



America's  
Health  
Insurance  
Plans

**WE BELIEVE EVERY AMERICAN  
SHOULD HAVE ACCESS TO  
AFFORDABLE HEALTH CARE COVERAGE**

*A Vision for Reform*



**We believe all Americans should have access to health care coverage, and we believe this goal is within our nation's reach.**

On behalf of the Board of Directors and members of American's Health Insurance Plans (AHIP), we are pleased to offer "A Vision for Reform."

This new plan would strengthen the health care safety net, enable all consumers to purchase health insurance with pre-tax dollars, provide financial assistance to help working families afford coverage, and encourage states to develop and implement access plans.

This proposal follows seven months of discussion, evaluation, and analysis among members of our community on a daily basis. We started with only a commitment to address the problem head-on and to find solutions that were practical, achievable, and fiscally responsible.

We welcome the opportunity to discuss our proposal and those put forth by others and to work with all stakeholders in pursuit of the shared goal of access to health coverage for all Americans.



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# AN URGENT NATIONAL PRIORITY

A parent hears her child crying in pain in the night. A woman discovers a lump in her breast. A man worries about his recurring headaches. A worker suddenly feels unsteady and doesn't know why.

Countless events like these occur every day across our country. Often they lead to an encounter with the health care system, the conclusion of which may depend on many factors. But for far too many people, each encounter inevitably begins with one urgent question:

*“Am I covered?”*

For the great majority of Americans the answer is “yes.” They know they can count on having access to medical care when they need it—with the added assurance that most of the increasingly high cost of 21st-Century medical care will be met by their coverage.

But more than 46 million Americans—including 8.3 million children—lack such protection at any given time. For them, all too often, even a routine illness is a crisis waiting to happen: a symptom noticed but ignored for fear of the costs likely to be incurred in doing something about it; a chronic condition that for too long goes undiagnosed and untreated; a fearful midnight visit to an overcrowded emergency room instead of a calm, carefully communicated course of care in a doctor's office.

This situation exists largely because millions of Americans fall between the cracks. They may not be living in absolute poverty and they may not qualify for public programs, but they are simply unable to afford health care coverage. Or perhaps they work for employers that are too burdened by global competitive pressures to offer health insurance.

Millions of other Americans worry that they may lose their insurance because they change jobs, or their employer drops coverage, or their income or assets increase just enough to disqualify them from public programs. They, too, may postpone needed care or encounter difficulty managing a chronic illness.

While many uninsured people lay awake at night trying to figure out how to get health insurance for themselves and their loved ones, far too many others miss the opportunity to secure the coverage that is already available to them. In fact, millions of uninsured Americans are eligible for but not enrolled in public programs such as Medicaid. Millions more have the means to obtain private coverage but fail to do so.

Some public policies also have inadvertently contributed to the problem. The tax code effectively promotes many vital social goals, from home ownership to higher education to charitable giving, but offers very little encouragement to those lacking access to employer-based coverage. Eligibility requirements for public programs vary greatly, meaning many who are truly in need are left behind. An inconsistent patchwork of burdensome mandates and regulations puts the cost of coverage out of reach for millions. The unchecked medical liability system sends medical costs soaring further.

Although those without insurance suffer the most, we all pay an increasingly intolerable price for the gaps in coverage that characterize the health care system in the United States today. Needless



costs include the tragedy of inadequate prenatal, infant, and child care; the expense and complications of acute care instead of prevention; widespread failure to proactively treat chronic illnesses; lost productivity from untreated or inadequately treated medical conditions; and, as a result of all of these problems, rampant cost-shifting from the uninsured to all those who must ultimately pay the bills for their unaddressed conditions and substandard care—a huge burden for hospitals, physicians, employers, insurers, governments, charities, and taxpayers.

The access crisis has profound consequences. It inflicts hardship on millions of families, strains the social fabric of our nation, and undermines our economy. We are less productive, less secure financially, and less healthy because of it.

### **What Can We Do About It?**

For starters, we should transcend the rigidly partisan political debates that have led only to stalemate. Another key is to focus on building on the strengths of the system that is already in place and meeting the needs of most Americans. Our nation needs a pragmatic approach driven by a broad understanding of the nature of the challenge and a strong commitment to the goal of covering all Americans.

Ours is an incomparably diverse population working in complex local, regional, and national economies within a hypercompetitive global marketplace. Those lacking coverage reflect that diversity. And no one-size-fits-all solution can meet their needs. The challenge, then, is for the federal and state governments and the private market to work together in a flexible and consumer-oriented, private-public partnership that provides the help needed by the uninsured and their employers within a structure and at a cost that our society as a whole can embrace and afford.

