RESOLUTION 4

Health Care Reform Now

Submitted by the Executive Council
Amended by the Legislation and Policy Committee

TODAY, WE HAVE the best chance of winning comprehensive health care reform since Harry Truman proposed national health insurance in the wake of World War II.

Even as unions continue to negotiate benefits for our members, American labor long has advocated for health care for everyone, not just those in unions or with stable jobs. For more than 100 years, America's unions have called for universal coverage built on a social insurance model, an approach that has proven effective and efficient across the globe and one we have employed successfully for decades to provide income and health security for the elderly. Labor led the lobbying effort to enact Social Security in 1935 and Medicare in 1965, and we have backed many legislative efforts since then to expand coverage and control costs.

We continue to believe the social insurance model should be our goal, and we will continue to fight for reforms that take us in that direction. Still, President Obama campaigned on a proposal to fix our broken health care system by building on what presently works. For most Americans, that means employer-sponsored health insurance—the backbone of heath care financing and coverage in America today.

Today our members stand with President Obama and progressive members of Congress in the fight for comprehensive health care reform. It is time—indeed, it is past time—to enact comprehensive reform.

In response to President Obama's proposal, the AFL-CIO has advocated a three-point program to guarantee quality, affordable health care for all—a program that consists of: (1) lowering costs; (2) improving quality; and (3) covering everyone by ensuring full participation of all public- and private-sector employers and making affordable health coverage available to everyone, including retirees who are not yet eligible for Medicare. All three of these objectives must be achieved together; none can be achieved in isolation.

The AFL-CIO's community affiliate Working America will play a key role in making the AFL-CIO's vision for health care reform a reality. For the past six years, Working America has been crucial in bringing the concerns of working people in their communities into the debate, generating more than 25,000 personal handwritten letters and thousands of phone calls to targeted lawmakers and participating in more than 40 town hall meetings. The AFL-CIO and its affiliates should ensure Working America can continue this work through the end of the year.

Our Present Course is Unsustainable

There is broad consensus in the country today that our present course is not sustainable—for workers, for businesses, for the federal budget or for the economy as a whole. If we continue down the current path, health care costs will crush families, business and government at all levels.

Union members are among the most fortunate workers. Thanks to collective bargaining, our

members generally have good benefits provided by their employers. Yet even well-insured workers are struggling with health care cost increases that are outpacing wage increases. Far too many working families find themselves joining the ranks of the uninsured or underinsured as businesses shut down or lay off employees. And the erosion of retiree health care coverage exposes millions of older Americans to financial ruin.

The root of our health care problem is excessively high health costs. Between 1999 and 2008, premiums for family coverage increased 119 percent, three-and-a-half times faster than cumulative wage increases over the same time period.

Workers' out-of-pocket costs are going up as well, leading to more underinsured workers who no longer can count on their health benefits to keep health care affordable or protect them from financial ruin. Between 2003 and 2007, the number of non-elderly adults who were underinsured jumped from 15.6 million to 25.2 million.

Skyrocketing costs are pushing more workers out of insurance altogether. The current number of uninsured exceeds 46 million, according to Census numbers released in early September. The Council of Economic Advisers estimates that number will rise to 72 million by 2040 in the absence of reform.

Health costs are burdening American businesses, in addition to workers. U.S. firms that provide adequate health benefits are put at a significant disadvantage when they compete in the global marketplace with foreign firms that do not carry health care costs on their balance sheets. The same is true for U.S. businesses in domestic competition against employers that provide little or no coverage.

The present course is unsustainable for the federal budget. If we fail to "bend the cost curve," health care spending will balloon our federal budget deficit and squeeze out funding for essential non-health care priorities. Almost half of current health care spending is covered by federal, state and local governments. If health care costs continue to grow at historical rates, the Council of Economic Advisers estimates that Medicare and Medicaid spending will rise to nearly 15 percent of GDP by 2040. As then-Congressional Budget Office (CBO) Director and now Office of Management and Budget (OMB) Director Peter Orszag has noted, health care cost trends are the "single most important factor determining the nation's long-term fiscal condition."

The present course is likewise unsustainable for the economy as a whole. Health care expenditures currently amount to more than 16 percent of our GDP. The Council of Economic Advisers estimates this percentage will rise to 34 percent by 2040 in the absence of reform. The CBO projects that health care expenditures will rise to 49 percent of GDP by 2082.

