Quotes

AS THE LITTLE GIRL SAID TO HER SUNDAY SCHOOL TEACHER, "IF WE DON'T STOP ALL OF THIS SINGING AND PRAYING, WE'RE NOT GOING TO GET OUR BASKETS DONE."

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE AT 1:00 P.M. October 15, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE ASSOCIATED PRESS MANAGING EDITORS ASSOCIATION
WILLIAMSBURG, VIRGINIA, OCTOBER 15, 1975

As a public figure who spends a good deal of time talking with reporters, I very much appreciate the opportunity to address such a distinguished gathering of journalists.

Six months ago, I had the pleasure of speaking to the American Newspaper Publishers Association in New Orleans where we talked extensively about the state of economic reporting today. I told them that in my view the state of the art was much higher now than in the old days. You may recall that only a few years ago, the Chairman of the Council of Economic Advisers under President Johnson, Gardner Ackley, was so vexed with reporting that he urged that every economics reporter be required to meet two standards:

-- First, that he had taken an introductory college course in economics; and,

- Second, that he had passed it.

Fortunately, times have changed and reporters have changed for the better. There is far more economic sophistication among the writers in Washington today, and I think a large portion of the credit belongs to the Associated Press and the other wire services. By emphasizing the need for accuracy and straight, factual reporting, the Associated Press is not only enhancing its own reputation but is performing a valuable service for the American people. I congratulate you for your performance.

Let me turn now to my theme for this address: Government spending and inflation.

WS-413

Pat - two quotes on fiscal policy
Pls keep -
Jim

"The credit of the family depends chiefly on whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.

"If, in some crises, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates.

"But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy."

That's strong language--the fire and brimstone you might expect-from a Bill Simon, or as the New York Times called me this weekend, the Cotton Mather of fiscal orthodoxy.

But that statement was actually issued more than 40 years ago and it came from the Democratic candidate for President in 1932, one Franklin Delano Roosevelt. To Mr. Roosevelt it was unconscionable that the Hoover administration has permitted the National debt to increase by more than $3 billion.

One can only wonder what the FDR of those early days before the New Deal would think of all that has come to pass in the Nation's fiscal affairs since then. Consider just a few of the most salient points about the growth of government spending:

* Under FDR's predecessor, government spending at all levels amounted to 10% of our Gross National Product. Today it accounts for fully one third of the GNP and by the year 2,000, if recent trends in transfer programs were to prevail, it could be nearing 60% of the Nation's economic activity.

* It took 195 years of our history for the Federal budget to reach $200 billion. Now we are threatening to double that amount in only 6 years.

* To those who say that the economy is growing rapidly so that higher spending can be accommodated, it should be pointed out that over tha past decade, Federal spending has increased by 175% while the economy has grown by only 120%.

* Prior to the New Deal, this Nation during its peacetime years kept its Federal budget in surplus for four years out of almost every five. Since the beginning of New Deal, the Federal budget has been in the red in nearly 4 years out of every five, and over the last 15 years we have had only one budget surplus.

THE WHITE HOUSE

WASHINGTON

January 15, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN

FROM: JAMES E. CONNOR

SUBJECT: Catastrophic Health Expenses Protection

The President reviewed your memorandum of January 12 on the above subject and approved the following:

> "Make no formal announcement, but have HEW, the Domestic Council, and OMB contact major carriers to develop further information and options by March 15, 1976."

Please follow-up with appropriate action.

cc: Dick Cheney
Jim Cannon

Copy sent Quern

THE PRESIDENT HAS SEEN....

cc- Quern ✓

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 12 1976

DECISION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Catastrophic Health Expenses Protection

This memorandum summarizes the results of our efforts to develop for your consideration a catastrophic health expenses protection proposal and seeks your guidance on next steps.

Options Considered. Working with HEW, we have encountered several significant problems in connection with the two options we explored:

-- requiring all employers who offer health insurance to their employees to offer, in addition, catastrophic health insurance; and

-- requiring all health insurance carriers to offer catastrophic health insurance.

