



3130 Fairview Park Drive, Suite 800 | Falls Church, VA 22042 | phone: (703) 269-5500 | fax: (703) 269-5501 | [www.lewin.com](http://www.lewin.com)

March 11, 2009

The Honorable Senator Ron Wyden  
United States Senate  
223 Dirksen Senate Office Building  
Washington DC 20510

Dear Senator;

Attached are our estimates of the cost and coverage impacts of the Healthy Americans Act (HAA) as introduced on February 5, 2009 (S. 391). We provide estimates of cost effects for the federal government, state and local governments, private employers and families assuming the program is fully implemented in 2011. We assume a general recovery of the economy by that time.

We also provide estimates of the average cost impacts of the Act for families by income, age and current coverage status.

Please contact me at (703) 269-5610 if you have any questions.

Sincerely;

A handwritten signature in black ink, appearing to read "John Sheils".

John Sheils  
Senior Vice President  
The Lewin Group

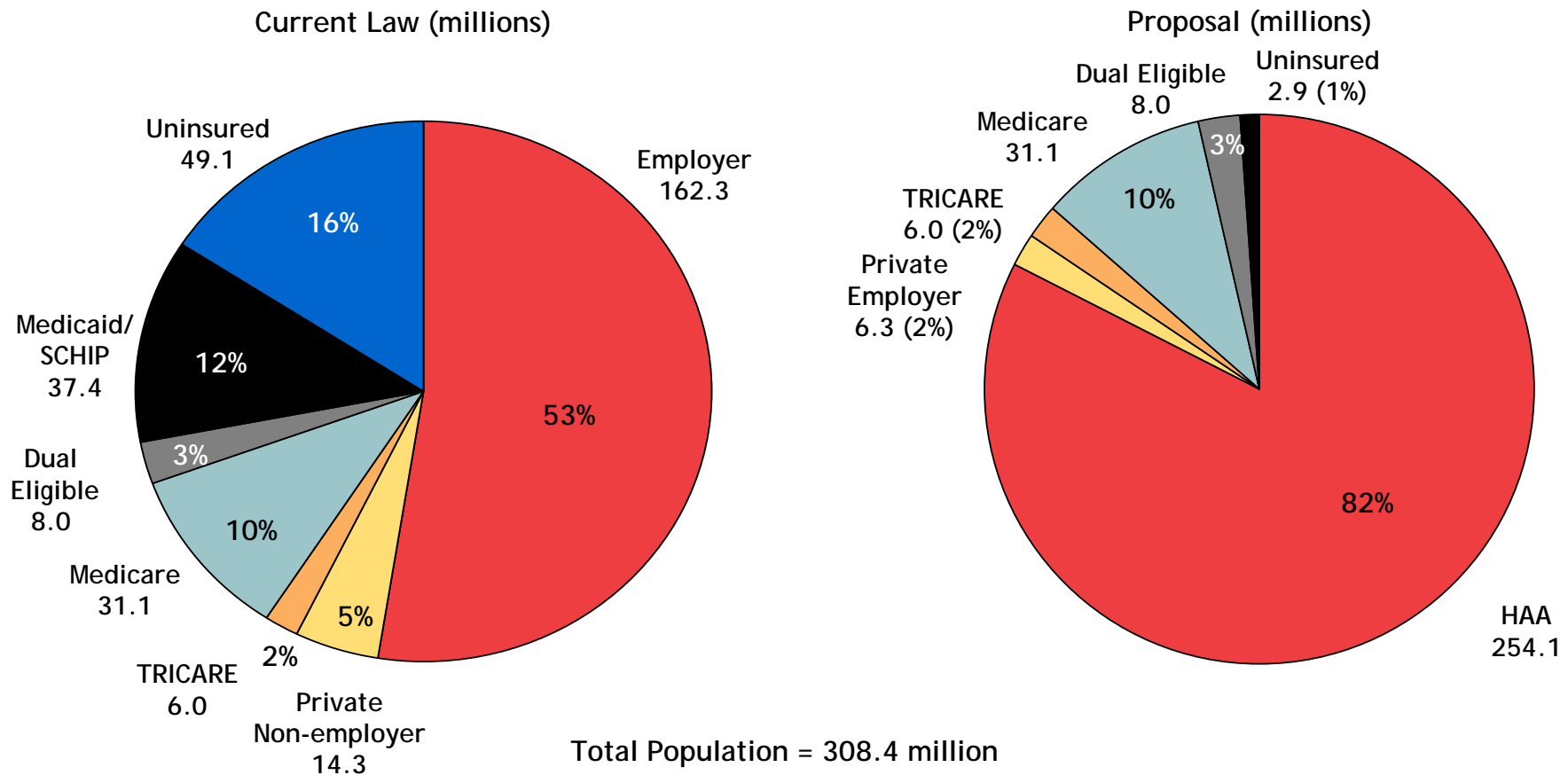


HEALTH CARE AND HUMAN SERVICES POLICY, RESEARCH, AND CONSULTING - WITH REAL-WORLD PERSPECTIVE.