In short, the health of our family budgets, our federal budget and our economy depends on the success of health care reform this year.

To use employment-based coverage as the basis for comprehensive health care reform, we must stabilize that coverage, which is today at high risk of collapse due to health care cost inflation running three to four times the general inflation rate.

Stabilizing employer-based health care coverage can be accomplished through five specific policy proposals: (1) a requirement that employers assume responsibility for contributing to the cost of health care for their employees through a "pay or play" system; (2) special assistance for firms that maintain coverage for pre-Medicare retirees, which will prevent further deterioration of the employer-based system; (3) a public health insurance option, which will inject competition into the health care insurance market and lower costs throughout the system for employers and workers alike; (4) health care delivery reforms to get better value from our health care system and contain long-term costs; and (5) insurance market

reforms, individual subsidies, Medicaid expansion and improvements to Medicare, which will help make affordable coverage available to everyone.

Shared Responsibility

A key reform needed to stabilize employment-based coverage is the requirement that all employers assume responsibility for contributing toward the cost of health care for their employees, either by offering health benefits to their workers directly or by paying into a public fund to finance coverage for uninsured workers.

The virtues of such a "pay or play" system include bringing in needed revenue from firms that opt to "pay," which would help fund subsidized coverage for low-income workers in those firms; holding down federal costs by keeping employers from dumping their low-wage employees into new subsidized plans; and leveling the playing field so free-rider businesses no longer could shift their costs to businesses offering good benefits. A recent study found more than $1,000 of every family plan premium goes to cover the cost of care for the uninsured, most of whom are employed. "Pay or play" would encourage employers to offer their own coverage and penalize employers that do not. And it would minimize disruption for workers who already have health care coverage and wish to keep it.

Pay or Play and Firm Size

Health care reform must make coverage affordable for small businesses that have difficulty obtaining coverage in the current market. However, this pay or play requirement should apply to firms regardless of their size. We do support the inclusion of a small business tax credit, targeted at the smallest firms with low-wage workers, precisely because we believe an employer requirement should not exempt businesses based solely on size.

If small businesses are exempted from pay or play, the number of employees is a particularly poor measure for the exemption because it is a poor predictor of a firm's ability to pay. A doctor's office or small law firm may have more capacity to pay than a larger restaurant or store. A better approach would be to apply the requirement based on payroll or gross receipts. Special treatment for such businesses should be phased out over time to eliminate disparities based on firm size. Otherwise, many unionized small employers will find their nonunion competitors benefiting from a small business exemption.

Special Assistance for Companies That Maintain Benefits for Pre-Medicare Retirees

Further, we support a federally funded catastrophic reinsurance program for employers that provide health benefits to retirees ages 55 to 64. Such a reinsurance program would help prevent further deterioration of the employer-provided health care system.

A reinsurance program is critically necessary to help offset costs for employers that contribute to health benefits for pre-Medicare retirees. The pre-Medicare population generally has higher health care costs, and employers offering retirees coverage incur enormous expense. We believe such a reinsurance program must have dedicated funding. In addition, in the longer term, we believe firms should be able to purchase coverage for their retirees through the exchange.

Public Health Insurance Plan Option

In the context of health reform built off employment-based coverage, a public health insurance plan is crucial to making health care coverage more affordable for working families, businesses and governments. A public plan would have lower administrative costs than private plans and would not have to earn a profit. These features, combined with its ability to establish payment rates, would result in lower premiums for the public plan.

A public health insurance plan also would promote competition and keep private plans honest. Consolidation in the private insurance industry has narrowed price and quality competition. In fact, in 2005, private insurance markets in 96 percent of metropolitan areas

were considered highly concentrated and anti-competitive, which left consumers with little choice. A public health insurance option, coupled with a more regulated private insurance market, would break the stranglehold that a handful of companies have on the insurance market and would give consumers enough choices to vote with their feet and change plans.

We also believe a public health insurance plan would be critical for driving quality improvements and more rational provider payments throughout the health care system. A public health insurance plan can introduce quality advancements and innovation that private insurance companies or private purchasers have proven themselves unable to implement. For example, until Medicare took the lead in reforms linking payment to performance on standardized quality measures, private insurers and payers were not making appreciable headway toward a value-based health system.

