



HEALTHY CALIFORNIA FOR ALL

Accessible, Affordable, Equitable, High Quality, Universal

Financing Considerations: Background for August 13 Commission Meeting

Rick Kronick, PhD

University of California San Diego

Summary



HEALTHY CALIFORNIA FOR ALL

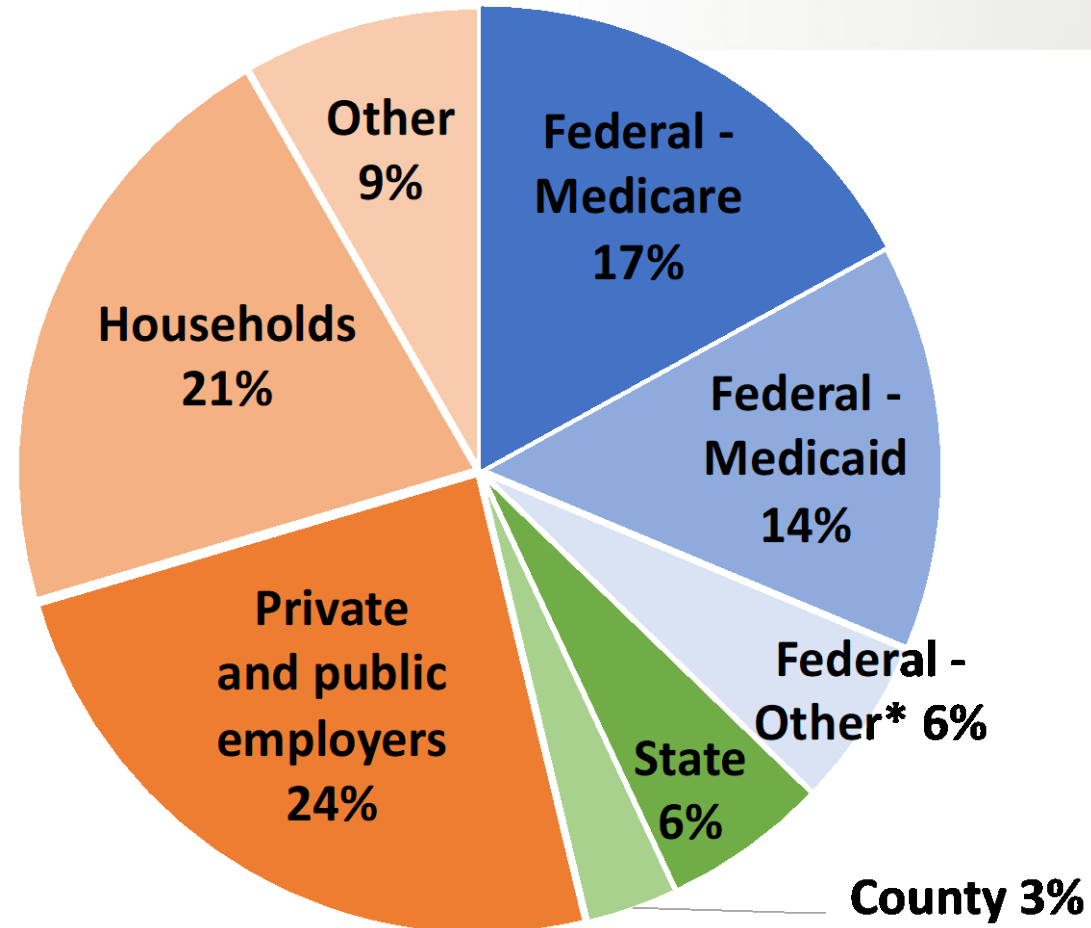
- Overview of Financing Sources
- Maintenance of effort for federal and state funding
- Potential criteria to evaluate revenue options
- Consideration of potential revenue options

Estimated California health expenditures



HEALTHY CALIFORNIA FOR ALL

2019 =
\$437 billion



* Indian Health Service, In-Home Supportive Services, ACA subsidies, Military Health System, and VA.
Source: Extrapolated from National Health Expenditures data among other sources, Federal and State Medicaid expenditures based on data provided by California Department of Finance.

