

From: Coriell, Scott [Scott.Coriell@state.vt.us]
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December 17, 2014

Gov. Shumlin Details Health Care Financing Report to Business and Consumer Advisory Councils

Says Tax Rates Would be Too Great at this Time to Move Forward

MONTPELIER – Gov. Peter Shumlin, a long-time supporter of moving to a universal, publicly-financed health care system in Vermont, today detailed his Administration’s health care financing report, set to be delivered to the Legislature in January. The financial models unveiled by the Governor today would require both a double digit payroll tax on Vermont businesses and an up to 9.5% public premium assessment on individual Vermonters’ income to pay for Green Mountain Care, the statewide public health care system proposed in Act 48. The Governor acknowledged that given current fiscal realities, such a financing plan would be detrimental to Vermonters, employers and the state’s economy overall. Therefore, he said, despite his steadfast support for a publicly-financed health care system, he reluctantly will not support moving forward with a financing proposal at this time or asking the Legislature to consider or pass it.

“I have always made clear that I would ask the state to move forward with public financing only when we are ready and when we can be sure that it will promote prosperity for hard-working Vermonters and businesses, and create job growth,” the Governor said. “Pushing for single payer health care when the time isn’t right and it might hurt our economy would not be good for Vermont and it would not be good for true health care reform. It could set back for years all of our hard work toward the important goal of universal, publicly-financed health care for all. I am not going to undermine the hope of achieving critically important health care reforms for this state by pushing prematurely for single payer when it is not the right time for Vermont. In my judgment, now is not the right time to ask our legislature to take the step of passing a financing plan for Green Mountain Care.”

The Governor outlined the financing proposal in a meeting with his Business and Consumer Advisory Councils, both of which have provided advice on health care financing to the Governor and his advisors over the past few months. He thanked the councils for their hard work and dedication in working towards a more sensible health care system.

Although the Administration explored several different benefits and financing proposals, the preferred proposal outlined by the Governor’s Deputy Director of Health Care Reform Michael Costa today would cover all Vermonters at a 94 actuarial value (AV), meaning it would cover

94% of total health care costs and leave the individual to pay on average the other 6% out of pocket. Lower AV proposals create significant administrative complexity and reduce disposable income for many Vermonters. Costa explained that paying for that benefit plan would require:

- An 11.5% payroll tax on all Vermont businesses
- A sliding scale income-based public premium on individuals of 0% to 9.5%. The public premium would top out at 9.5% for those making 400% of the federal poverty level (\$102,000 for a family of four in 2017) and would be capped so no Vermonter would pay more than \$27,500 per year.

The Governor stressed that even at these tax figures, the proposal would not include necessary costs for transitioning to Green Mountain Care smaller businesses, many of which do not currently offer insurance. Those transition costs would add at least \$500 million to the system, the equivalent of an additional 4 points on the payroll tax or 50% increase in the income tax.

“These are simply not tax rates that I can responsibly support or urge the Legislature to pass,” the Governor said. “In my judgment, the potential economic disruption and risks would be too great to small businesses, working families and the state’s economy.”

The Governor outlined a number of factors that in recent months have made financing Green Mountain Care more expensive and less practical. These include:

- The amount of federal funds available to Vermont for this transition, which are over \$150 million less than had been previously anticipated.
- The state failure to meet the goals set forth for increases in Medicaid provider payments, which adds more than \$150 million cumulatively to the amount that needs to be raised through public financing.
- Covering cross border commuters who work for Vermont firms, a policy necessary to prevent complexity and costs for businesses, which adds up to \$200 million to the amount that needs to be publicly financed.
- Slower than originally projected economic growth, already resulting in \$75 million less in general fund revenue than anticipated in the next two fiscal years. Because of this, every percent of tax raises fewer dollars than had been anticipated, requiring higher tax rates to fund the system.

Acknowledging the disappointment he and many others will feel about not moving to a publicly-financed system now, the Governor said, “I will not let up on the gas pedal to improve our health care system in Vermont. We can and must make progress in 2015 to put in place a better, fairer, and less-costly health care system, one that in the future supports a transition to Green Mountain Care so that all Vermonters receive affordable, publicly-financed health care. In order for us to get there, we need to accelerate the hard work we’ve begun on cost containment and a more rational payment and delivery system.”

