

**Stay Well  
Afford Care  
Secure Coverage**

**Governor Arnold Schwarzenegger  
Health Care Reform Plan**

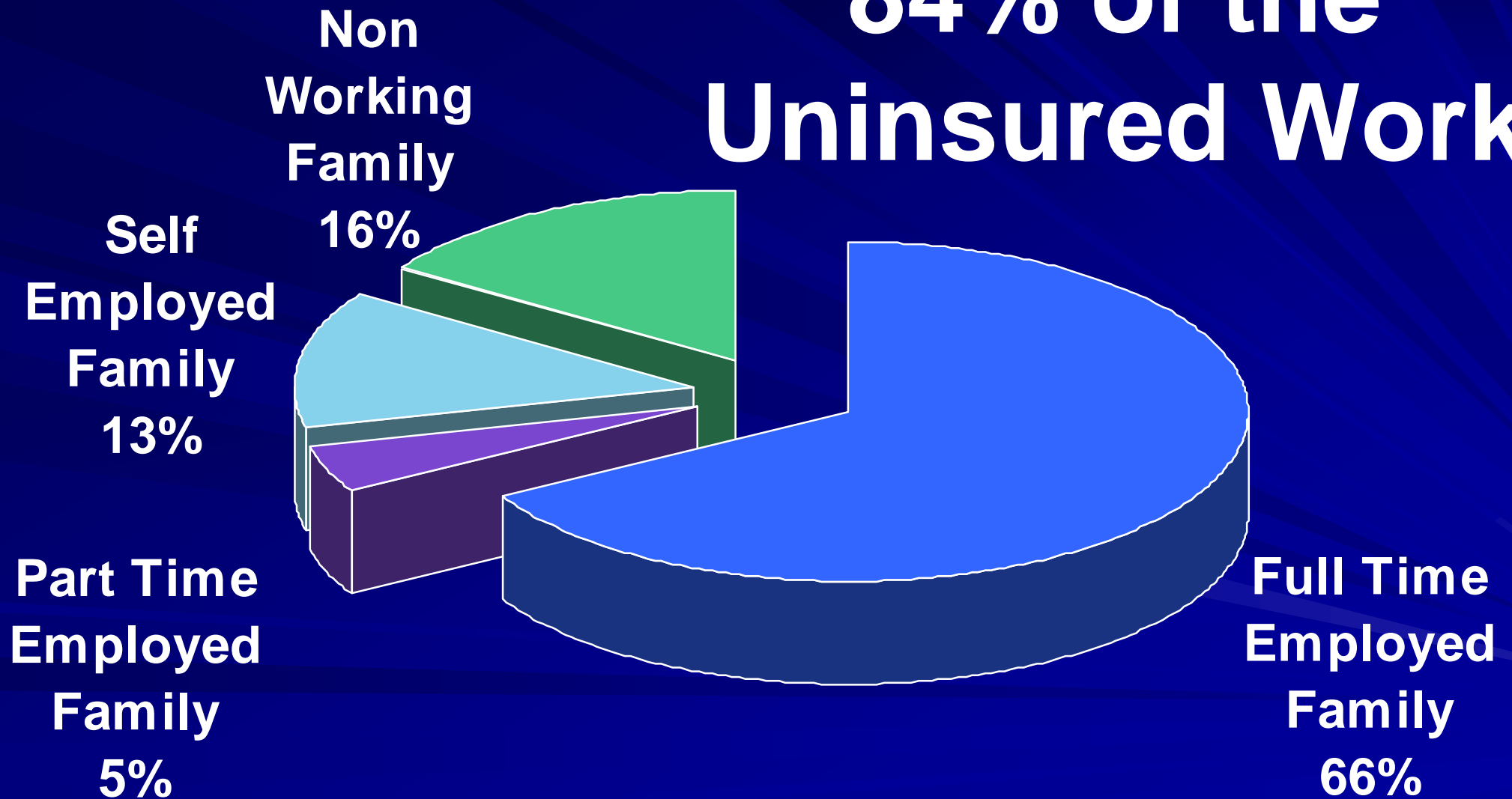
# Our Broken Health Care System

**6.5 Million Uninsured**

**20% of