Green Mountain Care

A model projection of estimated costs & funding sources as of October 2011, by Wendy Wilton

The Vermont legislature passed a sweeping health care reform bill in 2011, Act 48, at the urging of Governor Shumlin. This legislation has prompted questions such as: *Who will be covered, what are the costs, how will it be funded, who will pay* and *will it be feasible?* After hearing the Governor speak in February about the proposed benefits and payroll tax funding mechanism, I was intrigued. I researched and prepared a projection model to explore how we would transition to a new health care system. This handout is an update of the initial projection which takes into account more recent economic data and some changes based on new assumptions.

The magnitude of such a state health care fund would be over *$3 billion* annually. ***This is greater than the state's General Fund, the Education Fund and Transportation Funds combined, and represents almost 20% of our state economy.*** This transition to a public system will have far-reaching impacts on our quality of life and economic impacts on employers and individuals. The focus of this work is on the fiscal impacts of the transition, rather than if a single payer system is right for Vermont.

Act 48 sets the framework to establish a universal system, but leaves the details of such a system to a five member board which was appointed by the Governor, in October 2011. A universal plan can begin as early as 2014 through the exchange required by the new federal health care law. Neither the Governor nor the legislature presented a projection based on possible plan designs during the deliberation of the bill. A Catamount Health-type coverage level and funding though a payroll tax were proposed in the Hsaio report and openly discussed by the governor and other elected officials.

To date, this projection is the only comprehensive effort that attempts to match likely revenues against expenses in a publicly funded health care system for the state. I have done this because I feel strongly that Vermonters have a right to know this information and may need it to have appropriate dialogue with their representatives. I have urged others, especially those allied with the administration; to prepare similar projections for discussion and debate, but no one has yet taken up that challenge of transparency. ***The information in this handout is what the state doesn't want you to know.***

What do the first five years of Green Mountain Care look like? Will it work?

Expenses of Green Mountain Care Fund	**2014**	**2015**	**2016**	**2017**	**2018**
Total GMC premiums to cover 424,359 Vermonters	*2,852,295,515*	*3,066,217,678*	*3,296,184,004*	*3,543,397,805*	*3,809,152,640*
Subsidies for deductibles/premiums (low income)	64,813,684	69,674,711	74,900,314	80,517,837	86,556,675
Supplemental coverages for governmental employees	104,426,230	112,258,197	120,677,561	129,728,379	139,458,007
Additional administrative costs of new system	5,000,000	5,150,000	5,304,500	5,463,635	5,627,544
Cost increase due to utilization or in-migration	105,861,975	37,318,065	40,116,919	43,125,688	46,360,115
Hsaio savings, adjusted for non-single payer	-	(220,257,818)	(324,650,299)	(396,003,081)	(476,232,621)
Adjusted Hsaio Savings, %	-	***6.70%***	***9.19%***	***10.43%***	***11.67%***
Reserve for loss (5% of premiums)	153,129,186	7,660,511	19,719,738	32,683,408	46,619,352
Total Expenses:	*3,285,526,589*	*3,078,021,343*	*3,232,252,738*	*3,438,913,671*	*3,657,541,712*
Revenues-Assumes Payroll Tax strategy at 14.5%	-	1.00%	1.00%	1.00%	1.00%
Covered employment	292,370	295,294	298,247	301,229	304,241
Average annual wage (2009)	38,767	39,155	39,546	39,942	40,341
Total Covered payroll, ERISA exempt	8,954,103,154	9,134,080,627	9,317,675,648	9,504,960,929	9,696,010,643
Self Employed income (net) to be taxed	911,786,000	920,903,860	930,112,899	939,414,028	948,808,168
Payroll tax at 14.5% of payroll + self-employment net	1,430,553,927	1,457,972,751	1,485,929,339	1,514,434,369	1,543,498,728
Medicaid Global Commitment	1,218,324,992	1,315,790,991	1,421,054,271	1,534,738,612	1,657,517,701
Total Revenues:	*2,648,878,919*	*2,773,763,742*	*2,906,983,610*	*3,049,172,981*	*3,201,016,429*
Revenues less expenses:	(636,647,670)	(304,257,601)	(325,269,128)	(389,740,690)	(456,525,283)
Cumulative deficit:	**$ (636,647,670)**	**$ (940,905,271)**	**$ (1,266,174,399)**	**$ (1,655,915,089)**	**$ (2,112,440,372)**

The model shows that expenses outpace revenues year after year—***by over $300 million annually***—after all costs associated with the state-level health care fund are considered**. Green Mountain Care appears unsustainable,** *even after the application of the adjusted Hsaio savings,* unless ***significant increases in taxes*** or ***drastic reductions to health care costs*** or ***lower utilization*** occur**.**

By end of year five this model predicts a $2 billion cumulative deficit to the state.