To do that, the Governor outlined a number of proposal he will pursue this legislative session, including:

- Enhancing the Green Mountain Care Board’s role as a central regulator of health care with the goal of lowering health care spending increases to between 3-4% in the long term.
- Continuing to pursue an “all-payer waiver” with the federal government so that Vermont succeeds in being the first state to move from the current quantity based fee-for-service system to one that reimburses providers for quality and outcomes.
- Strengthening Vermont’s commitment to the Blueprint for Health and building on the preliminary results it has shown in bending the cost curve while ensuring quality health care to Vermonters.
- Restructuring of the function and oversight of Vermont Information Technology Leaders (VITL), the state-created nonprofit that oversees the Vermont Health Information Exchange to push the state toward greater levels of technology utilization and integration. This would include shifting VITL to the Green Mountain Care Board and giving the Board the authority to approve and monitor VITL’s budget to ensure VITL’s priorities and investments are consistent with the statewide health information technology plan.

The Governor concluded that succeeding in these areas would set Vermont on a path to a more sensible, affordable health care system and preserve for another day the vision of universal, publicly-financed health care.

“I recognize that it may be hard to put this news in perspective given the scrutiny it has received over the past four years,” the Governor said. “There will be quite a bit of analysis and commentary that comes from my announcement today. In all of that, I urge us to remember what we have been fighting for and how our work fits into the larger picture. This year – 2014 – is the 80th anniversary of the first federal proposal for Medicare, one of our country’s greatest achievements. It was first proposed by FDR’s Committee on Economic Security and it took 31 years to become law. Medicaid took 50 years to pass; Social Security took 25 years. The point is that change is difficult to achieve, and worthy causes take time to take root. A better, fairer, more rational, and more sustainable way to pay for health care is worth fighting for. We must continue our hard work and our successes. Our time will come.”

The Governor’s speech, as prepared for delivery, and the presentation delivered by Michael Costa are attached.

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I've called you together today because yesterday I received the final financial modeling needed for our Green Mountain Care plan. After meeting with my team last Friday to go over the work they had done, they presented the results yesterday, with their recommendation. We will complete the full financing report we've promised and deliver it at the end of the year, but I do not want to delay in sharing the details we now have and my conclusions.

All of my political life, I have been deeply committed to universal, publicly financed, single payer health coverage for all Vermonters. And I am proud of the work we did together to pass Act 48 and create Green Mountain Care. I believe moving to a publicly financed system that replaces the unfair and complicated way we now pay for health care is the right thing to do for Vermonters, for Vermont businesses, and for our Vermont economy.

The current system is broken in three ways:

- First, costs have risen at unsustainable rates, eating into Vermonter's pocketbooks and creating tremendous anxiety about affording health care for ourselves and our families. We spend more than 20% of our dollars on health care, and if costs grow this decade at the same rate they did last decade, that number would double by 2020.
- Second, the system does not guarantee coverage for all Vermonters even though all Vermonters need and deserve health care as a right and not a privilege.
- Third, the way we pay for health care now is arbitrary and unfair, asking many Vermonters to pay what they must, not what they can afford.

That is why we have worked so hard to put Vermont on a better path, focusing on two separate but related goals: one, containing the unsustainable costs of health care; and two, delivering a universal publicly financed system that covers all of us and is not tied to employment. Both are hugely complex tasks that many states, and Governors, have shied away from altogether. The work of our Green Mountain Care Board, our providers and hospitals, and many of us in this room on these efforts has been extraordinary. We've made tremendous progress already in moving Vermont, very soon, to a place where health care will be paid for based upon quality, not quantity. We know we can't afford any health care system without successfully containing costs in the long term, whether we fund it like we do now or in a fairer way through a publicly financed system.

For years I have worked with supporters on this fairer way to pay for health care through Green Mountain Care. But as we've seen in recent weeks, even many of my friends on this issue now agree that this is not a simple flip of the light switch. The way we pay for health care, how we pay, and who pays are all intertwined, and all affect our economy. I have always made clear that I would ask the state to move forward with public financing only when we are ready and when we can be sure that it will promote prosperity for hard-working Vermonters and businesses, and support job growth.

Pushing for single payer health care financing when the time isn't right and it would likely hurt our economy is not good for Vermont and it would not be good for true health care reform. It could set back for years and years all of our hard work toward the important goal of universal, publicly-financed health care for all. I am not going to undermine the hope of achieving critically

important health care reforms for this state by pushing prematurely for single payer when it is not the right time for Vermont.

In my judgment, now is not the right time to ask our legislature to take the step of passing a financing plan for Green Mountain Care. I want you to see the details of the work we have been doing and the conclusions I've come to, based upon that work. Many of you have been deeply involved in working on these issues and thinking through the challenges with us, and I am extremely grateful for your hard and objective work. We are now going to walk you through the financing plan our report will contain in some detail, and then tell you why I have come to this difficult and disappointing conclusion.