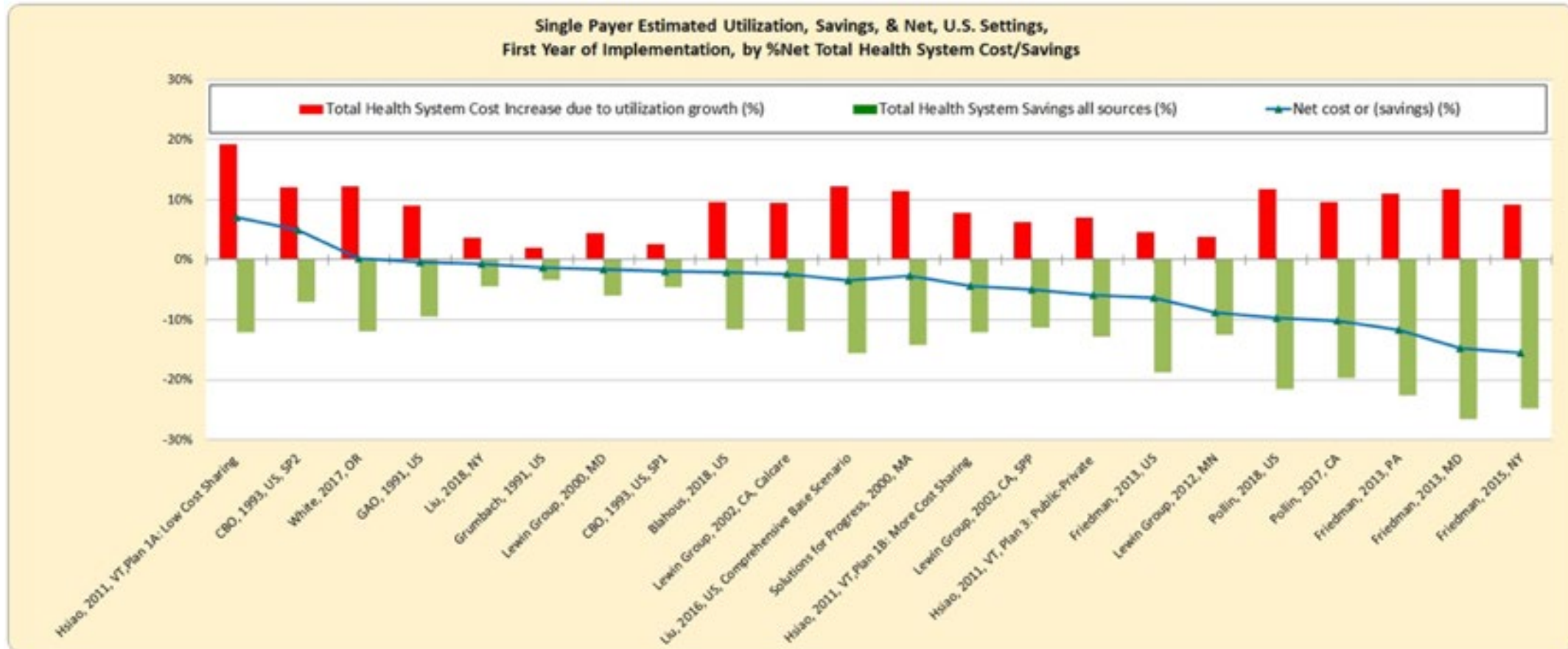
Overview of financing

How would total expenditures change under unified financing?