If federal Medicaid funding drops, the state's economy erodes, health care costs increase faster than predicted, or utilization increases then the fiscal results will be worse. Because the model is highly dependent on the payroll tax, it is very sensitive to the total wages generated in the state. The payroll tax raises the specter that <u>two-wage earner households may pay double</u>; the need for additional revenues may mean <u>increases to state income tax or additional broad-based taxes</u>.

Assumptions or notes to help understand this model:
1. Three groups would likely be exempt from participation in the universal plan, and most likely the payroll tax, due to federal laws: 105,302 Vermonters covered by employers with *self-funded insurance plans (sometimes called ERISA employers)*, 78,182 Vermonters covered by *Medicare (that are not also Medicaid-covered)* and 13,917 Vermonters covered by *military insurance.* The Vermont population is 621,760 (US Census), which means that Green Mountain Care will cover 424,359 Vermonters—everyone who had private insurance, state coverage, or was uninsured, after the exempt groups are deducted.
2. The state assumes that health care costs will grow 6-9% in the period noted, I have used a 7.5% rate on a Catamount plan pricing structure (actuarial value of 83%).
3. Supplemental coverage: assumes the state will be providing additional "wrap around" insurance for state employees and teachers, and the retirees of those groups as their current plan is richer than the proposed benefit level of 83%.
4. Dr. Hsaio's administrative savings are predicated on a single payer system. Since there are exempt groups, this will reduce the administrative savings overall, and only those savings applicable to the plan fund are realized in the fund. Also, the legislature is unlikely to accept torte reform recommended by Hsaio.
5. The payroll tax proposed is 11% on the employer and 3.5% on the employee for all Vermonters not exempt from the plan. If the state excludes low-wage employers and employees, the rate must be increased to compensate for that.
6. Medicaid Global Commitment is revenue promised by the federal government to the state under our current agreement. Budgetary issues at the federal level make additional funding questionable and the current commitment level may be at risk. Some components of Medicaid funding include tobacco taxes, provider taxes and ARRA (stimulus) money.

What about reform? What can I do to find out more, or get involved?

The proposed system appears to have the same flaw as our current health care system: the rate of growth in health care costs is rising faster than growth of the economy which is tasked to support it.

Stephen Klein, Legislative Fiscal Officer, Joint Fiscal Office, stated the following in a March 7, 2011 letter to Rep. Mark Larson, the Chairman of the House Committee on Health Care:

"The underlying costs versus revenue trends are likely to continue into the foreseeable future as I indicated in my February 24th remarks. This trend raises a fundamental challenge to any public or private health care program. Proposals that lower base spending, and/or ongoing cost growth may mitigate but not necessarily alleviate this trend"

No matter what funding mechanism might be used to support health care costs, or what plan might be used to distribute the benefits, it must work fiscally in the real world. A fund-level analysis, as shown here, has not been required by or presented to the state's lawmakers. A low deductible, high benefit plan as represented by a Catamount-type plan will not accomplish the cost control that is needed. A payroll tax—coupled with a possible income tax--will be a damper on the state's economy for years to come, and is creating uncertainty for employers. In the aftermath of Irene this is especially unsettling for taxpayers.

I leave it to you, the reader, to think about the possible consequences of creating this health care system if my projection model is correct. I urge you to contact your legislators about these decisions and what evidence they might have to support the proposal, or counter my conclusions. You can find out more about the detail of my assumptions and how I built this model by viewing it at www.vthealthcarefreedom.org or contacting me at 802-770-0743, or at wendywilton@comcast.net

Green Mountain Care: Health Care costs at 7.5% growth with expected savings & Self-funded plans exempt, Oct 19, 2011

