



The Prescription for Pennsylvania: An Overview

January, 2007

On January 17, 2007, Governor Ed Rendell released a new comprehensive health care reform program, the Prescription for Pennsylvania. The program has four goals:

1. To reduce the high and growing cost of health care;
2. To expand access to health care services;
3. To make health care more affordable and reduce the number of uninsured adults;
4. To increase wellness and promote preventive health care.

Cover All Pennsylvanians (CAP), which would make low-cost health insurance available to small businesses and to the uninsured, is one component of the Prescription for Pennsylvania.

The Health Care Problem

Over the past six years, individuals, states, and employers across the country have grappled with health care inflation, double-digit increases in premiums in privately- and publicly-funded health care programs, declining employer-sponsored coverage, and a growing number of adult uninsured. In Pennsylvania, health care premiums have increased by 75% since 2000, while inflation has increased by 17% and wages by only 13%.¹ The number of Pennsylvanians with employer-sponsored health insurance has declined from 70% to 65% during that time.²

In response to these problems, and in the absence of action in Washington, several states have experimented with innovative approaches to stabilizing and expanding health care coverage, holding employers and individuals

more accountable through participation mandates, and holding down premium increases, particularly in the small group market. Pennsylvania's plan builds upon the experiences of Massachusetts, Vermont, Maine, and New York, but adds a new dimension—an aggressive effort to reduce costs in the health care system. The Rendell proposal anticipates substantial cost savings that would reduce premiums in the private insurance market over time and would help to finance the expansion of health care coverage to the uninsured.

In addition, Pennsylvania's plan has important implications for the national health care debate, as it represents a shift away from the trend toward high-deductible, low-quality health insurance coverage coupled with tax deductible Health Savings Accounts, favored by some state plans. Instead, Pennsylvania's plan would give the uninsured access to high-quality health insurance and would make traditional comprehensive insurance more affordable for some small businesses.

The Prescription for Pennsylvania will require 47 separate pieces of legislation to fully implement. The governor has proposed a timetable of legislative review by July 1, 2007, and a start-up date of January 1, 2008. The following is a summary of the plan's components.

Cost Containment Measures

The plan proposes to drive down the cost of health care by reducing reliance on expensive emergency room care, by aggressively addressing the problem of hospital-acquired infections (HAI), by changing delivery of care for individuals with chronic health conditions, and by phasing out payments for medical errors.

Contain hospital costs

- Reduce overuse of emergency rooms for nonemergency care by requiring hospitals to set up or offer access to 24-hour, nonemergency care centers.
- Establish uniform criteria and benefit calculations for community benefit services provided by charitable, nonprofit hospitals.
- Develop a process to review hospital capital expenditures to avoid expensive and redundant technological purchases.
- Require hospitals to adopt and implement system-wide quality management systems and to phase in reductions in payments for medical errors and hospital-acquired infections.
- Work with other major payers to develop a Pay for Performance reimbursement system.
- Create chronic care teams using the nationally recognized “Wagner model” to improve treatment and lower costs. Realign reimbursements to support this team treatment model.
- Require pharmacies to report the cost of 150 common prescription drugs each month and post prices to promote competition and comparison shopping by consumers.

Increase the supply of health care services to improve access and reduce costs

- Modify professional licensure regulations to expand the scope of practice for licensed health care providers, including nurses, nurse practitioners, physician assistants, dental hygienists, and pharmacists. A scope-of-practice work group will be established to work out the details.
- Encourage health care access in shortage or high-need areas by providing start-up funding for Federally Qualified Health Centers (FQHC) and nurse-managed practices.
- Require insurers to use and reimburse these nurse-managed practices and nurse practitioners.
- Increase the availability of care during evenings and on weekends by providing financial incentives to clinics, centers, and practices to operate during nontraditional hours.
- Provide financial incentives, including loan

forgiveness, to increase the number of health care practitioners operating in rural areas.

- Address racial and language disparities in health care by requiring access to translation services in hospitals and by developing programs to improve the diversity of the health care workforce and to reduce health care disparities.