HEALTHY CALIFORNIA FOR ALL

It depends on policy design and assumptions but many studies have analyzed the change in expenditures under national single payer policy scenarios



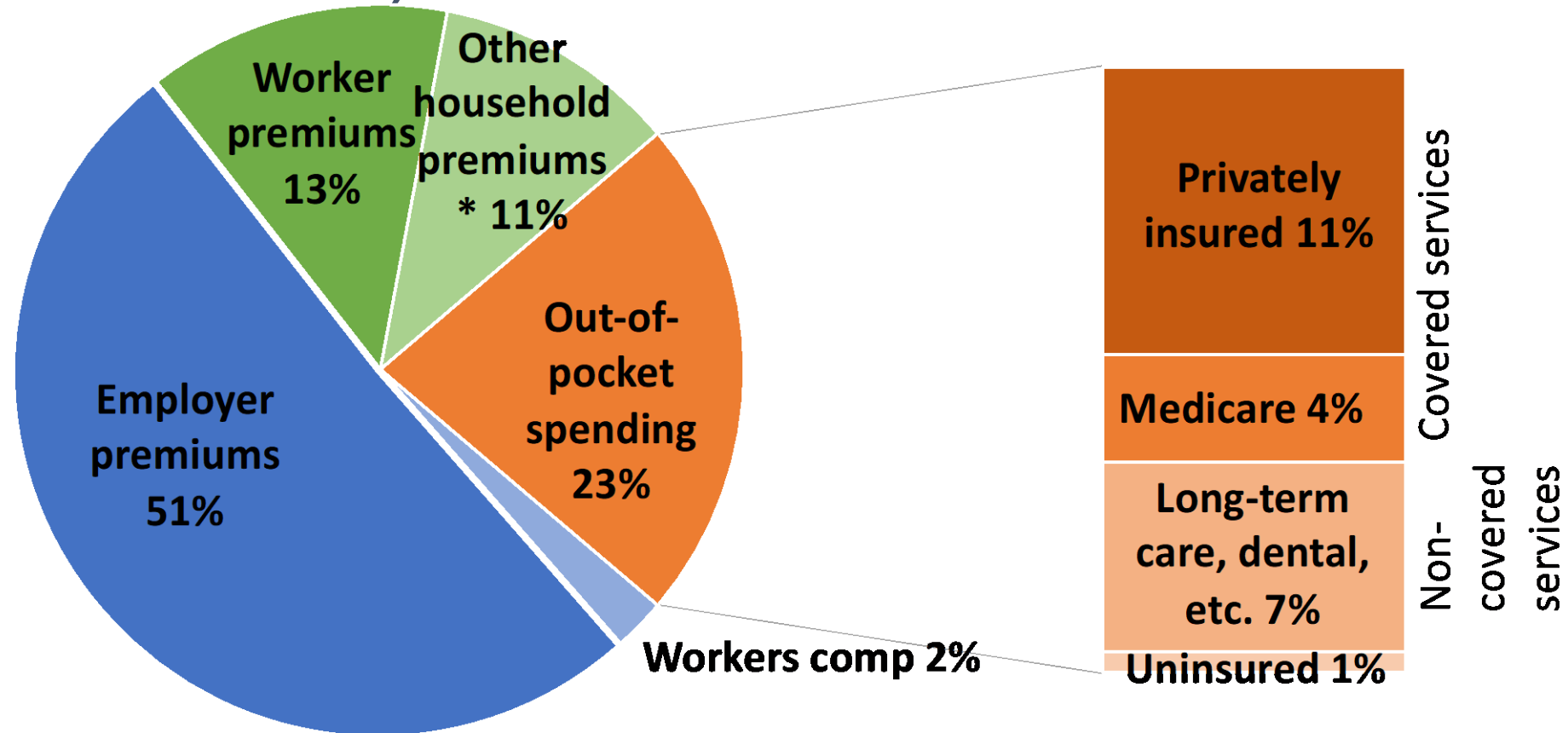
Source: Christopher Cai et al., PLOS Medicine, January 2020

Health expenditures from California employers and households

Estimated health expenditures by California households and employers, 2019 (\$197 billion)



