



STATE OF CONNECTICUT
EXECUTIVE CHAMBERS

M. JODI RELL
GOVERNOR

July 8, 2009

The Honorable Susan Bysiewicz
Secretary of the State
20 Trinity Street
Hartford, CT 06106

Dear Secretary Bysiewicz:

I am returning to you without my signature House Bill 6582, *An Act Establishing the Connecticut Healthcare Partnership (Partnership)* and House Bill 6600, *An Act Concerning the Establishment of the Sustinet Plan (SustiNet)*. These two bills call for changes to the provision of health care in Connecticut and propose an unaffordable health care benefit that does not consider the economic realities of our times.

These are well-intentioned bills. Concerns about health care have become a major issue in our country, and rightfully so. While we have made significant progress here in Connecticut, too many still go without basic medical care because the cost is unaffordable, both for individuals and businesses. These bills, however, do not solve the problems of access and affordability.

A. House Bill 6582, *An Act Establishing the Connecticut Health care Partnership (Partnership)*

The Partnership bill seeks to attract a number of new employee groups to the State employee plan – nearly all of whom already have health insurance, some of whom will be unable to afford the cost of the plan and all of whom may jeopardize the favorable ratings and costs of the current state plan. That plan is financially supported by state taxpayers and insures approximately 98,000 active and retired state employees and their families.

As you know, most municipal and other public employees already have health care insurance. The attempt to include these employees in the state pool does nothing to address the issue of access to insurance for those who do not already have it and may in fact raise false hopes regarding affordability. Under last year's version of the Partnership bill, claims that the City of New Haven would save in excess of \$8 million were subsequently found to be erroneous. The City concluded that participation in the partnership would actually increase its health care costs. I believe that this bill would have the same effect on most of our cities and towns. Accordingly, many mayors, first selectmen and municipal employees who initially supported this bill have realized, after thoughtful analysis, that costs would actually increase, rather than decrease, as a result of pooling.

Employees of non-profit agencies would also be eligible for inclusion in the state employee health insurance plan. Many of these agencies continually struggle financially, particularly in this economic downturn, to meet their payrolls and maintain their facilities. This bill does not address the financial consequences to the State if one of these agencies were, at one time or another, unable to fulfill its obligations to pay health insurance premiums for its employees.

Finally, although including employees of small businesses in the plan appears to address the issue of access, this plan is simply too expensive for the typical small employer and thus is unlikely to increase the number of residents who have health care insurance. I note that nine local chambers of commerce -- whose membership is largely composed of small businesses -- oppose this bill.

Although the text of the Partnership bill has changed somewhat since last year, it still retains its most problematic component -- a significant cost to the State. This cost is a direct result of pooling an unknown employer risk group with the state employees' health insurance plan and prematurely converting such plan to a self-insured model. Those who most likely would be attracted to the pool would be those whose claims experience -- the main driver of health care costs -- is worse than that of the current state employee pool. When the experience of these new members is averaged across the entire pool, it will drastically increase premiums for the state and all those who have joined the pool.

This is a potentially fatal flaw, since the bill requires that premium payments remitted by these newly pooled employee groups "be the same as those paid by the state." If the claims experience of the new members is indeed worse than the claims experience of the state employee pool, the result would necessarily be higher costs across the board -- higher costs that would ultimately be borne by our taxpayers. In December of 2008 the U.S. Congressional Budget Office reached a similar conclusion with respect to a proposal to open the Federal Employees Health Benefits Program (FEHB) to public members in a report entitled, "Key Issues in Analyzing Major Health Insurance Proposals."

Assuming that FEHB plans could not deny coverage to applicants, that option would be most attractive to people who expected to have above average costs for health care—those who currently face relatively high premiums or have been denied coverage in the individual market. As a result, the total premium charged to nonfederal enrollees would probably be substantially higher than those observed in the program today. Depending on the specific features of the proposal, an equilibrium could be reached in which a group of enrollees were willing to pay an above-average premium that covered their health care costs (and related administrative expenses for the insurers). But another possibility is that an adverse selection spiral could ensue, resulting in very high premiums and little or no enrollment under this option.¹

Given that our current state employee plan provides coverage to approximately 98,000 active and retired state employees and their 97,000 dependents, if the premium were raised even \$2 per month per person, our annual premiums would increase by more than \$3.5 million. At a time when we are examining every state expenditure, this is simply a luxury that our taxpayers cannot afford.

Equally troublesome is the Partnership's self-insurance requirement. The bill dictates that the Comptroller commence procedures to convert the state's group medical plans to self-insured plans beginning on or after July 1, 2009. While I am not opposed to the concept of self-insurance at the proper time -- that time is *not* now.

The state currently has agreements for health care coverage in place through July 2011 which guarantee effective cost containment, including premium caps. Switching to a self-insured plan now would eliminate the existing premium caps and could result in an additional cost of at least \$69 million for health care for active and retired state employees and their dependents for 2010 alone. Furthermore, self-

¹ See Key Issues in Analyzing Major Health Insurance Proposals, Providing Access to the Federal Employees Health Benefits Program, pages 95-96, Congressional Budget Office, December 2008.

insured plans commonly establish a reserve of approximately two months worth of anticipated claims. The bill does not establish any reserves.

