To: whom it may concern

From: Gerald Friedman

Date: January 6, 2015

Re.: Governor Shumlin's report on Green Mountain Care[1]

1. ***The report makes the case for universal public coverage in Vermont.*** The ultimate economic bottom line is whether better health care can be provided at a lower cost to the community. By these criteria, the Green Mountain Care (GMC) program would be a success. There would be universal coverage, an end to discrimination against Medicaid recipients, and the Governor projects savings of almost 12% per person compared with the alternative with larger increases in the future; the report projects per capita personal health spending in 2017 for the nonMedicare population of $8200 compared with $9300 under the current regime. Despite expansion in coverage and increased access, personal health care spending in Vermont will be reduced by over $550 million compared with the current system, not even including the $400 million in administrative savings in the financing system.[2] Furthermore, the report projects increasing savings over time because costs will rise by only 4%, as compared with 4.8% rising to 5.2% a year under the current system; after only five years, personal health spending will be over $900 million less, with total savings over those five years over three billion dollars.
2. ***The report reaches conclusions that support implementing Act 48 even under conservative assumptions.*** The report understates revenues, primarily by providing for lower contributions from upper-income households and hospitals. It also has no savings from state-drug purchasing and none are explicitly included from health care administration, even though replacing private insurers with a state entity will certainly reduce health insurance administration and providers' BIR operations. (Instead, the report projects savings through regulating prices to ACOs and other providers; this would reduce monopoly rents for high-price providers with market power as well as incorporating into lower prices some of the administrative savings.)
    a. ***Revenues are lower because of provisions favoring providers and the rich.*** Income and payroll premiums are capped at $27,000 and $23,000 respectively, or at about $290,000 dollars of income and $200,000 of wage and salary income. This caps payments from fewer than 10,000 Vermont households, the richest in the state, and lowers revenue in 2017 by about $30 million.[3] It also assumes that the shift to a state-funded universal system eliminates about $170 million in state revenue currently dedicated to the Medicaid program. While some of these lost revenues come from a claims tax on health insurers who will no longer be operating in Vermont, most are from assessments on hospitals

[1] Peter Shumlin, *Green Mountain Care: A Comprehensive Model for Building Vermont's Universal Health Care System* (Montpelier, Vermont: Governor of Vermont, December 30, 2014), http://hcr.vermont.gov/sites/hcr/files/2014/GMCReport2014/GMC%20FINAL%20REPORT%20123014.pdf.
[2] This is the extra overhead in private health insurance companies compared with a single payment pipeline under the GMC. By addressing only what Centers for Medicare and Medicaid Statistics (CMS) calls "personal health expenditures," which does not include administrative expenses among sponsors, the report neglects these savings.
[3] This is based on my calculations of state revenue using Census data on income distribution and CBO data on sources of income. My estimates give revenues from both taxes about 9% higher than the GMC report; I have adjusted estimated revenue loss downwards by this amount.

($131 million) and other providers ($20 million).[4] It is not clear why the state would want to give a tax cut to these institutions; eliminating the benefit and restoring their current liabilities will add $150 million to available state funds.

b. ***The report leaves out significant savings***. A state drug purchasing plan that lowered drug prices to world levels, as is done in Canada, would save Vermonters over $310 million in 2017. In addition, administrative savings achieved by doing away with private insurance would save almost $400 million.[5] In addition, the report includes a $44 million annual charge to fund a program reserve. This reserve could be funded through the assumption by the state of existing insurance reserve funds, funds accumulated from Vermonters' premiums.[6]

c. ***The report is missing money***. Vermont is committed to spend $755 million on Medicaid in 2017 (along with $1310 million by the Federal Government). The report accounts for only $516 million. This leaves $239 million that the report assumes the GMC must fund but, without the GMC, the state would be funding out of general revenues.

3. ***Even leaving out savings and undercounting revenues, the report shows that universal public coverage can be financed.*** Given the conservative assumptions, the report supports the conclusion of the Hsiao-Gruber study that a universal public plan can be financed.[7] Eliminating the tax caps, the tax cuts for providers, and the unnecessary bonding of state reserve funds will add $220 million, enough to lower the proposed payroll tax to under 10%. If the missing money were found, the proposed payroll tax could be under 8%.
4. ***The report shows the program would be equitable.*** Even with the cap put on income tax payments[8], the proposed funding program would produce savings for Vermonters earning up to $150,000; eliminating the cap would allow lower rates and larger savings. [9] Businesses with fewer than 1,000 workers that are currently providing health insurance to their workers would save money with the greatest relative savings going to small businesses.[10] To be sure, businesses currently not offering health insurance will pay more; but this means that they would be required to assume a responsibility that they have avoided by riding free on public programs providing health care to their workers or on family plans provided by other employers.

    a. ***The report also shows the plan would resolve the problem of legacy costs.*** Few of the businesses and governments that have committed to provide retiree health insurance

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[4] See Appendix F of the report at https://outside.vermont.gov/sov/webservices/Shared%20Documents/GMC_Final_Appendices.pdf

[5] These savings are explicitly ignored in the report which focuses on *personal health care expenditures* which do not include administrative costs rather than *health consumption expenditures* including these costs. Regardless of what is included in the analysis, however, Vermonters pay the cost of administering the private health insurance system.

[6] Assuming private insurers maintain reserves of 6 months expenditure, they hold over $700 million in reserve funds.

[7] William Hsiao, Steven Kappel, and Jonathan Gruber, "Act 128: Health System Reform Design. Achieving Affordable Universal Health Care in Vermont," January 21, 2011, http://www.leg.state.vt.us/jfo/healthcare/FINAL%20VT%20Draft%20Hsiao%20Report.pdf.

[8] There is also a cap on payroll taxes at $23,000. This applies to wage and salary income above $200,000 per person and effects

[9] Shumlin, *Green Mountain Care: A Comprehensive Model for Building Vermont's Universal Health Care System*, 53.

[10] Ibid., 50.

have put aside adequate funds to meet this responsibility. The program would end this obligation and do away with billions in unfunded liabilities.

b. ***Sick Vermonters will pay less in out-of-pocket costs***. The plan would reduce out-of-pocket costs by $260 million in 2017. Not only is this a large number, about 10% of the revenues needed to fund the program, but it is a savings targeted at the sick. The front-end savings in out-of-pocket costs for sick Vermonters creates three additional benefits: one, increased access to primary care; two, improved health outcomes before conditions worsen; and three, new financial savings by treating illnesses mostly through primary health care, as opposed to far more costly emergency care.

5. ***Points the way to interim measures.*** While the report provides strong arguments for a universal single payer plan as envisioned by Act 48, it does point the way to various interim steps. The governor seeks to "increase access to primary care and other vital health care services for all Vermonters, and better integrate information technology utilization and oversight statewide."[11] The report makes reasonable suggestions for giving the GMC more responsibilities in areas that would reduce the administrative waste from the current insurance system, including enrollment, claims adjudication, and reimbursement. Establishing the GMC as a single reimbursement pipeline would also give it the information base needed for effective epidemiological studies to create a streamlined single payment system. These are all good ideas and steps that will produce greater efficiencies, savings, and enhanced healthcare outcomes.[12]

[11] Ibid., 6.
[12] Ibid., 21.