HEALTHY CALIFORNIA FOR ALL

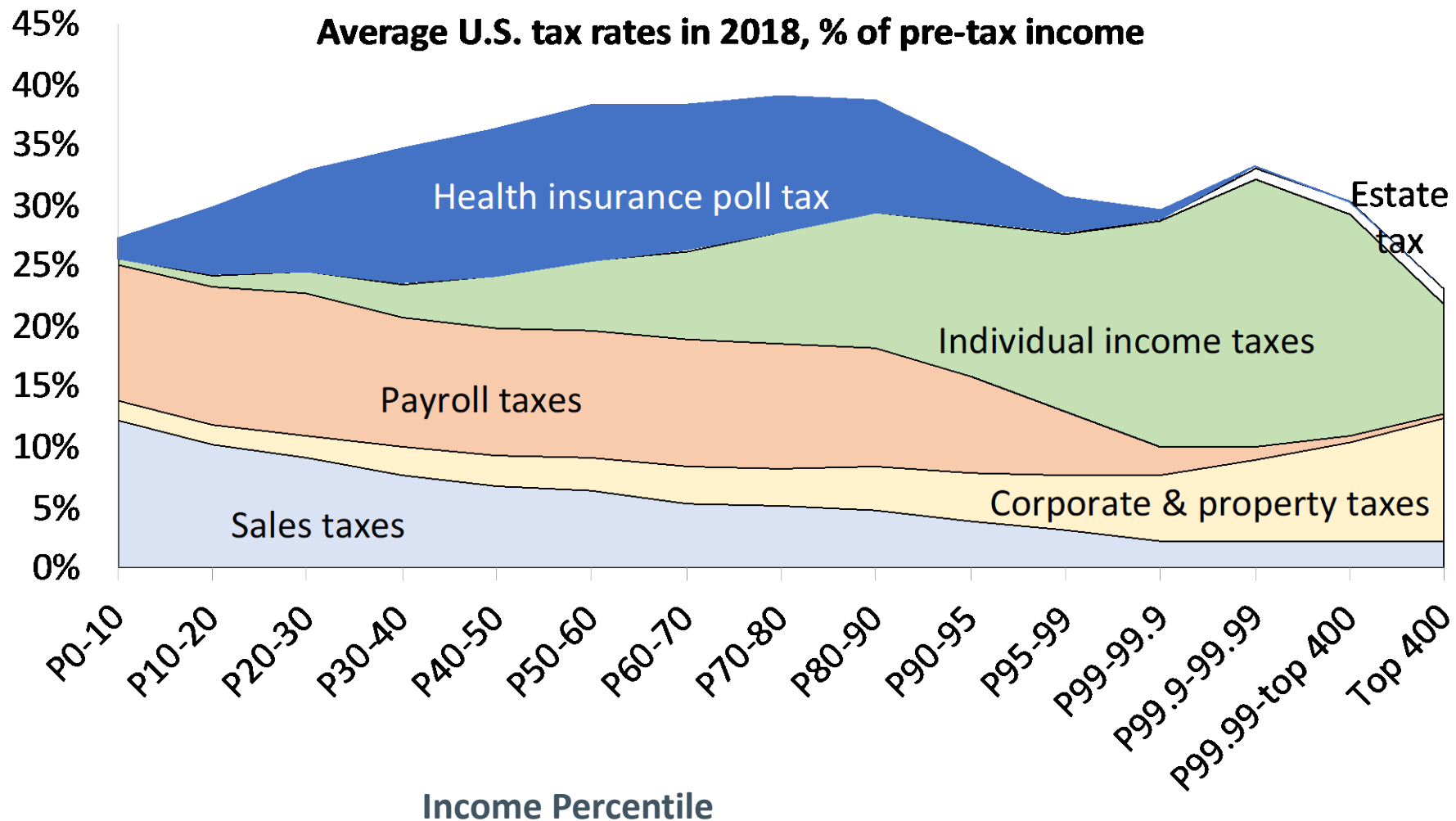


* Other premiums include individual market, Medicare Parts B & D, Medigap, medical portion of property/ casualty
 Source: Extrapolated from National Health Expenditures data among other sources

Saez/Zucman: “for middle class, health insurance is the biggest tax they pay”



HEALTHY CALIFORNIA FOR ALL



Source: Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice*

California employer-sponsored insurance costs



HEALTHY CALIFORNIA FOR ALL

- On average, California workers paid approximately 14% of single coverage premiums and 27% of family coverage premiums in 2018, with employers contributing the remainder.
- CA single coverage premiums averaged \$8,712 per year in 2018 equivalent to \$4 per hour for someone working 40 hours per week.
- For family coverage, the average premium was \$20,843, equivalent to \$10 per hour worked for a full-time worker—just three dollars less per hour than California’s current \$13 minimum wage for employers with more than 25 workers.

