



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

September 23, 2009

The Honorable Max Baucus
Chairman
Senate Finance Committee
219 Dirksen Building
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the Blue Cross and Blue Shield Association (BCBSA) and America's Health Insurance Plans (AHIP), we are writing with additional comments on your modified Chairman's Mark for the "America's Healthy Future Act." We applaud you for your leadership in pursuing a bipartisan consensus in the health reform debate and recognize the great challenge of preparing legislation of this magnitude and importance to the country.

Over the last several years, we have worked hard to offer proposals that would advance health care reform to cover all Americans and improve quality and value throughout the system. While we have offered comments on the original Mark, we have strong concerns that yesterday's modifications to the Chairman's Mark include provisions that would undermine the shared goals of achieving universal coverage and improving the affordability and quality of health care both for the uninsured and for those currently with coverage. We are writing to explain these concerns.

New Insurer Taxes

The revised Chairman's Mark includes a \$6.7 billion excise tax described as an "annual fee on health insurance providers." This tax would make health insurance much less affordable for all Americans, regardless of whether they currently have coverage or are uninsured. This outcome would stem from both the direct impact of this tax and its interaction with other provisions in the Chairman's Mark, as well as existing federal and state taxes.

In its September 22, 2009 letter, the Congressional Budget Office (CBO) estimated that this excise tax would have the effect of increasing premiums by roughly 1 percent. By our estimates, however, the effect of this tax would be much more significant, since the tax would only apply to fully insured health insurance and excludes self-funded coverage. In addition, unlike most excise taxes, this new tax would be non-deductible and would have the interactive effect of increasing other federal and state taxes which raises significantly the overall effective rate of the tax. Overall, we estimate that the effect of this tax would be to raise coverage costs as much as three times CBO's estimate in most instances.

It also is important to note that the effect of these new taxes would be borne principally by those obtaining individual coverage in the exchange and by small businesses. These new taxes would not apply to employers providing coverage on a self-insured basis, which would

lead more employers to self-insure, as was reported by Joint Tax Committee staff in Tuesday's walk-through of the modified Mark. This would encourage a vicious cycle, whereby the taxes are ultimately borne by an increasingly narrow group of consumers, including those purchasing coverage through the exchange.

These new taxes, coupled with other provisions in the Chairman's Mark, would make coverage less affordable to consumers. As CBO suggests, new taxes on pharmaceuticals and medical devices would increase underlying medical costs which then would be shifted to health plans and consumers. This would come on top of cost-shifting from hospitals and physicians stemming from existing underpayments from public programs such as Medicare and Medicaid which already amounts to a surcharge of \$1,500 per family annually. Moreover, CBO estimates that the cost of operating exchanges would add, on average, about 3 percent to premiums. Each of these factors are hidden taxes, imposed on top of existing federal and state taxes, fees, and surcharges. If the objective is to reduce the cost of coverage, these data show that these provisions will have the opposite effect.

Narrowing the Age Band to 4:1

Pricing health insurance for younger individuals is critical to getting them covered and brought into the system. This is borne out by Census Bureau data showing that individuals under the age of 35 make up the fastest growing segment of the uninsured. If age bands are narrowed or "compressed" too much, premiums will rise significantly for these individuals, making coverage unaffordable, and resulting in a smaller and less stable pool, and higher premiums for everyone.

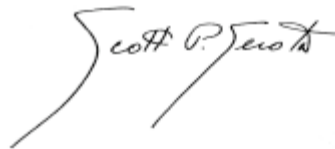
The Mark's original age band of 5:1 already reflects compression, relative to the natural distribution of underlying health care costs across age groups, and sets a balance whereby younger individuals are cross-subsidizing the cost of coverage for older Americans. Moving from a 5:1 to 4:1 ratio would increase premiums for Americans in nearly every age cohort accounting for nearly 95% of the non-elderly population, and 93% of the non-elderly population with existing coverage. For these reasons, we respectfully urge that you restore the age band to 5:1. We previously have recommended specific ways to address the high costs of coverage for older workers and urge you to address this issue through targeted support to meet the specific needs of this population.

Taken together, the effect of the age band compression and the additional fees described above will lead to unintended cost increases for consumers and undermine the shared goals of the broader reform effort. Thank you for considering our serious concerns about the impact these provisions would have on the affordability of health insurance for the American people. We continue to be committed to working with you towards bipartisan health care reform, and stand ready to discuss these issues in further detail.

Sincerely,



Karen Ignagni
President and Chief Executive Officer
America's Health Insurance Plans (AHIP)



Scott P. Serota
President and Chief Executive Officer
Blue Cross and Blue Shield Association (BCBSA)