Population**

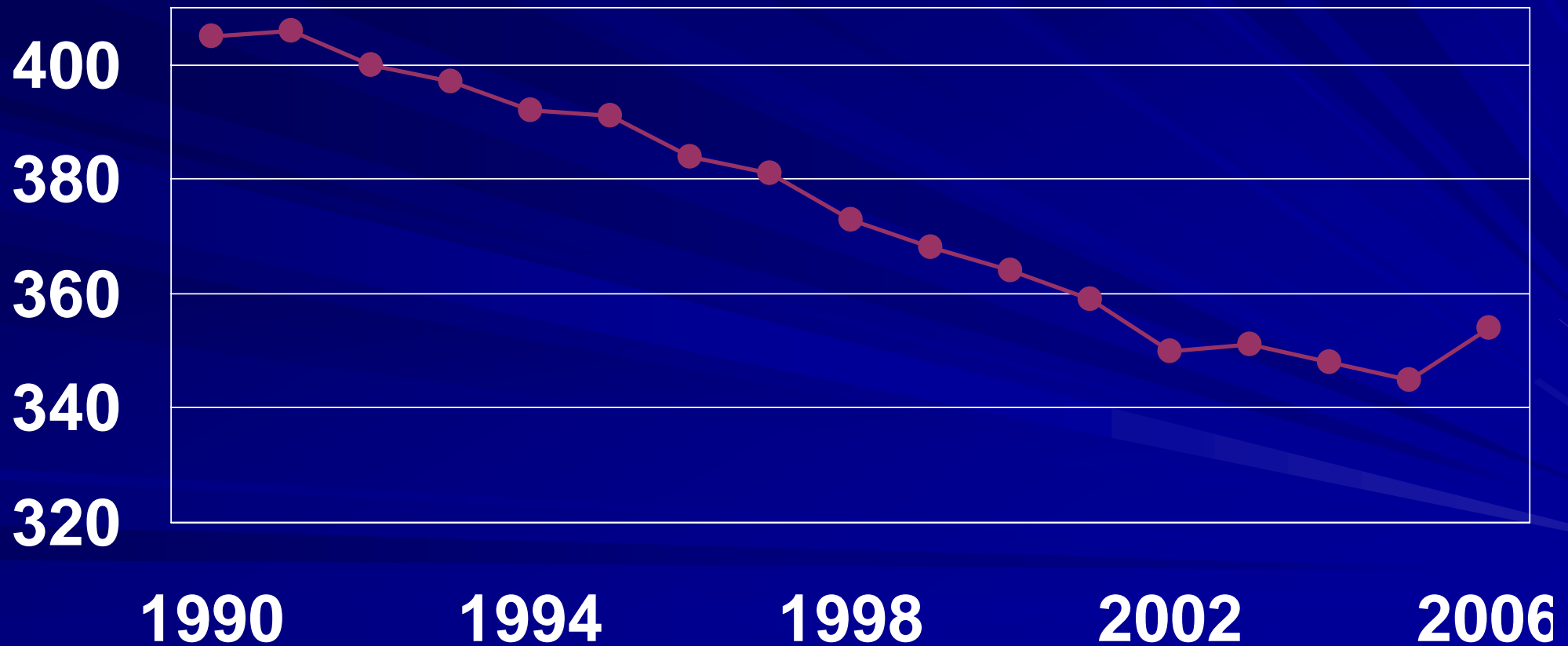
Source: California Health Interview Survey, 2005

# 84% of the Uninsured Work



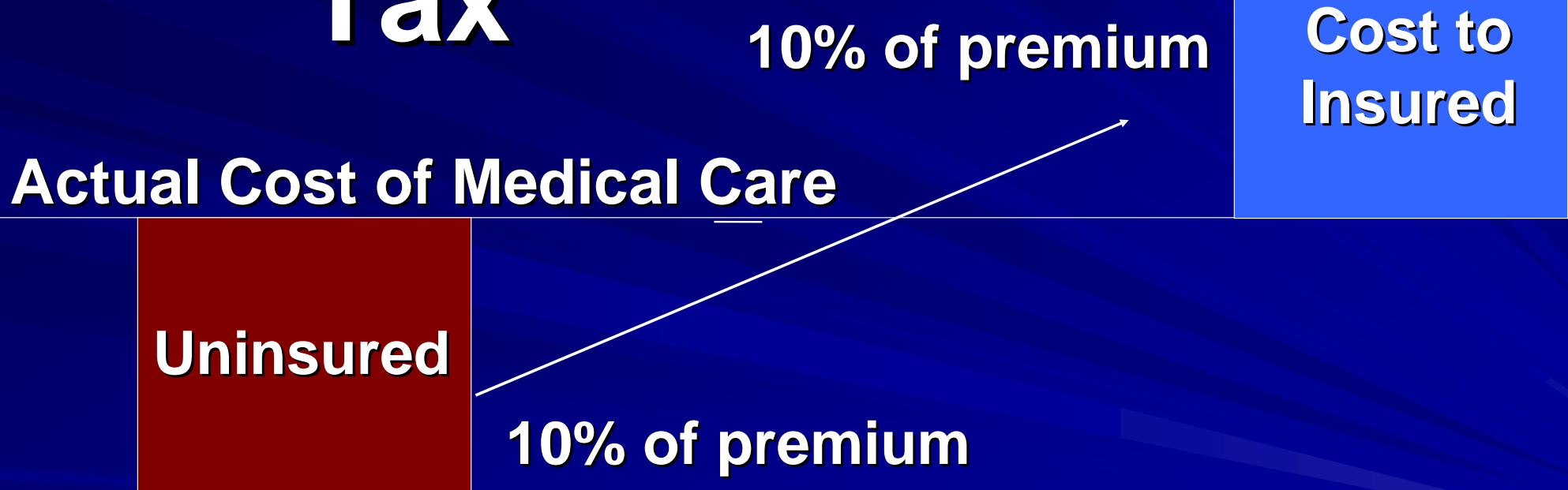
Source: California Health Interview Survey, 2005