# Updated Cost and Coverage Impacts Analysis for the Healthy Americans Act (HAA) (S.391): The Wyden/Bennett Bill

March 11, 2009

# Distribution of People by Primary Source of Coverage Under Current Law and the Healthy Americans Act for 2011 (millions) <sup>a/</sup>



a/ Average monthly coverage. Primary payer is determined on basis of current prevailing coordination of benefits practices.  
 Source: The Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

# Changes in National Health Spending Under the Healthy Americans Act in 2011 (in billions)

|                                                             |          |                 |
|-------------------------------------------------------------|----------|-----------------|
| <b>Net Change in Spending for Health Services</b>           |          | <b>(\$7.6)</b>  |
| Change in utilization for newly insured                     | \$48.6   |                 |
| Change in utilization due to improved coverage              | \$4.7    |                 |
| Consumer incentives and Insurer price competition           | (\$60.9) |                 |
| <b>Reimbursement Effects</b>                                |          | <b>\$39.8</b>   |
| <b>Change in Provider Income Net of Reduce Cost-Shift</b>   |          |                 |
| Payments for formerly uncompensated care                    | \$29.0   |                 |
| Use of commercial payment rates for all in program          | \$62.7   |                 |
| Eliminate Disproportionate Share Hospital (DSH) Payments    |          |                 |
| Medicare                                                    | (\$10.5) |                 |
| Medicaid - Federal                                          | (\$9.7)  |                 |
| Medicaid - State                                            | (\$5.1)  |                 |
| Reduced Cost Shifting (Assumes 40 percent passed to Payers) | (\$26.6) |                 |
| <b>Net Change in Administrative Costs</b>                   |          | <b>(\$44.3)</b> |
| Insured administration                                      | (\$78.1) |                 |
| Health Help                                                 | \$31.3   |                 |
| Administration of subsidies                                 | \$2.5    |                 |
| <b>Total Change in Health Spending</b>                      |          | <b>(\$12.1)</b> |

# Change in Health Spending by Stakeholder Group Under the Healthy Americans Act in 2011 (in billions)

|                              | Change in Spending Before Wage Effects | Change in Spending After Wage Effects |
|------------------------------|----------------------------------------|---------------------------------------|
| Federal Government           | (\$34.8)                               | (\$1.5)                               |
| State and Local Government   | (\$5.4)                                | (\$9.0)                               |
| Private Employers            | \$93.3                                 | --                                    |
| Households                   | (\$65.2)                               | (\$1.6)                               |
| <b>Total Health Spending</b> | <b>(\$12.1)</b>                        | <b>(\$12.1)</b>                       |

Source: Lewin Group estimates using the Health Benefits Simulation Model.

# Change in Federal Health Spending Under the Healthy Americans Act In 2011: Before Wage Effects (billions)

| Uses of Funds                                                     |                  | Sources of Funds                            |                  |
|-------------------------------------------------------------------|------------------|---------------------------------------------|------------------|
| Program Benefits Costs                                            | \$974.8          | Household Premiums (less subsidies \$359.0) | \$683.8          |
| Insurer Administration and Profit                                 | \$34.2           | Employer Premium Payments                   | \$118.7          |
| Health Help Agency                                                | \$31.3           | Federal Medicaid Savings                    | \$110.4          |
| Administration of premium collections and subsidies through taxes | \$2.5            | State Maintenance of Effort                 | \$88.6           |
|                                                                   |                  | Medicaid & Medicare DSH                     | \$20.2           |
|                                                                   |                  | Savings to Other Federal Health Programs    | \$8.3            |
|                                                                   |                  | FEHBP                                       | (\$4.0)          |
|                                                                   |                  | Workers & Dependents                        | (\$19.7)         |
|                                                                   |                  | Retirees                                    | (\$4.3)          |
|                                                                   |                  | Wage Cash-out                               | \$24.0           |
|                                                                   |                  | HAA Premium                                 | \$4.0            |
|                                                                   |                  | Wage Effect                                 | --               |
|                                                                   |                  | Personal Income Taxes                       | (\$36.0)         |
|                                                                   |                  | Tax on wage cash-out                        | \$129.1          |
|                                                                   |                  | Current Health Deduction <sup>a/</sup>      | \$6.4            |
| Deduction for Health <sup>b/</sup>                                | (\$171.5)        |                                             |                  |
|                                                                   |                  | Social Security and HI taxes                | \$87.6           |
|                                                                   |                  | Tax Loss due to Wage Effects                | --               |
|                                                                   |                  | <b>Total Offsets</b>                        | <b>\$1,077.6</b> |
|                                                                   |                  | Additional Funding Required                 | (\$34.8)         |
| <b>Total Program Costs</b>                                        | <b>\$1,042.8</b> | <b>Total Funding</b>                        | <b>\$1,042.8</b> |

a/ Reflects reduced out-of-pocket spending due to the coverage expansion.

b/ Assumes that the HAA deduction amounts are indexed to 2011 by health care cost growth, after which, they are indexed to the CPI.

