



October 5, 2007

Governor Arnold Schwarzenegger
State Capitol
Sacramento, CA 95814

The Honorable Don Perata
President pro Tempore, California State Senate
State Capitol, Room 205
Sacramento, CA 95814

The Honorable Fabian Núñez
Speaker, California State Assembly
State Capitol, Room 219
Sacramento, CA 95814

Re: Draft Language on Health Care Reform

Dear Governor Schwarzenegger, Speaker Núñez, and Senator Perata:

CALPIRG is a statewide membership-based public interest group that stands up to powerful interests, working to win concrete results for Californians' health and well-being. With researchers, advocates, organizers and students, we advocate on behalf of consumers and all California's residents.

The current health care system fails far too many Californians who cannot get access to health insurance at a fair price. That is why the special session on comprehensive health care reform is an important opportunity to fix system-wide problems that hurt all Californians. We appreciate the opportunity to comment on the most recent draft of proposed legislation.

Many aspects of the draft represent solid improvements over the status quo, and because they will help consumers obtain useful coverage at a fair price, we wholeheartedly support them.

First, allowing all California residents to buy into the purchasing pool will expand the group market and therefore shrink the individual market for health insurance. Those not covered by employer-based plans will nonetheless benefit from the negotiating clout and greater risk-spreading that group coverage provides.

We also welcome the requirement that at least 85 percent of the fees consumers pay to their health insurance plans go to benefits, rather than administrative costs. The requirement will help ensure that consumers get what they pay for, by requiring that plans provide a good value for each health care dollar they receive.

The proposal's adoption of guarantee issue and community rating also represent a real benefit for consumers. Guarantee issue will allow everyone to have the opportunity to buy some form of health care, and community rating will better spread the costs of coverage, prohibiting insurers from discriminating in their rates (except on the basis of age, family composition, and location) and offering the same, fair price to consumers regardless of their health history.

Finally, the expansion of public programs will help the working poor obtain health care and bring them into the overall pool of insured. Expanding coverage for the working poor will not only benefit themselves, since the high costs of emergency-room visits by the uninsured are currently borne by all those with coverage.

All of the above reforms will provide significant benefits to health care consumers, but there are key areas where the draft language needs to be improved to protect consumers and to contain the high costs of coverage.

First, the draft sets out a system in which every health care plan will be categorized into one of five coverage tiers. Such a system could simplify decision-making for consumers and ensure that insurers can experiment with providing a diverse array of choices, both of which we support. However, the five coverage categories currently lack benchmark plans clearly laying out what to expect, at a minimum, at each level of coverage. Benchmarks would allow consumers to make apples-to-apples price and benefit comparisons within and between tiers; they would also increase the transparency of the process of assigning plans to different categories. Also, since at first only plans in the bottom two tiers will be offered on a guarantee issue basis, clear benchmarks would help ensure that these will provide useful coverage to those who otherwise would have difficulty finding an insurer who will take them. Because insurers would be free to offer other plans comparable to or better than the benchmark within each tier, consumer choice and insurer innovation would not be stifled – but consumers would know what they were buying.

As noted above, we welcome the expansion of eligibility for unsubsidized coverage in the purchasing pool to all Californians. However, some portion of the money paid to the pool by employers that don't offer coverage should go towards assisting that employer's employees pay their premiums. Such a step would help workers afford coverage by matching their payments with an employer contribution, and create an incentive for employees to enter the group purchasing pool rather than going to the individual market. Participation in the group pool would allow employees to benefit from greater bargaining power and lower premium costs. The direct link would also mean that employers would see direct benefits from the fees they pay in the form of a healthier workforce.

Earlier versions of the Governor's proposal exempted businesses that employed ten employees or less from the requirement either to provide employee coverage or pay into the

statewide purchasing pool. It is not clear whether this exemption is still being considered, but allowing small employers to opt out of the comprehensive system would mean that more employees would be forced to rely on the individual market, and employers would benefit from having healthy employees without paying their fair share.

The draft also includes a broad commitment to better transparency in health care quality and outcomes. By gathering and disseminating information about the performance and results consumers can expect from health care providers, this program could help them make more informed decisions and obtain the best-quality coverage they can afford. Because the details of the program will determine whether it will be a useful resource for consumers, we look forward to seeing more specifics about how this commitment will be realized.

The proposal contemplates a two-phase implementation, in which more comprehensive changes will come into effect once a certain, currently unspecified, percentage of the uninsured obtain coverage. This approach means that the duration of the transition period is inherently uncertain, and could well be significant. Therefore, we urge that the transitional period be subject to a cap, so that Californians must wait at most two years before the full reform package, including guaranteed issue of all health care plans, comes into effect.

Finally, while we note that there is currently no language on enforcement of the individual mandate requiring all Californians to obtain coverage, the purpose of enforcement should be to make sure that everybody has health insurance, not to punish those who have yet to comply with the mandate.

We're pleased that this draft language currently offers real benefits to consumers and represents an important step forward, but it needs to be even better. We look forward to working with you to make comprehensive health care reform an even better deal for consumers, and make sure that we take advantage of this opportunity to ensure that all Californians have access to quality, affordable coverage.

Sincerely,

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