



JOHN KERRY'S PLAN TO MAKE HEALTH CARE AFFORDABLE TO EVERY AMERICAN

Stops Spiraling Costs, Provides Coverage for Nearly 95 Percent of Americans, Covers Nearly all Children, Allows Americans to Access the Same Health Care Plan As Members of Congress

I. Controlling the Spiraling Costs of Health Care

Health insurance has become too expensive. Double-digit increases in health care premiums make it hard for Americans and businesses alike to afford health care. Companies that do the right thing by providing good health insurance for their workers are getting squeezed by rising costs. As a result, more companies are asking workers to contribute a greater share of their health care costs through higher premiums and increased cost sharing – and even sometimes reducing their benefits to keep costs down. Skyrocketing costs have also wreaked havoc on state budgets, putting pressure on state health care programs at a time when job losses leave more Americans needing coverage protections.

Some increases in cost are due to advances in health care. However, too many of these rising costs are driven by waste, fraud, and abuse in the system; loopholes that keep prescription drug prices too high; meritless lawsuits; medical errors that undermine quality health care and raise costs; and too much bureaucracy and paperwork that contributes to 25 percent of health care costs today. Many employers and purchasers have worked to make improvements, and their efforts demonstrate that progress is possible. But we need a national commitment to assure system-wide changes that can improve quality and reduce costs and keep health care from becoming too expensive.

John Kerry believes that all parts of the health care system – insurers, providers, lawyers, employers and patients -- have a responsibility to help make the health care system more affordable. John Kerry has a five-point plan that will save Americans, purchasers and the Federal government billions in health care costs every year.

(1) CREATING A NEW APPROACH TO CONTROL SPIRALING HEALTH CARE COSTS – AND PASSING THE SAVINGS ON TO WORKERS.

In 2001, only 4/10 of one percent of private insurance claims was for individuals with health expenses in excess of \$50,000. However, these claims accounted for nearly 20 percent of medical expenses for private insurers. John Kerry believes that health care is becoming too expensive. He has a proposal for a new 'premium rebate' pool that will make health care more affordable for all employers and employees by helping out with certain high cost health cases. Under this proposal the pool would reimburse employee health plans for 75 percent of the catastrophic costs they incur above \$50,000 as long as they guarantee such savings are used to reduce the cost of workers' premiums. Helping out with catastrophic costs would strengthen the employer-based market by making health care more affordable for purchasers. It will also make health care more affordable for those who buy into the Congressional Health Plan. To be eligible for this 'premium rebate' pool, employers and their insurers would have to:



- **Provide Affordable Health Coverage to All of Their Workers.** Many companies work to provide quality coverage to all their workers. However, too often large companies have stringent rules that prevent their low-wage workers from obtaining affordable health care. For example, they will require employees to work for many months before even offering coverage, and then subsidize it at a low amount. To join the premium rebate pool, employers would have to provide affordable coverage to all their employees.
- **Demonstrate That Workers Will Receive the Savings.** By removing catastrophic costs, John Kerry's proposal will make it easier for employers to offer affordable coverage. To be eligible, however, savings from this relief must be directly passed to workers. The premium pool is estimated to save workers as much as 10 percent – or \$1000 off a Family Plan.
- **Encourage Disease Management to Improve Care Quality and Decrease the Costs of Care.** Chronic diseases, such as asthma, cancer, cardiovascular diseases, and diabetes make up 78 percent of all medical costs. Disease management and health promotion programs provide an opportunity to improve patient outcomes and limit spending by identifying and monitoring high-risk populations. Some purchasers have worked to implement these approaches and have found good results. For example, a Bank of America health promotion program found that insurance claims were reduced an average of \$164 per beneficiary per year while costs increased by \$15 per person for the control population.

(2) MAKING PRESCRIPTION DRUG MORE AFFORDABLE

Today, prescription drug costs are rising 17 percent a year – making it difficult for consumers, states, and businesses to afford health care. John Kerry believes that we should add a prescription drug benefit to Medicare. That would not only help seniors, but it would provide huge relief to states and to employers who are struggling to maintain retiree health benefits and would relieve pressures on the Veterans health system.

In addition, John Kerry believes that we need to curb the spiraling costs of prescriptions for all Americans. While he supports good incentives to encourage research into groundbreaking and life-saving medications, John Kerry advocates getting rid of certain loopholes that some drug companies and pharmacy benefit managers use to keep prescription drug prices higher.