Because increased competition and quality reforms would help contain costs throughout the health care system, employers that continue to provide benefits directly would benefit from these savings, as would employers that purchase coverage for their workers through the exchange. And because premiums would be lower, spending on federal subsidies for individuals who qualify for subsidies also would be lower.

A public health insurance plan also would guarantee that there will be a stable and high-quality source of continuous coverage available to everyone throughout the country. A public health insurance plan available to everyone also would provide rural areas with the security of health benefits that are there when rural residents need them, just as Medicare has been a constant source of coverage as private Medicare Advantage and Part D plans churn in and out of rural areas every year.

Delivery System Reform

Variation in Medicare spending across states suggests that up to 30 percent of health care costs could be saved without compromising health care outcomes. Differences in health care expenditures across countries suggest that health care expenditures could be lowered by 5 percent of GDP without compromising outcomes by reducing inefficiencies in the current system.

We must restructure our health care system to achieve better quality and better value, and we must transform our delivery system into one that rewards better care, not just more care. We can start by measuring and reporting on the quality of care, the comparative effectiveness of drugs and procedures and what medical science shows to be best practices and use that information to create quality improvement tools that allow doctors to individualize high-quality care for each of their patients. Second, we can improve the staffing levels of nurses and other frontline health care workers and put them at the center of quality improvement efforts. This has been shown to improve both the quality and safety of care. Third, we can put technology in place to automate health care data. And fourth, we can reform the way we pay for care so doctors have the financial incentives to continuously improve care for their patients.

Affordable Coverage for Everyone

Today we have a fragmented health care system characterized by cost shifting and price distortions because as many as 50 million people have no coverage.

While our members generally have employer-based health coverage, stabilizing the employer-based health system will require covering the uninsured to make health care more efficient and prevent cost-shifting. We cannot cover everyone without bringing down costs overall, and we cannot control costs without getting everyone in the system.

The most important policy proposal for extending health care coverage to the uninsured is the requirement that all employers provide coverage. But the current legislation includes several other proposals that also would expand health care

coverage, including insurance market reforms, the establishment of an insurance market exchange, individual subsidies, the expansion of Medicaid and improvements to Medicare.

Insurance Market Reforms

Ensuring access to health care coverage will require significant changes to the current private insurance market, in which people now are denied coverage or charged more because of their health status.

The AFL-CIO fully supports the prohibition on rating based on health status, gender and class of business; tight limits on age rating; the prohibition on exclusions for pre-existing conditions; guaranteed issue and renewal; and greater transparency and limits on plans' non-claims costs.

Insurance Market Exchange

The AFL-CIO also strongly supports the proposal to create a national health insurance exchange to provide individuals and businesses with a place to enroll in plans that meet certain criteria on benefits, affordability, quality and transparency. We believe this will be a mechanism for simplifying enrollment and applying uniform standards.

Subsidies will be essential for making coverage affordable for low- and moderate-income individuals and families. We support the proposal to make subsidies relative to income, with more substantial subsidies applied to more comprehensive coverage for the lowest-income enrollees.

We strongly support extension of Medicaid coverage to all under 133 percent of poverty, with sufficient resources to states to offset the new costs.

Medicare Improvements

In addition to eliminating subsidies that give private Medicare Advantage plans a competitive advantage over traditional Medicare and deplete the trust fund, health reform must make needed improvements in benefits for Medicare beneficiaries. These improvements include closing the gap in prescription drug coverage, eliminating cost-sharing for preventive services and improving the low-income subsidy program.

Financing Health Care Reform

There are at least three key elements of health care reform that also will affect savings and revenues available for reform: a public health insurance option, delivery system reform and an employer responsibility requirement. Though these policy proposals are absolutely necessary to improve the value we get for our health care spending, in the short run they will not be sufficient to fund reform.

Some in Congress have said that all savings and revenue for health reform must come from within the health care budget. However, because health care reform is an urgent national priority that will produce benefits across our economy and improve our national budget outlook, we agree with the president that we should look beyond health care spending to obtain additional revenues.

President Obama and the House committees with jurisdiction over health care have proposed progressive financing for health reform—limiting itemized deductions and/or placing a surcharge on the wealthiest taxpayers. Labor strongly supports this approach, since the top 1 percent of tax filers saw their after-tax household income increase 256 percent from 1979–2006, while middle-income families registered a gain of 21 percent over the same period.

One financing option proposed in the recent debate over legislation is a cap on the current tax exclusion for employer-provided health care benefits so some portion of current health care benefits would be subject to taxes. We believe this is an extraordinarily bad idea.