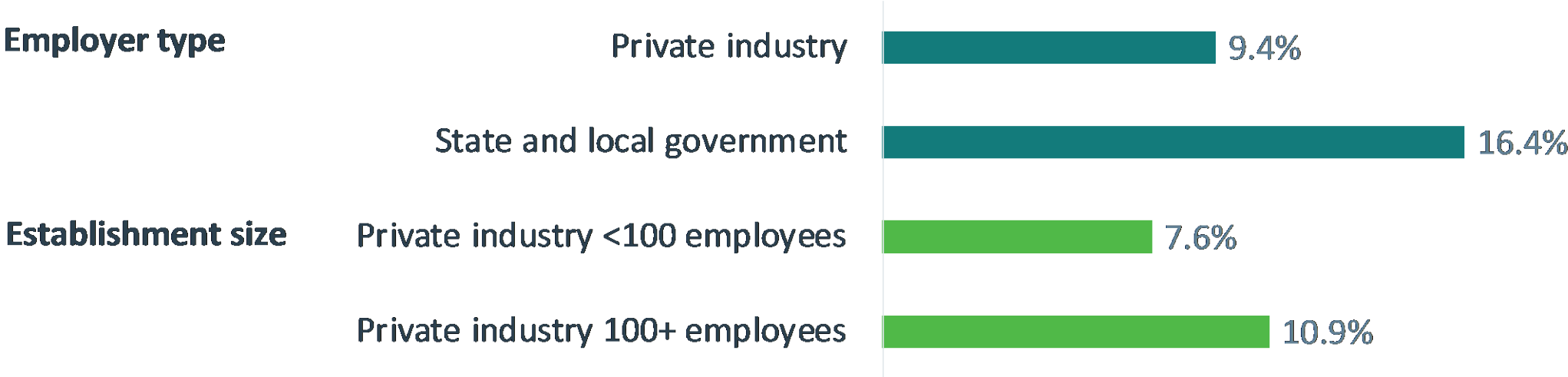
Employer spending on health insurance



HEALTHY CALIFORNIA FOR ALL

California employer spending on health insurance estimated to equal 8.0% of payroll in 2019 (a) -- but spending varies significantly by employer type, employer size, industry, occupation, etc.

U.S. employer spending on health insurance as percentage of payroll, June 2019 (b)



Sources: (a) Employer health insurance spending estimated as a % of national employer spending using CMS National Health Expenditures, and adjusting for CA % of national employer-sponsored insurance enrollment and CA average single premium compared to national; payroll from U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages. (b) U.S. Bureau of Labor Statistics, Employer Costs for Employee Compensation. Average health insurance costs divided by average wages and salaries, paid leave, and supplemental pay.

What would happen to employer contributions if employers no longer contributed to health insurance?



HEALTHY CALIFORNIA FOR ALL

- Short-run wage impact depends on whether state law mandates that employers pass through savings to workers
- To the extent that wages do increase, approximately 30% would be diverted to federal income tax and payroll taxes
- If a payroll tax replaced current employer contributions, equity impacts would vary with design:
 - Head tax replacing current spending – maintain current inequities
 - Flat % of payroll – improve equity
 - Flat % of payroll exempting first \$20,000 in income – more progressive

Federal financing

Federal financing



HEALTHY CALIFORNIA FOR ALL

- For purposes of today's discussion, we assume the federal government will agree to pay California's Unified Financing authority the amount that the federal government would otherwise have paid for Californians on Medicare, Medi-Cal and for those receiving Premium Tax Credits through Covered California.

- For consideration:
 - How realistic is that assumption?
 - Would federal law change be required (e.g., with respect to Medicare financing shifts)? What role could waivers play in achieving desired financing flexibility?
 - Negotiating an adequate rate of increase in federal funding will be key to the success of Unified Financing in California
 - Under what circumstances could (should) expenditures for Indian Health Service, TRICARE, and/or the VA be transferred to California?