# Change in Federal Health Spending Under the Healthy Americans Act In 2011: After Wage Effects (billions)

| Uses of Funds                                                     |                  | Sources of Funds                            |                  |          |
|-------------------------------------------------------------------|------------------|---------------------------------------------|------------------|----------|
| Program Benefits Costs                                            | \$974.8          | Household Premiums (less subsidies \$359.0) | \$683.8          |          |
| Insurer Administration and Profit                                 | \$34.2           | Employer Premium Payments                   | \$118.7          |          |
| Health Help Agency                                                | \$31.3           | Federal Medicaid Savings                    | \$110.4          |          |
| Administration of premium collections and subsidies through taxes | \$2.5            | State Maintenance of Effort                 | \$88.6           |          |
|                                                                   |                  | Medicaid & Medicare DSH                     | \$20.2           |          |
|                                                                   |                  | Savings to Other Federal Health Programs    | 8.3              |          |
|                                                                   |                  | FEHBP                                       | --               |          |
|                                                                   |                  | Workers & Dependents                        | (\$19.7)         |          |
|                                                                   |                  | Retirees                                    | (\$4.3)          |          |
|                                                                   |                  | Wage Cash-out                               | \$24.0           |          |
|                                                                   |                  | HAA Premium                                 | \$4.0            |          |
|                                                                   |                  | Wage Effect                                 | (\$4.0)          |          |
|                                                                   |                  | Personal Income Taxes                       |                  | (\$36.0) |
|                                                                   |                  | Tax on wage cash-out                        | \$129.1          |          |
|                                                                   |                  | Current Health Deduction <sup>a/</sup>      | \$6.4            |          |
| Deduction for Health <sup>b/</sup>                                | (\$171.5)        |                                             |                  |          |
|                                                                   |                  | Social Security and HI taxes                | \$87.6           |          |
|                                                                   |                  | Tax Loss due to Wage Effects                | (\$37.3)         |          |
|                                                                   |                  | <b>Total Offsets</b>                        | <b>\$1,044.3</b> |          |
|                                                                   |                  | Additional Funding Required                 | (\$1.5)          |          |
| <b>Total Program Costs</b>                                        | <b>\$1,042.8</b> | <b>Total Funding</b>                        | <b>\$1,042.8</b> |          |

a/ Reflects reduced out-of-pocket spending due to the coverage expansion.

b/ Assumes that the HAA deduction amounts are indexed to 2011 by health care cost growth, after which, they are indexed to the CPI.

# Change in Health Spending for State and Local Governments Under the HAA in 2011 (billions)

|                                                           | Change in Spending Before Wage Effects | Change in Spending After Wage Effects |
|-----------------------------------------------------------|----------------------------------------|---------------------------------------|
| Savings to Safety-net and Other Programs                  | (\$18.5)                               | (\$18.5)                              |
| State and Local Government Employee Health Benefits       | \$18.4                                 | \$0.0                                 |
| Workers and Dependents                                    | (\$92.4)                               |                                       |
| Retirees                                                  | (\$7.6)                                |                                       |
| Wage Cash-out                                             | \$100.0                                |                                       |
| HAA Premium                                               | \$17.8                                 |                                       |
| Wage Effect                                               | (\$17.8)                               |                                       |
| Medicaid Program Savings                                  | \$0.0                                  | \$0.0                                 |
| Program Savings                                           | (\$80.7)                               |                                       |
| State DSH Payments                                        | (\$5.1)                                |                                       |
| Maintenance of Effort                                     | \$85.8                                 |                                       |
| Increased Tax Revenue from Premium Cash Out <sup>a/</sup> | (\$21.7)                               | (\$21.7)                              |
| Tax Revenue Loss Due To Wage Effects                      | \$0.0                                  | \$4.3                                 |
| State Tax Reductions <sup>b/</sup>                        | \$16.4                                 | \$26.9                                |
| <b>Total Costs (Savings)</b>                              | <b>(\$5.4)</b>                         | <b>(\$9.0)</b>                        |

a/ About 85% of States current use Federal income tax deduction guidelines, thus incorporating the health care premium standard deduction.

b/ We assume that three-quarters of savings in safety-net spending and revenue increases are passed back to taxpayers in the form of tax reductions.

Source: Lewin Group estimates using the Health Benefits Simulation Model.

