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UnitedHealth Group is pleased to bring you this issue of the Health Care Modernization News Flash to update you on health care issues under discussion in Washington, D.C. and in the states, and to share our perspectives on modernization of the health care system.

Our Perspective

UnitedHealth Group Identifies More Than \$500 Billion in Health Care Cost Savings for the Federal Government Over the Next 10 Years

As the U.S. government and health care industry leaders join forces to rein in health care spending, UnitedHealth Group today issued a groundbreaking report outlining achievable goals for making significant reductions in health care costs over the next decade. The federal government could save approximately \$540 billion in health care costs over the next 10 years if existing, proven programs and techniques that have improved health care quality and slowed the growth of medical spending are applied more broadly, according to a new report from the UnitedHealth Center for Health Reform and Modernization.

The issue of cost containment is at center stage in the national discussion on modernizing health care, with a focus on attempting to find the necessary savings to fund coverage expansions. The new research paper provides policymakers and health care leaders with a range of “real world” savings options, based on empirical data and actual results from a selection of UnitedHealth Group programs. The report focuses on possible savings in future federal spending that could help fund health care reform legislation. Most of the savings estimates derive from applying more broadly the approaches UnitedHealth Group has found to work either in its commercially-insured or Medicare programs. The 15 cost-containment options are in four categories: incentivizing beneficiaries to use high-quality care providers, reducing avoidable and inappropriate care, supporting and incentivizing physicians to deliver high-quality appropriate care, and applying evidence-based standards to reimbursement policies. The report projects a number of areas where savings could be significant over the next 10 years including:

- \$166 billion could be saved by reducing the need for people living in nursing homes to be admitted to a hospital.
- \$55 billion could be saved by reducing seniors’ avoidable readmissions to hospitals partly by providing “transitional care” support.
- \$37 billion could be saved through voluntary programs that help seniors choose to receive care from high quality and efficient care providers.

UnitedHealth Center for Health Reform and Modernization Releases First Research Paper

The cost containment working paper is the first publicly-available product of UnitedHealth Group's new Center for Health Reform and Modernization, a long-term commitment by the company to support those actively engaged in the modernization of the U.S. health care system. The Center will study and analyze leading health reform issues and develop innovative new solutions to the health care challenges facing the nation. In addition, it will serve as a vehicle for UnitedHealth Group's collaboration with external organizations, including the funding of relevant research.

The Center's initial work program falls into six priority areas:

- Practical cost containment strategies to slow the growth of U.S. health care costs.
- Payment reform strategies that better support physicians, hospitals and other providers deliver high quality patient-centered care.
- Reducing health disparities, particularly in underserved communities.
- Innovative approaches to universal coverage and health benefits, grounded in evidence-based care and consumer engagement.
- Modernizing the care delivery system, including strengthening primary care.
- Modernizing Medicare, including chronic disease management and end-of-life care.

To learn more about the Center and to view the report on federal health care cost containment visit: www.unitedhealthgroup.com/reform.

National Spotlight

Senate Finance Committee Releases Third and Final Document on Options for Health Reform

The Senate Finance Committee has released its third and final document on policy options under consideration for health reform legislation to be introduced in June. The committee has held three roundtable discussions with stakeholders on health reform and following each discussion, the committee has released a document describing options under consideration by the committee. The committee released documents discussing options for delivery system reform and ways to expand affordable coverage to all Americans in April and May. The third document focuses on mechanisms to finance health care reform. The options being considered by the committee to finance health care reform include:

- **Health System Savings:** The committee is considering various policies to reduce Medicare and Medicaid spending growth. To reduce Medicare spending, the committee is considering changes

to provider payment rates to ensure more appropriate payment, capture productivity gains, and reduce geographic payment variation. The committee is considering establishing an expert panel to assist CMS with payment policy. The committee is also considering changes to Medicare beneficiary cost sharing and premiums. To reduce Medicaid spending and prescription drug spending in particular, the committee is considering changes to existing drug rebate laws to increase drug rebates for states and Medicaid managed care organizations and prevent manufacturers from avoiding rebate obligations by making slight modifications to existing drugs.