Problem Areas. Some of the significant problems that we encountered with either of these options are:

-- it is not clear that a market inperfection currently exists that prohibits employers from voluntarily obtaining catastrophic insurance at reasonable rates. The major problem may be a lack of aggressive marketing by the insurance carriers. We also do not know at this point the extent to which such insurance is becoming readily available and whether it tends to be purchased or rejected when offered;

-- even though lack of catastrophic health insurance is viewed as a national problem, insurance industry spokesman point out that catastrophic health insurance is the fastest growing part of the health insurance industry;

-- a number of the larger insurance carriers have apparently resigned themselves to the idea of national health insurance that is fully federally financed under which the carriers serve as Federal fiscal intermediaries. Thus, they are apparently not aggressively pursuing their health insurance lines of business;

-- if <u>employers</u> were to be required by Federal law to offer catastrophic health insurance, the Federal Government could probably not avoid an enforcement responsibility; failure to do more than require employers to offer such insurance could open the Administration to the criticism that its proposal was an empty gesture. It may also be difficult to avoid substantial pressure for Federal subsidies to make such insurance available at affordable rates;

-- if <u>insurance carriers</u> were to be required by Federal law to offer catastrophic health insurance, the Federal law would have to define the benefits and also mandate that States--as the current insurance regulatory authority--enforce the Federal requirement. Alternatively, Federal regulation would be necessary--which is generally inconsistent with regulatory reform proposals; and

-- a Federal mandate that States assure the availability of specific insurance benefits to the general population will probably be claimed to be inconsistent with the broad discretion to be provided to the States under the proposed "Financial Assistance for Health Care Act."

Alternatives. In short, we do not yet have enough information or communication with the various groups whose views should be sought on this matter, to make a recommendation to you for or against a federal catastrophic health insurance initiative (beyond the Medicare piece you have already approved). This leaves two options:

Decision:

/___/ Announce in the State of the Union Message that you will have a study undertaken how best to assure the availability of catastrophic health insurance.

/ ✓ / Make no formal announcement, but have HEW, the Domestic Council, and OMB contact major carriers to develop further information and options by March 15, 1976. (favored by Jim Cannon, OMB and HEW)

Health

REQUEST

THE WHITE HOUSE

WASHINGTON

File

February 25, 1976

MEMORANDUM FOR: JIM CANNON

FROM: SPENCE JOHNSON SJ

SUBJECT: Catastrophic Health Insurance

This is in response to your memo to Art Quern concerning questions raised by Bill Kovach regarding the Medicare catastrophic proposal.

About 98% of aged persons have Medicare coverage, and there is absolutely no reason for that percent to change as a result of the President's proposal.

Medicare does not have the concept of a participating physician. An enrollee can essentially go to any licensed physician and be reimbursed for necessary medical services.

Physicians may, however, elect whether or not to accept assignment. Accepting assignment means that the physician bills the Medicare program, which in turn pays the physician for any benefits due the patient. The physician in turn bills the beneficiary for any applicable coinsurance or deductible. This election is on a claim-by-claim basis, and most physicians accept assignment on some claims but not others.

A physician who accepts assignment agrees to the reasonable charge determination of Medicare and may not bill the patient for amounts above that level. When a physician does not accept assignments, he bills the full amount directly to the patient, who in turn collects from Medicare. Physicians do not face any charge limitation when they bill the patient directly.

As a result, as Medicare reduces the level that it will recognize relative to the amounts that physicians customarily charge, the assignment rate will drop and the patient will have to pick up a higher proportion of the bill. Currently, roughly 50% of claims are assigned. The fee increase limitation of 4% proposed by the President is expected to cause the assignment rate to drop significantly. In addition, the $250 cap would apply only to <u>covered</u> charges. Physician billings over the Medicare-recognized level are not considered covered and thus would not be credited towards the $250 limit.

THE WHITE HOUSE

WASHINGTON

January 26, 1976

MEMORANDUM FOR: ART QUERN

FROM: JIM CANNON Jim

SUBJECT: Catastrophic Health Insurance

Bill Kovach, No. 2 man in the Washington Bureau of the New York Times, told me Saturday that a part of the attached paragraph does, in effect, have the President promising something he cannot deliver.

