

## **The American Health Choices Plan: Ensuring Affordable, Quality, Health Care for All Americans**

Today, Hillary Clinton unveiled the third part of her plan to ensure that all Americans have affordable, quality health insurance. Her American Health Choices Plan covers every American – finally addressing the needs of the 47 million uninsured and the tens of millions of workers with coverage who fear they could be one pink slip away from losing their health coverage. For those with health insurance, the plan builds on the current system to give businesses and their employees greater choice of health plans – including keeping the one they have – while lowering cost and improving quality.

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### **Providing a Choice of Insurance Plans**

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The American Health Choices Plan preserves existing health insurance and offers new choices to those with insurance and to the 47 million people in the United States without insurance. It ensures portability so that Americans do not lose coverage when they change or lose their jobs. Americans will have three options:

- 1) **Keep Current Health Care Coverage:** Americans who are satisfied with the coverage they have today can keep it. Nothing would interfere with their insurance or their relationship with their health care provider. The only significant change they will see will be lower costs and higher quality health care as the modernization initiatives to improve value in our health care system take effect and as the achievement of seamless coverage reduces the hidden tax on premiums that comes from current cost-shifting.
- 2) **A Choice of Health Plan Options:** Businesses, employees, and the uninsured will have the option of buying group insurance through a new Health Choices Menu. This Menu will give all Americans the same set of insurance options that their Member of Congress has. Without creating new bureaucracy, the Menu will be part of the Federal Employee Health Benefit Program (FEHBP), which includes numerous, high-quality private health insurance options. The Health Choices Menu will have the purchasing power of millions of Americans in securing high-quality and affordable insurance. States will also have the option of banding together to offer the same type of choices in a region of the country if they wish. The benefits will be as good as those offered to Members of Congress. Such coverage includes mental health parity, and many plans offer dental coverage. In addition, as a condition of doing business with the federal government, insurers must cover high-priority preventive services that experts agree are proven and effective. This focus on prevention will improve health and lower costs in the long run.

- 3) **A Choice of a Public Plan Option:** In addition to the array of private insurance choices offered, the Health Choices Menu will also provide Americans with a choice of a public plan option, which could be modeled on the traditional Medicare program, but would cover the same benefits as guaranteed in private plan options in the Health Choices Menu without creating a new bureaucracy. The alternative will compete on a level playing field with traditional private insurance plans. It will provide a more affordable option, in part through greater administrative savings. It will not be funded through the Medicare trust fund.

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**Eliminate Insurance Discrimination,  
Improve Quality, and Rein-in Costs**

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Equally important as providing choice is ensuring affordability and preventing insurance discrimination. Insurance companies in America spend tens of billions of dollars per year figuring out how to avoid costly beneficiaries. This contributes to our health system costing 50 percent more per person than the next most expensive country. In a reformed system where all Americans are covered and risk is spread extensively, administrative costs could be dramatically reduced. The American Health Choices Plan addresses these barriers to quality, affordable care by:

- 1) **Eliminating Insurance Discrimination:** The plan creates rules that all insurers must follow, ensuring that no American is denied coverage, refused renewal of an insurance policy, unfairly priced out of the market, or charged excessive insurance premiums. Health plans will compete on cost and quality rather than avoiding patients who need insurance the most. The plan will:
  - **Require Guarantee Issue:** Insurers must offer coverage to anyone who applies and pays their premium. This protection, known as guarantee issue, will ensure that no one is ever denied coverage because they are sick or an insurer fears they will be.
  - **Require Automatic Renewal:** Insurers will be required to automatically renew policies if the enrollee wishes to stay in the plan.
  - **Require Strong Rating Protections:** Insurers would be prohibited from charging large premium differences based on age, gender, or occupation (for example, a standard set of modified community-rating protections).
  - **Require Minimum Stop-Loss Ratios:** Premiums collected by insurers must be dedicated to the provision of high-quality care, not excessive profits and marketing.
  
