

Legislative Concept, Third Draft

November 28, 2006

This document is intended to serve as the starting point for an ongoing discussion. Please note: *Italics* are used to identify where data still needs to be made current, or information needs to be added or specified.

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Relating to health care and the health of all Oregonians; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. Preamble. The outdated federal laws enumerated in Section 4 of this 2007 Act were enacted over the past 50 years and increasingly jeopardize the health of our population, undermine the strength of our economy and put the future of our children at risk. It is the goal of this 2007 Act to optimize the health of Oregonians and the value of the public resources spent on health care by amending these laws to create a sustainable system. The new system will allocate the public resources currently being spent on health care according to the principles described in Section 8 of this Act.

SECTION 2. Assumptions. For the purposes of this 2007 Act, the Legislative Assembly makes the following assumptions:

- (1) The objective of our health care system is health, not just the financing and delivery of health care services.
- (2) We cannot achieve the objective of “health” unless all individuals have timely access to a basic set of effective health services.
- (3) Public resources are finite, and therefore the public resources available for health care are also finite.
- (4) Finite resources require that explicit priorities be set through an open process with public input to determine what will and will not be financed with public resources.

- (5) Those with more disposable income will always be able to purchase more health care than those who depend solely on public resources.

SECTION 3. Findings. The Legislative Assembly finds that:

- (1) The current health care system is unsustainable because of outdated federal policies that reflect the realities of the last century, instead of the realities of today. Those policies were based on a set of assumptions that are no longer valid.
- (2) The ability of states to maintain the public's health is increasingly constrained by these federal policies, which were built around "categories" rather than a commitment to ensure all citizens have timely access to effective health services.
- (3) Federal programs, which were established through three specific acts of Congress in the last century, were enacted separately at different times for different reasons and reflect no sense of common purpose.
- (4) The economic and demographic environment in which these programs were created has changed dramatically over the past 50 years, while the programs themselves continue to reflect a set of circumstances that existed in the mid-20th century.
- (5) Any reform effort that fails to address the contradictions and inequities embodied in the federal programs (see Section 4) and fails to bring them into alignment with the realities of the 21st century will also fail to achieve meaningful reform. This will perpetuate the status quo and the contradictions, inequities and consequences outlined in Sections 5 and 6.
- (6) Any strategies for financing, mandating or developing new programs to expand access must address what will be covered with public resources and how those services will be delivered. Otherwise, those strategies will do little to stem escalating medical costs, make health care more affordable or create a sustainable system.

SECTION 4. Federal Programs. The federal programs Oregon seeks to amend in order to optimize the health of Oregonians and maximize the value of the public resources spent on health care, include:

- (1) **Employer sponsored coverage.** The Tax Reform Act of 1954 excluded the cost of employer sponsored health insurance from the definition of taxable income, thus granting a public subsidy to employer sponsored coverage and creating the major private sector component of the current U.S. health care system.

- (2) **Medicaid.** Medicaid was enacted in 1965 to improve financial access to health care for certain categories of poor citizens, primarily: poor women and children; those who are blind; and those with disabilities. Only those who fit into one of these categories are eligible for the program. In addition, Medicaid pays for the premiums, coinsurance, and deductibles for low income seniors who are covered by Medicare, and pays for services like long term care which are not covered by Medicare – giving these individuals “dual eligibility.”
- (3) **Medicare.** Medicare was enacted in 1965 in order to improve financial access to health care for older citizens. It is an entitlement program beginning at age 65 regardless of the income of the retiree and is financed primary by taxes paid by those who are currently working. It covers acute care services but not long term care services.

SECTION 5. Federal Programs – Contradictions and Inequities

(1) Employer sponsored coverage.

- a) Since it was created over 50 years ago, the public subsidy of employer sponsored coverage has grown nationally to over \$200 billion a year and is financed by all taxpayers, including a growing number of workers who do not benefit from employer sponsored coverage and are often uninsured.
- b) This subsidy is extremely regressive, meaning that it is more valuable to employees in higher tax brackets than to those in lower tax brackets.
- c) Since the inception of the public subsidy of employer sponsored coverage, a highly competitive global economy has developed which increasingly puts U.S. businesses at a competitive disadvantage with businesses in other countries not burdened by the spiraling cost of providing health care to their employees.
- d) As the cost of health care continues to increase, the number of private sector employers offering health insurance coverage to their employees is steadily declining – currently at a *rate of over four percent per year*.
- e) As the cost of health care continues to increase, employers have shifted additional costs to employees through higher premium contributions, higher deductibles, higher co-insurance and higher co-payments, or have decreased benefit levels to help keep costs down.