Specifically, he says the section that states, "Nobody, after reaching age 65, will have to pay more . . . . than $250 for one year's doctor bills," is not true, for this reason:

Only 40% of doctors now participate in the Medicare programs, and with the fee limitations we are proposing, that percentage will become lower.

Is this correct?

What percentage of people over 65 now take part in these programs? Under the President's program, is this percentage likely to become lower?

THE WHITE HOUSE

WASHINGTON

REQUEST

March 10, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Expanding Catastrophic Health Insurance Coverage

As you may recall, we were asked to look into the extent of catastrophic health insurance coverage available through the private sector. In addition, we were to work with HEW to determine if there was any appropriate need for and means of increasing the availability of such coverage.

The attached memo done by Spencer Johnson sums up the results of the joint effort to answer those questions. The results:

1. Catastrophic health insurance is widely available at reasonable prices through the private sector

   -- both coverage and participation are on the increase.

2. There appears to be no necessity of Federal action at this time.

Secretary Mathews will be submitting a report to the President which confirms and details these findings.

Attachment

Art Q

THE WHITE HOUSE

WASHINGTON

March 9, 1976

MEMORANDUM FOR: PAUL O'NEILL
ART QUERN

FROM: SPENCE JOHNSON SJ

SUBJECT: Major risk health insurance discussion points

This memorandum outlines some of the preliminary key findings and assumptions gained from a review of the feasibility of providing major risk (catastrophic) health insurance to the general population by a mandate to employers or health insurance companies. Much of this information was gained from two meetings: insurors (both the Blues and commercials) on February 23rd, and business and industry (both national associations and specific corporations) on March 4th.

The main purpose of these meetings was to attempt to establish the availability of major risk health insurance and the marketing trends. It is immediately evident that major risk insurance is readily available to all covered groups and that the insurors are actively expanding their marketing efforts. For the purposes of our discussion catastrophic coverage includes any health insurance structure that provides a limit on insured out-of-pocket liability with outer limits of $100,000 to $250,000 and usually based on a high basic or major medical program.

The marketing trends for major risk health insurance are very positive. A recent survey by HIAA shows that 76% of all employees covered under new major medical benefit policies by their member companies have maximum limits of $100,000 or more. This compares with 29% in 1973 and 1% in 1970. About 85 million persons are covered under group major medical policies and 50% have maximum benefits of $100,000 or more as compared with 27% in 1973.

Also, Blue Cross and Blue Shield plan to offer catastrophic to the entire working population of the nation and have enrolled six million people during the last year. In addition, Prudential has undertaken the marketing of a new major risk insurance program. At the same time business is very receptive to these programs and their interest is limited only by labor's continued negotiation for first dollar coverage.

It is clear that the availability of reasonably priced catastrophic insurance for groups is not a problem and that there is no market imperfection.

Other findings include:

1) The problem in availability occurs in employer groups under 25, individuals, and the working uninsured. Free standing catastrophic is opposed here because of the actuarial concept that it must be based on high basic and major medical coverage. Also, the major problem for these catagories is the availability of reasonably priced basic coverage. An option here may be the establishment of state-wide pools for high basic and major medical coverage and then the insurors will be willing to write the catastrophic coverage.

2) There is a belief that free standing major risk insurance will promote higher cost. Although this concept has validity, it undoubtedly will occur anyway. Under current conditions insurance companies are basing their catastrophic programs on a solid foundation of first dollar coverage with minimal deductibles. Therefore, the consumer will have unlimited coverage and there will be no disincentives in this system to reduce utilization.

3) A Presidential initiative through employers or insurors will only help those with basic coverage, and would be viewed as only cosmetic tinkering with the system. In essence he would be solving a non-problem.

4) The President now faces a real danger that the Congress will pass his Medicare catastrophic proposal without cost sharing, in the fall. Also, it is not unlikely that the Senate would tack on the Long-Ribicoff Health Insurance proposal for catastrophic coverage. The danger here is the problem of the dropping deductible.