- **Options to Modify the Exclusion for Employer-Provided Health Coverage:** To raise revenue to finance health reform the committee is considering different approaches to limit the income tax exclusion for employer-based coverage that totaled roughly \$290 billion in 2008. The options under consideration include limiting the exclusion to a specific actuarial benefit value, limiting the exclusion for people with incomes above a certain level, basing the exclusion on a combination of a person's income and the value of their employer-based coverage, and limiting the exclusion to a percentage of the health insurance premium. Under all of the options, the exclusion could be indexed to inflation and adjusted by geography and the value of employer-based coverage could be determined based on COBRA continuation premiums.
- **Other Health Care Related Revenue Raisers:** The committee is considering numerous changes to federal tax code to fund health care reform. The options under consideration include modifying or eliminating the itemized deduction for medical expenses, modifying or repealing the deduction for 25 percent of claims and expenses and unearned premium for Blue Cross and Blue Shield and other qualifying organizations, limiting the maximum HSA contribution amount and raising the penalty for use of HSA funds for non-qualified expenses, limiting or eliminating the exclusion from income for contributions to a FSA or HRA, limiting the FICA tax exemption for students, extending the Medicare tax and coverage to state and local government employees hired before 1986 and not currently covered by Medicare, and establishing specific guidelines to determine if a hospital is a charitable organization and tax-exempt.
- **Lifestyle Related Revenue Raisers:** To promote wellness and raise revenue to fund health reform, the committee is considering taxes on all alcoholic and sugar-sweetened beverages.
- **Administration's Revenue Raising Proposals:** The committee is considering various revenue raising proposals not related to health care that President Obama proposed to finance his health reform reserve fund. The proposals under consideration by the committee include limiting the tax rate at which itemized deductions reduce tax liability to 28 percent, expanding information reporting for tax purposes, improving tax compliance by businesses, strengthening tax administration, expanding tax penalties, closing tax loopholes, modifying laws for life insurance

products, changing tax accounting methods, and changing estate and gift tax valuation.

Annual Medicare Trustees Report Shows Trust Fund Will Be Exhausted Earlier Than Projected

The Medicare Trustees have released their annual report on the status of Medicare's HI (Hospital Insurance, or Part A) and SMI (Supplementary Medical Insurance, or Parts B and D) trust funds. The Trustees conclude that the HI trust fund is not adequately financed over the next decade and that the outlook has deteriorated as a result of the current economic recession and lower projected payroll tax income. The HI trust fund is projected to be exhausted in 2017, two years earlier than previously projected. The SMI trust fund is adequately financed as premium and general revenue are set to expected costs. However, the Trustees note that Congressional overrides of physician fee reductions and provisions that limit beneficiary premium increases could jeopardize the solvency of the program and require measures to avoid depletion the program's assets. The report expresses concerns with the financial outlook for the Medicare program and asserts that closing future expected deficits will require substantial increases in revenue and/or reductions in expenditures.

State Spotlight

Senate and House Lawmakers in Michigan Unveil Health Reform Legislation

Senator Tom George has recently introduced legislation called "MI Health" that is designed to provide affordable coverage options for the uninsured with incomes below 300 percent of the federal poverty level. The legislation establishes a 13 member "Cover Michigan Board" to establish guarantee issue individual market health insurance products rated for age, tobacco use, body mass index (BMI), and healthy behaviors that would be available to the uninsured with subsidized premiums. Funds for the premium subsidies would come from a surcharge of 1.8 percent on health care claims, an annual fee on Blue Cross and Blue Shield of Michigan, and a possible quality assurance assessment on hospitals. Other components of the legislation would require "MI Health" products to pay providers Medicare rates and would establish an insurer funded reinsurance mechanism to fund claims between \$25,000 and \$250,000.

House Health Policy Committee Chair Marc Corriveau has also recently introduced health reform legislation that makes changes to the individual market and provides premium subsidies for those with incomes below 300 percent of the federal poverty level. Under this legislation all individual market products would be guarantee issue with premium rating allowed for age and healthy behaviors and premiums approved with medical loss ratios of 80 percent for HMOs and 70 percent for health insurers. All insurers would also be required to offer two benefit plans in the individual market deemed "basic" and "enhanced." An annual assessment on nonprofit insurers would fund individual market premium subsidies for those with incomes below 300 percent of the federal poverty level. Another component of the legislation would establish an individual market insurer funded reinsurance mechanism to fund claims over \$25,000.

Questions or Comments? Please contact your account representative.