# Emergency Departments Closing



Source: Office of Statewide Health Planning and Development

# The Hidden Tax



# The Hidden Tax

17% of premium

Cost to Insured

Actual Cost of Medical Care

Uninsured

17% of premium

Medi-Cal Underfunding

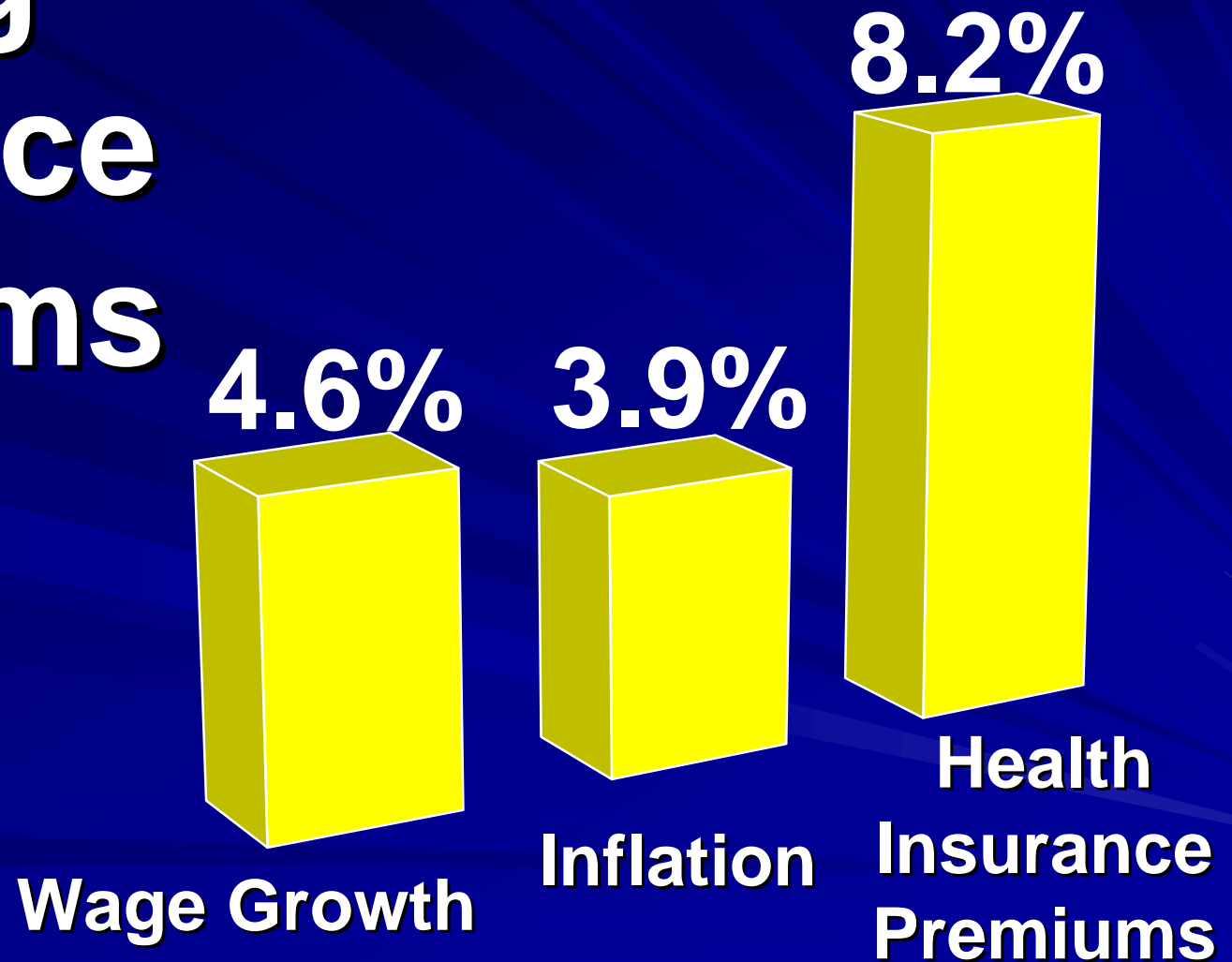
Source: Administration Analysis of "Cost Shift Hydraulic," Dobson