5) A preferred method of implementing a major risk insurance problem would be with income related deductibles. Relatively high deductibles ($1,500 to $2,000) in lieu of first dollar coverage are desirable but nearly impossible to trade off under the current health insurance structure. Also, this exceeds the regulatory involvement the President has in mind.

In summary, a mandated major risk insurance program through employers and insurors is unnecessary given the increased availability, acceptability and marketing trends of catastrophic coverage. Such a program would benefit those who least need it, the majority of the working population covered by high basic and major medical programs. A more serious problem exists with groups under 25, individuals, and the working uninsured. A serious danger exists that the Congress will pass the President's Medicare catastrophic proposal without cost sharing, as well as adding on a Long-Ribicoff type proposal. Finally, cost and utilization will continue to become even more serious factors under the current health insurance structure which will offer coverage ranging from first dollar to a $100,000 to $250,000 limit with no utilization disincentives.

Attachments:

A - Number and Trend of Persons having Catastrophic Coverage (HIAA)

B - Attendees, Insuror Meeting, February 23, 1976

C - Attendees, Business and Industry Meeting, March 4, 1976

Attachment A

Number and Trend of Persons Having Catastrophe Coverage

Number of persons (by thousands) of all ages estimated to be insured for catastrophic coverage (defined as Major Medical and very high limit basic coverage, by insurance companies, by Blue Cross/Blue Shield and by independent plans, plus persons enrolled by health maintenance organizations) after removing estimated duplication of persons insured by more than one organization or under more than one insurance policy.

Year	Other*	B/C-B/S*	Ins. Co.*	Total**	%***
1960	N/A	3,527	25,371	27,093	23.1
1965	N/A	13,870	53,020	62,782	47.6
1970	N/A	23,660	77,061	94,999	62.8
1971	N/A	25,441	80,252	99,771	64.7
1972	19,800	28,500	83,668	125,588	76.5
1973	21,780	35,435	87,809	138,265	82.7
1974	21,780	42,750	91,321	148,888	86.7

Number and Trend of Persons Under Age 65 Having Catastrophe Coverage

1972	19,305	27,550	82,077	122,684	~~67.2~~ 66.7
1973	21,285	34,485	86,223	135,350	~~73.8~~ 70.4
1974	21,285	41,800	89,555	145,832	78.1

* Excludes duplication of persons protected by more than one company within the kind of insuring organization shown.

