



Legislative Update

January 2007

2007 State of the State Address

Governor Arnold Schwarzenegger delivered his fourth State of the State address Tuesday, calling for another major expansion in public works spending, growth in alternative fuels and health coverage for the uninsured.

In an attempt to overcome financial and negotiation concerns, Schwarzenegger urged lawmakers to put California's broad interests first. Early reaction to the Governor's speech, however, suggested deep Republican dismay. Schwarzenegger has angered fellow Republicans in recent weeks, evidenced most recently by his call for expanding healthcare coverage. The exhaustive plan would extend healthcare coverage to all Californians.

Other policy goals on the Governor's agenda include political reform, career technical education enhancements, development of alternative energy sources, and more.

Virtually all of the Governor's proposals will incur significant costs that would be covered largely through bond financing. This could be problematic. According to the Los Angeles Times, bond companies suggest states avoid borrowing to the extent that repayment accounts for 6% of their budgets. However, by 2009, 8.4% of California's budget will go exclusively to paying off debt — much of it the result of a multibillion-dollar bond sale that Schwarzenegger pushed in 2004 as a means to balance the budget.

Despite the Governor's call for continued bipartisanship and collaboration towards common policy goals for the state, the traditional views of both Democrats and Republicans will no doubt complicate his agenda in the coming year. Nonetheless, Schwarzenegger has committed to continuing to work with the Legislature to address the major issues in California.

Schwarzenegger's Health Care Reform Plan

As a starting point in the health care reform debate, Governor Schwarzenegger has proposed an ambitious plan that will require involvement from every stakeholder in the health insurance market. The plan sets up a shared responsibility/coverage for all system that makes wellness and prevention and affordability its key elements. Below you will find a brief overview of each of these elements.

Shared Responsibility/Coverage for All

- Mandatory Insurance Coverage for all Californians
- Employers with 10 or More Employees Must Contribute 4% of Payroll in to a State Health Care Fund, if Not Already Providing Coverage
- Coverage for Undocumented Immigrants – Children and Adults
- Insurance Companies Banned from Denying Coverage because of Age or Health Status
- 85% Premium Revenue Must Go Back in to Care not Profits/Administration
- Increase Medi-Cal Reimbursement Rates by \$4 billion – Almost to Medicare Levels
- Hospitals and Doctors will be Required to Pay a Coverage Dividend of 4% and 2% Respectively to Help with Care and Coverage
- Rewards for Health Lifestyles

Shared responsibility will encompass individuals, health plans, doctors and hospitals, employers and government.

Prevention & Wellness

- Benefit Redesign to Incorporate Incentives (i.e. Premium Reductions, Gym Memberships)
- 85% Premium Revenues to go to Patient Care

Affordability

- Short-Term
 - o Tax Breaks for Individuals & Businesses Purchasing Health Coverage
 - Health Savings Account Conformity
 - Employer Establishment of “Section 125” Plans for Employees to make Tax Deductible Contributions for Health Care – Saves Employers Additional FICA Contributions
 - o Efficiency Enhancements
 - o Removal of Regulatory Barriers (Details Not Specified)
 - o Reduction of Red Tape Hindering Innovation
- Long-Term
 - o Health & Wellness Improvements
 - o Reduction of Medical Errors
 - o Health Information Technology – Paperless System & Electronic Prescriptions
 - o Performance Measures tied to Cost Containment
 - o Performance Measurements – Physicians, Doctors, etc.
 - o Study to Evaluate & Monitor Market Function & Costs (Revised as Necessary)

NAIFA-California is highly engaged in the health care discussion on behalf of its members. Please watch for updates as more details become available on the various components of this and other legislative proposals. For more information on the Governor’s Health Care Reform Proposal, please visit the Governor’s website at http://gov.ca.gov/pdf/press/Governors_HC_Proposal.pdf.

Insurance Commissioner Steve Poizner Takes Oath of Office, Outlines Priorities

Newly-elected Insurance Commissioner Steve Poizner took the Oath of Office on January 8th amidst a crowd of over 500 supporters and former elected officials. In his address to the crowd at the Tech Museum of Innovation in San Jose, Poizner vowed to make the office bi-partisan, lower insurance rates by combating fraud, and to help the state prepare for natural disasters.

More specifically, he outlined the following three initiatives he will undertake as Commissioner:

- Move to make the Office of the Insurance Commissioner non-partisan. In an effort to achieve this, he will ask the Legislature to pass a new law banning contributions to the office from those who are regulated by, or do business with, the Department of Insurance.
- Lower insurance rates through aggressive attacks on insurance fraud. He cited that insurance fraud currently takes \$500 out of the pocket of every man, woman and child in this state.
- Work with the Governor and the Legislature to help prepare the state for the next major natural disaster. A major component of preparation for natural disasters will be to review the insurance coverage offered by the California Earthquake Authority.

Poizner has committed himself to instituting change in this office by “transforming the post of Insurance Commissioner from simply a compliance officer... into the state’s Chief Risk Manager.”

If you have any questions regarding any of the topics mentioned in this report, or others not mentioned, please contact Shari McHugh or Dawn Sanders Koepke at 916/440-0850. Thank you!