# Hidden Tax

**Individuals: \$455**

**Families: \$1,186**

# Rising Insurance Premiums

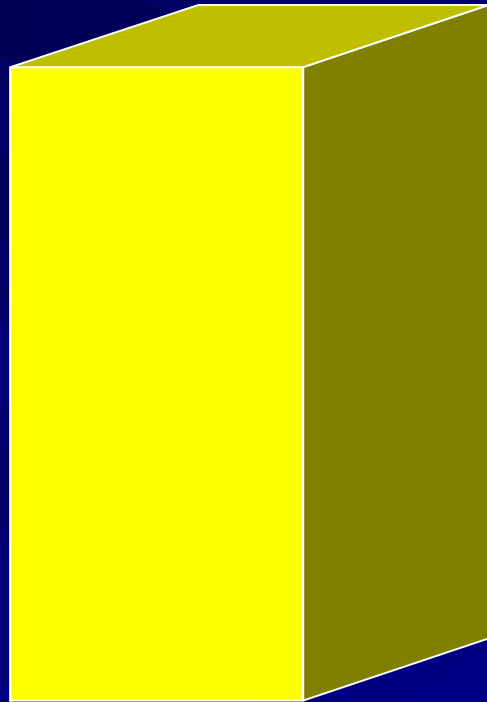


Source: CA Employer Health Benefits Survey 2005, Dept. of Finance



# Drivers of Cost: Chronic Diseases

**\$153**  
BILLION



**Cancer & Diabetes**

**\$151**  
BILLION



**Smoking & Physical  
Inactivity**

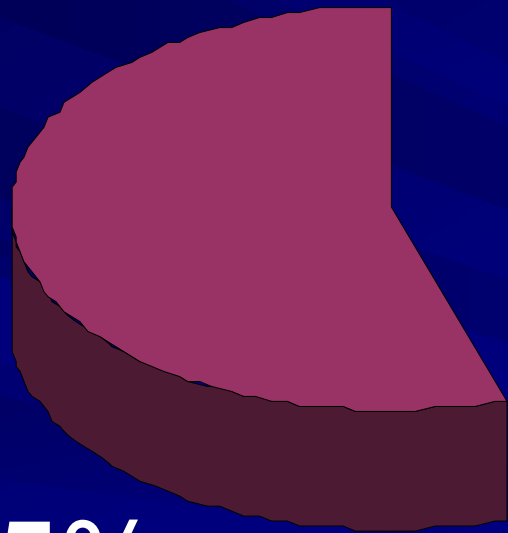
Source: Centers for Disease Control and Prevention, 2003, U.S. Data

# Drivers of Cost: Medical Errors

**23,000 Deaths**

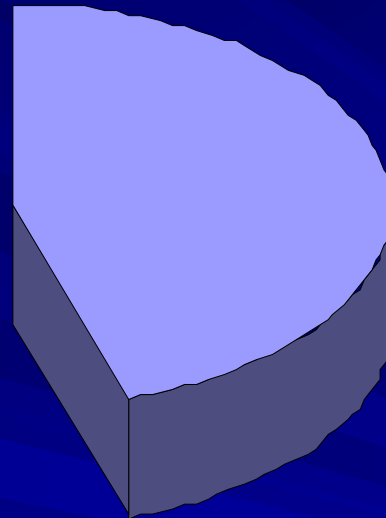
**Cost: >\$4 Billion**

# Uninsured: Financial Impact



54.5%

**Medical Cause for  
Bankruptcy**



44.5%

**Other  
Personal  
Bankruptcies**

Source: "Illness and Injury as Contributors to Bankruptcy," *Health Affairs Web Exclusive*, February 2005