- f) Conflicts over the cost of health care are a key element in virtually all labor disputes, often resulting in work stoppage and lost productivity.
- (2) **Medicaid.**
- a) Because eligibility for Medicaid is based on “categories,” not strictly on financial need, current federal policy has created a distinction between the “deserving poor” – those who fit into a category; and the “undeserving poor” – those who do not. As a consequence, many poor citizens are ineligible for Medicaid even though they are deeply impoverished.
 - b) There is a huge administrative cost involved with determining who is eligible for the 28 different Medicaid categories which exist today.
 - c) Those who have “dual eligibility” in both Medicaid and Medicare account for only 14 percent of Medicaid enrollment but over 40 percent of program cost, making them the most expensive part of the Medicaid population. As the population ages, the number of those with “dual eligibility” will increase substantially, driving up the cost of the program.
 - d) Medicaid has become a backstop for the decline in private sector employer sponsored coverage. Twenty years ago 75 percent of those enrolled in Medicaid were receiving welfare, while today less than one fourth are receiving public cash assistance. Most of those on Medicaid are workers and their families who simply have medical needs which they cannot afford.
- (3) **Medicare.**
- a) Forty years ago those over the age of 65 constituted the single poorest segment of the population, but Social Security and Medicare have greatly improved the financial status of many seniors after retirement. Yet all retirees are entitled to publicly financed health care paid for primarily by current workers, many of whom cannot afford health care for themselves and their families.
 - b) Medicare does not cover long term care, therefore those who need long term care services must spend themselves into poverty in order to become eligible for Medicaid (“dual eligibility”) at which point their needs compete directly with those of poor women and children.
 - c) Certainly there are many frail, elderly citizens who need and deserve publicly subsidized health care; but there are many

children and working citizens who deserve exactly the same thing, and are eligible for nothing.

SECTION 6. Federal Programs – Consequences.

- (1) The federal programs enumerated in Section 4 of the 2007 Act have resulted in the following consequences:
 - a) **Misaligned Incentives:** The incentives in the current system are aligned to finance health care services rather than to produce health. These incentives reward the use of procedures and technology to treat the medical consequences of disease and disability rather than to prevent it in the first place. Misaligned incentives encourage the over utilization of resources with little regard for the health benefit produced, particularly from a population standpoint.
 - b) **Rising Health Care Costs:** Misaligned incentives, an aging population, a growing incidence of chronic disease, a financing structure which shields the true cost of treatment decisions from both providers and consumers, and advancing technology have all led to dramatic medical cost inflation. The cost of health care is growing at an average three times as fast as general inflation, dramatically exceeding the growth in state revenues, worker's wages and typical business earnings. The U.S. spent \$1.9 trillion on health care in 2004, \$6,280 per person which far exceeded the amount spent by any other country in the world, many of which have far better population health statistics than does the U.S.
 - c) **Cost Shifting:** As health care costs increase, both employers and states are forced to drop people from insurance coverage, steadily driving up the number of uninsured citizens who cannot afford the cost of care. Many of these people delay seeking needed treatment until they are very sick, resulting in higher needs when they turn to more costly levels of care and hospital emergency rooms, where federal laws require that they be seen and treated. The resulting uncompensated cost is then shifted back to public and private third party payers – to government health care programs financed by taxpayers, and to employers offering health care coverage to their workers – forcing them to drop more people from coverage, repeating the cycle.
 - d) **Increasing uninsured:** Over 17 percent of Oregonians (approximately 609,000) do not have health insurance. These individuals receive less effective care and receive it later than those

with coverage – often when they are very sick. On average they are less healthy and less able to function effectively in their daily lives. This pattern of delayed treatment shifts costs to those who do have coverage, creating a cycle that increases costs and makes health care unaffordable for even more Oregonians.

