


Finance Committee Presentation to the OHFB

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Good People, Tough Assignment

- Big committee
- Diverse perspectives
- Extremely complex and difficult task
- Many moving parts
- Good faith participation
- True consensus elusive

Expanded Access Will Require New Money...

- ...at least in the short term
 - Cost-reducing initiatives will take time
- If we value it, we must be willing to pay for it
- We must be honest and transparent about this

Political Barriers Loom Large

- The “ask” is substantial
 - \$1 billion-plus per year
- Failure of the tobacco tax
 - In the legislature AND at the ballot
- Anti-tax politics are alive and kicking
 - There are no easy, popular tax increases
- The 84% with insurance must be willing to support those without
- Concentrated interest versus diffused benefit
 - Every constituency will likely find something to dislike

There Must Be a Credible Story to Tell

- Clear and compelling
- A detailed commitment to broader system reforms
- Credible expectations of enhanced quality and lower cost...
 - As well as lower cost
 - And lower cost
 - And lower cost, too
- ...particularly in the business community

Quality Improvements & Savings Must Be Identified

- We do not believe that there will be adequate support for new taxes for health care expenditures unless the public reasonably believes that such expenditures will be coupled with rational and substantial system improvements.

There Must Be a Political Strategy Around Reform

- Oriented around key political constituencies
- Sensitive to the risk of system changes
- With a focus on timing and sequencing of reforms
- It is relatively easy to defeat large, complex new programs

Strategic Revenue Principles

- Limit administrative cost
- Broad-based, sustainable, and equitable
- Transparent
- Limit likelihood of a legal challenge under federal law (ERISA)
- Broad public support
- Do not create disincentives for employer-sponsored insurance
- Maximize federal matching funds
- Encourage cost control

Taxes Considered

- Payroll tax
- Provider Tax
- Income tax
- Corporate income tax surcharge
- Cigarette tax
- Beverage tax
 - Beer/wine, hard liquor, carbonated beverage, or bottles
- Health plan revenue tax
- Property tax
- Gasoline tax
- Sales tax
- General fund dollars
- Eliminating the tax deductibility of health care premiums

Recommendation 1: Payroll Tax

- **The predominant revenue source should be a payroll tax**
- A strong majority believes that 60-100% of new revenue should come from a payroll tax

Design:

- No exemptions
- Levied as a flat percentage of payroll
- Relatively high cap on the payroll base
 - Up to two times the social security cap
- Tax rate should probably be 5-7%
- A credit against the tax should be allowed on a dollar-for-dollar basis for employer spending on health services
 - All employers contribute 0.25-1% that would not be offset

Recommendation 2: Additional Revenue Source

- A strong majority believes an additional source of revenue is needed
- Additional revenue should come from a provider tax or a new state income tax bracket

Provider Tax

- A 1-2% tax applied to gross patient revenues from all health care services, except Medicare or Medicaid
- Minority: exempt primary care and long-term care
- Minority: target one or two provider groups

Recommendation 2: Additional Revenue Source (continued)

Income Tax

- Add an additional, higher bracket to the state income tax
- Easily administered as part of existing income tax system

Other Taxes

- Minority: both a provider tax and a new income tax bracket to reduce the payroll tax
- Minority: taxes that encourage healthy behavior (e.g. taxes on tobacco, alcohol, etc.)

Recommendation 3: Additional Analysis Needed

1. Quantifying and capturing the cost shift
2. Assessing the economic impact of proposed new taxes

“Line of Sight” Scenarios

- To build consensus among Oregonians, there should be a clear “line of sight” between the sources and uses of funding

Two Parts of the Access Model

1. A new program that provides a state contribution (subsidy) towards premium costs for private insurance coverage purchased through an Exchange
2. Expanded eligibility for the Oregon Health Plan (OHP)
 - Leverage federal matching funds

Target Populations

1. Exchange

- Individuals and families whose incomes make them ineligible for OHP
- Most of these people are currently working for employers who do not offer health benefits or they are ineligible for employer coverage

2. Expanded OHP program

- Very low-income people, most of whom are not currently employed

“Line of Sight” → Payroll Tax

- Clear line of sight between payroll tax and first target population
- Subsidize private insurance coverage for employees through an Exchange
 - an extension of our current employer-based system
- Lower-income working uninsured unlikely to be offered health insurance by their employers
- Rationale: Would make the employer-based system more fair by “leveling the playing field”
 - i.e., all employers would be helping to fund health reform – they fund their employees’ health services directly and/or contribute to the new subsidy program.

“Line of Sight” → Provider Tax

- The health care community receives additional revenue due to increased access
 - Uncompensated care is reduced as providers are now paid for those services
- Health care community contributes its “fair share” of additional revenue coming into the system

“Line of Sight” → Income Tax

- “Line of sight” is less clear
- Oregon has a very flat income tax structure
- Adding a new tax bracket would be the least regressive of the proposed tax options
- Administration would be relatively simple and transparent through tax forms

Scenario 1: 60% Payroll Tax 40% Provider Tax

Illustration:

- 5% payroll tax paid by all employers
 - Credit against tax for employers funding health services for employees up to 4.75%
 - All employers pay 0.25% of payroll
 - Would raise approximately \$620 million a year
- 1.6% tax paid by all health care providers
 - Would raise approximately \$389 million a year

Scenario 2: 60% Payroll Tax 40% Income Tax

Illustration:

- 5% payroll tax paid by all employers
 - Credit against tax for employers funding health services for employees up to 4.75%
 - All employers pay 0.25% of payroll
 - Would raise approximately \$620 million a year
- New 10% income tax bracket for annual incomes over \$50,000
 - Would raise approximately \$330 million a year

Scenario 3: 100% Payroll Tax

Illustration:

- An 8% payroll tax paid by all employers
 - Credit against tax for employers funding health services for employees up to 7.1%
 - All employers would be required to pay at least 0.9% of payroll
 - Would raise approximately \$1.2 billion annually

Next Steps: Put the Pieces Together

- The OHFB must “solve” for many variables to create a balanced reform package.
 - Benefit level
 - Premium cost
 - Eligibility
 - New revenue for subsidies and OHP