# Fixing Our Broken System

- **Reduce the hidden tax;  
lower costs**
- **Coverage for all; support  
better care**
- **Healthy California**

# Governor's Health Care Initiative

■ Prevention / Wellness

■ Shared Responsibility

/ Coverage for All

■ Affordability

# **Governor's Health Care Initiative**

## **■ Prevention / Wellness**

# Prevention & Wellness

*Healthier State – Long Term Affordability*

- Offer consumers incentives and rewards
  - Tied to preventive health practices
- Promote diabetes prevention and treatment

# Prevention & Wellness

*Healthier State – Long Term Affordability*

## ■ Reduce medical errors

- Require E-prescribing for all prescriptions
- Strengthen patient safety & accountability



# Prevention & Wellness

*Healthier State – Long Term Affordability*

- **National leader: Prevent obesity**
  - Implement comprehensive strategy to reverse obesity epidemic: public awareness & outreach, improve access to nutritious foods and physical activity, worksite wellness.

# Prevention & Wellness

*Healthier State – Long Term Affordability*

## ■ Continue tobacco control leadership

- Increase assistance to those seeking to quit smoking

# **Governor's Health Care Initiative**

- **Prevention / Wellness**

- **Shared Responsibility**

**/ Coverage for All**

# Shared Benefit

## INDIVIDUALS

Access to  
affordable coverage  
Health care security  
Healthier CA

# Shared Benefit

## GOVERNMENT

Healthy, productive & economically  
competitive state

## INDIVIDUALS

Access to  
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# Shared Benefit

## GOVERNMENT

Healthy, productive & economically  
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## INDIVIDUALS

Access to  
affordable coverage  
Health care security  
Healthier CA

## DOCTORS & HOSPITALS

Expanded insured  
population  
Fair compensation

# Shared Benefit

## GOVERNMENT

Healthy, productive & economically  
competitive state

## INDIVIDUALS

Access to  
affordable coverage  
Health care security  
Healthier CA

## DOCTORS & HOSPITALS

Expanded insured  
population  
Fair compensation

## HEALTH PLANS

Expanded market  
Fair compensation

# Shared Benefit

## GOVERNMENT

Healthy, productive & economically  
competitive state

## EMPLOYERS

Affordable  
coverage

Healthy,  
productive  
workforce

## INDIVIDUALS

Access to  
affordable coverage  
Health care security  
Healthier CA

## DOCTORS & HOSPITALS

Expanded insured  
population  
Fair compensation

## HEALTH PLANS

Expanded market  
Fair compensation

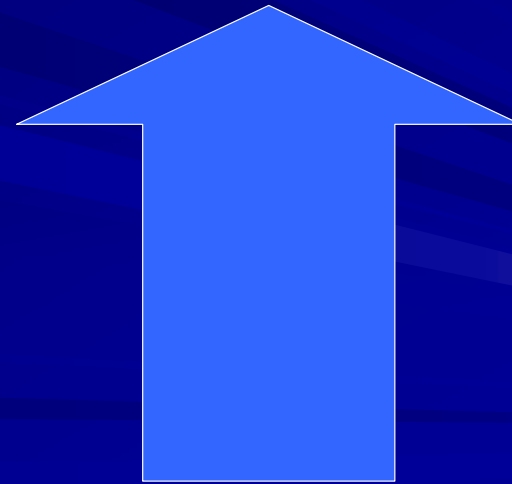
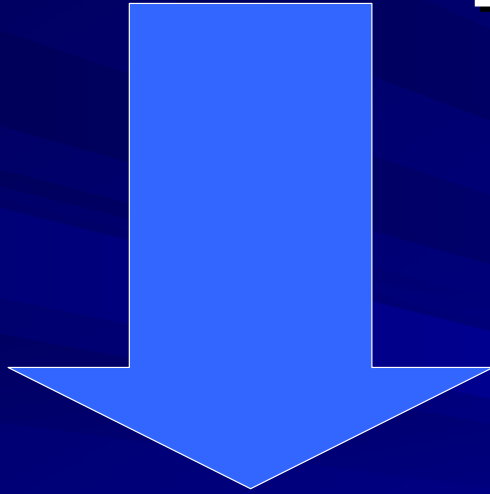


# **Fixing the Broken System**

**Creating an efficient,  
competitive market dynamic**

# Payment Sources

**Commercial payer overpayment**



**Medi-Cal/Uninsured underpayment**

# Shared Responsibility

**INDIVIDUALS**

**Obtain Health  
Coverage**

# Fixing the Broken System

GOVERNMENT

INDIVIDUALS

- Secure health coverage for themselves and their children
- Assume greater personal responsibility for health and wellness
- Contribute to paying for their coverage

