Our Analysis of the Administration's Healthcare Financing Report

JANUARY 30, 2013

The following analysis of and response to the Administration's recent healthcare financing report was presented to the House Committee on Health Care on January 30, 2013.

Vermont Workers' Center
Healthcare Is a Human Right Campaign
Testimony to House Committee on Health Care
30 January 2013

1. Introduction
2. Goals and principles
3. The way forward on GMC financing: a human rights reading of the report and opportunities for legislators
4. The transition phase: ensuring that we do not go backwards
5. Conclusion

1. **Introduction**

Good morning! My name is Devon Ayers. I am here today representing the Healthcare Is a Human Right campaign, part of the Put People First movement, which also includes the People's Budget campaign, among other initiatives. Thanks for giving us the opportunity to share our thoughts on healthcare system financing with you, today.

The Healthcare Is a Human Right campaign is responsible for putting forward the human rights principles that were incorporated into Act 48 and which serve as the foundational values of healthcare reform in Vermont. This campaign continues to grow, providing the grassroots political power that the legislature and the administration will need, to continue moving toward our ultimate goal of a healthcare system as a public good — one that reflects and embodies the human rights principles of universality, equity, accountability, transparency and participation.

A couple of weeks ago, my colleague James Haslam spoke to this committee about the need to change the way we think about our healthcare system. He suggested a couple of paradigm shifts to help us let go of some of the artifacts of the longstanding system of employer-provided health insurance — from which our universal system, Green Mountain Care, is intended to free us. Specifically, he called on you to recognize that "benefit packages" and user fees (i.e. "cost sharing") are the result of that old system — the system that we are working to put behind us — the system in which insurance companies maximize their profits by restricting care, leaving people to suffer and die. Just as health insurance is

not healthcare, the trappings of a health insurance system are not necessary components of a healthcare system.

Oddly, the UMass report begins by referring to Green Mountain Care as a "system of health insurance coverage". We hope that, when you read the report, you were as struck by this misunderstanding of the scope and nature of our shared vision of a unified healthcare system as we were. If our experts are having trouble letting go of old ways of thinking, it is all the more incumbent on this committee to project a clear vision of what a healthcare system as a public good can be. We hope to participate actively in helping you to achieve the necessary clarity and to share it with the people of Vermont.

2. Goals & Principles

Before I share our specific thoughts on the administration's financing proposals, I want to review the goals and principles of Act 48, to provide a context for our analysis.

As you know, Act 48 provides a clear framework for designing and implementing Green Mountain Care. It requires that Green Mountain Care be publicly financed, with sufficient funds to ensure universal access to comprehensive and appropriate care for all, and that this financing must be shared equitably.

Any financing plan for Green Mountain Care must meet the principles of universality and equity:

- Financing must ensure universal access to comprehensive, appropriate care. Vermonters have a right to receive all the medically necessary care they need. Healthcare resources must match our health needs, not the other way around. The financing plan must be focused on care, not on saving money.
- The principle of equity (of finance) requires that the costs of financing the system be shared equitably, which means that richer people — and more profitable companies — should pay proportionately more into the healthcare system than should poorer people.
- The principle of equity (in access) requires that everyone get the care they need when they need it, with no barriers to access created by co-pays, deductibles, premiums or a limited package of "benefits".

The Healthcare Is a Human Right campaign has applied its detailed standards for universal healthcare to develop ten implementation principles for designing a financing plan for Green Mountain Care.

1. Financing must be based on need. Health needs must guide the funding of our system, with sufficien resources allocated in a way that does the most good for the health of the people of Vermont.

2. The system must use existing resources effectively. Vermont residents already pay significantly mor for healthcare than countries with a universal healthcare system, so there is no need for new money. Instead, funds must be allocated differently and raised much more equitably.

3. The system must be publicly financed. Vermont must treat healthcare as a public good for all, not as a market commodity.

4. Healthcare must be free at the point of service. Funds for healthcare must be collected independently of a person's use of healthcare.

5. The system should utilize a single pool of funds. Funds for healthcare need to be pooled to maximize the equity of access, administrative efficiency and mitigation of risks.

6. Financing must be by progressive taxes. Public healthcare financing through progressive taxation ensures that financial contributions are made according to ability to pay rather than on the use of needed care or the purchase of a particular insurance product.

7. Financing must be sufficient. The level of healthcare financing must be determined by health needs; funds must be adequate to enable all people to access medically necessary care.

8. Financing must be stable. The level of healthcare funds must not be subject to political or market vagaries. Funding must be consistent, according to long-term needs, not precarious and short-term.

9. The system must be transparent and accountable. The people must know where the money for the healthcare system comes from, where it goes, and whether it is sufficient. They must be able to hold those managing the healthcare system accountable.