** Duplication among persons protected by more than one kind of insuring organization has been eliminated.

*** Percent ratio of such catastrophic coverage to hospital expense coverage by all insuring organizations.

Attachment B

INVITED PARTICIPANTS

INSURORS

Blue Cross Association

Gerald Green
Jim Hutchinson
Alan Richards

Equitable

Morton Miller

Health Insurance Association of America

Les Hemry
Paul Hawkins
Dave Robbins

National Association of Blue Shield Plans

Bill Ryan
Mike McDonald
Charles Sonneborn

Prudential

Jack Kittredge

GOVERNMENT

White House

Grady Means

Domestic Council

Spencer Johnson
Sarah Massengale

Office of Management and Budget

Vic Zafra
Lynn Ethridge

Council of Economic Advisors

June O'Neill

Federal Insurance Administration

Robert Hunter

Department of Health, Education and Welfare

Stuart Altman
Peter Fox
Don Nicholson
Ron Klar
Gene Moyer
Mel Blumenthal

Attachment C

MEETING ON CATASTROPHIC HEALTH INSURANCE
Thursday, March 4, 1976
Chart Room

INVITED PARTICIPANTS

<u>National Associations</u>

Chamber of Commerce - <u>Rose Wooden</u>

National Federation of Independent Business - <u>James Sheahan</u>

National Manufacturers' Association - <u>Brenda Ballard</u>

Washington Business Group on Health - <u>Willis Goldbeck</u>

<u>Corporations</u>

American Can - <u>John Prescott</u>

Comsonic - <u>Warren Braun</u>

Coopers and Lybrand - <u>Bill McHenry</u>

Exxon - <u>Henry Chase</u>

Ford - <u>Jack Shelton</u>

General Motors - <u>Tony deShaw</u>

Goodyear - <u>Dick Martin</u>

Honeywell - <u>Glen Skovholt</u>

Sherwin-Williams - <u>Robert Carpenter</u>

U.S. Steel - <u>Frank Beebe</u>

<u>Government</u>

White House - <u>Grady Means</u>

Domestic Council - <u>Spencer Johnson and Sarah Massengale</u>

Office of Management and Budget - <u>Vic Zafra</u> and <u>LynnEthridge</u>

Council of Economic Advisors - <u>June O'Neill</u>

Department of Commerce - Patricia Gwaltney

Department of Labor - Martin Nemerow

Small Business Administration - Anthony Stasio and Joe Gwover

Federal Insurance Administration - Robert Hunter

Department of Health, Education and Welfare - Stuart Altman
Peter Fox
Don Nicholson
Stu Schmid
Ron Klar
Gene Moyer
Mel Blumenthal

Spencer & Sarah
We need to talk about this.

Art —
OK.
I agree
Thanks —
Jim

THE WHITE HOUSE

WASHINGTON

January 6, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Catastrophic Insurance Proposal

Attached is a draft of a memorandum from Jim Lynn to the President summarizing the work we have done in the last few days on the possibility of including a catastrophic health insurance mandate in the State of the Union message.

The memorandum recommends not including this item in the message because it is clear that serious questions remain unresolved.

I have indicated to Lynn, and the final memo going to the President will so record, that the Domestic Council supports the recommendation of not including this proposal in the message.

If you have any questions, I will be glad to review this with you.

Attachment

DRAFT - 1/6/76

DECISION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Catastrophic Health Expenses Protection

This memorandum summarizes the results of our efforts to develop for your consideration a catastrophic health expenses protection proposal and seeks your guidance on next steps.

Options Considered. Working with HEW, we have encountered several significant problems in connection with the two options we explored:

- -- mandating that all employers that offer health insurance to their employees must offer catastrophic health insurance; and
- -- requiring all health insurance companies to offer catastrophic health insurance.

Problems Areas. Some of the significant problems that we encountered with either of these options are:

- -- it is not clear that a market imperfection that prohibits employers from obtaining catastrophic insurance at reasonable rates currently exists. The major problem may be a lack of aggressive marketing by the insurance companies. It is still not clear why such insurance is not widely purchased and the extent to which it is becoming readily available;

-- if employers were to be required by Federal law to offer catastrophic health insurance, it may be difficult to avoid substantial pressure for Federal subsidies to make such insurance available at affordable rates. Failure by the Federal Government to do more than require employers to offer it could open the Administration to the criticism that its proposal was an empty gesture. It is also not clear how the Federal Government could avoid an enforcement responsibility if the employer mandate were chosen;

-- if insurance carriers were to be required by Federal law to offer catastrophic health insurance, the Federal law would have to define the benefits and also mandate that States--as the current insurance regulatory authority--enforce the Federal requirement. Alternatively, Federal regulation--which is generally inconsistent with regulatory reform proposals--would be necessary;

-- a number of the larger insurance carriers have apparently resigned themselves to the idea of national health insurance that is fully federally financed under which the carriers serve as Federal fiscal intermediaries. Thus, they are not aggressively pursuing their health insurance lines of business; and

-- a Federal mandate that States assure the availability of specific insurance benefits to the general population would appear inconsistent with the broad discretion provided in the health block grant. It would thus raise the issue of double standards of Federal concern and involvement for middle class and low income group problems.

Alternatives. In view of these considerations, we recommend that you not announce a catastrophic health insurance mandate in your State of the Union Message. Instead, we recommend that we informally explore these questions with the major insurance company executives and congressional leaders, aiming for a March 15 report to you. Although such a study could be publicly announced, it would raise expectations we may not want to fulfill.

Decision:

☐ Announce in the State of the Union that you will have a study undertaken how best to assure the availability of catastrophic health insurance.