EMPLOYERS

DOCTORS & HOSPITALS

HEALTH PLANS

# Shared Responsibility

## GOVERNMENT

Promote a functional health care system  
Provide access to affordable coverage  
Fairly compensate Medi-Cal providers

## INDIVIDUALS

Obtain health  
coverage

# Fixing the Broken System

INDIVIDUALS

## GOVERNMENT

- Expand Healthy Families/Medi-Cal for all children in families earning under \$61,950
- Provide subsidies to families between \$20,650 - \$51,625 through new purchasing pool
- Expand Medi-Cal to adults in poverty
- Responsibility for care for undocumented adults remains at the local level
- Increase Medi-Cal reimbursement rates by \$4 billion

HEALTH PLANS

EMPLOYERS

DOCTORS & HOSPITALS

# Shared Responsibility

## GOVERNMENT

Promote functional market  
Provide access to affordable coverage  
Fairly compensate Medi-Cal providers

## INDIVIDUALS

Obtain health  
coverage

## DOCTORS & HOSPITALS

Provide affordable,  
quality care  
Share cost savings

# Redistribution to Providers

New Funds to Providers



**\$10 - \$15 Billion**



**\$3.5 Billion**

**Coverage Dividend from Providers**



# Fixing the Broken System

GOVERNMENT

## DOCTORS & HOSPITALS

- 2% fee on physician revenues –  
4% on hospital revenues
- Participation in patient safety  
initiatives
- At least 85% of hospital payments  
spent on patient care

HEALTH PLANS

EMPLOYERS

INDIVIDUALS

# Shared Responsibility

## GOVERNMENT

Promote functional market  
Provide access to affordable coverage  
Fairly compensate Medi-Cal providers

## INDIVIDUALS

Obtain health  
coverage

## DOCTORS & HOSPITALS

Provide affordable,  
quality care  
Share cost savings

## HEALTH PLANS

Guarantee access to affordable coverage

# Fixing the Broken System

GOVERNMENT

## HEALTH PLANS

- **Guarantee coverage**
- **Base rates only on age, family size and geographic area in the individual market**
- **Dedicate 85% of premiums to patient care**
- **Offer “Healthy Actions” rewards and incentives within benefit packages**

EMPLOYERS

DOCTORS & HOSPITALS

INDIVIDUALS

# Shared Responsibility

## GOVERNMENT

Promote functional health care market  
Provide access to affordable coverage  
Fairly compensate Medi-Cal providers

## EMPLOYERS

Support  
employee  
access to  
affordable  
coverage

## INDIVIDUALS

Obtain health  
coverage

## DOCTORS & HOSPITALS

Provide affordable,  
quality care  
Share cost savings

## HEALTH PLANS

Guarantee access to affordable coverage  
Pass along savings

# Fixing the Broken System

GOVERNMENT

EMPLOYERS

- Offer 125 plans to allow employees to make pre-tax contributions to coverage
- Contribute to the cost of coverage – non-offering employers with 10 or more employees will contribute 4% of payroll
  - < 10 employees = 80% of all CA employers

HEALTH PLANS

INDIVIDUALS

DOCTORS & HOSPITALS

# Enrollment and Enforcement

## GOVERNMENT

Facilitate public program enrollment  
Enforce mandate through tax system  
Schools - partner with parents

## EMPLOYERS

Certify employee  
coverage  
through check  
off

## INDIVIDUALS

Provide proof of  
insurance with tax  
returns

## DOCTORS & HOSPITALS

Utilize on-site  
enrollment  
mechanisms

## HEALTH PLANS

Accept default enrollment into  
appropriate plans

# Governor's Health Care Initiative

- Prevention / Wellness

- Shared Responsibility

/ Coverage for All

- Affordability

# Affordability: Short Term

- Reduce hidden tax
- Provide tax breaks for individuals & businesses tied to purchase of health insurance
  - Section 125 plans
  - Health Savings Accounts



# Affordability: Short Term

- Remove regulatory barriers
  - Reduce barriers to low-cost delivery models (e.g. retail medical clinics)
  - Prioritize hospital seismic retrofit based on “worst first”
- Reduce regulatory red tape
  - Review mandates
  - Eliminate unnecessary reporting requirements
  - Streamline health insurance product approval