Reserves



HEALTHY CALIFORNIA FOR ALL

- A system of Unified Financing will need reserves to cover two types of contingencies
 - Unexpectedly high expenditures (e.g., new and expensive drugs being introduced; unexpected increase in use of outpatient care)
 - Unexpectedly low revenues (e.g., a shortfall in revenues caused by a recession)
- Insurers are typically required to maintain minimum reserves of approximately two months' spending. In California, this would amount to about \$70 billion.
- Insurer premiums are less subject to fluctuation than many of the revenue sources that could support Unified Financing. Additional reserves may be needed to cover potential revenue shortfalls.
- One potential source for reserves is to attempt to negotiate a line of credit with the federal government.

Summary



HEALTHY CALIFORNIA FOR ALL

- In 2019, California health expenditures were approximately \$437 billion
- The amount of money needed under Unified Financing depends on a variety of decisions that the Governor and Legislature have not yet made
- Approximately 50% of status quo financing comes from the federal, state, and local governments
- For the purposes of today's discussion, we assume that the government funding will continue at the status quo level



Summary (cont.)

- Employers and employees currently spend approximately \$127 billion to pay premiums for employer sponsored insurance
- Households spend an additional \$66 billion in out-of-pocket payments and other insurance premiums
- Employer payments for health insurance are effectively a 'head tax' on the wages of workers, and are highly regressive

Context for consideration of financing



HEALTHY CALIFORNIA FOR ALL

- While not a specific charge of the Commission, Commission members have supported a discussion of financing as a design element
- The following are some potential criteria to evaluate the desirability of financing options
- Included are some examples of broad-based financing options from existing studies and available state data

Potential Criteria for Evaluating Revenue Options (Part 1)



HEALTHY CALIFORNIA FOR ALL

1. Equity: Make financing more equitable
 - How well do revenue sources reflect individuals'/ households' ability to pay?
 - Are similarly situated households and firms treated similarly?
2. Adequacy: Ensure that financing is adequate to meet revenue needs
 - Are the revenue sources sufficient to meet the revenue needs?
 - Will the revenue source grow in the future as needs grow?
3. Do No Harm: Avoid federal income tax increase
 - If the revenue source replaces tax-advantaged employer and employee contributions to health insurance, will federal taxes take a greater share of Californians' income?
4. Neutrality: Minimize economic distortions
 - What effects does the revenue source have on the economy (labor market, capital investment, competitiveness of California industry, etc.)?

Potential Criteria for Evaluating Revenue Options (Part 2)



HEALTHY CALIFORNIA FOR ALL

5. Stability: Mitigate and address volatility

- How much do the combined revenue sources fluctuate with the economy?
- What strategies can be used to address these fluctuations?

6. Simplicity: Minimize administrative costs and burden

- Does the revenue source require new tax and administrative systems?
- What is the cost of administering a new tax or other source of revenue relative to other sources and to the revenue generated?

7. Healthy behavior: Change corporate and individual behaviors that contribute to poor health through tax policy

- How do you balance desired behavioral change with need for revenue?
- Is there a trade off with equity? If so, can it be mitigated while retaining sufficient revenue?

Broad Based Financing Options



HEALTHY CALIFORNIA FOR ALL

- Broad based financing options: scalable, depending on tax rate
 - Payroll taxes
 - Broad income tax at source
 - Gross receipts tax
 - Sales tax on services
 - Raise income tax rates for all income brackets
- All estimates are based on economic activity prior to the pandemic

Replace employment-based spending with a payroll tax



HEALTHY CALIFORNIA FOR ALL

Criterion	Assessment
Equity	Percentage of payroll better reflects ability to pay; more progressive if exempt first \$20K
Adequacy	1% raises \$12.5 billion; 10.1% would cover current employer/employee premiums if applied to all income
Do No Harm	Retains federal tax advantage of employer paid system (if employer paid)
Neutrality	Maintains higher cost on labor relative to capital Same tax on independent contractors and sole proprietors would increase equity and avoid incentives based on employment status
Stability	Fluctuates with the economy
Simplicity	Administratively simple
Healthy behavior	No direct impact though improving equity can improve health

