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UTAH'S VISION FOR HEALTHCARE REFORM
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Governor Gary R. Herbert

Thank you, Tom, for that introduction. I want to thank you for having me here today, and I also want to thank the American Enterprise Institute for their in-depth policy studies and analysis on key issues of the day.

I want to start with a story of a small business in Utah and how Utah's market-based reforms helped them. Located on Main Street, just east of State Street, in my hometown of American Fork, Utah, is a great small business and car repair shop: World Class Auto Service. Their focus is outstanding customer service. After the passage of the Patient Protection and Affordable Care Act, some call it the ACA, some call it Obamacare, this earnest small business was forced to drop health insurance for its ten mechanics due to increasing insurance costs.

The company's owner, Rod Martin, worried about the ten families who depended on their jobs and that insurance as well as the income and insurance for his own family. Since the passage of the ACA, the premiums for Rod's family doubled in price. This meant he could no longer afford to put money into the college fund for his kids. But after World Class Auto Service enrolled in the Utah Health Exchange, they were able to restore health insurance and offer their employees customized, individual options to accommodate their unique needs.

Affordable options, customer choice, tailored solutions—all basic requirements when considering health care, and all available because the State of Utah had the vision long before health care reform was a gleam in President Obama's eye to pursue state initiated, market-oriented solutions for small employers. Without

question, healthcare is one of the most complicated and most important issues we face. But the challenges around healthcare are not insurmountable.

I am here today to humbly suggest that if national leaders are in search of innovative solutions, if they are earnest about having outcomes that benefit customers and patients, they need look no further than the State of Utah and our market-driven, private sector-based Utah Health Exchange known as Avenue H.

Let me give you a little bit of background. To solve the challenges we face in our healthcare industry, we must first identify the central problem. Many have asked: is it the rising number of people who don't have insurance? Is it a need to improve quality? No. While these issues are important factors, the central problem in all health care reform analysis is the cost. In Utah, 70% of people who don't have insurance say they are uninsured because "the premium costs too much." Once we identify the core challenge, then we can figure out how to address the problem.

In Utah we rely on and we value the solid bedrock of free market principles. We also recognize that policy makers need the discipline, focus and restraint to allow those principles to work. Further, we also put a strong emphasis on consumer responsibility and consumer choice. Fundamentally, people should be in charge of their own health care. The individual is the one who should take control of his or her own health and well-being.

I want to explain why Utah started down the path of health reform. When we started this process of reform, too many Utahns did not have health insurance. This concerned us because a high number of citizens without health insurance leads to other challenges. First, the uninsured do not always get access to the most efficient and effective forms of care because they have little choice. More uninsured people means more people are showing up to emergency rooms. Their care is more expensive and all too often they can't pay for it. The cost of uncompensated care is then passed on to those who do have private insurance in the form of higher premiums, higher deductibles, and higher co-pays.

The State of Utah was also deeply concerned about the rising costs of healthcare. Premiums were growing at seven times the growth of average wages. Utah families simply couldn't withstand such dramatically higher costs. From 1998 to 2006, the average yearly premium for a family of four doubled from \$6,000 to \$12,000. That's just eight years. This rising cost of insurance was sucking money away from more productive areas of our economy. For these reasons, we knew we

had to put consumers back in charge of the process. In 1960, consumers paid 70% of their healthcare costs out of pocket. Today, that number has flipped: consumers pay only 30%, while private insurance pays the other 70%.

People are less conscientious, and less careful, when they are spending someone else's money. In our system there was a disconnect between health providers, consumers, and insurers. The incentives for providers and insurers failed to align with incentives for consumers. Consumers often do not have a strong incentive to seek out cheaper or more cost-effective solutions. Healthcare providers are paid for each service they perform, not for each person they keep well or out of the hospital. When costs increase throughout the entire healthcare system, there is less competitive pressure on insurers to be cheaper than their competitors. Because of increasing healthcare costs, more and more businesses were forced to drop insurance from their benefit packages. In Utah, fewer than 45% of employers currently offer health benefits.

Rising costs, misaligned incentives, and increasing numbers of uninsured Utahns—all these factors prompted us to lay the groundwork for bold, innovative reform. Utah's overarching philosophy in our approach to healthcare reform is this: The invisible hand of the private sector operating in a free market, not the heavy hand of government, is the most effective way to reform healthcare. Utah's vision is to develop consumer-driven healthcare, and an insurance market that provides greater choice, better access, and higher quality that ultimately improves health for all Utahns. At the end of the day, this is really about improving peoples' health.