Reducing prescription drug costs will not only save consumers more money, but will help keep health care from becoming too expensive. His proposals would:

- **Disclose Incentives to PBMs to Bring Down Rx Prices.** Pharmacy benefit managers (PBMs) process hundreds of millions of pharmaceutical claims per year and manage drug benefits for more than 200 million Americans. In addition to the discounts they get from bulk purchasing, drug manufacturers typically pay PBMs: (1) access rebates for placement of products on PBMs' formularies, (2) financial rebates for garnering a higher market share; (3) administrative fees for assembling data on market share. However, PBMs often do not pass on these savings. John Kerry's plan would require transparency rules for PBMs that do business with the Federal government to clearly show what savings they are receiving from the industry and from bulk purchasing.



- **End Loopholes that Keep More Affordable Prescription Drugs from the Market.** Pharmaceutical companies should profit when they develop a groundbreaking drug. However, consumers should benefit from the option of purchasing lower-cost generic alternatives once patents expire. Too many pharmaceutical companies take advantage of current loopholes in patent law that unfairly keep cheaper alternatives off the market for years, or even decades.
- **Negotiate Real Discounts on Prescription Drugs.** Americans without drug coverage pay at least 50 percent more for the exact same medication as their insured neighbors because they do not get the benefits of bulk purchasing. Some states have tried to extend the same discount Medicaid gets for its beneficiaries to other populations. However, the Bush Administration has joined the pharmaceutical industry to fight these efforts. As President, John Kerry would help states provide discounts to other populations. Kerry would also give states incentives to implement more efficient contracting to obtain better rates for prescription drugs.

(3) MAKING MALPRACTICE INSURANCE MORE AFFORDABLE

John Kerry believes that improvements can and should be made to our medical liability system - improvements that can substantially reduce meritless claims and defenses, enhance opportunities to resolve claims fairly without protracted litigation and make the system fairer for doctors and patients alike. John Kerry, however, strongly opposes capping damages in medical malpractice lawsuits. Capping damages will neither reduce premium costs for doctors, nor lower the cost of health care for Americans. Experience in states that have capped damages demonstrates that reality conclusively. Capping damages affects only the *least* meritless cases and denies justice to those who suffer life shattering injuries. There are steps that can be taken, however, to reduce litigation that truly is meritless. His plan would:

- Prohibit individuals from bringing a medical malpractice liability action unless a qualified specialist determines that a reasonable claim exists.
- Support mandatory sanctions for claims and defenses that are presented for improper purposes or that are not warranted by existing law or by an argument without merit for the extension, modification, or reversal of existing law or the establishment of new law.
- Provide additional incentives for reducing the number of lawsuits that can and should be filed. To that end, Senator Kerry would require states to make available nonbinding mediation in all cases before permitting plaintiffs to proceed to trial on any medical liability claim.
- Finally, Senator Kerry opposes the award of punitive damages in medical liability cases except upon proof of intentional misconduct, gross negligence or reckless indifference to life.



(4) IMPROVING CARE AND REDUCING COSTS WITH A NEW “QUALITY BONUS”

A recent Institute of Medicine study found that between 44,000 and 98,000 people die of medical errors every year. There is a one percent error rate each day for a patient in an Intensive Care Unit in this country. Applying that error rate to other professional fields, we would have two unsafe landings per day at Chicago’s O’Hare airport, 16,000 pieces of mail lost every hour, and 32,000 bank checks deducted from the wrong account every hour.

The vast majority of injuries come not from negligent doctors or hospitals, but from outmoded practices, habits, and systems that are poorly designed to protect patients from errors. The gap between best practices and typical practices is extremely wide. Closing this gap for selected chronic diseases (such as diabetes, stroke, congestive heart failure, and arthritis) would dramatically improve health outcomes and reduce costs.

Many employers and purchasers are working to make these changes. Efforts like the Leapfrog Group have brought many purchasers together to implement quality improvements and are making significant progress. However, to implement widespread change in the health care system, we need a national commitment. To reduce injuries and deaths from care, John Kerry’s Quality Bonus would:

- **Provide Financial Incentives to Help Providers and Purchasers to Improve Quality.** This would enable purchasers and providers to use upfront capital to make changes in quality that reduce errors and improve outcomes. Benchmarks will be set for quality and emphasis will be placed on reducing and even eliminating racial and ethnic disparities in health outcomes.
- **Reward Health Care Organizations and Physicians that Invest in Modern Information Systems** – especially electronic medical records, patient registries, and reminder systems that improve the quality of care and help eliminate wasteful spending – with financial incentives.
- **Provide Economic Incentives to Computerize Prescribing Systems.** Such systems can reduce medication errors by 80 percent or more, and yet most hospitals and clinics do not use them.
- **Make Errors Transparent.** We need to change the culture and habits of health care so that errors and patient injuries are immediately known and reported – not to punish people, but to find ways to prevent their reoccurrence.



