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Governor's Health Care Plan: State Fiscal Risks

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Senate Health Committee
Hon. Sheila Kuehl, Chair





Governor's Health Coverage Plan Proposed Sources of Coverage For the Uninsured

Currently Uninsured Population	Total Uninsured	Proposed Source of Coverage					
		Medi-Cal	Healthy Families	State Purchasing Pool	Local Government	Employer-Based Coverage	Individual Private Insurance
Children (Regardless of Citizenship Status) In Families:							
Up to 100% of the FPL ^a	220,000	220,000	—	—	—	—	—
Between 100% and 300% of the FPL	250,000	—	250,000	—	—	—	—
Above 300% of the FPL	260,000	—	—	—	—	210,000	50,000
Total Children	730,000	220,000	250,000	—	—	210,000	50,000
Adults:							
Legal residents up to 100% of the FPL	630,000	630,000	—	—	—	—	—
Legal residents between 100% and 250% of the FPL	1,200,000	—	—	1,000,000	—	200,000	—
Legal residents above 250% of the FPL	1,100,000	—	—	—	—	370,000	730,000
Undocumented adults	950,000	—	—	—	750,000	40,000	160,000
Total Adults	3,880,000	630,000	—	1,000,000	750,000	610,000	890,000
Total Uninsured Persons	4,610,000^b	850,000	250,000	1,000,000	750,000	820,000	940,000
<p>^a Federal Poverty Level.</p> <p>^b Although the Governor's plan states that it will provide coverage to 4.8 million uninsured persons, the administration has only presented population estimates for these 4.6 million persons. The difference may be attributable to rounding or other technical data issues.</p> <p>Source: Administration's estimates.</p>							



Governor's Health Coverage Plan Net Effects of Coverage Shifts

	Medi-Cal	Healthy Families	State Purchasing Pool	Local Government	Employer-Based Coverage	Individual Private Coverage
Uninsured Persons Obtain Coverage^a	850,000	250,000	1,000,000	750,000	820,000	940,000
Coverage Shifts:						
Children shift from Medi-Cal to Healthy Families	-679,000	679,000	—	—	—	—
Children shift from employer coverage to Healthy Families	—	260,000	—	—	-260,000	—
Adult Medi-Cal enrollees shift to purchasing pool	-215,000	—	215,000	—	—	—
Adults shift from employer-based or individual coverage to purchasing pool	—	—	700,000	—	-560,000	-140,000
Net Effects of Coverage Expansion	-44,000	1,189,000	1,915,000	750,000^b	—	800,000
^a Amounts equal category totals shown on page 1. ^b The administration indicates that estimates of certain persons who currently receive some health care services through county-operated programs or facilities are included in other groups. Source: Administration's estimates.						



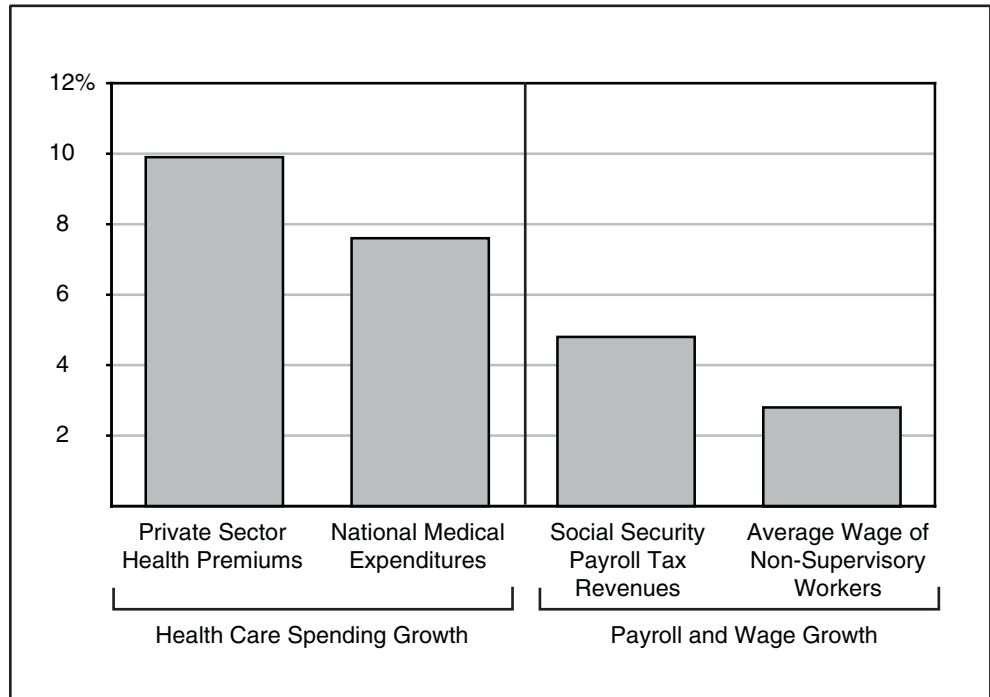
LAO Assessment of Major Fiscal Uncertainties