# Affordability: Short Term

- Enhance insurer & hospital efficiency by requiring 85% of premiums & hospital dollars be spent on patient care

# Affordability: Long-Term

- Support health promotion, prevention & wellness
- Accelerate adoption of health information technology
- Tie future Medi-Cal rate increases to performance measures
- Enhance health care quality & efficiency through transparency and performance measures
- Monitor & evaluate market function & costs and revise as necessary

# FISCAL IMPACT

**\$12 Billion**

Prevention

\$300

Tax Incentive

\$900

Counties

\$2,000

Subsidized Coverage

\$2,270

Medi-Cal/HFP

Coverage

\$2,638

Medi-Cal Rate Increase

\$4,039

Other - \$203

Employer in lieu  
\$1,000

County Funds  
\$2,000

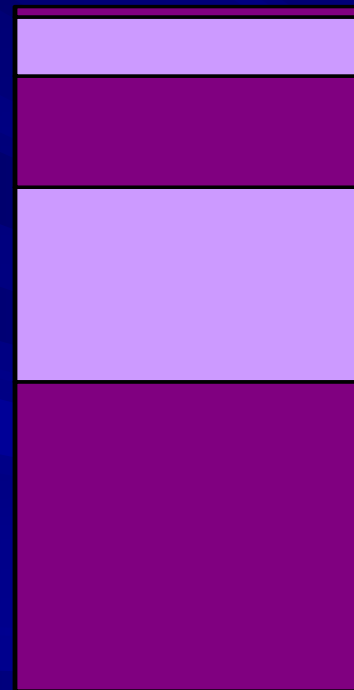
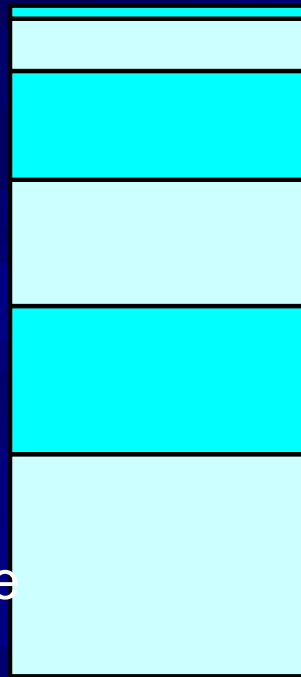
Physician/Hospitals  
Recapture  
\$3,472