(5) CUTTING ADMINISTRATIVE COSTS IN HALF WITH A NEW “TECHNOLOGY BONUS”

The annual cost of health care today is \$1.4 trillion. At least 25 percent, or almost \$350 billion, is spent on non-medical costs – principally the costs of the paper work burden, including those costs associated with the preparation, submission, calculation and payment of bills. This is orders of magnitude more than for any other industry. Whereas settling a single transaction in health care can cost as much as \$12 to \$25, banks have cut their costs to less than a penny per transaction by using modern information technology. The Veterans Administration has found that through improved technology, doctors can pull entire medical records (that previously cost \$9) instantaneously and without cost. Other purchasers have had similar results. John Kerry’s Technology Bonus would:

- **Ensure that all Americans Have Secure, Private Electronic Medical Records by the Year 2008.** Most Americans have had the experience of repeated testing due to unavailable results or failure to transfer records. Universal electronic medical records will dramatically reduce waste in medical care through a reduction of redundant and unnecessary tests. In addition to cost controls, computerized medical records and decision support software can also reduce serious medical errors by as much as 88 percent.
- **Assure Federal Government Adopts Modern Computerized Methods for Health Care Transactions That Are Widely Used in Other Industries.** These costs are from the magnitude of transactions that occur every day that range from requesting a medical record, submitting a bill, or scheduling an appointment – most of which still occur on paper.
- **Require Private Sector Insurers to Use Advanced Systems.** Private insurers would have to use this simplified technology standard as a condition of doing business with the Federal government (Medicare, Medicaid, and the Federal Employees Health Benefit Program) to make health care transactions less costly.

GENERATING SAVINGS THROUGH A HEALTHIER AMERICA

- **Reducing Uncompensated Care Costs and Investing in the Safety Net.** A recent study by the Kaiser Family Foundation reports that Americans spent \$35 billion for uncompensated care in 2001, with 85 percent of the costs paid for by federal, state, and local governments. With his proposal to cover nearly 95 percent of all Americans, John Kerry’s plan would reduce the cost of uncompensated care to the Federal government by billions annually and would help strengthen safety net institutions. Community, migrant, homeless, and school-based health centers and public hospitals are the backbone of this nation’s health care safety net and John Kerry is committed to strengthening them by investing in their needs for capital improvements and service expansions.



- **Supporting Disease Prevention and Health Promotion Programs.** In the United States, obesity has risen at an epidemic rate during the past 20 years, leading to heart disease, diabetes and other chronic illnesses. These kinds of poor health trends cost the system money. John Kerry's plan would disseminate best practices in disease prevention and health promotion, encourage exercise, and invest in preventive care models. To reduce health care costs, Americans also need to be more responsible.



II JOHN KERRY'S NEW DEAL TO COVER MILLIONS OF AMERICANS, INCLUDING COVERING ALL KIDS, AND BOOST THE ECONOMY

John Kerry's plan would strike a new compact with the states: the Federal government will pick up the full cost of more than 20 million children enrolled in Medicaid if states agree to: (1) expand children's coverage to 300 percent of poverty and enroll these kids; (2) expand coverage to families up to 200 percent of poverty; and (3) assure childless adults below poverty have health care coverage. Under this plan, children would be automatically enrolled in health care coverage, assuring for the first time that virtually every child has affordable health insurance. States receive significant fiscal relief in the first three years and more than 18 million uninsured children and adults would gain coverage.

A NEW COMPACT FOR AMERICA'S FAMILIES

INSURE EVERY CHILD. John Kerry believes that we have a moral obligation to cover America's children. Today, there are millions of uninsured children who are eligible for health care coverage under Medicaid or SCHIP but are not enrolled. John Kerry's plan would assure that nearly 99 percent of all children have health care coverage.