First, let me tell you the principles I had in mind when reviewing revenue proposals:

- I had the goal of more equitably paying for health care – all in, all according to ability to pay.
- I wanted to get business out of the health care hassle while maintaining the basic bargain we have all grown to accept that businesses pay a portion of employee's costs.
- On the individual side, I wanted to ensure that everyone pays in a manner fairer than the federal Affordable Care Act and at a level no larger than it would cost them to purchase an actual plan in the market.
- We also built every plan we considered with the assumption that seniors that have Medicare would continue to have Medicare exactly as they do now, and

would not be asked to pay for Green Mountain Care coverage they do not need.

Based upon these principles and the initial data we had available this fall, I asked for a proposal that would include two sources of funding: a payroll tax that would beat the amount paid by businesses that offer health care, and an income-based individual payment on a sliding scale, to ensure that Vermonters paid based on their ability to pay.

The cost of any financing plan is based upon the health care benefits that are provided. We considered a variety of benefits packages. All of them covered the services mandated by the Affordable Care Act. I asked our team to model in detail what is commonly referred to as an 80 AV “gold” plan, which covers 80% of the total cost of health care and leaves the insured individual to pay on average the other 20% out of pocket. I also asked for a higher value plan, equivalent to the plan enjoyed by the state employees, one that covers all but 6% of an individual’s total health care costs.

Through that work, we came to the conclusion that Green Mountain Care should provide the higher benefit level.

- Though the higher AV benefits package does cost more, the cost differential is only about 15% more than the less expensive plan and yet offers far greater affordability in out of pocket costs to all Vermonters.
- We also discovered through data collected from our insurers in the past few months that a relatively high percentage of Vermonters currently enjoy high value plans,

making it less likely that a lower value “gold” Green Mountain Care plan would be acceptable to many.

- A higher benefits package is actually far less complex to administer due to federal rules that would require the state to either offer more generous benefits to lower income Vermonters, or offer subsidies to make up the difference.
- Most importantly, our economic analysis indicated that an 80 AV plan would leave Vermonters on average with less money in their pockets. That was not acceptable to any of us.

So with a preference for the 94-AV benefits: How could Green Mountain Care be paid for? There were a few criteria that I asked the team to follow in doing their work.

- First, for businesses: I asked for a plan that would provide a transition for our small employers, since many of them do not pay for health care now. Such a plan would allow businesses with less than \$1M in total payroll – a substantial number of companies in Vermont – to transition into the plan over 3 years.
- Second, for individuals paying an income-based public premium: I asked for a plan that would be more affordable to the majority of Vermonters than the Affordable Care Act, taking into account both upfront premium costs and out of pocket health care costs. I asked for the income payment to be progressive but capped at the expected average cost of an equivalent family plan purchased on the individual market in 2017.
- Third, I asked for a plan that eliminated the current provider tax, since it would not make sense to add the costs of such taxes to a publicly financed system.

- Finally, I asked for a plan that would allow coverage for out of state workers of Vermont employers so that those employers would not have to both pay for Green Mountain Care and maintain separate health insurance plans for out of state workers, making an already complicated health care system even more complex.

I'm going to ask Michael Costa to run you through the options he created trying to meet these criteria, and the results.

After reviewing the work that you just saw, it was clear to me that the taxes required to replace health care premiums with a publicly financed plan that would best serve Vermont are, in a word, enormous. 11.5% payroll for every company, and an income tax of up to 9.5% for every Vermonter. And small business owners would be obligated to pay both the payroll tax and income tax.

As you can imagine, I asked the team to go back and find any other choices that could work. As Michael just summarized, all of the alternatives the team brought me either failed to meet the key criteria we set out to fulfill or were still unaffordable.

The bottom line is that, as we completed the financing modeling in the last several days, it became clear that the risk of economic shock is too high at this time to offer a plan I can responsibly support for passage in the legislature. The policy choices that are necessary – such as a transition plan for small businesses that I believe is absolutely critical – are just not affordable, and lower-cost alternative plans that strip out these features are not acceptable.