Federal Funds  
\$5,474

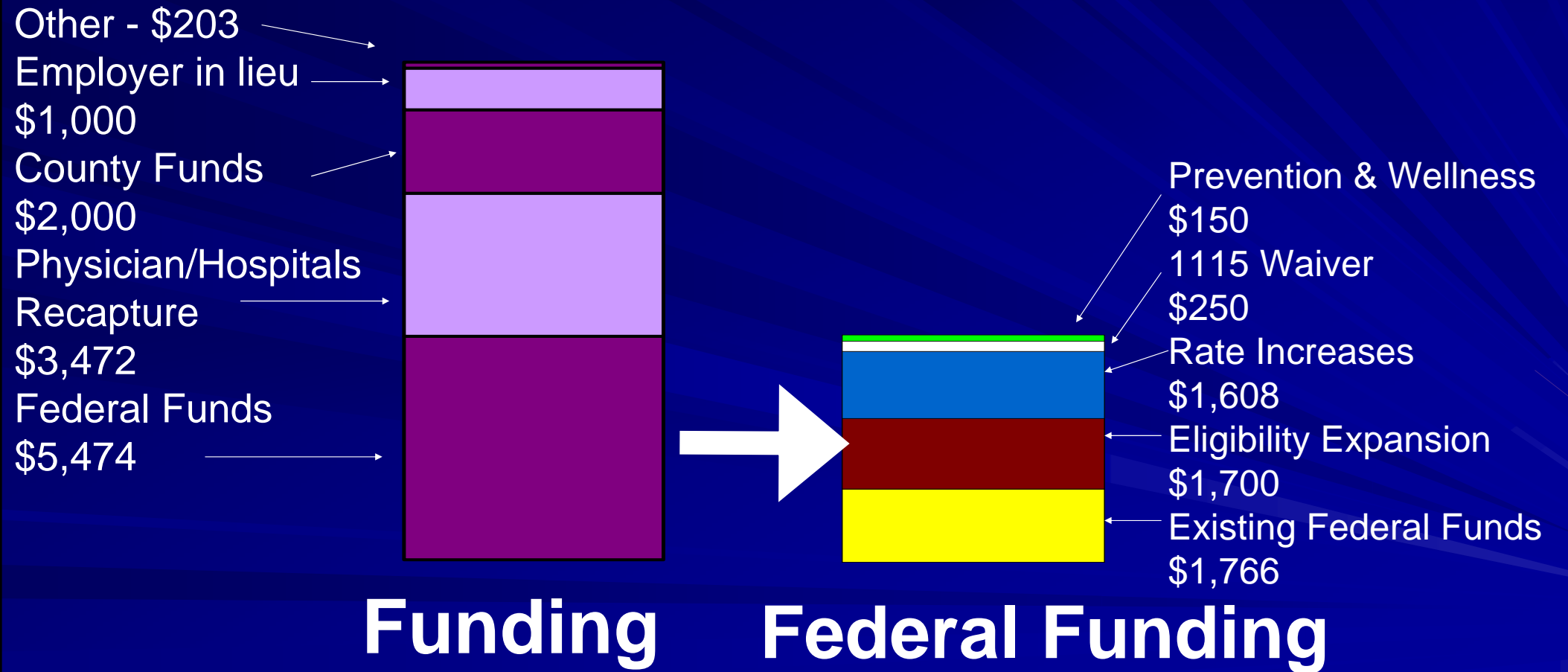
**Cost**

**Funding**

**\$ in millions**

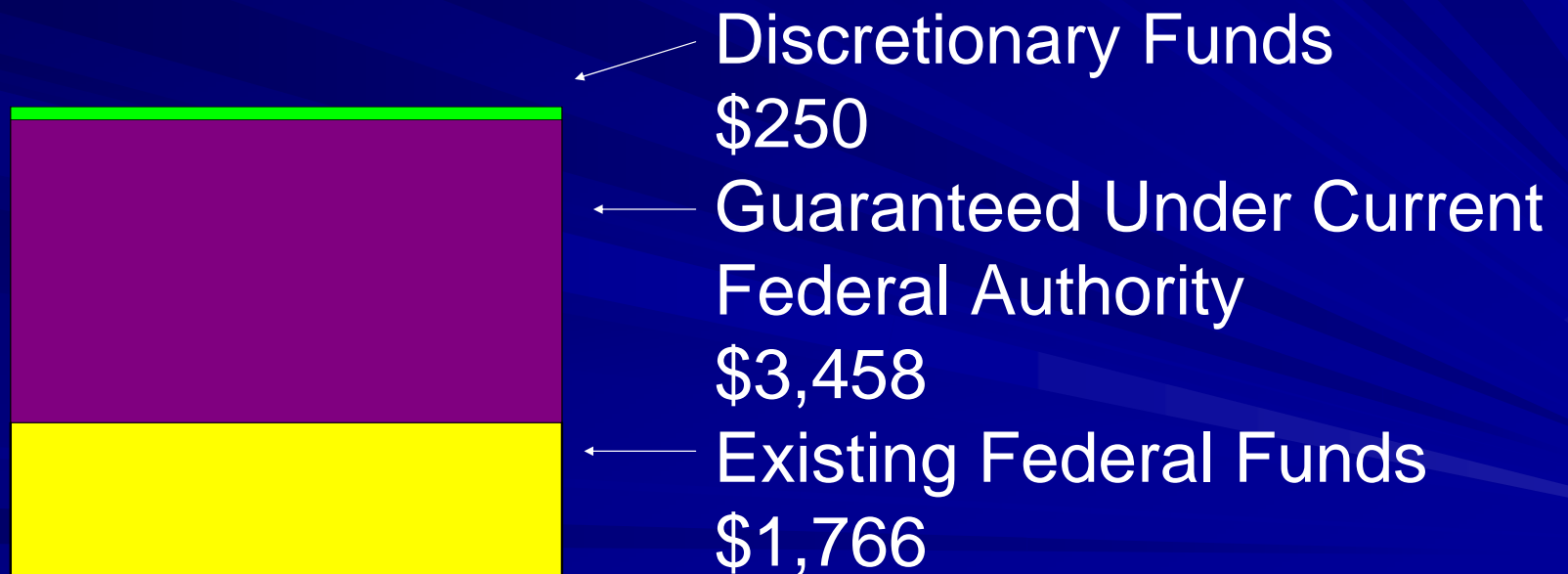


# FEDERAL FUNDING



\$ in millions

# FEDERAL FUNDING



\$ in millions

# **Fixing Our Broken System: Shared Responsibility**

- **Reduce the hidden tax;  
lower costs**
- **Coverage for all; support  
better care**
- **Healthy California**