☐ Do not make any formal announcement, but have HEW, the Domestic Council, and OMB contact major carriers to develop further information and options by March 15, 1976. (Favored by)

THE WHITE HOUSE

WASHINGTON

INFORMATION

March 26, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON Jim

SUBJECT: Catastrophic Health Insurance Initiative

You directed HEW, OMB and the Domestic Council to evaluate mandated catastrophic health insurance coverage through private market mechanisms for the non-age population. A report of the review undertaken by HEW by Secretary Mathews is attached.

Questions involving the availability, trends and marketing problems in the provision of catastrophic health insurance were examined in meetings with the insurance industry and business. In addition, the Department conducted its own investigation of these issues.

Sufficient information has been obtained to reach conclusions on some of these key questions.

The findings show that there has been rapid expansion of catastrophic coverage recently and there are no market imperfections that would tend to slow the rate of that expansion. In fact, most likely less than 1% of the population would benefit from a federal mandate requiring catastrophic coverage. Although these indications are very positive there is a problem with insurance coverage for low income persons and individuals with a high medical risk.

I concur with Secretary Mathews that a Federal mandate for catastrophic insurance coverage, either through the employer or the insurance company, is not necessary.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

MAR 19 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Catastrophic Health Insurance Initiative

You asked the Department, OMB and the Domestic Council to investigate possible initiatives in catastrophic health insurance coverage for the non-aged population using the private market mechanisms. This review has been undertaken under Departmental auspices. Though incomplete, sufficient information has already been obtained to reach conclusions about some of the key questions which stimulated the review.

Two meetings have been held to date: one with the insurance industry and the other with business. They are summarized at Tab A. Broad governmental participation was obtained at these meetings (OMB, Domestic Council, Council of Economic Advisors, Commerce, Labor, Small Business Administration and the Federal Insurance Administration of HUD). The key questions involved the availability, trends and market problems, if any, in the provision of catastrophic health insurance protection. The findings were as follows:

- There has been a rapid expansion of catastrophic coverage in recent years. A recent survey reported that over 75 percent of new policies being written have lifetime limits on benefit payments in excess of $100,000 and, increasingly, limits are being raised to $250,000 or removed altogether. This contrasts with the situation five years ago when benefit limitations of $10,000-$25,000 or 30-60 days of hospitalization were quite common.

- There are no market imperfections that would tend to slow the rate of expansion. All major insurors offer plans which would meet the definition of catastrophic coverage.*

---

* The two most common definitions used are:

1. A plan with high annual or lifetime benefits, e.g., $100,000 or more;

2. A plan that has a maximum out-of-pocket liability, i.e., waives all patient cost-sharing after deductibles or coinsurance have reached a predetermined level, e.g., $1000-$2000 per family, per year.

- Probably less than one percent of the population would benefit from a Federal mandate requiring catastrophic coverage.

- Although improvements in providing catastrophic coverage are evident, there are still groups who have difficulty obtaining any kind of health insurance. These are employees of very small business, the non-employed, and the self-employed. These individuals often have high health risks and/or they are low-income, and are in the greatest need of assistance; but catastrophic coverage would do little to help them. Protection for this group need be approached from a broader perspective.

We will be meeting on March 25 with representatives of organized labor to add to what we have already learned. However, from our discussions to date, and from what we know about labors position, a national catastrophic health insurance plan will be viewed by many knowledgeable critics as an inappropriate response to the real problem of financial access to health care.

Accordingly, we believe that a Federal initiative to insure the availability of catastrophic coverage for the vast bulk of the employed population is not warranted at this time. There is, however, reason to be concerned about the rising costs of health insurance and health care plus the problems of access to care for the low income and high risk population. We will continue to explore possible solutions to these problems as well as continue to follow the developments in catastrophic coverage.

/s/David Mathews

Secretary

Attachments:
Tab A - Report on meetings with health insurors and business.
Tab B - Selected statistical information on health insurance coverage.

TAB A

CATASTROPHIC HEALTH INSURANCE

Report on Meeting with Health Insurors (2/23/76) and Business (3/4/76)

Meeting with Health Insurors

Key issues identified and discussed:

1. Catastrophic coverage is already available to a vast majority of the population. (According to the Health Insurance Association of America, in 1974 approximately 146 million out of 188.5 million, or 77 percent of the under age 65 population, had such coverage.)