The cost savings, which the Rendell administration expects to be significant, would be captured and reflected in the overall cost of insurance premiums through aggressive rate review by the Pennsylvania Insurance Department.

Insurance Reform Initiatives

Health insurance premiums have risen for small businesses even more quickly than for large businesses, and premiums tend to be more volatile in this market. The new plan proposes to stabilize premiums through greater competition and transparency by implementing the following measures:

- Limiting premium increases through rate bands, which set a floor and a ceiling on rates, and serve to narrow the difference between the highest and lowest cost premium offered by an insurer
- Using adjusted community rating to set insurance premiums, which limits rating factors to age, geography, and community size
- Requiring insurers to spend at least 85% of premiums for health care services, and to return a portion of premiums to employers if costs fall below a certain level
- Creating a standard, basic health package open to individuals and small businesses

Reducing the Cost of Uncompensated Care

Providing health care services to individuals lacking health insurance contributes to the overuse of emergency room care and to increased costs for hospitals, resulting in higher insurance premiums. Pennsylvania estimates the cost of uncompensated care at \$1.4 billion; studies have found that uncompensated care can add as much as 10% to insurance premiums.³

The lack of health insurance is harmful to individual

wellbeing. The Kaiser Commission on Medicaid and the Uninsured found that the uninsured are twice as likely to be in poor health as the insured, less likely to receive preventive care, and more likely to forego necessary treatment.⁴

The Prescription for Pennsylvania would reduce the numbers and the cost of the uninsured by offering a lower-priced insurance package to employers, and by subsidizing premiums to individuals to encourage the purchase of an insurance plan. The Prescription for Pennsylvania includes a pay-or-play mandate that would assess a 3% payroll tax on employers who do not provide their employees with health insurance. It would, at a later date, mandate that all individuals purchase insurance or face some as yet unspecified penalty.

Cover All Pennsylvanians (CAP)

The Pennsylvania Insurance Department 2004 Household Survey found that 767,000 Pennsylvania adults, 70% of whom were employed,⁵ lacked health insurance coverage. The Prescription for Pennsylvania would replace the Adult Basic Program with Cover All Pennsylvanians, a public-private partnership that has two key components:

1. Uninsured adults who are not working or are self-employed are eligible for subsidized health insurance if they earn up to 300% of poverty (\$19,600 for an individual and \$60,000 for a family of four).
2. Low-wage employers who do not currently provide insurance are eligible for a subsidized insurance product. Employees of these businesses can have their premiums subsidized on a sliding scale depending on income. Under this dimension of CAP for employed Pennsylvanians
 - (a) businesses with 2–49 employees would be eligible;
 - (b) employers could not have offered insurance within the last six months;
 - (c) employers must have a majority of workers who earn below the state’s median wage; \$39,000 in 2006.
 - (d) 75% of employees must agree to enroll.

Eligible businesses would have a total monthly premium of \$200 per individual enrollee; the employer would pay \$130 and the employee \$10–\$70, depending on income. The state would pay the difference. Employees would initially pay the full premium of \$70 and then apply directly to CAP for subsidy. If deemed eligible, employees would receive a reimbursement through an electronic benefit card (EBT) for the subsidy amount. Unemployed spouses could purchase coverage at the subsidized rate. Uninsured children would be enrolled in Cover All Kids. Individuals with incomes over 300% of poverty could purchase the CAP insurance at the state’s cost of approximately \$280 per month.

Premiums for CAP at Percent of Poverty		
>100%	100–200%	200–300%
\$10	\$40	\$60

Go-bare Period

Individuals with earnings at or below 200% of poverty would have had to be without insurance for 3 months; those earning over 200% of poverty would have had to be uninsured for 6 months. No go-bare period is required for those who lose coverage due to plant closings or who are laid off and eligible for unemployment benefits.

Benefit Package

Cover All Pennsylvanians would include a benefit package comparable to that offered in Adult Basic, with the addition of prescription drugs and a limited behavioral health benefit (comparable to private plans). All Blue Cross plans would be required to offer the CAP plan; participation would be voluntary for other insurers.