Our guiding principles for healthcare reform are: rely on free market principles, such as introducing maximum competition into the system; contain or reduce costs; encourage individual responsibility; including promoting wellness and prevention; introduce maximum competition into the market; be compassionate, and ensure a safety net for those who need it. With our principles and goals clearly defined, we set out to create the Utah Health Exchange.

The Utah Health Exchange was formed with some key components that contribute to its success. It allowed a defined contribution, something that creates greater certainty for small businesses because they can more adequately project the costs of their benefit packages. The exchange also removed insurance coverage mandates to allow more choice. Because consumer choice is so essential to the success of this reform effort, we included a consumer-based health insurance portal. It encourages competition for the consumer's dollars.

The key is to use technology to your advantage, and provide the best and most thorough information possible to the consumer. We must give consumers the information they need to make informed decisions for themselves! The Utah solution empowers consumers.

In general, consumers are excellent at comparing prices between goods. In Utah's exchange, consumers know the prices of what they are buying, so they can compare the value received for the money spent.

The Utah plan was designed to meet our unique needs, with a careful eye toward Utah's unique local demographics. However, our focus on market principles, and our process of creating a system that met our needs, can be a model for other states.

I want to tell you a quick story of how our small business exchange is an innovative and affordable way for companies to offer health benefits to their employees.

Rich McKeown is the CEO of Leavitt Partners, a health care consulting business with offices in Salt Lake City, Utah. He penned an editorial in a Utah newspaper in which he related his experience with Utah's health exchange.

He was facing a double digit increase in premiums for his employees, but by participating in Utah's health exchange, he was able to control and manage those cost increases. Before joining the exchange, McKeown's company was paying 80% of the premium for his employees. Now, the company pays the equivalent of 90% of the previous premium, but in the form of a monthly cash contribution that goes straight to his employees. His employees are now in charge of their healthcare choices.

Unfortunately, Utah's Exchange is not yet as robust as we anticipated. Like any system, our exchange needs time to grow. But we've suffered from arrested development because of the uncertainty emanating from Washington, D.C. We are growing a system we believe in, but we've been stuck in first gear. We are reluctant to pull out all the stops because of this uncertainty created by the ACA. Despite this challenge, more companies are using the exchange. In fact, one fifth of the 135 companies on our exchange were not providing insurance before joining.

A significant advantage is the ability to customize a plan that suits individual needs of the employee. With the defined contribution, employers can choose the dollar amount to contribute toward each employee's monthly healthcare costs. Contributions range from \$0 a month to \$2,000 per month, with the average at \$437 per month. This flexibility allows employers to have certainty in health benefit costs in a way that makes sense for their business.

To me, and to many others in Utah, the solution to our nation's healthcare challenges are found in the realization that we achieve our goals in healthcare reform through market innovation, not government regulation.

We cannot talk about healthcare reform without addressing the Affordable Care Act. The significant oversight of President Obama's game plan with the Affordable Care Act was the abject absence of consultation with governors and states. Because states were not included in the design process, the finished product lacked many of the innovations from places like Utah.

We immediately challenged the ACA in court, but in July 2012 the Supreme Court upheld the law as being Constitutional. Our last hope was Mitt Romney who, if elected president, would have worked to repeal the ACA and replace it with true, market-based reform. Unfortunately, that opportunity was lost.

Whether we like it or not, the ACA is now the law of the land. But the law gives a lot of discretion to the Department of Health and Human Services, and we hope they will use that discretion to allow states more flexibility to grow. As Governor of Utah, I sincerely hope that we receive the flexibility to continue to operate our exchange in a way that is best for Utahns.

The main question we are now asking in Utah is: Can the Utah Exchange operate in an ACA world?

Our exchange is fundamentally different from exchanges envisioned by the ACA. We focus on small businesses and getting people enrolled in private insurance. Our exchange operates with only five employees and a yearly budget of \$600,000. It is what's called a passive administrator, meaning it only facilitates exchanges.

By contrast, ACA exchanges are based on the Massachusetts model. They focus on large businesses and individuals, and provide taxpayer subsidies for 98% of the exchange participants. The Massachusetts exchange is massive—it has dozens of employees and an annual budget in the tens of millions of dollars. It is also

what's called an active administrator, meaning it decides exactly which plans will be on the exchange—thus limiting innovation and variety in the plans.

Effective healthcare reform must not be “one-size-fits-all”. States are unique, and need unique healthcare solutions. When you consider the average age of its residents, Utah is the youngest state in the country, with the highest birthrate. Florida, on the other hand, has a high proportion of elderly citizens. Florida and Utah have different healthcare needs, just like all states. Consequently, all states should have the ability to tailor healthcare solutions to their specific needs.