# Changes in Private Employer Health Benefits Costs by Current Insuring Status Under the Healthy Americans Act in 2011 (in billions)

|                                                              | Currently Insuring Employers | Currently Non-Insuring Employers | All Employers  |
|--------------------------------------------------------------|------------------------------|----------------------------------|----------------|
| <b>Private Employer Spending Under Current Policy</b>        |                              |                                  |                |
| Current Cost of Coverage                                     |                              |                                  |                |
| Workers & Dependents                                         | \$436.9                      | --                               | \$436.9        |
| Retirees                                                     | \$29.3                       | --                               | \$29.3         |
| <b>Total Current Law</b>                                     | <b>\$466.2</b>               | <b>--</b>                        | <b>\$466.2</b> |
| <b>Private Employer Spending Under the HAA</b>               |                              |                                  |                |
| Remaining Health Benefits for Medicare Participating Members |                              |                                  |                |
| Workers & Dependents                                         | \$28.8                       | --                               | \$28.8         |
| Retirees                                                     | \$16.6                       | --                               | \$16.6         |
| Wage Cash-out <sup>a/</sup>                                  | \$420.8                      | --                               | \$420.8        |
| Premium Payments to Program                                  | \$80.9                       | \$12.4                           | \$93.3         |
| <b>Total Under HAA</b>                                       | <b>\$547.1</b>               | <b>\$12.4</b>                    | <b>\$559.5</b> |
| <b>Net Change in Private Employer Spending</b>               |                              |                                  |                |
| <b>Net Change Under HAA</b>                                  | <b>\$80.9</b>                | <b>\$12.4</b>                    | <b>\$93.3</b>  |
| <b>Net Change After Wage Effects</b>                         | <b>--</b>                    | <b>--</b>                        | <b>--</b>      |

a/ The ct requires currently insuring employers to “cash-out” the premium for their workers.

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

# Impact of the Healthy Americans Act on Family Health Spending in 2011 (in billions)

|                                         | Change in Spending Before Wage Effects | Change in Spending After Wage Effects |
|-----------------------------------------|----------------------------------------|---------------------------------------|
| Wage Cash-out for Workers <sup>a/</sup> | (\$504.4)                              | (\$504.4)                             |
| Change in Premiums Payments             | \$447.9                                | \$447.9                               |
| Change in Out-of-pocket Spending        | (\$21.7)                               | (\$21.7)                              |
| Change in Federal Personal Income Taxes | (\$36.0)                               | (\$36.0)                              |
| Change in State Personal Income Taxes   | \$5.3                                  | (\$5.2)                               |
| Social Security and HI Payroll Taxes    | \$43.7                                 | \$43.7                                |
| After Tax Wage Effects <sup>b/</sup>    | --                                     | \$74.1                                |
| <b>Net Change</b>                       | <b>(\$65.2)</b>                        | <b>(\$1.6)</b>                        |

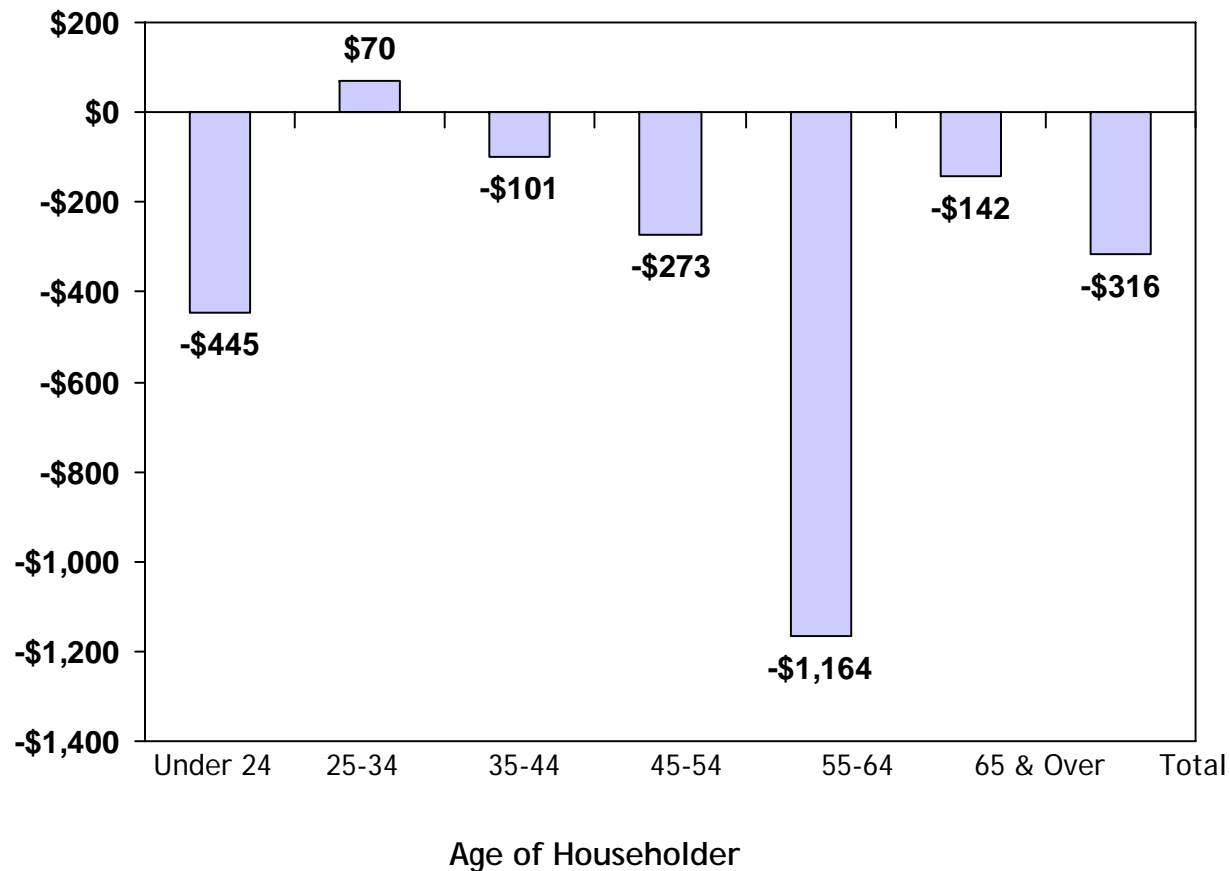
a/ The increase in wage income resulting from cash-out of employer premiums are counted here as a reduction in family health spending. Assumes amount passed on to workers equal premium cost less increased employer payroll taxes from the increased wages.