- 2) **Improving Quality for All and Achieving at least \$120 Billion Per Year in Savings Nationwide:** Responsible health reform requires modernizing our nation's health system to eliminate waste, promote prevention and guarantee quality. While the majority of such savings flow to the employers, workers, and local governments, a substantial portion of the savings will accrue to the federal government, and will be reinvested in the necessary up-

front investments to ensure affordable health coverage for all Americans. The plan will:

- **Ensure That All Providers and Plans Use Privacy-Protected Information Technology:** The proposal will give doctors financial incentives to adopt health information technology and facilitate adoption of a system where high quality care and better patient outcomes can be rewarded. The RAND Corporation estimates net savings from the use of information technology to be \$77 billion per year.<sup>i</sup> Recently, the Business Roundtable, SEIU, and AARP estimated that “widespread adoption [of such IT reforms] raises the potential savings to \$165 billion annually.” Hillary Clinton has been a leader on this issue in the Senate and will get it done as President.
- **Prioritize Prevention to Reduce the Incidence of Disease that Impose Huge Human and Financial Burdens:** Only half of recommended clinical preventive services are provided to adults and less than half of adults had their doctors provide them advice on weight, nutrition, or exercise.<sup>ii</sup> Only 38 percent of adults receive recommended colorectal screening. Hypertension contributes to 35 percent of all heart disease and dramatically increases the risk of stroke, yet only one in three people with this condition know it, despite simple, proven screening tests. Along with guaranteeing accessible insurance throughout the system, the American Health Choices Plan requires coverage of preventive services that experts agree are proven and effective.
- **Improve Care of the Chronically Ill:** Americans with multiple chronic diseases – including heart disease and diabetes – account for 75 percent of our total national health expenditures and are the leading causes of death in the U.S.<sup>iii</sup> The American Health Choices Plan will promote chronic care management programs as well as innovative models such as “medical homes.”
- **Fund and Distribute Independent Research to Compare Effectiveness of Treatments:** In the past decade, there has been an 80 percent growth in the number of drugs prescribed, 100 percent growth in new medical device patents, 300 percent growth in teaching hospital procedures, and 1,500 percent growth in diseases with gene tests.<sup>iv</sup> Patients, providers and payers need information on how treatments compare to one another. The American Health Choices Plan funds a Best Practices Institute that would work as a partnership between the existing Agency for Healthcare Research and Quality and the private sector to fund research on what treatments work best and to help disseminate this information to patients and doctors to increase quality and reduce costs.

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### **Promoting Shared Responsibility**

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One cause of the crisis in the health care system is that rather than containing costs, the system shifts them: about half of all hospital losses are passed along to other payers.<sup>v</sup> Rather than reducing prices, the system raises families’ costs. In fact, people in high-deductible plans are

twice as likely to delay or avoid needed care due to costs.<sup>vi</sup> Rather than rewarding health, the system pays more for acute treatment than prevention, and gives individuals no direct incentives to promote their own health. And, rather than covering all Americans, the system charges insured families a “hidden tax”: premiums are roughly \$900 higher to pay for the cost of care for the uninsured.<sup>vii</sup> Hillary Clinton’s American Health Choices Plan is based on the principle of shared responsibility. This plan ensures that all who benefit from the system contribute to its financing and management. Specifically, responsibilities include:

- **Insurance and drug companies:** For insurers, to end discrimination based on pre-existing conditions or expectations of illness and ensure high value for every premium dollar; and for drug companies, to offer fair prices and accurate information;
- **Individuals:** To get and keep insurance in a system where insurance is affordable and accessible;
- **Providers:** To work collaboratively to provide high-quality care;
- **Employers:** To contribute to health coverage, with large firms required to provide health insurance or contribute to the cost of the system, and small businesses offered tax incentives to continue or begin to offer coverage;
- **Government:** To ensure that health insurance is always affordable through investments in tax credits and the safety net so that coverage is never again a crushing financial burden; to improve the quality performance of the system; and to end the upward cost spiral of the system that threatens our health and economy.

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### **Ensuring Affordable Health Coverage for All**