Source: Tax rate based on estimated premium spending and Bureau of Labor Statistics Quarterly Census of Employment and Wages payroll data (2019)

Flat tax on labor and capital income: compensation, corporate profits, interest



HEALTHY CALIFORNIA FOR ALL

Criterion	Assessment
Equity	More progressive than payroll tax in including all labor and capital income To make more progressive could exempt first \$20K in income
Adequacy	Scalable: each 1% = ~\$18-20 billion a year (based on 2019 earnings); lower if some of labor income is excluded Grows along with the economy
Do No Harm	Largely retains federal tax advantage of employer paid system
Neutrality	Minimizes economic distortions by treating all income sources the same As with current California corporate income tax, tax on profits apportioned on state share of sales to avoid incentives to leave the state
Stability	Broad based. Fluctuates with the economy
Simplicity	New approach, but works within existing tax collection systems
Healthy behavior	No direct impact though improving equity can improve health

Source: Emmanuel Saez and Gabriel Zucman (2019) ,The Triumph of Injustice. Estimates based on economic activity prior to pandemic.

Gross Receipts Tax on businesses' revenue



HEALTHY CALIFORNIA FOR ALL

Criterion	Assessment
Equity	Effectively a sales tax on firms, like other sales taxes incidence is generally regressive
Adequacy	Scalable: each 1% = \$40 billion a year Broad-based gross receipts taxes are generally small (1% or less)
Do No Harm	If wages increase, big increase in federal income tax payments
Neutrality	Incentivizes vertical integration of firms Disproportionate effect on businesses with large cash flows and low margins
Stability	Broad based. Fluctuates with the economy
Simplicity	Would require new tax collection infrastructure
Healthy behavior	No direct impact on healthy behaviors

Source: Legislative Analysts Office; estimates are based on economic activity prior to the pandemic

Sales and use taxes on certain services



HEALTHY CALIFORNIA FOR ALL

Criterion	Assessment
Equity	Regressive
Adequacy	Scalable: each 1% = \$6.9 billion a year if services exclude healthcare, education, childcare, social services, entertainment, repair and personal services. Less if more services excluded. Matching 7.25% state sales tax rate on goods = \$50 billion
Do No Harm	If wages increase, big increase in federal income tax payments
Neutrality	Reduces incentive to purchase services over goods
Stability	Low volatility
Simplicity	Would require additional resources for tax collection and auditing
Healthy behavior	Unknown

Services included: finance, real estate, legal, other professional and technical, non-residential construction, publishing, telecommunications, transportation, hotels, other.

Source: Blue Sky Consulting Group; estimates are based on economic activity prior to the pandemic

Raise California income taxes for all tax brackets



HEALTHY CALIFORNIA FOR ALL

Criterion	Assessment
Equity	Potentially progressive, would depend on employers raising pay on savings from job-based coverage
Adequacy	Scalable: each 10% increase in each tax bracket (e.g. the top tax bracket goes from 12.3 to 13.5 = \$10 billion a year)
Do No Harm	If wages increase, big increase in federal income tax payments
Neutrality	May reduce labor supply
Stability	More volatile than other taxes; can be mitigated with a rainy day fund
Simplicity	Works through existing tax structures
Healthy behavior	No direct impact though improving equity can improve health

Source: Legislative Analyst's Office presentation to Assembly Select Committee on Health Care Delivery Systems and Universal Coverage. Estimates based on economic activity prior to the pandemic.

Conclusion



HEALTHY CALIFORNIA FOR ALL

- Our current system of employer-based financing is not tied to ability to pay
- A variety of options are available to create an adequate and more equitable financing system
- One single revenue source is unlikely to be adequate to cover the entire need
- Revenue sources can be mixed in complementary ways to maximize the state's goals
- Decisions in areas such as provider payment and covered benefits will affect how much revenue needs to be raised