

## Chapter 3

# HOW THE NEW SYSTEM WORKS

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### How Reform Will Affect You

After health reform goes into effect, every American citizen and legal resident will receive a Health Security card. Once you get your card, you will never lose your health coverage — no matter what. If you get sick, you're covered. If you change jobs, you're covered. If you lose your job, you're covered. If you move, you're covered. If you start a small business, you're covered.

*The card guarantees you a comprehensive package of benefits that can never be taken away.* Those benefits are as comprehensive as the ones that most Fortune 500 companies offer their employees. The package includes doctor and hospital care, as most insurance plans do, and also covers prescription drugs and a host of other services. [See chapter 4] You will also receive something rarely found in today's insurance plans — preventive care.

No matter which plan you choose, you will also receive something. The plan will pay 100 percent of the costs for a wide range of preventive care services, including prenatal care, well baby care; immunizations; disease screening for adults, such as mammograms, Pap smears, and cholesterol tests; and health promotion programs, like stop-smoking classes and nutrition counseling.

*You will be able to choose your doctor.* Every American will have a choice of health plans — and plans will enroll everyone who applies, regardless of age, occupation or medical history. While prices will vary among plans, each health plan will charge everyone the same price for the guaranteed, comprehensive benefits package. Employers or insurance companies won't decide how or where or from whom individuals

get their care — you, the consumer, will decide. You will be able to follow your doctor into a traditional fee-for-service plan, join a network of doctors and hospitals, or become a member of a health maintenance organization (HMO). For older Americans, the Medicare program will be preserved and strengthened with new coverage of prescription drugs. There will also be expanded options for home and community-based long-term care.

Like today, almost all of us will be able to sign up for a health plan where we work. Brochures will give you easy-to-understand information on several health plans — the doctors and hospitals involved, an evaluation of the quality of care, and prices. There will be regular “report cards” that measure quality and consumer satisfaction for each plan. Once a year, consumers will have a chance to choose a new plan. If you are not satisfied with your care or service, you can “vote with your feet” and pick a new plan, something most people can’t do today.

If you’re self-employed or unemployed, you can sign up through the health alliance in your area by phone or through the mail. Alliances, run by boards of consumers and local employers, will contract with and pay health plans, guarantee quality standards, provide information to help consumers choose plans, and collect premiums. They will, in effect, take on roles similar to major corporate benefits offices. The largest national corporations — those employing 5000 workers or more — have the option of continuing to self-insure their employees or joining regional alliances. For the consumer, particularly people who work, the local alliance will be largely invisible. It will help you get good prices on insurance, but you’ll still sign up for health care at work.

In order to get care, most people will do what they’ve always done — go to the same doctors, hospitals, pharmacies, or other providers. More providers will organize into “networks” — groups of doctors, nurses, hospitals, and labs that cooperate together to coordinate the care of their patients and control costs.

Once you’ve picked a plan, if you need to go to the doctor for a check-up or if you get sick, you’ll simply take your Health Security card, show it at the doctor’s office, and they’ll take care of you. Then

you'll fill out one standard form, and you're done. So when you get sick, you won't be buried in forms — and neither will your doctor or hospital.

Unless your employer chooses to pay your entire premium, you will contribute about 20% of the cost. Your share of premiums will be deducted from your paycheck, the same way most people pay now. If your employer wants to pay the full cost of your premiums, that will always be an option. In addition, individuals will pay limited co-payments or deductibles to their health plans as part of their coverage. People who are either self-employed or unemployed, but still can afford to contribute, will send in a monthly check for insurance. (See charts at the end of the chapter.)

Today, most businesses offer health coverage to their workers. For these businesses, health care reform which provides universal coverage will mean a tremendous benefit. No longer will these businesses bear the costs of other businesses and their employees -- through higher premiums and higher taxes to pay for people without coverage, or by covering spouses working for other businesses. And no longer will premiums continue to rise out of control. This will mean that businesses will be more competitive and be able to create more jobs.