b/ Includes changes in wages net of tax payments from the wage effect created by the employer premium contribution required under the Act.

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

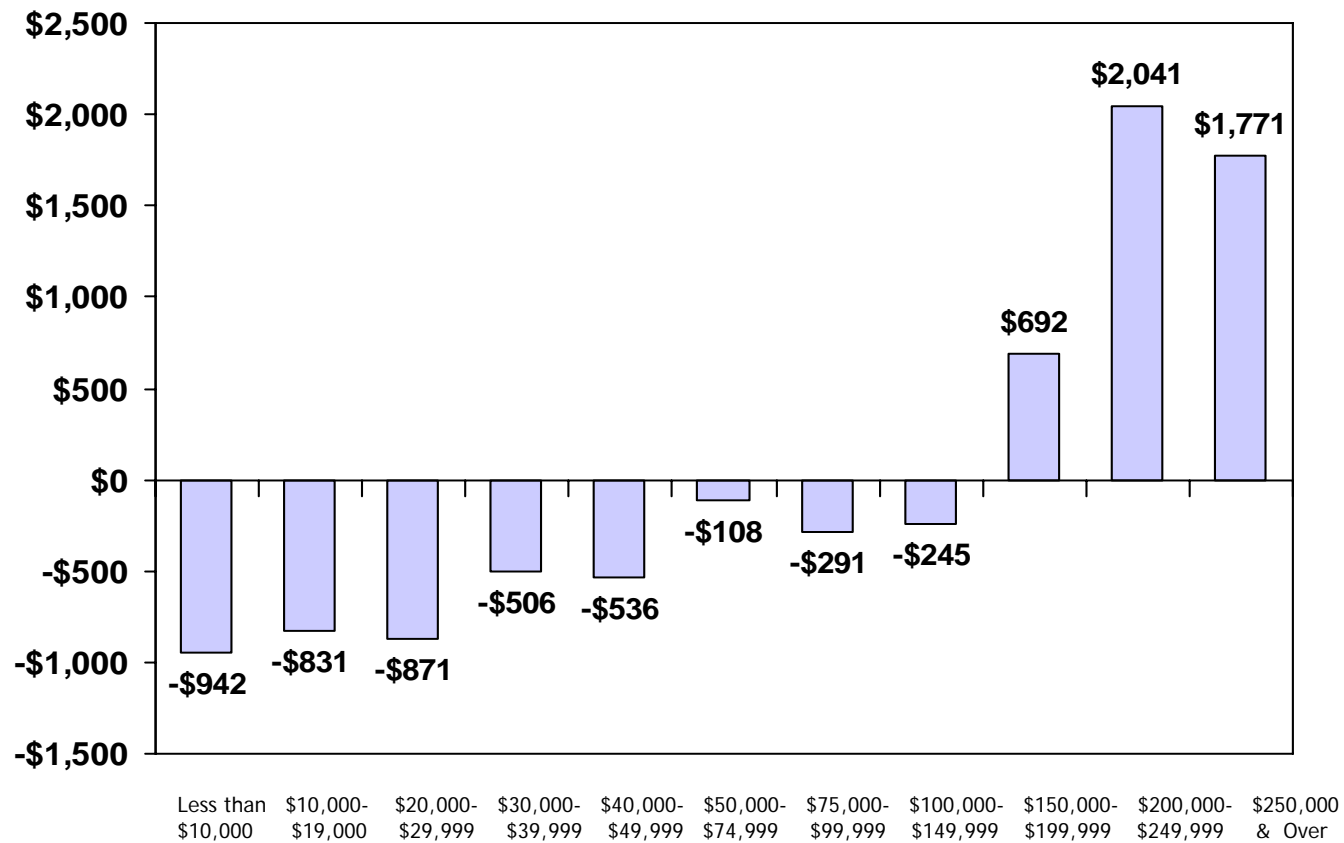
# Change in Average Family Health Spending by Age of Family Head under the Healthy Americans Act in 2011