2. Significant improvements, particularly in the past five years, have been made to improve major medical coverage by:

   - expanding the limits of liability to $100,000 or more (HIAA estimates in 1975 that 50 percent of the 85 million persons insured under commercial health insurance groups contracts had maximum benefits of $100,000 or more compared to 27 percent in 1973 and about 1 percent in 1970).

   - placing limits on beneficiary out-of-pocket liability (HIAA estimates approximately one-third of those insured under group contracts have built in out-of-pocket limits. Three years ago this type of coverage was virtually non-existent.)

   - providing more generous reimbursement for covered services. (One set of statistics furnished by HIAA showed that 40.5 percent of employees had coverage for full payment of semi-private room compared to 22.8 percent in 1970.)

   Although some individuals could still incur catastrophically high out-of-pocket expenses even if insured under a major medical contract, depending on the benefit package, reimbursement levels, and liability limits, the estimated percentage is very low. Unfortunately, there are no recent statistics indicating degree of out-of-pocket liability for health services related to type of health insurance coverage.

3. Although improvements in providing catastrophic coverage are evident, there are still groups who have difficulty obtaining any kind of health insurance. These are employees of very small business, the non-employed, and the self-employed. These individuals often have high health risks and/or they are low-income. Premium levels necessary to insure them must therefore be high and their ability to finance those premiums is very limited.

4. A Federal mandate requiring that catastrophic coverage be underwritten and made universally available will do little good for those working in larger firms since such coverage is typically already available. Unless premiums are subsidized, such a mandate would not help those in greatest need, because the low-income and high health risk will not be able to afford it.

5. A mandate for catastrophic coverage, even with subsidy, would probably not be very popular because the purchaser prefers coverage with low or no cost-sharing. The health insurance product has evolved in this country by first providing coverage for hospital care; second coverage for medical care; and third coverage for catastrophic health care costs. Making catastrophic coverage available before basic hospital and medical care coverage is contrary to insurance industry selling and consumer buying patterns.

Meeting with Business

Key issues identified and discussed:

1. Big business typically provides catastrophic coverage to employees in one form or another through various insuring arrangements. Any mandate requiring a specific structure for catastrophic protection will likely afford little, if any, better protection for these employees, but will require an administrative restructuring of existing contracts.

2. Any business with 10 or more employees should have access to health insurance which includes catastrophic coverage. Typically, any business regardless of size should have access to coverage unless the employee group represents an unusually high risk. In spite of this, according to Small Business Administration figures, 12-14 million employees of small businesses have no health insurance through their employment.

3. Small businesses hiring skilled workers typically offers a good health insurance package, because this fringe benefit is necessary to compete in the labor market. Low-skilled workers in small business are typically the ones without adequate health insurance coverage.

4. Increasing costs of fringe benefits, especially health insurance, are causing employers to rethink their hiring practices by limiting numbers of full-time employees, asking for more overtime, and/or hiring part-time employees.

5. The experience-rating concept for setting premium levels was generally favored over community-rating. Large business, especially, believes company supported activities such as drug abuse and alcoholism and direct delivery services such as a company physician have a favorable impact on utilization which in turn is rewarded through experience-rating. This would not be the case through community-rating.

6. Business is primarily concerned about rising health care costs, which in turn are driving up premiums. The feeling is that individual companies, regardless of size, can do little to control costs except to get involved in broader community activities, such as health planning.

7. Business is generally opposed to catastrophic health insurance except in the context of comprehensive coverage. In fact, the Washington Business Group on Health and National Association of Manufacturers have already come out with this position.