- e) **Impact on Individual Oregonians:** Rising health insurance premiums are far outpacing inflation, which has caused wage growth to lag, thereby reducing take-home pay. In addition, nearly two in five adults now have difficulty paying medical bills – and nearly half of all individuals who file for bankruptcy do so due to medical expenses.
Oregon workers (as elsewhere in the nation) are losing jobs as businesses move the production of goods and the provision of services abroad where health coverage is not an expense and labor costs are lower. So, not only are wages lagging and medical bills mounting, but jobs are disappearing as well.
- f) **Impact on the Health of Oregonians:** Oregon falls short in optimizing the health of its citizens as federal programs have created a system where resources are continually focused on acute care. This neglects the significant contribution of prevention activities that improve quality of life, reduce the burden of disease and chronic illness, and reduce the costs of acute and chronic disease management.
- g) **Impact on Oregon's Businesses:** Employers have been faced with spiraling premiums or, in the case of large self-insured employers, unrelenting increases in medical claims costs. These increases have reduced the profitability and competitiveness of many employers and the wages they may pay their employees. Their response in many instances has been to reduce benefits or contribution levels, to pass the additional costs on to their employees through cost sharing, or to drop coverage for their employees or their employees' dependents. According to the Medical Expenditure Panel Survey data, from 1996 to 2004, the number of private sector Oregon employers offering health insurance dropped from 61.5 percent to 52.7 percent.
- h) **Impact on Oregon's Budget:** Rising health care costs have had an increasing impact on the state's budget. While enrollment grew in the Oregon Health Plan during the 1990s, state revenues did not keep pace with the costs of providing health care services to an expanding population. During the recession and the subsequent

budget crisis in the early part of this decade, the state was forced to cut or reduce essential health care coverage to thousands of Oregon's most vulnerable residents because it lacked adequate resources to pay for that coverage, or competing priorities required the reallocation of those public resources to other areas. Many Oregonians who lost coverage because of these actions ended up in the emergency room – often when they were very sick and needed more costly care – and the uncompensated cost was then shifted back to the state.

(2) Unless the federal policies enumerated in Section 4 of the 2007 Act are fundamentally changed, they will lead to the following consequences in the future:

a) **Medicare Insolvency:** The pending insolvency of the Medicare program is being driven by a huge demographic shift. Since 1900 the U.S. population has tripled; the population of those over the age of 65 has grown ten times; and the population over the age of 85 has grown 30 times. Today 13 percent of the population of the U.S. is over the age of 65; by 2030 twenty percent will be over the age of 65. The fastest growing segment of the U.S. population is people over 100 while the second fastest growing segment is people over the age of 85.

We are experiencing profound social and economic consequences due to very high proportions of elderly persons, very high dependency ratios accompanied by continuing low fertility and very low mortality.

In 1957 a woman had, on average, 3.8 children. Today she has 2.0. During the last half century an extraordinarily large generation has been followed by an extraordinarily small generation.

In March of 2005, the board of trustees for Social Security and Medicare warned that the Medicare trust fund will become insolvent in 2018. Trustees also reported that Medicare's expenditures will surpass Social Security's by 2024, and double them by 2079. Medicare's total unfunded liability was shown at \$65.4 trillion, with the new prescription drug benefit accounting for \$18.2 trillion. In 2004, Medicare accounted for 8 percent of all federal income taxes. This is estimated to rise to 19 percent in 2015, 32 percent in 2025, and more than 90 percent by 2075.

b) **Currency Crisis and Loss of Self-Determination:** The U.S. national debt is now approaching \$9 trillion and is escalating even

as the population ages. While Congress is preoccupied with the solvency of the Social Security system, the real challenge is Medicare. The Social Security gap is around \$5 trillion but, by comparison, when the baby boom generation reaches age 65 the unfunded entitlement in Medicare will exceed \$65 trillion. This staggering deficit is being financed largely by selling U.S. securities to China and to other countries still willing to purchase them. If these nations decide to stop underwriting U.S. deficit spending we will face a currency crisis, a stock market crash and soaring interest rates. And while this may not happen in the immediate future because these other nations want our economy to remain strong so U.S. consumers can buy their goods and services – it is no longer our decision to make. We have handed much of our financial future over to some of our major international competitors.

- c) **Growing Market Instability:** Over the last 12 years, the national percentage of private sector employers offering health benefits has dropped 32%, and the deterioration is accelerating. Between 1991 and 2000, the average erosion rate was 2.4%, but during the recent recession this erosion rate almost doubled, to 4.5%.