Families with Health Insurance under Current Policy



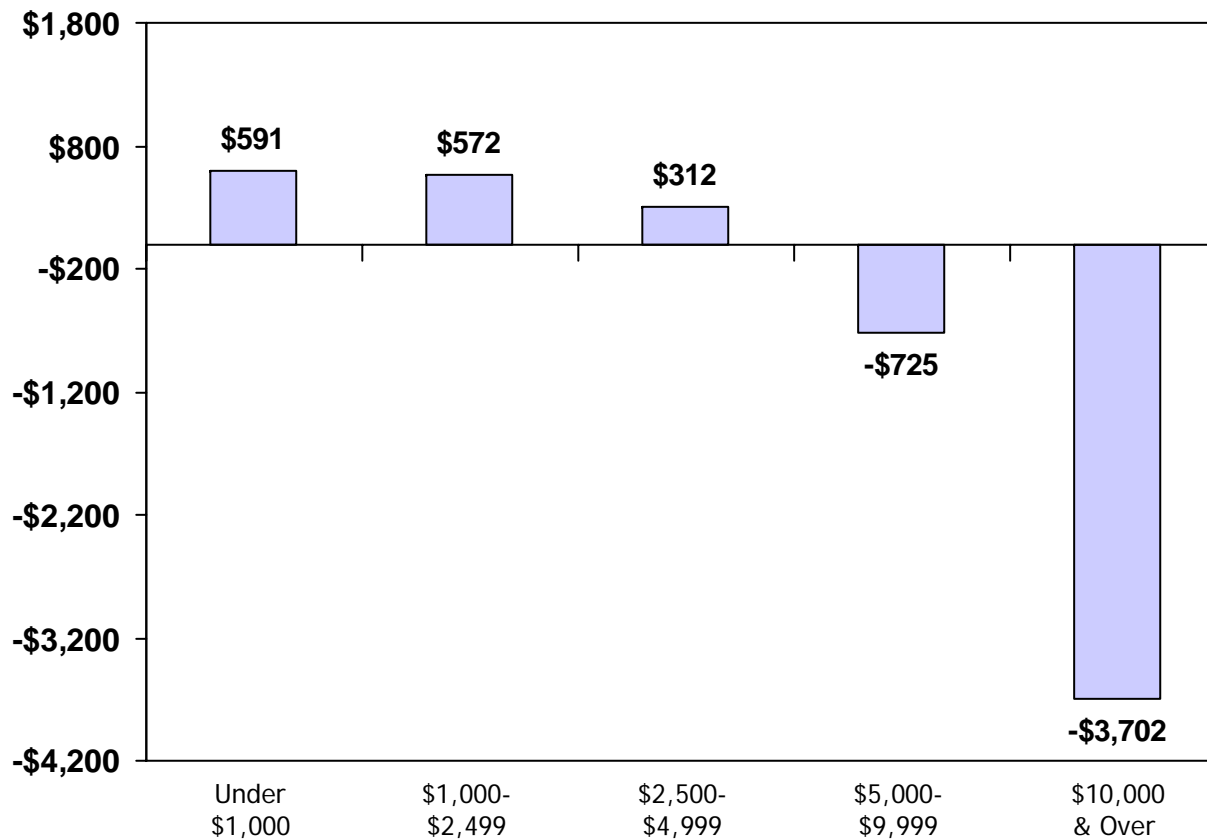
# Change in Average Family Health Spending by Income Group under the Healthy Americans Act in 2011

Families with Health Insurance under Current Policy



# Change in Average Health Spending by Current Insured Status and Amount of Out-of-Pocket Family Spending Under Current Law under the Proposal in 2011