I must conclude, therefore, that the Partnership bill will neither increase access to health care insurance for our uninsured residents nor reduce the high cost of health care.

B. House Bill 6600, *An Act Concerning the Establishment of the Sustinet Plan (Sustinet)*

Sustinet's objective is health care for everyone, a laudable goal and one I share. We cannot, however, afford to proceed with this plan given its financial implications.

The Office of Policy and Management has estimated that the Sustinet plan will likely cost approximately \$1 billion per year. The nonpartisan Office of Fiscal Analysis put the price of allowing all uninsured adults with income less than 300 percent of the federal poverty limit (FPL) into HUSKY A or B, as provided in this bill, at \$530 million. As staggering as this figure is, it does not reflect the costs for those with insurance whose employers would be encouraged to drop their plans, which could easily double this cost. These costs also do not reflect the subsidies for those whose income is less than 400 percent FPL as contained in the bill, or the major adverse selection impacts that would be experienced.

It is worth noting that Dr. Jonathan Gruber of the Massachusetts Institute of Technology, in commenting on similar proposals made by the HealthFirst Authority, stated that the proposed subsidies are more generous than they need to be to provide affordable coverage and are costlier than the plan provided in Massachusetts. Notably, this bill does not include any measures aimed at reducing the cost of health care coverage – a critical component of achieving sustainable reform.

The bill establishes a nine-member Board of Directors to make recommendations for implementing the Sustinet Plan. The bill prematurely prescribes the approach to health care reform to be taken by the board prior to full analysis of its costs and effectiveness in reducing the number of uninsured.

Limiting the board of directors to a specific approach is particularly unwise at this time. A national debate is now occurring that will determine the fundamental approach that our country will take in regard to health care reform. President Obama has challenged Congress to enact a bill that provides universal access to health care coverage while simultaneously lowering costs. While it is possible that the reforms that will be enacted in Washington will be complementary to what this bill seeks to accomplish, it is equally possible that they will negatively impact or even invalidate parts of the Sustinet plan. Rather than positioning our State to capitalize on the federal reforms, this bill presumes the outcome of the national debate.

Meaningful, substantive discussions regarding health care reform must also include all stakeholders. This bill fails to include many of the critical stakeholders in the health care community in this conversation. No one from the health insurance industry, the hospital industry or the business community is included on the board. The ultimate success and effectiveness of any serious health reform effort depends upon having all stakeholders—advocates, providers, labor leaders, businesses, the insurance industries and government leaders—“at the table” in developing and achieving support for the changes and reforms recommended. Moreover, the board of directors as set forth in the bill fails to include meaningful Executive Branch participation. For example, the board does not include either the Commissioner of Public Health or the Commissioner of the Office of Health care Access. Additionally, given the scope and potential cost of the Sustinet plan, the board should include the Secretary of the Office of Policy and Management.

Another major concern is the role and broad power clearly envisioned for the unelected authority that will be overseeing billions of dollars in State, federal and private health care expenditures. This expensive

new bureaucracy would have far-reaching authority and impact health insurance and health care consumers and providers in our state. As I write this message there is serious debate and analysis going on in Washington regarding the changes that should be implemented with respect to payment practices for Medicare providers or utilized with respect to any public plan option that may be established. Under the Sustinet bill, the board of directors' recommendations may include the establishment of a public authority "authorized and empowered to" set payment methods for health care providers in Sustinet, which plan will be available, not just to State employees, but to individuals and employers. The authority to establish public policy of this nature, given its broad implications, should be retained by the legislative and executive branches and not delegated to an authority to determine at some future time.

Finally, we must consider the impact this legislation will have on the insurance industry in Connecticut. The insurance industry currently employs approximately 22,000 people in Connecticut. Given the competition that the Sustinet plan could potentially provide to private insurers, we must assume that many of these jobs would be at risk.

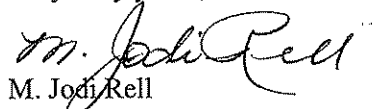
C. Conclusion

Working together, we have made great progress in reducing the number of uninsured and increasing access to insurance for many others here in Connecticut. I do not believe, however, that the Partnership and Sustinet bills are the appropriate next steps in providing the kind of sustainable reform that is needed -- reform that would improve access and affordability while containing cost.

In order to best prepare for federal health care reforms and bolster our own continuing efforts to improve our health care infrastructure, I am issuing an Executive Order establishing a Connecticut Health care Reform Advisory Board. This board will prepare a series of policy alternatives that will position Connecticut to coordinate with the anticipated federal reforms and lay the groundwork for meaningful state-level reforms that can be enacted in future legislative sessions.

For these aforementioned reasons and pursuant to Section 15 of Article Fourth of the Constitution of the State of Connecticut and Article III of the Amendments to the Constitution of the State of Connecticut, I am returning these bills without my signature.

Very truly yours,



M. Jodi Rell
Governor