How many to cover:	#people	Households	Under 18	Source				
Population of VT	621,760		126,217	2009 US Census estimate--Quickfacts				
Less								
Self-funded Plans	105,302		25,272	BISHCA VT Household Insurance Survey, 2010				
Military	13,917		3,340	BISHCA VT Household Insurance Survey, 2010				
Medicare*	78,182		0	BISHCA VT Household Insurance Survey, 2010				
Remaining to be covered	**424,359**	173,918	97,604	2000 US Census data: 2.44 persons per VT household				
Expenses of Green Mountain Care Fund				**2014**	**2015**	**2016**	**2017**	**2018**
Rate basis: 2011 Catamount-MVP	# people	#plans**	Plan costs	*start up*	**7.5%**	**7.5%**	**7.5%**	**7.5%**
Family Plan ($1,444 per mo.)	265,404	82,963	$20,463	$ 1,697,687,884	$ 1,825,014,476	$ 1,961,890,561	$ 2,109,032,353	$ 2,267,209,780
2 Person ($1025 per month)	136,000	68,000	$14,525	987,731,686	1,061,811,563	1,141,447,430	1,227,055,987	1,319,085,186
Single ($513 per month)	22,955	22,955	$7,270	166,875,944	179,391,640	192,846,013	207,309,464	222,857,674
Total GMC premiums/1				*2,852,295,515*	*3,066,217,678*	*3,296,184,004*	*3,543,397,805*	*3,809,152,640*
Subsidies for deductibles/premiums/2				64,813,684	69,674,711	74,900,314	80,517,837	86,556,675
Supplemental coverages/3	98,000	40,164	$2,600	104,426,230	112,258,197	120,677,561	129,728,379	139,458,007
Additional administrative costs/4				5,000,000	5,150,000	5,304,500	5,463,635	5,627,544
Cost increase due to utilization or in-migration/5				105,861,975	37,318,065	40,116,919	43,125,688	46,360,115
Hsaio savings, adjusted for non-single payer application/6				-	(220,257,818)	(324,650,299)	(396,003,081)	(476,232,621)
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Revenues-Assumes Payroll Tax strategy at 14.5%				-	1.00%	1.00%	1.00%	1.00%
Covered employment/7				292,370	295,294	298,247	301,229	304,241
Average annual wage (2009)/7				38,767	39,155	39,546	39,942	40,341
Total Covered payroll, ERISA employers/employees exempt (21%)				8,954,103,154	9,134,080,627	9,317,675,648	9,504,960,929	9,696,010,643
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1. 7.5% annual cost increase is a mid-point of JFO estimates of 6 to 9%. For the decade ending 2006 VT experienced an 8.6% growth, with an average annual change of 8.2% in the years 2005 to 2008.
Coverage is 83% actuarial value based on 2011 Catamount MVP (priced for a broad demographic). Pricing increased by 5.7% for each subsequent year (2012, 2013 & 2014), according to BISHCA projections.

2. Catamount deductibles: $500 per individual, $1,000 per family; co-insurance is 20%; with out of pocket maximums of $1,050 and $2,100: low deductible plan, likely utilization 70% or more.
Assumes that 38% of the population to be covered are currently covered by Medicaid, VHAP, or uninsured and will require an average 50% deductible and/or premium subsidies based on need/income.
(Currently, only 1% of all Medicaid revenues are beneficiary premiums (or 99% subsidized); 25% of Vermonters currently receive some Medicaid benefit or subsidy, from Jan 12, 2011 report to legislature)

3. "Wrap around" coverage for state employee/K-12 education employee/and corresponding state retiree plans is estimated at $2,600 per plan to make up difference of an 83% actuarial and gold/platinum plans

4. Additional administrative costs include operating costs for Green Mountain Care Board and exchange operation, estimated at 2 million and 3 million respectively for salaries, benefits and overhead.

5. Increased utilization for previously uninsured group at 20% of insured, year one; coverages for 5,000 undocumented workers are added at Catamount premium rates, growing at 1% per year. In-migration likely:
Vermont has fewer than 10,000 undocumented workers, NY state has over 650,000. Vermont has 47,000 uninsured individuals, or 7.57%; NY state has 15% uninsured.

6. Hsaio savings for a full single payer are estimated at 11% year one, 15% year two, 16.75% year three, 18.35% year four--all predicated on a full single payer. As a true single payer will not be achievable, then
savings are reduced in key areas--such as medical malpractice and fraud--and administrative savings reduced pro-rata based on actual 68% of VT population served by GMC due to limitations.

7. Total covered (SUI) is 292,370; and average wage is $38,767, Source: 2011 VT Department of Labor E-D Profile; assuming 1% economic growth, reduced by 21% representing employees of ERISA plans.
VT has 60,463 non-employer firms, with an estimated average proprietor income of $15,454 annually, which would be subject to the ER/EE tax, Source: SBA Small Business Profile, growth at 1%.

8. Medicaid Global Commitment, by agreement with federal government, at risk of federal funding cuts and PPACA limits. FY 2011 amount is $1,082,843,794--includes provider taxes, tobacco settlement/taxes,
and ARRA funding. Federal base to grow 8% annually, ARRA funding ends FY 11, VT provider and tobacco taxes remain the same (provider tax down, tobacco tax up), FY 2014 estimated to be $1,218,324,992.

*Medicare population of 95,182, less 17,000 which are dual eligible for Medicaid & Medicare which will fall under GMC as a secondary insurer, but will come with high costs due to long term care expenses.

**VT has 20.3% of the population under 18, or approximately 126,217. Children covered under self-funded and military plans number approx. 28,612, with the remainder of 97,604 in GMC.

Single parent families account for 30% in VT HH, so assume 1/3 of single parent families in family plans, the rest in 2 person plans.

Contact: Wendy Wilton 802-770-0743, or wendywilton@comcast.net, for more information.