Employer Mandates

Large and small businesses that do not provide health insurance will be assessed a 3% payroll tax annually. In the first year, the first 50 employees will be exempt from

the tax, with exemptions decreasing by 10 employees each year.

Individual Mandates

A mandate to obtain insurance for individuals with income more than 300% of poverty will be phased in at an unspecified date. Full-time college students will be required to have adequate health care coverage as a condition of admittance. The plan does not specify penalties for adults who fail to obtain insurance.

Quality of Care, Health Promotion, and Wellness

Final program goals are to improve the quality of health care services, increase prevention, and promote wellness. The most significant and controversial component is a proposed ban on smoking in all workplaces, restaurants, and bars. Other provisions are designed to improve behavioral health treatment, end-of-life and long-term care, and child nutrition.

Behavioral Health

- Create an integrated treatment program for individuals with substance abuse and mental health disorders.
- Provide behavioral health treatment to eligible children, adults, and the incarcerated.

Long-Term Care

- Encourage use of advanced directives to reduce overuse of end-of-life medical resources.
- Expand pain-management training programs and require use of palliative care specialists (pain, support, comfort) in all state-regulated facilities.
- Increase the availability of home- and community-based services for the elderly, to reduce nursing home admissions.
- Promote the purchase of long-term care insurance.

Wellness Promotion

- Enact statewide clean indoor air act, banning smoking from workplaces, bars, and restaurants.

- Expand school breakfast program to all children and make healthy snacks available during the day, to enhance the nutritional status of children.

Consumer Education

- Provide real-time information about cost and quality, including prescription drugs and hospital procedures.

Paying for the Program

Governor Rendell has proposed paying for the program through a combination of new and existing revenue. Existing sources include funds for Adult Basic, uncompensated care and Community Health Reinvestment Funds. New sources would include a cigarette tax increase and a sales tax on smokeless tobacco products.

The state would obtain a waiver to draw down Federal Medicaid funds for eligible individuals. As noted, a 3% payroll tax would be assessed on so-called free riders, employers who do not offer health insurance. More funding information will be made available when the budget is released on February 6, and in legislation.

Conclusion

Many details of the Prescription for Pennsylvania are not yet available, or have not yet been determined. Overall, the plan is the most comprehensive of the state plans to date, addressing a broad range of deficiencies in access to care and moving aggressively to reduce the cost of health care delivery.

The priorities embedded in the Pennsylvania plan are clear and reasonable:

1. Target the low income individuals and low wage businesses that make up the bulk of the uninsured.
2. Reduce costs in the private market through insurance reform.
3. Offer low cost insurance options before moving toward individual mandates.
4. Make businesses that do not provide insurance contribute to the costs of providing it.

5. Improve the quality of care.
6. Enhance wellness.

Many questions remain about the Prescription for Pennsylvania, and it is likely that many program components will be modified or deleted during the subsequent debate. The Pennsylvania Budget and Policy Center will complete a more thorough analysis when more details are available.

Endnotes

¹ Prescription for Pennsylvania at <http://www.gohcr.state.pa.us/prescription-for-pennsylvania/index.html>
Nationally, health care premiums have increased by 87% and wages by 20% during the same period, according to the National Council on Health Care (<http://www.nchc.org/facts/2007%20updates/cost.pdf>).

² *State of Working Pennsylvania 2006* at <http://www.stateofworkingpa.com>

³ Dobson et al., “The Cost Shift Payment ‘Hydraulic’: Foundation, History, and Implications,” *Health Affairs* 25(1) (January/February 2006):22-33.

⁴ Kaiser Commission on Medicaid and the Uninsured, *The Uninsured: A Primer* (October 2006), at <http://www.kff.org/uninsured/upload/7451-021.pdf>

⁵ http://www.chipcoverspakids.com/upload/Chip_Resources/Research_Results/uninsured_study_web2.pdf
(see page 53)