Utah will work within federal law to ensure continued success of our exchange. However, there are some red lines that our state will not cross.

We will not enforce the individual mandate. Even though the Supreme Court ruled the individual mandate constitutional, it is still bad policy. Each state should have the option to determine for themselves if a mandate makes sense. I do not want to be the one taking the phone calls from those individuals who receive the tax penalty by the IRS for not having insurance.

We will not administer Medicaid through Utah's health exchange. We want to maintain clear separation between private insurance options in our market based exchange and the welfare based public programs such as Medicaid. In order to preserve the market-based principles behind Utah's unique exchange, it is critical that the exchange remain focused on the core mission of creating competition and choice in insurance markets. Those who are in need should have the opportunity to get assistance, but that determination and effort should be done separately.

Utah will not administer the premium tax credit through our exchange. Given the fiscal uncertainty in Washington, D.C., the premium tax credit program creates a new level of entitlements for middle class Americans. For a federal government that is already borrowing forty cents for every dollar it spends because of entitlement programs we can't afford, adding new entitlements is a risky proposition. And we don't know how much this new entitlement will cost. But if history is our teacher regarding skyrocketing costs of Social Security, Medicare, and Medicaid, we're going to learn a hard lesson. For example, the original cost estimate to implement the ACA was \$900 billion. The latest estimate from CBO is now \$2.7 trillion. That's a three-fold increase, and implementation hasn't even begun.

I am also deeply concerned that insurance costs will skyrocket due to changes in market rules required by the ACA. These price shocks will have large negative impacts on the individual market. States like Utah, where we have a young, healthy population, will see insurance premiums go up by as much as 100%. Not to mention that the promise of the ACA was to see a reduction of \$2,500 in premiums, and now the projection is for an increase in \$2,500 in premiums. That is a \$5,000 difference.

To help manage these risks, I am taking steps to ensure that Utah's exchange can continue to operate and grow in a way that benefits Utahns while working within federal law. In December, I sent a letter to President Obama, following up on his statement of willingness to give flexibility, asking him to certify the Utah Health Exchange as compliant with no changes. I also sent a letter to Secretary Sebelius, asking her to certify our exchange as compliant.

Yesterday, I met with Secretary Sebelius and let her know that Utah's exchange will continue as a portal for Utah's small business market.

I suggested that we bi-furcate the functions of an ACA compliant exchange. Utah will continue to operate our small business exchange, and retain oversight of insurance markets. Utah will also retain control of our Medicaid eligibility system and make the final determination of who is eligible for Medicaid and CHIP using our existing system.

The United States Department of Health and Human Services will assume responsibility for the individual exchange, including: the website portal for individuals, the navigator program, and administering tax credits. Further, because Utah is already operating a small business exchange, there is no need for HHS to duplicate our efforts.

Although there are still details to work out and considerations to be made, I was gratified by the Secretary's statement that she wanted to work with Utah and in her words, find a way to "get to yes."

As Governor, I am committed, and the State of Utah is committed, to going down the path of meaningful health care reform. The Utah Health Exchange, though the second oldest exchange in the nation, is still in its infancy and needs time to grow and advance.

I would like to explore allowing our state employees to enroll in the exchange. I would also like to expand the exchange to businesses with up to 100 employees. Ultimately, the defined contribution model embodied in the exchange ought to be available to all employers regardless of their size. I am proud of Utah's success in healthcare reform. But we are far from finished, we need to continue to develop great ideas, and we will.

There are many healthcare issues that we will need to address in the future. One area that will require attention is Medicaid. Even before the ACA, Medicaid was a large and growing part of the Utah state budget. In the 1990s, Medicaid consumed 9% of the state budget. Today Medicaid comprises nearly 20% of our state budget. By fiscal year 2020, it is estimated to exceed 30%, and that is without any of the Medicaid expansion envisioned in the ACA. We need maximum flexibility to run our program the best way we see fit.

In Utah, we recognize that cost is the central problem in healthcare reform. Too many people simply can't afford to pay for their premiums. We also recognize that the best way to reduce cost, while improving quality, is through market principles. Only when individual consumers are empowered with information, in a competitive market, are they equipped to make the best decisions for their own healthcare.

The fundamental position of my administration, and the State of Utah, is this: with any product, with any service, if you want the highest quality, for the most people, at the lowest cost, then the private sector/free market system called capitalism has done that better than any institution or idea on this planet. Why would it be any different for healthcare? I believe in the free market, and I believe in the Utah model for consumer-oriented, market-driven healthcare reform.

Thank you.