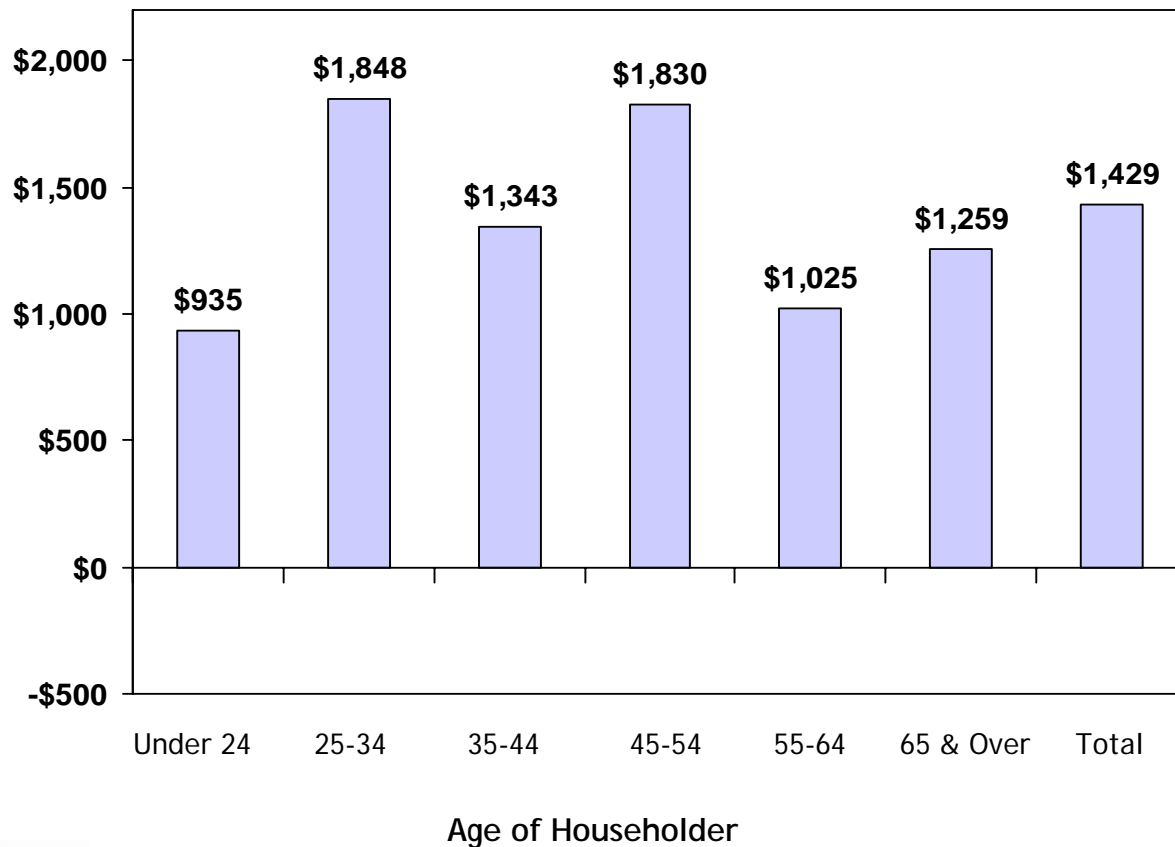
Families with Health Insurance under Current Policy



Out-of-Pocket Spending Under Current Law

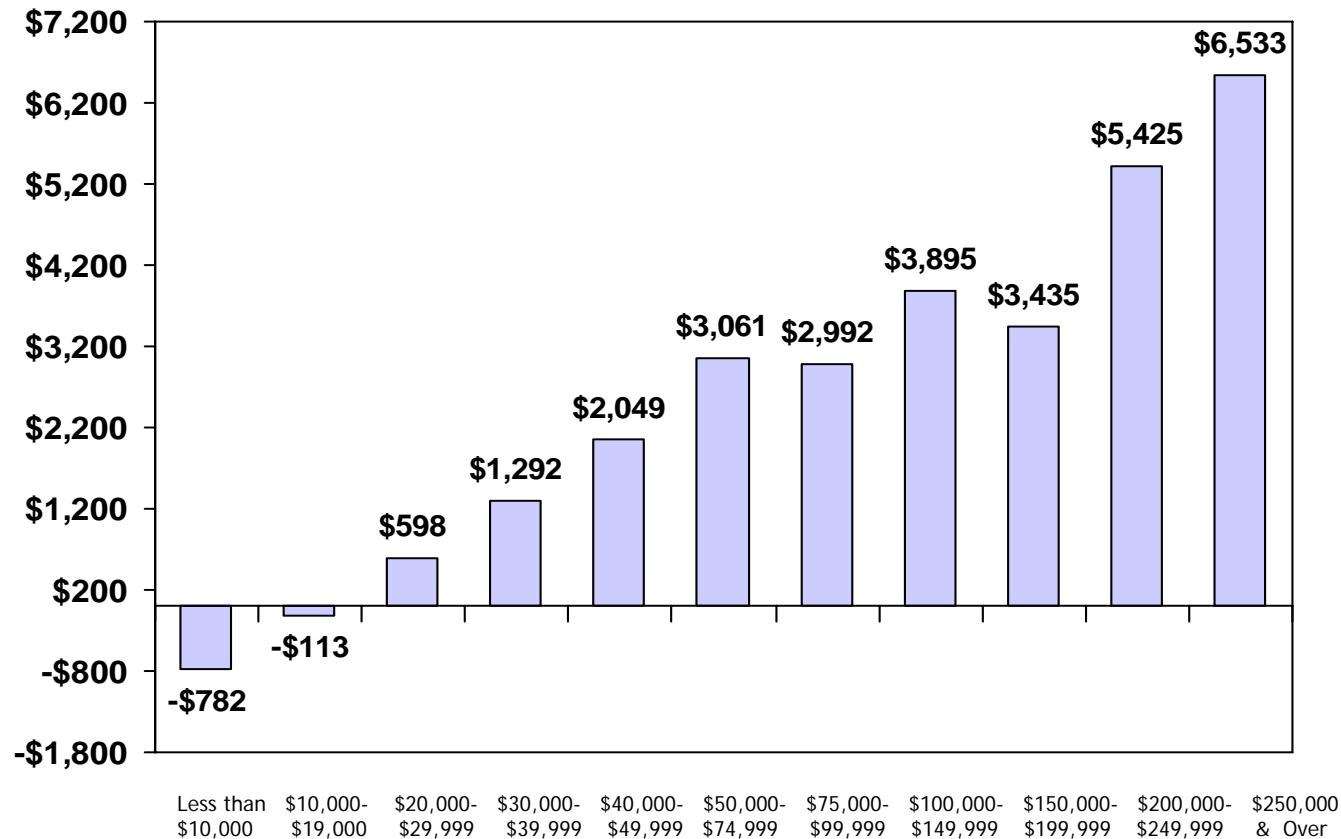
# Change in Average Family Health Spending by Age of Family Head under the Healthy Americans Act in 2011

