

Health Care Affordability

Avoiding Government Mandates Can Help Limit Costs

Health care coverage affordability is a concern that plagues most, if not all, Californians. Many state residents are enrolled in an employer-sponsored health plan, meaning annual premium increases are of the utmost concern. The causes of premium increases, as well as the cost of overall health care is likely to be a component of legislation backed by health care advocates in the 2022 legislative session.

HEALTH CARE COVERAGE PREMIUMS BURDENSOME

According to the California Health Care Foundation, 32.7 million Californians were enrolled in some form of health care coverage, including Medi-Cal, in 2019. Of those enrollees, 18 million obtained coverage through an employer-sponsored health plan.

California employers and employees spent \$144 billion on health care in 2019. Employees spent \$27 billion on premiums while employers spent \$100 billion on premiums. The average premium for family coverage has increased 22% over the last five years and 55% over the last 10 years.

Since 2002, premiums for the average family health plan in the employer market has increased 133%. The 2020 Kaiser Family Foundation Employer Health Benefits Survey indicated that, for job-based coverage, the average annual premium for single coverage rose 4%, to \$7,470. The average annual premium for family coverage also rose 4%, to \$21,342, which is nearly one-third of the state's median family income.

GOVERNMENT-IMPOSED COVERAGE MANDATES CAUSE PREMIUMS TO INCREASE

When health plans and insurers are required to cover new services or to waive or limit cost-sharing requirements for certain services, premiums for all enrollees and purchasers go up. This is true even though only some enrollees will utilize the mandated

product or services, or benefit from the reduction in cost-sharing. This legislated coverage is known as a mandate.

According to the California Health Benefits Review Program (CHBRP), the California Legislature introduced 19 bills in 2021 that, if signed into law, would have increased California employer premiums a staggering \$580.544 million. This figure did not include the potential impact of AB 570 (Santiago; D-Los Angeles), which would have increased premiums by \$829.36 million in certain utilization scenarios. Before amendments, AB 570 sought to mandate employees' dependent parents and step-parents be provided health care coverage on employer-sponsored health plans. Also not included in the CHBRP estimate was the cost impact of AB 1400 (Kalra; D-San Jose) — an attempt to create a state government-run, single-payer health care system (see Single-Payer Business Issue article) — which would have cost employers at least \$200 billion while upending the entire health care model.

When looked at in isolation, the cost implications of many of the coverage mandates may seem tolerable. In other words, one mandate may raise premiums a nominal amount. As the CHBRP analysis illustrated, however, if all coverage mandates proposed in 2021 had gone into effect, state legislators would have been responsible for increasing state employer premiums by more than \$1 billion — and this doesn't include the cost impact of AB 1400's single-payer proposal.

GOVERNMENT MANDATES LARGELY UNNECESSARY

The Affordable Care Act requires nongrandfathered health plans in the individual and small group markets to cover essential health benefits (EHB) in 10 separate categories, which include: (1) ambulatory patient services; (2) emergency services; (3) hospitalization; (4) maternity and newborn care; (5) mental health and substance use disorder services, including behavioral health treatment; (6) prescription drugs; (7) rehabilitative and habilitative services and devices; (8) laboratory services; (9) preventive and wellness services and chronic disease management; and (10) pediatric services, including oral and vision care.

The EHB requirement does not extend to large group and

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self-insured plans; however, those plans offer comprehensive coverage that can exceed EHB requirements. If a large group or self-funded plan covers any specific category of EHBs, then they cannot place an annual or lifetime dollar limit on that type of coverage. In addition, a state cannot mandate how a self-insured plan is administered because these plans are regulated at the federal level by the Employee Retirement Income Security Act (ERISA).

Small and large group health care plans offer a breadth and scope of coverage that extends to a vast majority of care settings and treatment situations. Benefit design and enrollment choices made by employers should be respected and not infringed upon. Although government mandates usually are intended to address a perceived shortcoming, they inversely cause health care costs to rise for all enrollees even though only some will utilize the expensive new service.

ADDITIONAL STATE COST TRENDS

California pays more for common health care services than the rest of the United States and price disparities abound within the state itself. In a national analysis, the average price of childbirth in California was more than \$11,000. Nevada and Arizona had average prices below \$8,000.

Within California, prices vary geographically. For example, a vaginal delivery on average is \$13,855 in Northern California, while it's \$11,202 in Southern California. That is a 24% difference. A colonoscopy in Northern California, on average,

is \$1,007 while it is \$887 in Southern California. Inpatient spending differences are even more dramatic when comparing Northern and Southern California. Inpatient procedures, on average, are \$223,278 in Northern California while they are \$131,586 in Southern California — a 70% difference.

While prices vary across the state, health care spending in general has increased over the last 10 to 15 years. This includes spending on prescription drugs, office-based care, and inpatient care. From 2014 to 2018, total health care spending increased 18.4% for employer-sponsored enrollees.

The cause of increased health care costs for employer-based plans is likely due to multiple factors, including high health system concentration, government mandates, increased administrative costs, California hospitals being required to retrofit — the costs of which are passed onto patients — and an aging population.

CALCHAMBER POSITION

Californians need to have access to affordable, quality health care. The cost of care and pharmaceutical prices are obviously increasing, which, in turn, causes employer and employee premiums to rise. If affordability is the goal of the California Legislature, expensive coverage mandates are avoidable health care cost drivers. CalChamber will continue to oppose these mandates while supporting legislation and regulatory action that allows health plans to offer a variety of benefit design options to employers for their employees.



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