- **A New Deal to Provide Health Coverage to Every Child.** John Kerry's plan would assure that the Federal government picked up the cost of the nearly 20 million kids enrolled in Medicaid in exchange for states covering kids in the Children's Health Insurance Program.
- **Assuring Automatic Enrollment.** The Kerry plan would assure every child gets health care coverage by automatically enrolling kids when they come to school, requiring continuous 12 months of eligibility, and fulfilling the obligation to have eligibility workers available at community health centers to help enroll families.
- **Making Sure All Children Are Eligible.** To participate in the swap, states would agree to expand eligibility for children to 300 percent of poverty. The current 5-year waiting period for eligibility for legal immigrant pregnant women and children would be removed and children with disabilities would be able to keep their health care coverage when their parents return to work. All families will understand that their children -- whether they have disabilities, are legal immigrants, or are moving off welfare -- are automatically eligible for health insurance.

EXPAND COVERAGE FOR WORKING PARENTS. Today, nearly seven million working parents whose children are already eligible for state-based health care are uninsured. Under the Kerry plan, states would expand coverage to these parents (up to 200 percent of poverty) at an enhanced state-matching rate in exchange for the "swap" of full federal payments for children.



EXPAND HEALTH INSURANCE TO SINGLE AND CHILDLESS ADULTS. There are approximately six million adults who are uninsured and live below poverty. Once states get back on course to a more secure financial footing, they would cover single adults and childless couples at or below the poverty level.

A GOOD DEAL FOR THE STATES TO HELP OUR ECONOMY

- **The Worst State Fiscal Crisis in a Generation.** Nearly every state has been affected by the current economic downturn and most states are scrambling for ways to balance their ballooning deficits. States are facing the largest budget gaps in half a century, ranging from \$70 billion to \$85 billion this year. Many are still figuring out how to close last year's deficits, which totaled \$50 billion. The Bush Administration is trying to make the problem worse through new tax cuts that drain resources from states.
- **An Anti-Jobs Policy.** Under the Bush economy, states are cutting education, including teacher layoffs, school closures, shortened school years, and higher tuitions. Some 17 states raised taxes significantly in the current fiscal year, and some 25 governors have proposed raising taxes for the coming year. And states are being forced to cut back on homeland security and public safety. These policies are leading to more layoffs and slower economic recovery.
- **Americans Are Losing Coverage.** Hundreds of thousands of people nationwide have already lost Medicaid coverage due to state budget cuts. That number will climb to 1.7 million people if the cuts proposed by governors in 22 states are approved.
- **John Kerry Has Worked to Provide Fiscal Relief.** Senator Kerry has consistently supported providing states fiscal relief. Most recently, he cosponsored efforts on the Senate Finance Committee to set-aside at least \$20 billion for state fiscal relief.
- **The Kerry Plan Would Provide States More Relief And Get More Coverage.** The Kerry swap would assure that the Federal government would pick up the full cost of the more than 20 million kids currently on Medicaid. In return, states would have to cover SCHIP kids and parents. This would assure states billions of dollars in additional resources the first years.



III JOHN KERRY'S PLAN TO MAKE HEALTH CARE AFFORDABLE FOR EVERY AMERICAN

Allows Americans to Get the Same Plan As Members of Congress

Many Americans are uninsured because they are not offered health insurance through work, either because they are self-employed or because they work in businesses, particularly small businesses, that cannot afford to offer health care coverage. Those who seek coverage in the individual market often face exorbitant premiums and limited coverage. John Kerry believes that every American should have an affordable place to buy health care, with group protections and affordable premiums. His plan would allow Americans to buy into the Federal Employees Health Plan (in a separate pool) and provide reinsurance to assure coverage is affordable. By focusing on cost containment and helping to cover catastrophic costs, the Kerry plan strengthens the employer-based market and ensures the ability of larger businesses to continue offering coverage to their workers.

(1) ALLOW EVERY AMERICAN ACCESS TO THE SAME HEALTH PLAN

MEMBERS OF CONGRESS GET TODAY. Today, nine million Federal employees and their dependents get health care through the Federal Employees Health Benefits Program (FEHBP), which offers a wide choice of affordable health plans with group protections and good benefits. John Kerry believes that all Americans should have access to the same affordable coverage policies that Members of Congress get today.

John Kerry's plan would allow all Americans to join FEHBP by adding a new pool for small and large businesses, as well as individuals and families who need affordable health insurance. A new 'premium rebate' program will provide subsidies to help stabilize insurance rates and keep coverage affordable by removing the burden of high cost cases from the insurance pool. These premium rebates have the potential of saving Americans up to 10 percent (or \$1000 for a family) on their current health care costs. John Kerry will also sign an Executive Order to ensure participants will be guaranteed the right to family health benefits for their domestic partners.