Taxing Benefits Would Disrupt Coverage and Be Unfair to Workers in High-Cost Groups

Capping the tax exclusion would undermine efforts to stabilize the employer-provided health

care system. Employers likely would respond by increasing employee cost-sharing to a level at which benefits would become unaffordable for low-wage workers, or by eliminating benefits altogether. Capping the exclusion also would encourage workers to seek coverage outside their employer-sponsored insurance group when this is economically advantageous, thereby complicating the role of employers enormously and giving them another incentive to discontinue coverage.

Congress and the president have assured Americans that we will be able to keep the health care coverage we have if we like it. This approach makes enormous sense and generates broad public support. A cap on the tax exclusion would violate this basic understanding and threaten to disrupt the primary source of health care coverage and financing for most Americans.

Capping the tax exclusion for relatively high-cost plans amounts to an unfair tax on workers whose benefits cost more for reasons beyond their control. The exact same plan could cost well less than $15,000 in one company and more than $20,000 in another, depending on factors that have nothing to do with the generosity of coverage. According to one study, premiums for the same health benefits can more than double when an individual crosses state lines.

The cost of coverage can be the reflection of many factors: the size of the firm; the demographics of the workforce; the health status of the covered workers and families; whether the industry is considered by insurers to be "high risk"; geographic differences in cost; and whether pre-Medicare retirees are covered through the same plan.

Studies show that placing a cap on tax-free benefits would have the greatest impact on workers in small firms, firms with older workers and retirees and workers with family plans that cover children.

If workers have to pay more taxes because some of their co-workers have costly medical conditions, health coverage would be transformed from a workplace benefit that everyone supports to one that splits workforces between the healthy and the sick.

Some argue that the existing tax exclusion is regressive, because higher-income workers get a bigger tax advantage. But this is only one part of the story.

A recent report points out that while households in higher tax brackets get a greater benefit from the tax exclusion in absolute dollar amounts, low- and moderate-income workers would be impacted more from capping the exclusion because their taxes would increase by a larger share than those of higher-income workers. The report found that workers with employer-provided health benefits who make between $40,000 and $50,000 a year would see their tax liability increase on average 28 percent, while those who make more than $200,000 would see an average increase in their tax liability of only one-tenth of 1 percent.

Taxing health care benefits would not bring down health care costs, either. It would just shift more of those costs onto workers. Economists say the tax exclusion leads workers to get too much coverage, but capping the tax exclusion would not do anything to address a key cost driver: the fact that 20 percent of the population consumes 80 percent of our health care spending. Taxing health benefits would not change that fact.

A Tax on High-Cost Plans Also Would Disrupt Coverage and Be Unfair to Workers in High-Cost Groups

An alternative to the taxation of health benefits that recently has been proposed—a 35 percent excise tax on insurers for high-cost plans—could have the same harmful impact on workers as a direct tax on their benefits.

Originally envisioned as a tax on the excessive health benefits provided to CEOs—whose plans cover the cost of flying anywhere in the country or a full battery of unwarranted and expensive

tests—this tax as it now is being proposed by some in Congress would affect many union-negotiated plans that have higher costs because of factors beyond the control of workers.

In effect, this excise tax would be an indirect tax on workers, since insurance companies almost certainly would pass costs on to workers. And in the case of plans negotiated by unions, such as Taft-Hartley multiemployer plans and self-funded employer plans, as well as the retiree plans recently established in the auto industry and others like them (where no insurance company is involved), the proposed excise tax would be a direct tax on workers and retirees covered by those plans.

Just like taxation of benefits, an excise tax could discriminate against workers who have higher-cost plans for reasons that have nothing to do with unnecessary or wasteful care—workers employed by small firms; employees of firms with a high percentage of older or sicker workers; workers in parts of the country that have higher costs; workers in industries considered by insurers to be "high risk"; and unionized workers.

The AFL-CIO applauds the work of the president and congressional leaders in putting forward legislation with a strong, effective, comprehensive plan for guaranteeing quality, affordable health care for all. We believe the legislation would go a long way toward stabilizing the employer-based health insurance system by simultaneously achieving the goals of lowering costs, covering everyone and improving quality. We stand ready to do everything we can to enact reform that achieves these goals and we will fight to strengthen the legislation as it moves through Congress. America's working families can wait no longer.