has announced his intention to introduce comprehensive legislation early next year. His legislation is expected to follow the outline of Senator Obama’s plan and reflect the experience of Massachusetts. In addition, his legislation is expected to include new policies on insurance market reforms, comparative effectiveness, health information technology, health disparities, transparency, disease management, medical home payment, and prevention. Senator Baucus, Chair of the Senate Finance Committee, is also working on a comprehensive health care reform proposal reported to increase coverage, contain health care costs, reform the delivery system and medical malpractice, implement comparative effectiveness policies and health information technology, and make improvements to Medicare. Both committees have already begun conversations about a unified package in an attempt to avoid jurisdictional problems that could prevent any package from moving to the Senate floor.

Work is underway in the House of Representatives as well. Ways and Means Chair Charles Rangel and Health Subcommittee Chair Pete Stark will play key roles. Energy and Commerce Committee Chair John Dingell and Health Subcommittee Chair Frank Pallone will also be central to crafting health reform legislation. The House Education and Labor Committee, with jurisdiction over ERISA, will also be involved in these efforts. As of November 5, Representative Henry Waxman—a leader on health care policy for years—announced his intention to challenge the position of Dingell. This and other potential Committee changes will be resolved in the coming weeks and will have an impact on the outcome of any legislation in the 111th Congress.

Clearly, our nation’s financial situation will have an impact on the ultimate outcome of this debate. To date, Obama and other Democratic leaders have stated that our country cannot afford not to act on health care issues. For years, Democrats have argued that access to affordable health coverage is the key to a healthy population and a healthy economy. However, what could slow reform efforts is the economic reality that faces the United States. While many believe the recent financial rescue plan has prevented the U.S. economy from going into deeper economic problems, serious economic questions remain that will carry over to 2009 and certainly have an impact on federal efforts to reform health care. The costs of the bank “rescue plan” combined with a stimulus plan expected to be enacted after the election or in early 2009 may impact the availability of discretionary spending to finance comprehensive health reform.

Concerns about continued deficit spending and a focus on the broader economic picture may delay policymakers’ efforts to revamp our health care system. Moreover, the state of the economy becomes the easiest and most potent weapon against additional federal spending for those who oppose the Democratic plan. And, even before the current economic crisis, many policy-makers acknowledged that there is not an easy or obvious way to finance comprehensive health reform. To finance his plan, Obama has said he would let the Bush tax cuts for certain wealthy Americans expire, and would retain the estate tax at its 2009 level. Questions about the implementation of these tax proposals arose during the campaign. Answers may come as President-elect Obama
Ready

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rolls out his plan, or may not be resolved until Congress crafts legislation. Capping the tax exclusion is another financing strategy said to be under consideration.

Incremental Reform? At this point, the appetite for comprehensive reform remains. However, we could see passage of incremental reforms that lay the groundwork and build the infrastructure for health system reform. Insurance market reforms, health information technology, transparency, and comparative effectiveness policies are likely to be employed under this scenario. We will be watching closely during the transition for clues about which elements—in addition to SCHIP—Obama may choose as priority piecemeal victories, though at this stage those involved in the Obama transition are united in their belief that Obama must seize the moment and push for comprehensive reform during his first year or two in office.

Everyone in the health care sector will feel the impact. Whether or not Congress is able to move forward on a comprehensive solution, we still expect significant policy changes to many aspects of the U.S. health care system. For example, Congress is expected to conduct extensive oversight and examination of the health care industry as well as an examination of health care programs such as Medicare Part D and Medicare Advantage.

Impact on Large Employers. Any effort on comprehensive health reform is sure to have a far-reaching effect on large employers. Under the Obama plan, some critical questions for large employers remain:

> Will the “pay or play” mandate be structured in a way that maintains an incentive for employers to continue to provide insurance to their employees? Many employers have successfully designed and implemented consumer-driven health plans that have cut medical trend to mid-single digits while improving employee buy-in to preventive care, reducing health risk factors. Will those success stories be compromised or eliminated by federally mandated plan design models?

> How will the reinsurance for catastrophic costs be designed and implemented?

> Will ERISA, the federal statute that exempts large employers from state laws, be changed by allowing states to experiment on their own reform efforts? Allowing states to create exceptions to the ERISA framework would be highly disruptive to plan design consistency and administration for multi-state employers.

Large employers will want to follow this debate closely in 2009 as Congress takes up the issue of health reform and begins to craft legislation.

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