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Americans value health care and coverage, but its cost is often prohibitive. Over half of the uninsured in a recent survey said they couldn’t afford it.<sup>viii</sup> This is not a surprise. The average family premium for employer-based coverage (including employer and employee contributions) is over \$12,000.<sup>ix</sup> For half of Americans, this total premium accounts for at least one-fourth of their annual income.<sup>x</sup> This helps explain why two-thirds of the uninsured have incomes below 200 percent of the poverty limit (roughly \$40,000 per year for a family of four). The cost of insurance is a serious barrier to coverage for people with high health care needs or limited access to job-based insurance. The premium for a person with a health problem can, in some states, be many times higher than that of a young, healthy person. Being young does not necessarily mean easy access to affordable coverage, however. Nearly 30 percent of young adults are uninsured,<sup>xi</sup> and one in three young adults reported some type of medical debt problem, with the percent climbing to 46 percent for uninsured young adults.<sup>xii</sup> Young adults are less likely to get insurance because they are more likely to work part-year or part-time jobs which rarely offer health benefits (23 percent of part-time workers are uninsured).<sup>xiii</sup> Women also have higher health needs but lower incidence of paid work that offers insurance.<sup>xiv</sup> The problem of affordability of insurance also contributes to racial disparities in health outcomes. The uninsured rate for African Americans is one third higher and that of Hispanics is over twice the uninsured rate for white Americans.<sup>xv</sup> Lack of access

to health care due to lack of coverage, even for a short period of time, can lead to worse health outcomes and financial insecurity.

The American Health Choices Plan will make health insurance more affordable for the millions of Americans who want it. It includes a number of straightforward policies to achieve this end:

- 1) **Ensuring Premium Affordability Through Refundable Tax Credits:** Premiums have skyrocketed over the last several years – nearly double since 2000. The American Health Choices Plan helps working families afford coverage through refundable, income-related tax credits to ensure that accessible, high-quality health coverage is affordable to all.
- 2) **Limiting Premium Payments to a Percentage of Income:** This credit will ensure that securing quality health care is never a crushing burden for any working family. This guarantee will be achieved through a premium affordability tax credit that ensures that health premiums never rise above a certain percentage of family income. The tax credit will be indexed over time, and designed to maintain consumer price consciousness in choosing health plans, even for those who reach the percentage of income limit.
- 3) **Promoting Shared Responsibility for Large Employers:** Hillary Clinton’s comprehensive agenda to lower costs and improve quality will substantially lower costs for employers, making it easier for all firms to continue coverage or offer new health benefits to their workers. In return, large employers will be expected to provide health insurance to their employees or make some contribution to the cost of coverage. This responsibility will take into account firms’ size and average wages.
- 4) **Creating Small Business Tax Credit:** Small businesses are engines of job growth in our economy. They account for 80 percent of net new jobs since 1990<sup>xvi</sup> and create jobs that stay here in America. Yet, they also face the most acute challenges to providing health care for their employees. Small businesses face higher premiums due to limited purchasing power and tend to employ lower-income workers.<sup>xvii</sup> As a result, small employers cover far fewer of their employees – and the proportion that offers coverage in the first place is less than half that of large firms that offer health insurance. Coverage among small employers is eroding. Since 2000, the share of these small firms offering coverage has fallen from 57 percent to 45 percent.<sup>xviii</sup> At a time when health care costs are increasingly undermining the economic competitiveness of American business, Hillary Clinton’s plan seeks to make it easier — not harder — for small businesses to create new jobs with health care for workers here in the U.S. Specifically, small businesses that provide quality coverage (e.g., benefits like what Members of Congress receive) and contribute most of the premiums for their workers would qualify for a refundable tax credit. The tax credit could be structured as a traditional policy (e.g., a credit equal to 50 percent of premiums for firms with fewer than 25 employees and less for medium-size employers). As President, Hillary Clinton would work with the small business community and Congress to design the parameters of the credit (e.g., protecting against subsidizing boutique high-income firms) as well as how the credit might dovetail with the tax credit going to individuals and families to make premiums affordable.

- 5) **Strengthening Medicaid and the State Children’s Health Insurance Program to Serve All Low-Income Individuals:** These programs serve over 55 million Americans, and have done so successfully through federal-state and private-public collaborations. The holes in this safety net (e.g., lack of coverage of poor, childless adults) will be fixed to ensure that the most vulnerable populations receive affordable, quality care. Similarly, the other part of the safety net, like public hospitals and community health centers, will continue to receive support to serve vulnerable populations.
  
- 6) **Creating a Retiree Health Legacy Initiative:** For major American employers with workforces that face unusually high health care costs due to a high ratio of retirees, health care costs can be a drag on competitiveness and job creation – particularly for our major manufacturers. The American Health Choices Plan will provide a tax credit for qualifying private and public retiree health plans to offset a significant portion of catastrophic expenditures that exceed a certain threshold. Such reinsurance would be time-limited to reflect the short-term demographic need of the aging baby boomers, and would be devised in a manner that does not add to our long-term fiscal challenges. The policy will be designed to make companies more competitive and assist workers – and not to take pressure off the need for strong managerial leadership at the top. Participating companies would also have to demonstrate that they are employing best health practices, including chronic care management, information technology, and other modernization initiatives that maximize value, quality, and accountability. Finally, employers will also have the option of buying early retirees into the new Health Choices Menu.