10. There must be public participation in the design of the system. As part of moving toward a People's Budget, spending and revenue decisions, including on healthcare, must entail a process of public participation, especially in determining whether the healthcare system is adequately funded to meet needs.

The development and consistent application of detailed standards based on fundamental human rights principles has been the foundation of policy analysis by the Healthcare Is a Human Right campaign. In this manner, we have drafted a detailed financing proposal, which seeks to concretize the principle of equity, as called for by Act 48. We respectfully ask the members of the committee to read this proposal and to use it as a benchmark in defining equitable financing of Green Mountain Care. We are always available and happy to discuss this proposal with the committee.

Finally, I want to remind the committee that the human rights principles of universality and equity that Act 48 demands be incorporated into the design of Green Mountain Care must also apply, to the extent possible, to our transition through the ACA-mandated exchange period. Despite detours on our way to Green Mountain Care, Vermont must not back-slide in continuing to improve the health care of its people, which means that we must avoid erecting new obstacles to access to care.

3. The way forward on GMC financing: a human rights reading of the report and opportunities for legislators

With the report submitted to the legislature a few days ago, the administration chose not to provide an equitable financing plan for GMC. We understand that they are looking to set out a process for doing so, yet this report does not offer any guidance for that. Instead, the report commissioned by the administration confirms the obvious — that a public healthcare system will provide better access to care at lower costs than a private, market-based system. We welcome this most recent projection, whicl

follows a great number of similar calculations, yet we doubt that this basic fact will contribute much to public understanding and support for healthcare reform. In fact, the focus on cost-savings at systems level risks overshadowing people's real concerns along with the real purpose of reform: guaranteeing everyone access to care independent of payment and thus improving people's health. We must treat healthcare as a public good and a human right not because it will be cheaper, but in order to protect and care for people's health. We will not achieve this overarching goal unless we apply the human rights principles in Act 48 to any cost analyses and options for funding sources.

Because it was the legislature that put these goals and principles into law, we believe that it is now time for this body to take an active role in this process and set out parameters, based on the principles of Act 48, for the most equitable way of financing our universal system.

As you review the GMC financing report commissioned by the administration, please allow us to illustrate how the basic principles in Act 48 can help assess the approach, assumptions and findings of this report.

Universality

• We are concerned that the report authors may not have fully recognized the impact of universal, publicly financed healthcare on the entire Vermont population. Despite the report's focus on costs, it shows an insufficient understanding of cost drivers in a market-based system and the cost savings in a system focused on universal preventive and primary care. At this point in the reform process, we believe that you will share our surprise at the report's odd assertion that a "competitive marketplace" in healthcare has kept costs low. What is being measured here? The sad fact is that denied claims and underinsurance have not only damaged people's health but also increased costs to the system as a whole. We are all reminded of the failures of this market-based system on a daily basis. More specifically, we find it unhelpful that the report attempts to cost the utilization of services without projecting changes in health needs or in the types of services needed in a prevention-focused system. It is particularly misleading to assume that costs increase due to "induced utilization," i.e. that people with lower or no cost-sharing will drive up costs due to higher utilization. In fact, there is much evidence to contrary: greater utilization of care at the appropriate place and time reduces overall costs by avoiding emergency care and chronic conditions. In summary, when calculating costs the report suffers from neglecting the impact of a universal system whose purpose it is to keep people healthy.

• The report also fails to comprehend the possibilities of universal healthcare on another important level. The provision of healthcare is different from the provision of insurance against falling ill. As I said earlier, there is no need to think of GMC as yet another insurance model, to conceive of it as a health insurance plan with a specified actuarial value and a particular benefits package . We have the opportunity and, we would argue, the obligation, to shift from coverage to care, that is to provide access to all needed care without the restrictions and barriers entailed in an insurance product.

• Unfortunately, the report does not even consider such a shift. It sees GMC as an insurance product with a default actuarial value of 87%, which user fees of 13% would be imposed on most patients. Against the legislative intent expressed in Act 48 (§1825 (a)(2)), the report even calculates a plan of 80% actuarial value. Most of you will be aware that we strongly object to any type of user fees, which shift the cost burden on those who most need care. There is a large body of research evidence, which we have compiled, which shows that any user fees deter access to necessary care and contribute to

poorer health outcomes and higher system costs. Once again we are asking why this report has not attempted to calculate the cost savings achieved through timely and appropriate access to care? Eliminating user fees is not a luxury, it is essential to the goals of universal healthcare.