Currently, health care costs represent an increasingly large financial burden for businesses of all sizes. Firms now pay as much as 20 percent of their total payroll just to provide health care coverage for their workers. Under the Health Security Act, no business will ever pay more than 7.9 percent of their payroll for health insurance.

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*“Successful implementation of health care reform is one of the best pieces of news American business could receive.”*

*Henry Aaron  
Health Economist, Brookings Institute*

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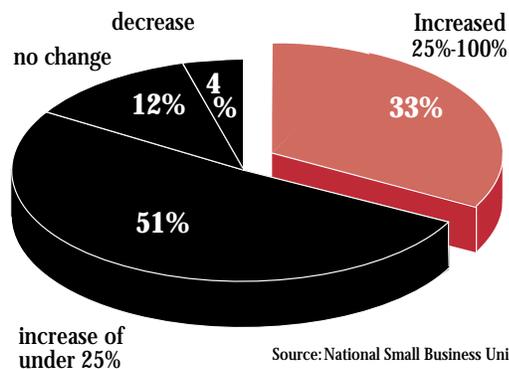
## Small Business in the New System

Today's health care system is stacked against small business owners, their families and employees. Small businesses, who are too small to have benefits departments, are burdened by high administrative costs -- as much as 40 cents of every dollar of their premiums -- compared to only 5 cents for large companies. They are charged higher premiums because they don't have the bargaining power that large companies do to get the best prices from insurance companies. And they are the most vulnerable to sudden rate hikes if even one employee gets sick.

Despite these obstacles, most small businesses -- particularly those with more than one or two employees -- do provide insurance for their workers. And most of those that do not cover their employees want to provide insurance but find it impossible in a health care system that discriminates against them.

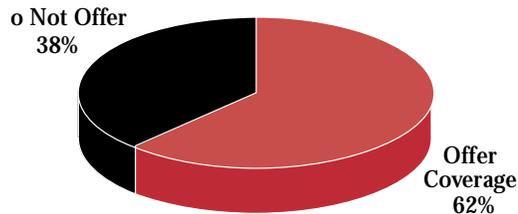
Last year alone, one third of small businesses experienced health care cost increases of more than 25%.

### Small Businesses Face Rising Costs Today



Employees in Firms with Less than 100 Employees

### Most Small Businesses Already Provide Insurance



The Health Security Act creates a level playing field that will finally allow small businesses to provide affordable coverage for their employees without being discriminated against because of their company size. The Wall Street Journal has said that the Health Security Act will be "*an unexpected windfall*" for many small businesses that currently provide insurance to their employees. These companies will likely pay substantially less under reform -- because of lower premiums and reduced administrative costs. And those small businesses who are charged far too much today to provide a "bare-bones" package for their families and employees will finally be able to afford to provide a comprehensive benefits package -- in many cases without spending much more than they currently pay for less coverage today. The Health Security Act will level the playing field for small businesses in the following ways:

- Small businesses will no longer face outrageous administrative costs because they will join together to get the same benefits -- in terms of bargaining power and administrative simplicity -- that big businesses have today.
- Small businesses will be charged the same rate as large businesses to provide coverage to their workers.
- Small businesses that now provide insurance will see their premiums decrease when they no longer have to pay for uninsured workers.
- The Health Security Act will outlaw insurance company practices -- ranging from price gouging to refusing to insure entire industries -- that make it impossible for small business owners to get insurance today for their families or employees.
- Reform will also streamline the workers' compensation system -- which is a never-ending source of frustration, fraud, and high costs for small businesses today.
- Self-employed Americans will now be able to deduct 100% of their premiums -- instead of the 25% allowed by law today.

## **Discounts for the Smallest Companies**

Those small businesses that provide no health coverage today will have to help pay for their employees' health care. The Health Security Act is specifically designed to protect small businesses and help them make the transition to a system that guarantees their families and employees the health security they deserve. Those low-wage businesses with 75 or fewer employees will receive substantial discounts on the price of insurance, depending on the size of the company and the average wage.