■ *We believe now is the time for this country to meet this challenge head-on.*

■ *We believe that every American should have access to health insurance.*

■ *We believe that every child should be covered as soon as possible. We believe the health care safety net should be significantly strengthened. We believe employers should be incentivized to offer coverage to their employees. We believe those who have the means should be encouraged to obtain coverage. We believe that private coverage options should be exhausted before an individual turns to a public program.*

■ *We believe access to health insurance should be a top priority for policymakers at the federal and state levels and that meaningful and sustained resources should be devoted to this priority in a fiscally responsible fashion.*

■ *We also believe that government alone cannot solve this problem. Health insurance plans, health care providers, employers, and individuals all have essential roles to play.*

■ *We stand ready to do our part. We look forward to working with all stakeholders in a spirit of collaboration and compromise. And we offer the following plan to expand access to coverage in the hopes that it sparks a new national conversation on this critical issue.*

We envision and advocate enactment of federal legislation aimed at achieving  
**HEALTH INSURANCE COVERAGE FOR ALL AMERICANS**  
 by providing financial incentives to states to meet this goal, with an emphasis on  
 providing coverage for all children first and covering adults in stages.

The members of America's Health Insurance Plans (AHIP) seek to advance policies that result in all Americans having access to health care through insurance coverage that is affordable to the nation and to individuals. This goal should be the nation's top domestic policy priority. Achieving this objective will enhance productivity by improving the health of the workforce, increasing opportunities to improve child development by preventing childhood disease, and encouraging early intervention for all Americans when illnesses can be prevented or handled more effectively.

We believe that the nation needs to develop a plan to achieve health insurance coverage for all Americans in stages. We propose a federal framework to reward states that make rapid progress in advancing health insurance coverage for children first and then adults in a fiscally responsible way. Our approach is intended to foster an efficient and effective allocation of public and private resources and encourage individuals to work with their health care professionals to take responsibility for maintaining their health.

We believe that these goals can best be met by drawing upon the innovation of the private health care system partnering with the public sector. Moreover, we believe that federal and state resources can be combined to create incentives to build upon the employer-based insurance system and encourage individuals to purchase coverage. However, to achieve a sustainable system and minimize cost-shifting, federal and state policymakers must ensure that reimbursement mechanisms are adequate and that the nation prioritizes prevention, which will improve health outcomes.

Our proposal to expand access to health insurance coverage is built upon five principles that are designed to clearly delineate the responsibilities of the private and public sectors, avoiding duplication, providing a framework for complementary strategies, and maximizing the effectiveness of a system-wide effort to improve quality and reduce costs.

**Principle 1** • The federal government should provide incentives to states to develop strategies that lead to—and sustain—coverage of children within three years and adults within 10 years.

**Principle 2** • The federal government should establish incentives for states to provide coverage through the Medicaid program for all adults with incomes under 100 percent of the federal poverty level (FPL), including single adults, and through the State Children's Health Insurance Program (SCHIP) for children under 200 percent of the federal poverty level. States should have the option to exceed these levels for SCHIP to the extent necessary to maintain enrollment of existing populations.

**Principle 3** • The federal government should provide subsidies for the purchase of private coverage to individuals and families with incomes under 400 percent of the FPL. Individuals with incomes under 300 percent of the FPL should receive proportionally greater assistance, with assistance levels phasing down for individuals with incomes approaching 400 percent of the FPL. Individuals who are eligible for premium subsidies should be encouraged to purchase coverage through existing market mechanisms. Employed individuals who are eligible for employer-sponsored coverage should be encouraged to use their premium subsidies to enroll in such coverage.

**Principle 4** • The 6 million uninsured Americans with incomes over 400 percent of the FPL should be encouraged to purchase coverage. This proposal sets out a range of options states should consider to achieve this goal. To help create a level playing field for individuals purchasing coverage on their own and for those who have employer coverage, full tax deductibility of premiums purchased in the individual market should be granted.

**Principle 5** • Employers should be encouraged to facilitate, provide, and maintain coverage for their employees. This proposal sets out a range of options states should consider to achieve this goal. In addition, the federal government should not disrupt employer coverage by changing the current tax treatment of employer-provided coverage.