SMALL BUSINESSES

- **Fewer Small Businesses Offer Health Coverage and Health Care Costs are Rising Faster.** Health care costs are rising about 15 percent this year for those small businesses and often as high as 25 percent. Just 62 percent of businesses employing 10 to 49 people offered a health plan in 2002, down from 66 percent the year before. In comparison, about 99 percent of large firms offer health insurance to their workers.
- **Small Businesses Need Access to More Affordable Health Care.** Small businesses typically spend more on administrative costs and they often see premiums rise when one employee has high health care costs. By joining the new Congressional Health Plan, small businesses will be able to provide more affordable coverage by wielding market clout, obtaining better deals from insurers, and reducing administrative burdens and costs.



- **Tax Credits to Make Coverage More Affordable.** Refundable tax credits for up to 50 percent of the cost of coverage will be offered to small businesses and their employees to make health care more affordable. In addition, the premium rebate pool for certain high cost health cases will help reduce costs for everybody. This protection is especially crucial for small businesses, as they have traditionally fared worse in the marketplace from an inability to sufficiently spread risk. The premium rebate pool and access to the Congressional Health Plan will save small businesses approximately 15 percent in health care costs on top of the tax credit – so health care will be two-thirds cheaper for small business employees than it is today.

SELF-EMPLOYED AND INDIVIDUAL-BASED COVERAGE

- **Individuals Without Employment-Based Coverage Pay More for Health Insurance.** About 16 million people, or 6.7 percent of those between the ages of 19 and 64, were covered by an individual health insurance policy in 1999. Many of these workers are independent contractors, on-call workers, or temporary workers. In all but five states, individuals or families buying health insurance on their own can be charged higher premiums, or denied coverage, if they have health problems.
- **Individuals Need Access to Affordable Coverage.** John Kerry's plan will end the discrimination that individuals have faced when purchasing private health plans. Under his plan, individuals will have access to more affordable coverage, greater choices, lower premiums, and be able to obtain better deals from insurers on overall costs and coverage options. The Kerry plan will provide uninsured individuals protection from unaffordable premiums by providing assistance with costs above six percent of their income. In addition, a 'premium rebate pool' for certain high cost health cases will help reduce health care costs for all Americans. It will help assure that premiums in the Congressional Health Plan are affordable.

WORKERS IN LARGE BUSINESSES

- **Allowing Large Businesses to Buy into FEHBP for More Affordable Coverage.** Ninety-nine percent of large employers offer their employees health care coverage. However, these employers do not always have access to the same affordable coverage and choices that Members of Congress get. Under this plan the large employers would be able to join FEHBP as their source of coverage -- provided they maintain the same employer-based contribution they currently offer and they do not selectively segment their workforce into the Congressional Health Plan.
- **Strengthening Employer-Based Coverage.** John Kerry's plan will help large employers purchase more affordable coverage. The premium rebate pool will help relieve employers of the highest catastrophic costs if they pass along savings to their employees. Kerry's plan will help those employers who are offering health insurance today to continue doing so.



WORKERS IN BETWEEN JOBS

- **Laid Off Workers Will Receive Tax Credits To Make Coverage Affordable.** There are approximately 8 million unemployed people in the United States today. John Kerry believes that losing a job should not mean losing health care. That is why he is proposing a 75 percent tax credit to assure workers can keep their health insurance when they are between jobs.

RETIREES AND AMERICANS AGE 55 TO 64

- **Retirees and Americans Age 55 to 64 Have the Hardest Time Buying Coverage.** Gaps in our patchwork system of health care are most noticeable for those Americans that risk losing their employment-based insurance before turning 65 (the qualifying age for Medicare). This less healthy population is often priced out of affordable coverage. John Kerry's plan will give this population access to a variety of plan choices under an affordable group plan.
- **Tax Credits to Make Coverage Affordable.** Kerry's new 'premium rebate' pool for certain high cost health cases will help reduce health care costs for all Americans. This will go a long way to assure that sicker populations are affordable to cover in the private market. His plan also assures those who do not have coverage have an affordable place to buy. He will also offer a tax credit for this population to make coverage more affordable.

COST: According to independent analysis by Emory University professor Ken Thorpe, the plan would cost \$653 billion over 10 years and would provide health care coverage to nearly 27 million Americans who were previously uninsured, while making health care more affordable for millions of others.