INSURORS
MEETING ON CATASTROPHIC HEALTH INSURANCE
February 23, 1976
Chart Room

INVITED PARTICIPANTS

INSURORS

Blue Cross Association

Gerald Green
Jim Hutchinson
Alan Richards

Equitable

Morton Miller

Health Insurance Association of America

Les Hemry
Paul Hawkins
Dave Robbins

National Association of Blue Shield Plans

Bill Ryan
Mike McDonald
Charles Sonneborn

Prudential

Jack Kittredge

GOVERNMENT

White House

Grady Means

Domestic Council

Spencer Johnson
Sarah Massengale

Office of Management and Budget

Vic Zafra
Lynn Ethridge

Council of Economic Advisors

June O'Neill

Department of Commerce

Patricia Gwaltney

Federal Insurance Administration

Robert Hunter

Department of Health, Education, and Welfare

Stuart Altman
Peter Fox
Don Nicholson
Ron Klar
Gene Moyer
Mel Blumenthal

BUSINESS
MEETING ON CATASTROPHIC HEALTH INSURANCE
Thursday, March 4, 1976
Chart Room

INVITED PARTICIPANTS

National Associations

Chamber of Commerce - Rose Wooden
National Federation of Independent Business - James Sheahan
National Manufacturers' Association - Brenda Ballard
Washington Business Group on Health - Willis Goldbeck

Corporations

American Can - John Prescott
Comsonic - Warren Braun
Coopers and Lybrand - Bill McHenry
Exxon - Henry Chase
Ford - Jack Shelton
General Motors - Tony deShaw
Goodyear - Dick Martin
Honeywell - Glen Skovholt
Sherwin-Williams - Robert Carpenter
U.S. Steel - Frank Beebe

Government

White House - Grady Means
Domestic Council - Spencer Johnson and Sarah Massengale
Office of Management and Budget - Vic Zafra and Lynn Ethridge
Council of Economic Advisors - June O'Neill
Department of Commerce - Particia Gwaltney
Department of Labor - Martin Nemerow
Small Business Administration - Anthony Stasio and Joe Gwoyer
Federal Insurance Administration - Robert Hunter
Department of Health, Education and Welfare - Stuart Altman
Peter Fox
Don Nicholson
Stu Schmid
Ron Klar
Gene Moyer
Mel Blumenthal

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HEALTH INSURANCE COVERAGE: SELECTED STATISTICS

Extent of Health Insurance Coverage

- 80 percent of the under-65 population have private coverage for hospital services
- 77 percent have private coverage for surgical and other inhospital physician services
- 60 percent of the U.S. population have some private out-of-hospital physician services coverage
- 90 percent of the U.S. population has some coverage under a private insurance plan or a public program such as Medicaid.

Protection Against High Medical Expenses

Some plans offer little real protection against high medical expenses. For example, a plan might pay for only 60 days in the hospital. More comprehensive protection covering a broader array of services and paying higher total amounts is usually provided as a policy component labeled "major medical" coverage. Benefit limits under such coverage range from $10,000 upwards; in some cases there are no limits at all.

- 60 percent of the U.S. population has some type of major medical coverage.
- 75 percent of employees who have any group coverage at all have major medical coverage.

Since 1972 there has been a pronounced trend toward higher benefit limits among group major medical plans.

- 50 percent of persons with major medical coverage have benefit limits of $100,000 or more, compared to 20 percent five years ago.
- 75 percent of group plans recently updated provide for $100,000 or more in benefits.

In addition to major medical coverage, which typically provides protection against catastrophic illness, other forms of health insurance provide equal or better protection. Examples of these type plans are health maintenance organizations (HMOs) and insurance structures which provide generous benefits for hospital and hospital-related medical care, even though ambulatory care may be excluded.

- Approximately 10 percent of our under age 65 population have coverage under HMOs or high basic plans.

<u>Out-of-pocket expense limits</u>. Major medical coverage typically carries a 20 or 25 percent coinsurance provision. Consequently, there remains some risk of financial catastrophe regardless of how high the benefit limit might be. (With a 20 percent coinsurance stipulation, a $100,000 benefit limit is reached when total expenses are $125,000; out-of-pocket liability is $25,000.)

In recognition of this, most of the larger insurance carriers have recently begun making available a provision limiting out-of-pocket liability to some specific sum, usually $1,000 to $2,000, and the trend is clearly in the direction of expanding this feature.

- Over 25 percent of employees with group coverage are now protected by a maximum liability provision, compared to almost none only three years ago.