We propose passage of federal legislation that facilitates a multi-faceted, public-private approach to provide access to health insurance coverage for all Americans

## BY REWARDING INNOVATIVE AND EFFECTIVE STRATEGIES.

### Key Elements of the Proposal

- Improving and expanding funding for SCHIP to ensure that all states can, at a minimum, fully cover children in families with incomes up to 200 percent of the FPL.
- Establishing a new Medicaid eligibility category for coverage of all adults under 100 percent of the FPL, including single adults.
- Creating two new federal tax initiatives:
  - > A new “health credit” would be added to the existing children’s tax credit for individuals and families who can demonstrate that their children have health insurance coverage.
  - > A new Universal Health Account (UHA) would be created to allow full tax deductibility for health insurance premiums and provide assistance to moderate and low-income families. Tax preferences for employer-provided coverage would be maintained.
- Establishing a new federal performance grant program for states. A federal performance grant program would be established to assist states that meet specified targets in reducing the number of uninsured.

### Key Elements Explained

#### 1. SCHIP Reauthorization and Improvements

SCHIP has been very effective in expanding coverage for children. Congress will consider SCHIP reauthorization in 2007. Our proposal would build upon this opportunity to expand access to health coverage, while also encouraging state innovations in coordination with private health insurance and encouraging states to achieve specific performance goals.

Our proposal envisions a three-pronged strategy for SCHIP reauthorization:

- Increase SCHIP funding to help states cover projected shortfalls, and at a minimum ensure that coverage levels can be increased for children in families with incomes under 200 percent of the FPL.
- Set aside a portion of this funding to encourage state demonstration projects that improve integration with private coverage (also known as “premium assistance”).

- Link funding to specific performance standards, such as an increase in immunization rates among 24-month-old enrollees, an increase in the percentage of enrollees under 12 months old receiving at least one periodic screening, a demonstration of the state’s ability to maintain “continuous eligibility,” and a requirement to establish goals to reduce childhood diabetes and obesity.

> To achieve these critical children’s health goals, we propose that the federal government designate—from among institutions and agencies actively involved in the field—regional centers of excellence that would be charged with the responsibility of disseminating clinical research and best practices. These centers would take the lead role in working with state and local governments, practitioners, schools, and other stakeholders in developing community-based prevention programs.

#### 2. Establishing Medicaid Eligibility for Adults Under 100 Percent of the Federal Poverty Level

States currently have a wide range of eligibility thresholds for their optional Medicaid populations, ranging from 12 percent

to 275 percent of the FPL. At the same time, single adults—even those with incomes below 100 percent of the FPL—generally are not eligible for Medicaid. We are proposing that a new eligibility threshold be established for all adults, including single adults, with incomes under 100 percent of the FPL. States would have some flexibility regarding the time frame for meeting this requirement. States must take appropriate steps to ensure that this strategy does not lead to “crowd out” of private coverage.

### 3. Creating Two New Federal Tax Initiatives

#### ■ *New Health Tax Credit for Children*

We propose that Congress add a new “health credit” to the existing children’s tax credit. The health credit would amount to \$200 per child/\$500 per family, available to families (those not enrolled in public programs) with incomes up to 300 percent of the FPL.

#### ■ *New Universal Health Account*

We propose the creation of a new UHA as a vehicle for pre-tax payment of qualified medical expenses with a 50 percent federal match for an individual’s contributions to the UHA—up to a maximum of \$1,000 for individuals and \$2,000 for families—for those under 300 percent of the FPL, and a 25 percent match for those between 300 and 400 percent of the FPL. Rules also should be established to allow states to make contributions to UHAs. Additional UHA contributions could be allowed for individuals participating in disease management programs. These accounts would establish tax parity between coverage purchased in the group and non-group markets, immediately benefiting the 17 million people who currently have coverage in the individual market. Employer contributions to an employee’s UHA would be allowed and could be used to purchase coverage offered through the employer or in the individual market. Tax deductibility for employer-provided coverage would be maintained.

### 4. Establishing a Federal Performance Grant Program to Assist States in Meeting the Nation’s Access Goals

We propose the creation of a new federal performance grant program, providing up to \$50 billion over 10 years to assist states in expanding access to coverage.

#### ■ *Elements of Grant Application*

To qualify for federal performance grants, a state would submit a 10-year “state access plan” describing its strategy to achieve coverage of 100 percent of children within three years

and at least 95 percent of adults in 10 years. The proposed plan must undergo rigorous budget review and demonstrate that individuals have exhausted private coverage before they are eligible for public programs. In addition to these general requirements, the proposed plans must meet each of the specific criteria outlined below.