Families without Health Insurance under Current Policy



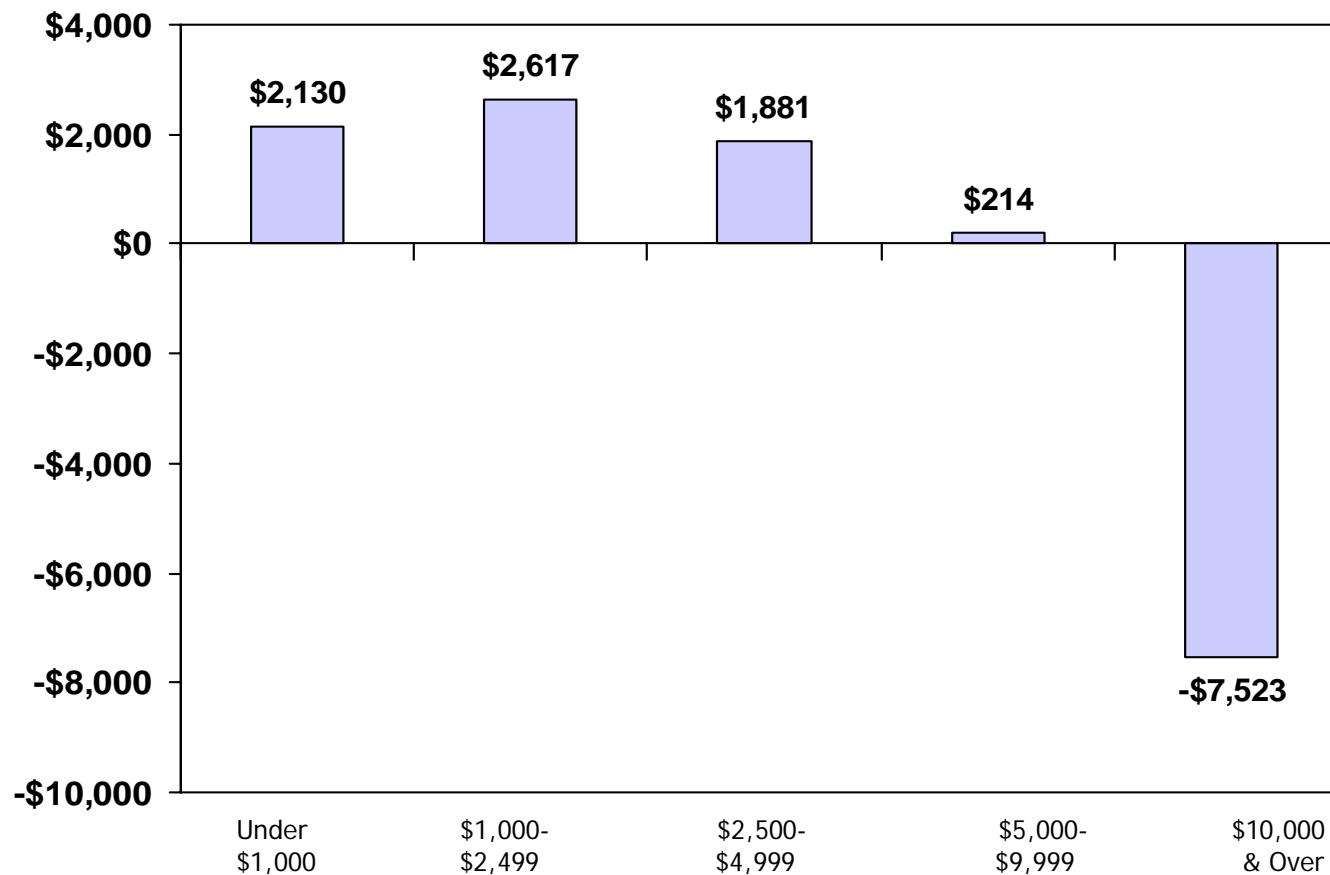
# Change in Average Family Health Spending by Income Group under the Healthy Americans Act in 2011

Families without Health Insurance under Current Policy



# Change in Average Health Spending by Current Insured Status and Amount of Out-of-Pocket Family Spending Under Current Law under the Proposal in 2011

Families without Health Insurance under Current Policy



Out-of-Pocket Spending Under Current Law