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### **Fiscal Responsibility that Honors our Priorities**

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Fixing what is broken in our current health care system will, over time, slow the growth in overall U.S. health spending, reducing pressures on our families, our businesses and the long-term fiscal outlook. Yet, to ensure that health coverage is immediately affordable for all Americans through provisions such as the new health tax credit, an up-front federal investment will be necessary. To ensure that this is done in a fiscally responsible manner, the new investment will be funded in two ways:

- 1) **Savings from Modernization and Reforms that Target Overpayments:** The majority of savings from the American Health Choices Plan comes from excess expenditures already within the health care system that can be reinvested in the necessary up-front investment for a reformed health care system. Such savings — from modernization, better coordination of care and prevention — could be far more significant than what is listed below. Indeed, information technology alone could produce savings as high as \$77 billion annually according to RAND studies.<sup>xix</sup> The Business Roundtable estimated \$2,200 in national health savings for the typical family.<sup>xx</sup> This is why payers like General Motors agree that the use of information technology must be accelerated in health care. Yet to ensure that she is reversing the fiscal irresponsibility of the current administration, Hillary Clinton is taking a conservative approach to counting such federal savings, focusing on the specific initiative mentioned below. They pay for the initial necessary investments for health care infrastructure (such as information technology) and help ensure that health care

is affordable for all Americans. Specific initiatives that produce savings include:

- **Phase-Out Excessive Medicare Overpayments to HMOs and Other Managed Care Plans (\$10 billion in net savings):** Independent study after study has concluded that the current policy is overpaying participating managed care plans. Overpayment reduces Medicare Trust Fund solvency and raises premiums for Medicare beneficiaries. This reform would achieve substantial savings and would include policies to improve access to programs that provide cost-sharing protections to low-income beneficiaries (e.g., revise overly restrictive asset-test rules).
- **Dedicate Portion of Savings Achieved from Reduced Need for Uncompensated Care Payments (\$7 billion in net savings):** In the context of health care reform, there will be a reduced need for so-called “disproportionate share hospital” (DSH) payments now used for uncompensated care burdens imposed on providers. A reduction in DSH payments outside the context of universal coverage initiatives makes no sense and should occur only in a careful transition as coverage expands. However, as all Americans are covered, a percentage of savings from reduced DSH liabilities should be reinvested in public hospitals, community health centers, and surge capacity to ensure health system capacity during natural disasters, epidemics, or when national security is threatened.
- **Apply Purchasing Leverage to Reduce Prescription Drug Costs (At least \$4 billion in savings):** Americans pay the highest prices in the world for drugs, and no other nation spends what we do for health insurance. In the last decade, prescription drugs accounted for 15 percent of the total increase in health spending, despite the fact that they account for only about 10 percent of all health costs.<sup>xxi</sup> This plan will tackle drug costs by allowing Medicare to negotiate lower drug prices; creating a pathway for biogeneric drug competition; removing barriers to generic competition; and providing more oversight over pharmaceutical companies’ financial relationships with providers.
- **Modernize Health Care Delivery System to Promote Value and Quality (At least \$35 billion):** As outlined previously, the plan includes multiple policies designed to apply technology and clinical best practices to improve quality, reduce errors, and eliminate extraordinarily expensive waste. These initiatives include: information technology, prevention, chronic care coordination, and comparative effectiveness research. The plan will improve quality as it improves the value of care. Among other policies, it will align Medicare payments with performance to both promote quality and reduce the geographic variation in care; provide patients with information on provider performance through databases and decision tools; and ensure “truth in advertising” to crack down on misleading and costly prescription drug advertising and direct-to-consumer advertising.

## 2) Redirecting Tax Breaks

- **Redirect Savings from High-Income Tax Cuts for Tax Breaks to Ensure Affordable, Health Care Coverage:** The American Health Choices Plan will redirect

the revenue gained from not continuing President Bush's income tax rate cuts and exemption increases (known as PEP and Pease) for households making over \$250,000 to help finance health reform. While this small percentage of well-off Americans would see their tax rates returned to pre-Bush levels, the plan would offer tens of millions of Americans a new tax credit to make premiums affordable. Those tax breaks more than offset the increase in revenues derived from not renewing these provisions of the Bush tax cuts and capping the tax exclusion for health care for the highest income Americans (explained below), making the plan a net tax cut for American taxpayers.