Private sector coverage and individual payments for health services have largely cross-subsidized publicly-financed coverage over the past few decades, and the escalation of health care costs is forcing states and the federal government to cut back on Medicare and Medicaid allocations, creating a growing conflict between the increasing demand for services and declining resources.

Private sector coverage alone expends about half of all health care dollars. As employer sponsored coverage continues to decline there will be a steady decline in the total amount of money available to buy health care products and services. Over time this will adversely affect the financial outlook of health care companies, negatively impacting their margin, stock price, market capitalization and credit. And because health care spending accounts for one out of every seven dollars and one out of every 11 jobs in the U.S., these disruptions in the nation's health care economy will cascade to the larger US economy, generating growing market instability.

- (3) In order to optimize the health of our population and the value of our health care investments, Oregon must take immediate action.

SECTION 7. Request for Congressional Action. In order to meet the goal set forth in Section 1 of this 2007 Act, the Governor shall request from Congress authority for the State of Oregon to allocate the public dollars currently being spent on health care within the state to create a sustainable system which will optimize the health of Oregonians within the context of the principles described in Section 8 of this Act. The request for this authority shall be submitted within 180 days of legislative approval of this Act.

SECTION 8. Principles. The request to Congress described in Section 7 of this 2007 Act shall include a description of the contradictions and inequities of current federal policies; the consequences of these policies for the State of Oregon; and the following principles which will provide the context for reallocating the public resources currently being spent on health care:

- 1) **Equity.** All individuals will be eligible for and have timely access to the same set of essential, effective health services.
- 2) **Financing.** Financing of the health care system will be equitable, broadly based and affordable.
- 3) **Population Benefit.** The public will set priorities to optimize the public's health.
- 4) **Responsibility.** Responsibility for optimizing health will be shared by individuals, health systems, and communities.
- 5) **Education.** Education is a powerful tool for health promotion; the system will promote and engage in education activities for individuals, health systems and communities.
- 6) **Effectiveness.** The relationship between specific health interventions and their desired health outcomes will be backed by unbiased, objective medical evidence.
- 7) **Efficiency.** The administration and delivery of health services will use the fewest resources necessary to produce the most effective health outcome.
- 8) **Explicit Decision Making.** Decision making will be clearly defined and accessible to the public, including lines of accountability, opportunities for public engagement, and how public input will be used in decision making.
- 9) **Transparency.** The evidence used to support decisions will be clear, understandable, and observable to the public.
- 10) **Economic Sustainability.** Health service expenditures will be managed to ensure sustainability over the long-term, using efficient planning, budgeting and coordination of resources and reserves,

based on public values and recognizing the impact that public and private health expenditures have on each other.

- 11) **Aligned Financial Incentives.** Financial incentives will be aligned to support and invest in activities that will achieve the goals stated in this section.
- 12) **Wellness.** Health and wellness promotion efforts will be emphasized and strengthened.
- 13) **Community-Based.** The delivery of care and distribution of resources will be organized to take place at the community level, unless outcomes and/or cost can be improved at regional or statewide levels.
- 14) **Coordination.** Collaboration, coordination and integration of care and resources will be emphasized throughout the health system.

SECTION 9. Implementation.

- (1) Upon Congressional approval, the Governor shall direct the *Oregon Health Policy Commission [or some other entity]* to develop a plan for implementation consistent with the principles in Section 8.
 - a) The process of developing this plan must formally include, but is not limited to, the participation of all stakeholders, including public input and engagement.
 - b) The plan shall detail the administrative and governing structures of the new system on both the state and community levels, the process of benefit determination and performance measures that will be used.
 - c) The plan shall include a transition period detailing the changes, timing and resources necessary to implement the new system.
- (2) Upon completion of the plan, but before its implementation, the *Oregon Health Policy Commission [or some other entity]* must conduct public hearings to allow stakeholders and the public at large to compare the new system with the current system.
- (3) Following the public hearings, the Governor shall submit the plan to the Legislature. To implement the new system, the Legislature must vote affirmatively to accept the plan and to authorize the release of funds required for implementation.

SECTION 10. Emergency Clause. This Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this Act takes effect July 1, 2007.