So the obvious question I asked my team when this incredibly disappointing conclusion came to light is: what changed? Why did we not know this 6 months ago or two years ago? As you just saw from Michael, many things have changed:

- Since this time last year, the state projection for General Fund growth for FY16 and 17 has been lowered \$75 million after two successive downgrades and another one may well lie ahead in January. While we are still growing, we are growing more slowly than we had expected. That means every percent of tax raises fewer total dollars than we had hoped, meaning you have to raise the rate higher to pay for the same costs.
- The amount of money that would be legally available for drawdown under the federal Affordable Care Act is less than we had hoped. Over the last several months, we have engaged in discussions with the relevant federal agencies regarding the ACA waiver we need to pursue Green Mountain Care. Those discussions have indicated that, while the Administration is supportive of Vermont's policy and willing to work with us, the amounts that would be available from the feds under the rules is more than \$150 million less than our consultants had predicted back in 2013.
- The slower recovery from the great recession has tightened our state budget and caused us to not meet the goals we had set ourselves for increases in Medicaid provider payments. Raising Medicaid provider payments is critically needed to bring overall taxpayer costs of a publicly financed system down. The net effect of our inability to fully fund the state share of Medicaid is more than \$150M in added costs to the publicly financed system by 2017 than would have existed had we raised payments as originally planned.

Since every point of the payroll tax equals about \$130 million, just these factors alone would result in more than 2 extra points on the tax rate even in the first year of any publicly-financed system.

Even if we had an acceptable financing proposal, there are other things that stand in the way of launching Green Mountain Care as quickly as we had hoped. They include:

- We need a federal Affordable Care Act waiver to opt out of the federal exchange system, and we would be the first state to pursue it. I met with Health and Human Services Secretary Burwell and spoke with her on this subject as recently as Monday. Even though the federal agencies have been receptive and the work has proceeded, the timing for obtaining the waiver is uncertain.
- Even more critically, we need to prove to Vermonters that we can actually responsibly plan for and help operate Green Mountain Care. I know that Vermonters have good reason to question the ability of state government to deliver on this after the painful rollout of the exchange.

I never thought the process of moving to a universal, publicly financed health care system would be easy, and we all knew it wouldn't be simple. Making fundamental changes in our health care system – nearly 20 percent of our economy – is a huge undertaking, and one that must be done with care.

I very much hope our work together lays the foundation for change in Vermont in the future. I will continue to push forward for health care reform in Vermont. We can and must make

progress in 2015 to put in place a better, fairer, and less-costly health care system, one that in the future supports a transition to Green Mountain Care so that all Vermonters receive affordable, publicly-financed health care.

In order for us to get there, we need to accelerate the hard work we've begun on cost containment and a more rational payment and delivery system. Here is what we can and should do, right now:

- First, let's make sure our cost containment is rock solid by strengthening the efforts of the Green Mountain Care Board to change how we pay health care providers, with the goal of lowering health care spending increases to 3 or 4% in the long term. Our Board has been a huge success, already containing costs and moving the state steadily but surely to a new, more rational and fair payment system based on quality not quantity. Getting to that new system is the only way, in my view, to contain costs in the long run. Health care costs are expected to return to over six percent annual growth nationally by 2019, so the Board will have ample opportunity to prove that it is up to the challenge of containing costs. To make sure that happens and that the Board survives as a strong institution for the long haul, I will ask the legislature to enhance the Board's role as a central regulator of health care so it can treat health care like the public utility that it is and ensure that Vermont has an integrated, efficient health care system.
- Second, we must continue to pursue an "all-payer waiver" with the federal government so that so that we succeed being the first to move statewide from the current quantity based, fee for service system to one that reimburses providers for quality and outcomes. As a part of this, we should commit to investing in finally fixing the irrational health care

payment system that allows government to escape the true cost of health care inflation by shifting it to private payers. This will require us to adequately fund Medicaid. Vermont should stop levying a hidden tax on private insurance plans through the cost shift. Increasing Medicaid payments is a step toward a fairer, more rational payment system.

- Third, we need to strengthen our commitment to Vermont's Blueprint for Health, our backbone for primary care in Vermont. We must build on the preliminary results it has shown in bending the cost curve while ensuring quality health care to Vermonters. To do that, I will propose increasing the payments both to the community health teams and to the medical homes that are the backbone of the Blueprint.
- Finally, I will ask the legislature to support a restructuring of the function and oversight of Vermont Information Technology Leaders (VITL), our state-created nonprofit that oversees the Vermont Health Information Exchange to push the state toward greater levels of technology utilization and integration. We should shift oversight of VITL to the Green Mountain Care Board and give the Board the authority to approve and monitor VITL's budget to ensure VITL's priorities and investments are consistent with our statewide health information technology plan.