- For the smallest firms that pay the lowest wages -- such as restaurants -- the percent of payroll devoted to health care may be as low as 3.5 percent. That amounts to \$350 a year for a company with average wages of \$10,000 -- or less than \$1 a day per employee.
- These discounts apply to most small businesses with less than 75 employees, even those that currently provide health insurance to their workers.
- The vast majority of small businesses -- especially the "Mom and Pop" firms that are so vital to the American economy -- will find that the savings they reap in the cost of health insurance for their own families will substantially offset any new spending required to cover employees.

## **An Overview of the New System**

The Health Security Act rejects the idea of a government-run health care system. Health care will remain rooted in the private sector. Most people will get insurance through their employers, as nine out of ten people do today. The plan achieves universal coverage and recognizes that some direction from the government — including asking everyone to pay their fair share — will be necessary to achieve that goal. But it leaves the tasks of delivering care and controlling costs to the private market.

The Health Security Act seeks to build on what works best in the American economy and fix what is broken. What works best is a competitive market that provides products and services to Americans at the highest quality and lowest price.

But the competitive power of the market is not working in today's health care industry. Today, insurance companies compete not on the basis of price and quality, but by excluding people who might become sick.

The system is also broken in another fundamental way: small and mid-sized businesses, the self-employed, and average American families are powerless to bargain with insurance companies. Today, only big business has the clout to negotiate lower prices. The little guy — the local hardware store, the entrepreneur, the young family — ends up getting stuck with high prices and excessive cost increases.

The Health Security Act seeks to fix these problems so that all Americans benefit from a truly competitive health care marketplace. First, the Health Security Act outlaws insurance company discrimination based on age, sex, or medical condition. Instead, it makes insurance companies compete based on how well they cover all of us, and not how well they exclude some of us.

The Health Security Act joins consumers and small businesses together in health alliances so that they can have the same bargaining power that the largest companies get. After reform, every American will have bargaining strength to get low prices and high quality care.

For the first time, consumers will be in the driver's seat when it comes to finding quality health care. Health plans will be forced to compete on providing the best care at the most affordable prices. This will provide incentives for everyone in the health care business to operate more efficiently — incentives that don't exist today.

## **Flexibility**

Realizing the goals of the Health Security Act requires that we build in flexibility. National reform establishes a framework within which states and local communities make their own choices. Americans cannot, and need not, come to one vision of the single best approach to health care.

Consequently the pace of reform will vary across the country. Some states are already well along in addressing the need for health reform. Some have served as models, forging paths that other states will follow as they implement reform. Under the Health Security Act states will begin implementing reform in 1996, and all states are to begin implementing reform by the end of 1997.

Reflecting the geographic diversity of our nation, the Health Security Act allows for each state to tailor health reform to its unique needs and characteristics as long as it meets national guarantees and standards for quality and access to care. Certain states, in fact, may choose to set up a single-payer system, where one agency collects and distributes all health care dollars for that state. Flexibility is essential because we know that what works in North Dakota may not work in North Carolina.

Although the Health Security Act establishes a national framework to achieve the goals of reform by spelling out standards and the comprehensive benefits that every American must receive, it does not prescribe how to deliver care or organize services. It leaves those decisions to consumers, doctors, nurses, hospitals and managers of health plans, rather than to the government. The Health Security Act establishes protection at the national level to ensure security -- the solid foundation upon which American communities are free to build. Then it gets government out of the way to allow the reformed, private market to work.

# What You Pay

## What a Comparison Won't Tell You

Before comparing what you pay today with what you will pay under Health Security, remember this: The Health Security Act guarantees you something no amount of money can buy today — true health security, no matter what happens to you.

*Ask yourself these questions about your plan today:*

- Do you have a comprehensive benefits package — with prescription drug coverage and preventive care at no additional cost?
- Do you have any guarantee that you won't have to pay a larger share of your premium next year?
- Do you get coverage that kicks in right away, after only a small deductible?
- Are you free from “lifetime limits” so you're guaranteed coverage no matter what happens?
- Does your insurance company charge you the same even if you are older or have a pre-existing condition?

