

# ORANGE COUNTY BUSINESS JOURNAL

## Big Debate

### Industry Officials Weigh In on Proposed Changes to State's Healthcare System

■ By VITA REED

Once California's lawmakers pass the state's budget, eyes will be turning toward upcoming healthcare reforms.

The Legislature will be considering several proposals, including one backed by Gov. Arnold Schwarzenegger and another from Senate President Don Perata, D-Oakland, and Assembly Speaker Fabian Nunez, D-Los Angeles, along with separate bills that address covering children.

Two of the proposals seem directly aimed at employers and the country's traditional system of delivering healthcare through business-provided insurance.

Schwarzenegger's healthcare plan includes a requirement that all individuals carry health insurance. That requirement, which is known as the "individual mandate," is something that businesses tend to look on favorably because of concerns that it will be difficult to make healthcare affordable unless everyone is required to have it.

Assembly Bill 8, the plan backed by Nunez and Perata, does not have an individual mandate. Instead, it's centered on an employer mandate that requires businesses to either provide healthcare coverage or pay into a state pool. The mandate, however, doesn't include part-time or seasonal workers, and unemployed, uninsured workers.

There are other plans floating around Sacramento, including Senate Bill 840, which would create a publicly financed single-payer system.

Although labor unions, particularly the California Nurses Association, have enthusiastically backed it, SB 840 is not likely to become law. The same bill was passed in 2006, but Schwarzenegger vetoed it, saying that "socialized medicine is not the solution to our state's healthcare problems."

Even though talk is in the air, intense work on healthcare reform is not expected until the state budget is approved.

With that in mind, the Business Journal's Vita Reed asked people in the industry, "How will managed care fare under California healthcare reform initiatives?"

Following are their edited comments.

#### David Hansen

Chief executive, Pacific region  
UnitedHealthcare Group Inc.  
Cypress

The healthcare system is in crisis. Medical spending is increasing, the number of uninsured is rising and employer-sponsored plans are on the decline. Numerous polls show that voters rank access to affordable, quality healthcare among their top concerns and are demanding the government take action.

"In order to ensure affordability, the government must spearhead subsidy programs, financed through broad-based revenue sources that enable all individuals to afford health coverage, regardless of income or health status."



Hansen

Gov. Schwarzenegger has made healthcare reform one of his administration's top priorities. Yet, he and other policymakers in Sacramento and healthcare decision makers statewide have different perspectives on how to best create a healthcare system that is fair and sustainable and ensures access and coverage for all.

The debate is a healthy one, but must produce results that are well-balanced and focused on the critical outcomes of improved access to care and improved affordability of coverage.

UnitedHealth Group supports reform that fosters innovative public/private partnerships geared toward promoting broader, universal access to comprehensive healthcare. We believe all Californians deserve appropriate, high-quality care financed through affordable insurance programs that build on the current strengths of our system by correcting its flaws.

To achieve the reform goals of broad access to care and coverage, we endorse constructive proposals that focus on: fostering universality of coverage, setting appropriate

minimum-coverage guidelines; establishing consumer protections and appropriate marketplace practices; providing transparency for health system performance and costs; and delivering solvency and sustainability of all healthcare coverage choices.

In order to ensure affordability, the government must spearhead subsidy programs, financed through broad-based revenue sources that enable all individuals to afford health coverage, regardless of income or health status.

A balanced, stable approach is essential. For example, state-mandated guaranteed-issue and minimum benefit plan standards must be coupled with mandates for individuals to obtain and maintain insurance plan coverage to assure a system that appropriately shares responsibility across the population.

This kind of approach can set the stage for private sector innovation to create comprehensive health insurance programs that ensure access to quality doctors and hospitals and provide support services that offer consumers useful and viable health information. Also, our healthcare system needs to better capitalize on information technology to drive efficiencies that will reduce the administrative burden for both physicians and consumers.

#### Karen Nixon

President,  
Nixon Benefits  
Newport Beach

"If insurers were not inciting brokers and consultants with trips, bonuses and commission overrides, the pricing would likely reflect lower administrative costs."



Nixon

Both proposals, as they stand today include a "pay or play" requirement, where an employer would have to pay into a state healthcare fund or agree to provide health coverage to their employees.

The payment into the fund would be a percentage of their payroll (4% under the governor's plan; 7.5% under the Democrats' plan).

The mid- and large-size employers we work with are currently spending between 9% and 12% of their payroll on employees' healthcare coverage, on average.

How a "pay or play" requirement will impact an employer's benefit offerings will depend on what drives their decision today. In general, employers who offer healthcare coverage do so in order to attract and retain quality labor. Many employers also feel a social responsibility to their employees' well being.

The employer facing a competitive labor market might be less likely to stop offering healthcare coverage in lieu of paying less into a state fund, at least at first. The employer that requires low-skilled labor for the majority of their workforce may consider altering their benefit menu to reduce cost.

It's clear to me that changes to our healthcare system are coming. It's too early to tell what those changes will be. The governor's proposal is based on many parties "sharing the pain," including insurers, doctors and hospitals. I advocate that the distribution channel (brokers and consultants) should also "share the pain."

If insurers were not inciting brokers and consultants with trips, bonuses and commission overrides, the pricing would likely reflect lower administrative costs.