#### ■ *Specific Criteria to be Included in Each Application*

##### > ENSURING AFFORDABLE COVERAGE

A major part of setting and meeting access goals is ensuring affordable coverage. To receive a federal performance grant, a state must demonstrate in its grant application that it permits, at a minimum, the offering in the state of one or more affordable health insurance plans that include one of the following:

*Alternative 1 • Coverage for primary care, preventive care, chronic care, acute episodic care, and emergency room and hospital services.*

Or

*Alternative 2 • Coverage that is at least actuarially equivalent to the minimum federal standards for a high-deductible health plan sold in connection with a health savings account, along with the opportunity to include enhancements such as wellness programs, preventive care, and disease management.*

##### > ENSURING AVAILABILITY OF COVERAGE

To receive a federal performance grant, a state must have in place a mechanism that assures access to coverage for all uninsurable individuals. Current mechanisms such as high-risk pools, guaranteed issue, or other systems that meet these requirements could continue to be used. If a state with a risk pool does not have broad-based funding of pool deficits, the base should be broadened. If a state does not currently have a mechanism, it could establish a broadly funded high-risk pool.

##### > ESTABLISHING MEDICAID ELIGIBILITY FOR ADULTS UNDER 100 PERCENT OF THE FEDERAL POVERTY LEVEL

To receive a federal performance grant, states must establish a new Medicaid eligibility category for all adults, including single adults, with incomes under 100 percent of the FPL. States currently have a wide range of eligibility thresholds under Medicaid for various population categories, ranging from 12 percent to 275 percent of the FPL; single adults with incomes below 100 percent of the FPL are generally not eligible for Medicaid.

#### > IMPROVING QUALITY AND REDUCING COSTS

To receive a federal performance grant, states must submit plans to improve quality and contain costs throughout the health care delivery system. These plans should include objective measures that allow consumers to make informed health care choices and thereby play a direct role in improving quality.

#### > ESTABLISHING HEALTHY LIVING INCENTIVES

To receive a federal performance grant, states must establish evidence-based programs in their “state access plans” to encourage healthy behaviors and promote promising models for private-sector employers.

#### > SAFE HARBORS TO ASSIST STATES IN REACHING ACCESS GOALS

Notwithstanding any other provision of law, a state that receives a federal performance grant should be authorized to pursue any of the following strategies to achieve a reduction in the number of uninsured:

- Encouraging employers to establish §125 plans by providing a state tax credit to an employer that contributes a portion of the premium, or through giving premium subsidies to an employer for employer-sponsored coverage.
- Requiring employers to establish §125 plans.
- Requiring employers to establish §125 plans. Additionally, states may opt to impose a penalty on those employers who fail to meet these requirements.
- Requiring employers to establish §125 plans and contribute to that coverage.
- Requiring parents with incomes over a certain percentage of the FPL either to provide evidence of health insurance coverage or demonstrate the financial ability to pay for health care for their children. Additionally, states may opt to impose a penalty on those parents who fail to meet these requirements.
- Requiring individuals with incomes over a certain percentage of the FPL either to provide evidence of health insurance coverage or demonstrate the financial ability to pay for health care for themselves and their children. Additionally, states may opt to impose a penalty on those individuals who fail to meet these requirements.

#### ■ *Federal Performance Standards*

In a state’s initial application for the federal performance grant, it must lay out a plan for meeting the federal performance standards described below. In order to be eligible to continue receiving federal funding, a state must demonstrate that it has satisfied the federal performance standards for each phase of the 10-year grant. To encourage states to satisfy the performance standards in a shorter time frame, states that satisfy the performance standards outlined for Phases I, II, and III in seven years would receive the full funding provided under the federal performance grant at that time. A portion of state incentive funding should be reserved for state efforts to provide coverage for hard-to-reach populations.

##### PHASE 1 (YEARS 1–3)

- Achieve coverage of substantially all children in the state.
- Achieve a 33 percent reduction in the number of uninsured adults.

##### PHASE 2 (YEARS 4–6)

- Achieve a 66 percent reduction in the number of uninsured adults.
- Begin the process of extending Medicaid eligibility to all adults with incomes  $\leq$  100 percent of the FPL.

##### PHASE 3 (YEARS 7–10)

- Cover all adults with incomes  $\leq$  100 percent of the FPL under the Medicaid program.
- Achieve coverage of at least 95 percent of adults.

This proposal establishes a federal framework through which states are given incentives to expand health insurance coverage. It is built on a partnership among the federal government, states, employers, and individuals with the private and public sectors working together to achieve access to health insurance coverage for all Americans. We stand ready to engage in a dialogue with the federal and state governments and with other stakeholders to advance these policies and to work to provide access to all of the uninsured Americans.



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