If the answer to any of these is “no”, you will get a better value for your premium under the Health Security Act.

Your Premium:		MONTHLY**			
		TODAY		REFORM	
		Range	Average	Range	Average
	Two Parent Family With Children	\$0-\$180	\$76	\$0-\$91	\$73
	Single Parent Family With Children	\$0-\$180	\$76	\$0-\$80	\$64
	Married Couple With No Children	\$0-\$180	\$76	\$0-\$80	\$64
	Single Person	\$0-\$60	\$25	\$0-\$40	\$32
** Preliminary average estimates, based on 1994 numbers; will vary from state to state.					

Low-income Americans may be eligible for discounts.

This applies to:

- Two Parent Families with income below \$22,200
- Single Parent Families with income below \$18,400
- Married couples with income below \$14,600
- Single people with income below \$10,800

\* Estimate of 150% of poverty in 1994. Actual cutoffs will vary by year and growth in consumer price index.

## What If I Am...

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**65 or older:** Older Americans will continue to receive their health care through the Medicare program, as they do today. Older workers and their spouses will

receive the same comprehensive coverage as other working Americans through the health alliances.



**Unemployed:** Unemployed people will still have health coverage without interruption, paying only their 20% portion of the premium with discounts based on their

income. Those with non-wage income — such as interest payments — may also be responsible for some or all of the employer's (80%) share.



**Part-time Worker:** Part-time workers will pay for a portion of their health insurance premiums. As long as they are working, their employers will also pay part of

their premiums. Depending on their income, part-time workers may receive discounts for the remainder.



**Self-employed/Independent Contractor:** Today, the self-employed are only allowed to deduct 25% of their health care premiums from their taxes. Under reform, they will be able to deduct 100% of their health care costs. As

with any business, they pay the employer's share, and are eligible for any discounts that apply. They also pay the individual/family share, and may be eligible for discounts on that as well, depending on their income.



**Retiree, 55-65:** Faced with rising health costs, many companies have been dropping the health coverage that their retired workers depend on. Under reform, retired American workers will only

be responsible for their 20% share of the premium. However, former employers may choose to cover the 20% share, or may be required to do so under collective bargaining contracts.

# Financial Protection...

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	TODAY	REFORM
<b>DEDUCTIBLE</b> The amount you pay before your insurance kicks in	Almost half of today's plans have deductibles larger than \$200 per person. Some are as high as \$3,000.	Many plans will have no deductible. For the plans that do, deductibles will be \$200 for an individual and \$400 for a family.*
<b>LIFETIME LIMIT</b> A limit on what insurance companies pay	In 60% of today's insurance policies, your insurance can run out if you get very sick.	There will be no limit on your total lifetime benefits.

\* Preliminary estimates, based on 1994 numbers.

## CO-PAYMENTS

Your co-payments — the amount you pay out-of-pocket when you go to a doctor — will be limited and uniform, protecting you financially and making it easier to choose among health plans. Co-payments will vary according to the type of plan you choose. For a wide range of preventive services, there will be no co-payments in any plan. Low-income Americans may receive discounts on their out-of-pocket costs.

**FEE FOR SERVICE:** Patients pay 20% of the cost of each visit after the \$200 individual deductible or \$400 family deductible is reached. They pay nothing after they reach the annual out-of-pocket maximum of \$1,500 for an individual or \$3,000 for a family.

**DOCTOR NETWORK (PREFERRED PROVIDER ORGANIZATION):** This plan offers low co-payments (\$10) — with no deductible — if patients use the doctors within the network (“preferred providers”). If patients choose doctors outside the network, they have higher co-payments (20% of each visit) — once they’ve paid the \$200 individual deductible or the \$400 family deductible. They pay nothing once they’ve reached the out-of-pocket maximum (\$1,500 for an individual; \$3,000 for a family).

**HEALTH MAINTENANCE ORGANIZATION (HMO):** Patients pay no more than \$10 for each doctor visit. There are no co-payments for hospital care and no deductible has to be met.