### **Julie Miller-Phipps**

Chief executive,  
Kaiser Permanente Orange County  
Anaheim

"Kaiser Permanente is hopeful that the rate of healthcare costs increases would come down as a result of universal coverage by expanding access to preventative care for the currently uninsured with chronic health conditions, helping to avoid more costly care when conditions such as hypertension are not managed well."



**Miller-Phipps**

Kaiser Permanente is very pleased that Gov. Schwarzenegger and (Legislature) leaders are engaging in dialogue and discussion about how to increase access to healthcare coverage and that this issue is

"The insurance brokerages that are premium-driven, jack-of-all trades and not focused on customer service will fall further behind as they are unwilling and unable to adapt to the ever-changing landscape."



**Haack**

emerging as a top priority for legislation. We share their goal of providing access to healthcare coverage for all Californians.

Kaiser Permanente has joined two coalitions working to move healthcare reform efforts forward. We are a member of Together for Health Care, a coalition of business, health plans, hospitals, AARP, the California Medical Association and labor. The coalition members do not agree on all aspects of how to reform healthcare but have agreed on four core principles: universal coverage, shared responsibility, affordability and the need for a broad-based funding source.

Kaiser Permanente has also joined a coalition organized by Safeway (Inc.'s) CEO Steve Burd, named the "Coalition to Advance Healthcare Reform." This coalition includes PepsiCo, General Mills Corp., Pacific Gas and Electric Co., Wm. Wrigley Jr. Co., the Kroger Co., a number of Safeway vendors and grocery item manufacturers such as Bumble Bee Seafoods LLC, Aetna, Blue Shield of California, Cigna, Eli Lilly & Co. and PacifiCare.

The core principles of this coalition are a market-based healthcare system, universal coverage with individual responsibility, financial assistance for low-income individuals, healthier behavior and incentives and equal tax treatment of health benefits coverage for individuals and businesses.

Kaiser Permanente belongs to both coalitions because it is important that our views be represented in as many forums as possible. As the provider of healthcare to more than 6 million Californians, Kaiser Permanente would be impacted by any adopted reform proposal and would be a large payer of any provider tax.

Kaiser Permanente is hopeful that the rate of healthcare cost increases would come down as a result of universal coverage by expanding access to preventive care for the currently uninsured with chronic health conditions, helping to avoid more costly care when conditions such as hypertension are not managed well.

Prevention is a critical investment in a healthier California.

### **Greg Haack**

Director of group sales,  
Pacific Group  
Laguna Hills

The need for change in the pricing and delivery of healthcare for all Americans is apparent. No matter which legislation prevails, from Washington, D.C., to Sacramento, professional health insurance brokerages will continue to have an active role in deploying healthcare coverage to employers.

After almost 20 years of business, Pacific Group has earned our role as a partner with our clients. More than ever, our clients are looking to us for guidance in these uncertain times. These days, legislation concerns take a back seat to the painful task of just paying the bill each month.

Similar to workers' compensation reform of a few years ago, as important as it was to reduce workers' compensation premiums, the payoff was a long-term victory. In the short term, employers were struggling to pay the premiums and leaving the state as a result.

Today, (we believe) our clients are well-positioned to handle whatever reform comes out of Sacramento. From high-low programs to defined contribution and health savings accounts, they have been educated on how to buffer themselves from spiraling health costs.

Directives from Sacramento that impact our clients will only serve to strengthen the health insurance brokerage industry.

The insurance brokerages that are premium-driven, jack-of-all trades and not focused on customer service will fall further behind as they are unwilling and unable to adapt to the ever-changing landscape.

### **Jim Elliott**

Vice president of sales,  
Blue Shield of California  
Irvine

It will all come down to the details, but I'm still hopeful we'll be able to end 2007 with California enacting a system that preserves the private healthcare market and ensures

"Instead of competing to see who can attract the healthiest customer, we would be forced to compete on our ability to deliver quality care and service at an affordable price."



**Elliott**

coverage for everyone with the cost broadly shared among individuals, government and businesses, along the lines proposed by Gov. Schwarzenegger.

An important element of the governor's plan is pairing two important concepts with somewhat technical names: "guaranteed issue" and an "individual mandate." In short, everyone must have coverage—either through their employer, a public program or purchased on their own—and health plans must cover everyone who applies, regardless of pre-existing medical conditions. Subsidies would be provided for those who don't qualify for government-provided coverage but can't afford to pay for it themselves.

This combination ensures that healthier people are paying into the system to help offset the higher costs of those who need more care. This risk-sharing principle is the foundation of insurance.

Unfortunately, a competing idea that some in Sacramento have proposed would upset that delicate balance. Some would like to have guaranteed issue without an individual mandate, creating an incentive for people to wait until they get sick to obtain coverage. In states that have tried this, health coverage costs have skyrocketed, forcing more people to go without insurance.

If California passes the right kind of coverage expansion, it will both preserve and revolutionize the health insurance market.

Instead of competing to see who can attract the healthiest customers, we would be forced to compete on our ability to deliver quality care and service at an affordable price.

Universal coverage would help slow the growth of healthcare costs, as well, by reducing the hidden tax we have today on privately insured patients. Today, those with private coverage pay more than their fair share to offset the costs incurred by hospitals and doctors that provide uncompensated care to those with no coverage.

I'm confident that Blue Shield would stack up very well in that market, and that everyone who buys health coverage, whether for a company or their own family, will end up better off than they are today.