- **Making the Employer Tax Exclusion Fairer:** The fact that health premiums paid by employers are excluded from workers' taxes (i.e., they are not counted as income) has benefited hundreds of millions of Americans and led to employer pooling of high- and low-risk workers. The American Health Choices Plan rejects calls to limit the tax exclusion for middle-class Americans who have negotiated generous coverage or for those whose premiums are high due to health status, age, or high local health care costs. However, at a time of limited resources, it is neither prudent nor fair to allow the portion of a high-end plan that is in excess of the typical Health Choices Menu plan to be tax subsidized for the highest income Americans. A high-income American would still get a tax break for the employer contribution to the cost of a typical plan, like the Congressional plan, and they could still choose to get additional high-end coverage. But given that the highest income American already receives a tax benefit for purchasing a quality plan that is about twice as large as what a typical American taxpayer receives, the choice by such high-income Americans to obtain additional high-end benefits should be at their own — and not the taxpayers' — expense.

### **Balanced Financing for Health Reform**

**Reinvest Savings from Efficiency Reforms:** The plan makes a series of changes to improve value and performance of America's health care system, as well as to eliminate waste. The federal savings from these policies will be reinvested to strengthen and modernize the system to make health insurance coverage more affordable for all Americans.

**Phase-out Excessive Medicare Overpayments to HMOs and Other Managed Care Plans**

(Based on CBO estimate of HR 3162 Act, 8/1/07): \$10 billion

**Dedicate Savings from Unnecessary Medicare and Medicaid Spending**

(Includes savings from Medicare/Medicaid DSH payments in the context of coverage for all and net of new investments in the safety net) (Based on CBO Budget Options, 2/07; MedPAC): \$7 billion

**Constrain Prescription Drug Costs**

(e.g., competition savings from biogenerics and removal of barriers to market access for generic drugs, empowering Medicare to negotiate, reimportation, higher Medicaid brand rebates, use of e-prescribing technology) (Based on CBO estimate of HR 3162, 8/1/07; Express Scripts, 2/07; CBO Budget Options, 2/07; Gorman Health Group, 7/07): \$4 billion

**Modernize Health System** (e.g., health information technology, comparative effectiveness, chronic disease management) (Conservative estimate based on RAND, 9/05; Business Roundtable, 6/07; other studies; assumes implemented in public programs and Health Choices Menu): \$35 billion

**Total Federal Savings from Reducing Overpayments and New Efficiencies:** **\$56 billion**

**Redirect Tax Breaks:** New tax credits will make health insurance affordable for working families. These tax credits will be financed by redirecting tax breaks and closing loopholes:

**Discontinue Bush Tax Cuts for Top Two Income Tax Brackets and Bush Increases in Tax Exemptions (PEP/Pease) for Households over \$250,000** (Calculations based on Tax Policy Center, 2/19/04, 11/2/04; CBO Budget Options, 2/07): \$52 billion

**Cap Federal Income Tax Exclusion of Employer Contributions for Health Benefits for Households over \$250,000** (Based on Tax Policy Center, 2/6/07): \$2 billion

**Total Tax Savings from Limits on High-Income Tax Breaks:** **\$54 billion**

**Total Savings / Reinvestment:** **\$110 billion**

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- <sup>iv</sup> J.M. McGinnis. (May 5, 2007). "The Evidence Imperative," Presentation on behalf of the Institute of Medicine Roundtable on Evidence-Based Medicine.
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- <sup>ix</sup> Kaiser Family Foundation / Hospital Research and Educational Trust. (2007). *Employer Health Benefit Survey: 2007*. Menlo Park, CA: Kaiser Family Foundation.
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- <sup>xii</sup> S.R. Collins, C. Schoen, J.L. Kriss, M.M. Doty, and B. Mahato. (August 2007). *Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help*. New York: The Commonwealth Fund.
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- <sup>xiv</sup> E. Patchias and J. Waxman. (April 2007). *Women and Health Coverage: The Affordability Gap*. New York: The Commonwealth Fund.
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