If we do these things we will achieve a significant and meaningful part of the goal we set out for ourselves in Act 48 – real cost containment, a more rational delivery and payment system, and a high quality, integrated health care system for Vermonters. These are huge accomplishments, critical to our economy, to putting more dollars in Vermonter's pockets, and improving our quality of life.

If we succeed, we will also preserve for another day the vision of universal, publicly financed health care paid for based upon everyone's ability to pay. I recognize that it may be hard to put this news in perspective given the scrutiny it has received over the past four years. One of the great virtues of Vermont is our deep engagement – public servants, press and citizens alike – in really difficult and important policy issues like health care reform. There will be quite a bit of analysis and commentary that comes from my announcement today. In all of that, I urge us to remember what we have been fighting for and how our work fits into the larger picture. This year – 2014 – is the 80th anniversary of the first federal proposal for Medicare, one of our country's greatest achievements. It was first proposed by FDR's Committee on Economic Security and it took 31 years to become law. Medicaid took 50 years to pass; Social Security, 25 years. The point is that change is difficult to achieve, and worthy causes take time to take root. A better, fairer, more rational, and more sustainable way to pay for health care is worth fighting for. We must continue our hard work and our successes. Our time will come.

GREEN MOUNTAIN CARE FINANCING

DECEMBER 17, 2014

Moving from Financing Concept to Finance Plan: Major Headwinds

- Our federal and state funding estimates for Green Mountain Care are less than expected.
- Critical policy choices not included in previous reports cost more money.
- Our economy is growing more slowly than we had expected.
- Easing the transition for thousands of small Vermont businesses into Green Mountain Care is necessary but extremely expensive.

What Changed from Previous Reports?

	<u>Then</u>	<u>Now</u>
<u>Federal Contributions:</u> •ACA waiver estimates	2013 ACA waiver estimate assumed \$267 million in federal funding.	Current estimate is \$106 million, a \$ 161 million reduction.
<u>Administrative Savings:</u> •Hsaio Report •2013 Report	Both reports assumed hundreds of millions of dollars in savings in first year.	Not practical to achieve. State government and providers need to partner to bend cost curve over time.
<u>State Funding:</u> •State Medicaid •State Fiscal Position	2013 Report estimated \$637 million in State Medicaid funding. Both reports included continuing provider taxes. Slow recovery from recession	Current State Medicaid Funding estimate is \$150 million lower. Replacing provider taxes cost \$158 million, but keeping them is bad policy in universal system. Continued slow recovery and pressure on state budget, including \$75 million reduction in General Fund over fiscal years 16-17.

What's in the numbers?

What is assumed?

- 94% of costs are covered by health plan, ACA covered services (no adult dental/vision).
- On average, 6% are paid by Vermonters when services are received.
- Health care costs grow only at 4% after 2017, and the provider tax is ended.

Who is included?

- All Vermonters, except those on Medicare and TRICARE.
- All employees working for Vermont businesses.