- ☑ **Potential Legal Obstacles.** A federal law governing employer health benefit plans could block key features of the Governor's plan.
- ☑ **Availability of Federal and Local Funds.** Up to \$1.4 billion in federal funds and up to \$1 billion in the revenue from counties assumed in the Governor's plan appear to be at risk.
- ☑ **Economic and Demographic Risks.** Costs of the plan could be higher than forecast to the extent that: (1) the uninsured population is larger; (2) growth in costs of medical care outpaces the growth in wages and payrolls; or (3) the cost of providing coverage through the state pool is higher than anticipated.
- ☑ **Flows From Private to Public Insurance.** Although the administration's assumptions regarding movements between private insurance and new public coverage generally appear plausible, some uncertainties and potential risks remain.
- ☑ **Potential Additional Funds.** The Governor's plan appears to overstate state revenue losses due to the requirement that employers offer Section 125 tax plans. The plan also does not account for some additional funds that could be available due to additional premium payments and the elimination of redundant programs. On balance, we estimate that the plan does not recognize up to \$600 million in state resources that may be available.



Medical Costs Grow Faster Than Payrolls

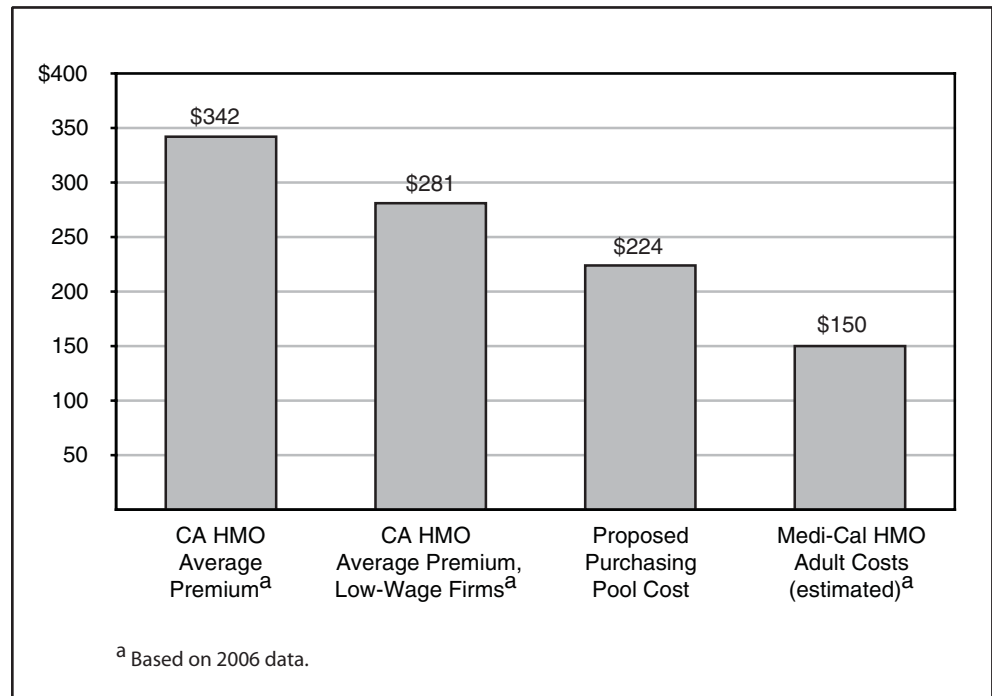
Average Annual Growth, 1998 Through 2005





Purchasing Pool Costs Per Member Lower Than Private Sector HMO Premiums

Charge Per Month





LAO Assessment of Major Fiscal Uncertainties

Dollars in Millions

	Potential Annual Additional State Costs	
	Low Estimate	High Estimate
Potential Additional Costs		
Some federal matching funds unavailable	—	\$1,350
Medi-Cal coverage for childless adults	—	(250)
Hospital Safety Net Care Pool	—	(750)
SCHIP funding	—	(350)
Revenue from counties unavailable	—	1,000
Higher number of uninsured persons	\$100	500
Health care cost inflation	400	Unknown above \$400
Higher cost of coverage in purchasing pool	250	Unknown above \$250
Subtotal Costs	\$750	\$3,500 or more
Potential Additional Funds		
Lower state revenue losses	\$500	\$300
Additional resources possible	100	50
Subtotal Revenues	\$600	\$350
Total Net Costs	\$150	\$3,150 or more