



## Legislative Update

November 2007

### DIFFERENCES STILL REMAIN ON HEALTH CARE PLANS

Last week Democratic leaders presented a new health care reform plan that brought their plan and Governor Schwarzenegger's plan closer together, yet perhaps not close enough. Significant differences between the two plans still remain. Here is a look at where the Democrats and the governor agree, and where their proposals are still in conflict:

- Employer mandate: Both plans require employers to provide coverage, but in different ways. The Democrats have proposed that employers with payrolls greater than \$250,000 spend at least 6.5 percent of their payroll on health care or else pay a fee of the same amount to the state. Smaller firms would pay less. This is a concession from their earlier plan, which would have required all employers to spend at least 7.5 percent of payroll on health care. Schwarzenegger is also proposing a sliding scale from 0-4% of total payroll based on payroll size.

Although the Democrats did move a bit toward Schwarzenegger by agreeing to a sliding scale and lowering their maximum fee, employers under their plan could reach the maximum so quickly that the sliding scale could lose much of its meaning. For instance, a company with six employees making an average of \$45,000 each would have to pay the maximum under the Democrats' plan.

- Part-time workers: This is an important distinction. The Democratic plan requires companies to spend the minimum 6.5 percent on employees, as a group, who earn more than \$25,000, and separately spend that same percentage on any group of workers earning less than \$25,000. The intent of this provision is to prevent companies from meeting the threshold by spending more on health care for their higher-paid employees than they do on their low-wage workers. Schwarzenegger's plan simply requires companies to spend 4 percent of payroll on health care without any further requirement about how they achieve that standard.

- Other taxes: Both plans would also be financed by other taxes, with the revenue used to subsidize people who can't otherwise afford insurance. The Democrats and the Governor support a 4 percent tax on hospital revenues, which is designed to draw matching funds from the federal government. The hospital industry supports the tax increase because, with the new federal money, most hospitals would get far higher reimbursements for treating the poor, making them net winners in the exchange. The Democrats now also propose a \$2 per pack increase in the tobacco tax, which they say would raise \$1.8 billion. The Governor had proposed leasing the state lottery to a private vendor to raise an estimated \$2 billion per year.

- Individual mandate: This is another concession by the Democrats. They now agree with the Governor that the plan should require everyone to have coverage. But they also insist that people

whose health care costs exceed 6.5 percent of their total income be exempted from the requirement. It is not clear from their proposal whether this exemption would apply upfront, to a combination of the monthly premium and the potential co-payments, or if the exemption would take place only after a person's health care bills exceeded the 6.5 percent standard.

- Subsidies: Both plans would subsidize low-income and middle-income people. Schwarzenegger's plan would provide help to people earning up to 3.5 times the federal poverty rate, or about \$72,000 for a family of four. The Democrats' plan would give partial subsidies to people with incomes up to 4.5 times the federal poverty rate, or \$93,000 for a family of four. Families at the high end of those income ranges would receive tax credits if their premiums exceeded 5 percent of their income.
- Guaranteed issue: The Democrats made a concession here. Their earlier plan allowed private insurers to deny coverage to people with pre-existing conditions, who were then to be shunted into a separate, state-run high-risk pool financed in part by a surcharge on insurance policies. Their new plan mirrors the Governor's proposal, which would require insurers to cover everybody without regard to pre-existing conditions.
- Drugs: The Democrats' plan would allow the state to buy prescription drugs in bulk in an effort to save money. Schwarzenegger's plan does not have that provision.
- Public plans: The Democrats would allow counties to band together and offer public insurance plans to compete for customers with private-sector health plans. The Governor's proposal does not address this issue.

The Assembly Health Committee is scheduled to meet on November 14 and Speaker Nunez has scheduled Assembly floor session on Monday November 26. In the meantime, both sides will continue to negotiate in an attempt to resolve the issues that still divides them. If the Democrats and the Governor reach agreement, the taxes proposed in the plan will have to be placed on the 2008 November ballot.

### **ASSEMBLY INSURANCE COMMITTEE HEARING: ANNUITIES: WHAT IS SUITABLE?**

In keeping with the promise to hold an interim hearing on the issue, the Assembly Insurance Committee met on Tuesday, October 30<sup>th</sup> to discuss annuities, senior citizens and what is suitable in the marketplace. Earlier this year, the Committee held the three bills related to this issue so that stakeholders could take more time to review the concerns and properly address them in a balanced fashion.

NAIFA-California's President Dennis Sunderman testified on behalf of NAIFA-California and all of its members. He did an excellent job explaining the annuity marketplace and how senior citizens can benefit from annuities. He discussed how NAIFA-California is committed to addressing abuses in the marketplace and he offered to continue to work with the Committee in an effort to draft meaningful legislation that addresses the problems without negatively impacting the companies and agents who are already doing the right thing.

Overall, the hearing was a great opportunity to bring all of the interested parties to the table to discuss the laws that have been passed over the past few years, the enforcement actions that have been taken by the Department and the on-going problems in the marketplace that are of concern. We are certain there will be additional meetings and possibly another hearing on the issue in the

coming months. Either way, the issue of suitability will continue to be at the forefront of NAIFA-California's legislative and regulatory agenda.

### **PROPOSITION 93: THE TERM LIMITS AND LEGISLATIVE REFORM ACT**

In addition to making choices about the candidates running for the Democratic and Republican Presidential nominations next February, Californians will be asked to vote on a number of important ballot propositions ranging from legislative term limits to the number of slot machines in four Southern California casinos.

Ever since California voters approved legislative term limits in the 1992 election, polls have shown that voters have remained strongly supportive of the idea of term limits. On next February's statewide primary election ballot, there will be an initiative, Proposition 93, designed to modify the state's term limits law. The measure calls for reducing the total years a state legislator can serve in both the Assembly and State Senate from 14 to 12 years, but also allows a legislator to serve his or her entire 12 years in either house.

Support for proposition 93 currently includes voters in all regions of the state and across all party lines, with Republicans favoring it by the biggest margin. Supporters look at proposition 93 as a way to reform California's 17 year-old term limits law to make the State Legislature more efficient and effective.

Last week, Insurance Commissioner Steve Poizner announced that he will contribute \$1.5 million of his own money to help defeat the proposition. He called the measure "a blatant attempt by career politicians to hold on to their political power." Opponents argue that many current legislators, including the present leaders in the Senate and Assembly, would avoid being termed out of office next year because of the initiative's provision to allow legislators to serve up to 12 years in the legislative body in which they are currently serving.

***If you have any questions regarding any of the topics mentioned in this report, or others not mentioned, please contact Shari McHugh, Legislative Advocate for NAIFA-California, at 916/440-0850. Thank you!***