• We were also hoping to see a firmer stance from the administration on the unified nature of GMC, which, after all, is a key source of the much heralded cost savings. More importantly, as the HCHR campaign puts it, universal means everyone. While we appreciate the report's recognition that a universal system entails automatic enrollment, we are concerned about assumptions that a significant number of people could keep their employer coverage. We see no intent in Act 48 to enable a continuation of the current system of employer-based insurance, nor do we see an explanation for such a scenario in the report. The goal of reform must be a unified and universal system of publicly financed healthcare to which all employers contribute financially, rather than by acting as insurers themselves. Similarly, we do not see the option of selling GMC as Medicare Advantage Plan as compatible with Act 48 and its intent of a unified public healthcare system. Vermont statute requires healthcare to be treated as a public good, which means it is entirely inappropriate for consultants to suggest amending Act 48 to sell GMC as a commercial product and burden older people with the costs of privatized healthcare.

• Finally, with regard to the principle of universality, we welcome the report by the GMC Board which explains the importance of including all residents, regardless of their immigration status, in our universal system. We trust that this committee will affirm this conclusion and ensure its implementation.

Equity

• As I stated earlier, we assumed that the purpose of this report was to propose an equitable financing plan for GMC. We are disappointed that the report does not do this, yet we wholeheartedly agree with the report's recognition of our "historic opportunity to create a financing system that is more progressive than the current system." We now call on you, our legislators, to take this opportunity and set out the parameters for the equitable financing of GMC.

• Act 48 requires that the public financing plan for GMC must meet the principle of equity. Contributions to the system must be based on the ability to pay, rather than on the use of needed care. The administration's report recognizes that public financing should be able "to address inequities in the current financing of health care." This is clearly a minimum proposition; we understand Act 48 to require financing to be fully equitable, rather than merely less inequitable. We welcome that the report sees an opportunity to combine an equitable financing proposal with an effort to increase equity in our tax code as a whole. We have proposed, in line with our People's Budget Campaign, that the state embarks on a reform of our tax system based on the principle of equity.

• We are also glad that the report clearly recognizes that the private, market based "system of financing health care is regressive, as it requires low-income individuals to pay a higher share of their income than higher-income individuals, and leaves a number of individuals uninsured and under-insured." To summarize, the report estimates that as a percentage of their income, low-income families pay premium costs that are three times higher than those of middle-income families, and out-pocket costs that are four times higher. We appreciate that the report, taking its cue from Act 48, engages "in an effort to

develop a model that provides better value for Vermont: provides comprehensive benefits to everyone at a lower cost and with a more progressive financing system." The report recognizes that this means that "individual premiums will be eliminated." Premiums are one of the relics of the old insurance model and link access to care to user fees and benefits packages. Rather than paying premiums for insurance products, in our new system we should pay progressive taxes to share the cost of providing all needed care as a public good.

• As you review the report's evidence of the highly regressive nature of insurance premiums and user fees, paid by individuals and families, we ask that you set the parameters for implementing equitable financing through progressive taxation and eliminating insurance premiums, deductibles, co-pays and co-insurance. The administration's report, while listing the current range of the state's revenue sources and tax expenditures, fails to propose an approach for applying the equity principle to an assessment of funding sources. We see this now as a task for legislators. The HCHR campaign has developed implementation standards for equitable financing and, guided by these standards, designed a proposal for equitable financing, and we look forward to discussing this with you.

Participation, transparency and accountability

• We are concerned that the report commissioned by the administration does not fully understand the principles in Act 48. The people of Vermont must be able to hold all stakeholders and key players in the reform process accountable to the principles in the Act. Yet the report introduces an entirely new principle, if I can call it such, named competitiveness. This does not exist in Act 48, nor it is clear what meaning the report allocates to it. We are confident that as legislators you will do a better job in sticking to the principles included in the law you wrote.

• We appreciate that the report recognizes the importance of an open and transparent dialogue with the people of Vermont about financing healthcare and other public goods. We trust that the legislature is best placed to set out the principles and parameters to make such a dialogue meaningful.

4. The transition phase: ensuring that we do not go backwards

We have focused our comments on GMC financing, but of course we are also here to ask you to ensure that nobody will suffer from a reduction in their access to healthcare because of the transition process. We must go forward, not backward. "First, do no harm" should be the very basic motivation for your actions this session.

We appreciate that the administration's 2014 financing report identifies funding sources for supporting people that are moved from Catamount and VHAP into the Exchange. This is a step in the right direction, yet it is not a sufficient step. Even with the proposed subsidy, people currently served by public programs will be required to pay significantly more than they're paying now - and they already paying too much! This does not just put people's health at risk but endangers the entire reform process We must take seriously our obligations to protect people's health at all times.

Therefore, we call on you to ensure that adequate support is made available to everyone who is moved into the exchange. Such support must be funded equitably, not by punishing poor and working class people through "sin" taxes or by cutting other programs that serve people's needs.

5. Conclusion

As always, we are delighted to work with you this session, in building a healthcare system founded on human rights principles. We will continue to work both outside the statehouse and within, to make politically possible what has never before been possible in this country, fulfilment of the human right to healthcare. Thank you.