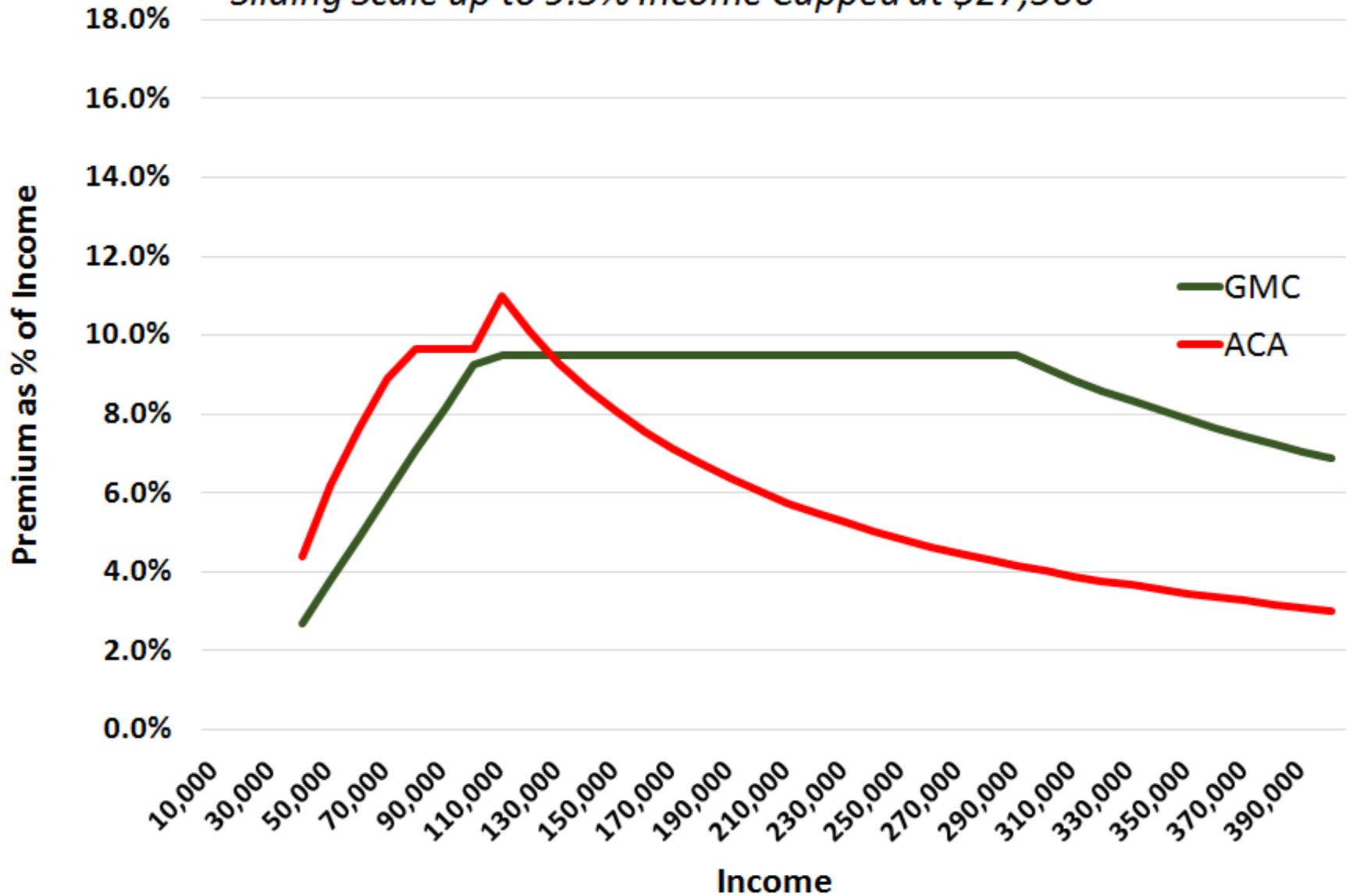
How Much Does It Cost?

Given headwinds, what does it take to pay for Green Mountain Care?

- Uniform payroll tax would have to be:
 - **11.5 % tax** on all Vermont businesses on their qualifying Vermont payroll, no exceptions and no transitions
- Income Based Public Premium would have to be:
 - Sliding scale from **0%-9.5% of income**, depending upon income and family size,
 - Requires all Vermonters over 400% FPL (\$102,220 for family of 4 in 2017) to pay 9.5% of income, capped at \$27,500.

Affordability of ACA and Public Premium

Sliding Scale up to 9.5% Income Capped at \$27,500



94 AV Plan Balance Sheet

Year	2017	2018	2019	2020	2021
Spending (All Values in Millions)					
Cost of GMC Coverage and Operations	-4,340	-4,579	-4,820	-5,001	-5,177
Current Law Revenue Estimates					
Federal Medicaid Match	1,310	1,364	1,413	1,445	1,505
Federal ACA Waiver Funding	106	114	119	123	129
State Medicaid Dollars	335	352	362	369	377
New Revenue Needed	-2,589	-2,749	-2,926	-3,064	-3,166
Payroll Tax of 11.5%	1,510	1,542	1,574	1,606	1,639
Public Premium up to 9.5% or \$27,500	1,247	1,306	1,359	1,372	1,381
GMC Fund Fiscal Position	168	99	7	-86	-146

- Runs deficit by Year 4
- Provides no transition for small firms. Transitioning small businesses would reduce revenue by **\$500+ million**, equivalent to **4% more payroll** or **50% increase in income tax for residents**.

Does not meet Governor's policy priority to transition small businesses into Green Mountain Care over time.

Alternatives we considered:

- Lower Benefit Plan
 - 80AV not acceptable because:
 - It would be a step down in benefits for many Vermonters.
 - Vermonters would see their net family income **decline**.
 - Only 14% less expensive.

- Other policy choices
 - Excluding out of state employees commuting to Vermont businesses saves \$200+ million but adds enormous complexity for businesses.
 - Keeping provider tax funding saves \$160 million but continues a hidden tax that is circular in a universal system.