Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY
and
SENATE HEALTH AND HUMAN SERVICES COMMITTEE

"To discuss and receive testimony on the impact of the Clinton Health Plan on New Jersey's small- and medium-sized businesses"

LOCATION: Room 319
State House
Trenton, New Jersey

DATE: October 20, 1993
10:00 a.m.

MEMBERS OF JOINT LEGISLATIVE COMMITTEE PRESENT:
Senator Jack Sinagra, Chairperson
Assemblywoman Harriet Derman, Vice-Chairperson
Senator John O. Bennett
Assemblyman Steve Corodemus
Assemblyman Jose F.Sosa

MEMBER OF SENATE HEALTH AND HUMAN SERVICES COMMITTEE PRESENT:
Senator John J. Matheussen, Vice-Chairman

ALSO PRESENT:
Assemblyman Tom Smith, District 11

Kevin J. Donahue
Eleanor H. Seel
Office of Legislative Services
Aides to Committees

Hearing Recorded and Transcribed by
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New Jersey State Legislature

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C O M M I T T E E N O T I C E

TO: MEMBERS OF THE JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

FROM: SENATOR JACK SINAGRA, CHAIRPERSON
ASSEMBLYWOMAN HARRIET DERMAN, VICE-CHAIRPERSON

SUBJECT: **COMMITTEE MEETING - October 20, 1993**

The public may address comments and questions to Peter R. Manoogian or Kevin J. Donahue, Office of Legislative Services or make bill status and scheduling inquiries to Sharon Constantini, secretary, at (609) 984-7381.

The Joint Legislative Committee on Economic Recovery in conjunction with the Senate Health and Human Services Committee will meet on **Wednesday, October 20, 1993 at 10:00 AM in Room 319, State House, Trenton, New Jersey.** The committees will discuss and receive testimony on the impact of the Clinton Health Plan on New Jersey's small and medium-sized businesses.

Issued 10/15/93

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ASSEMBLYMAN STEVE CORODEMUS: Good morning, everybody. I would like to welcome you to Steve Corodemus' Economic Recovery Committee meeting here. This is really the Joint Legislative Committee on Economic Recovery. As you can tell, several of my colleagues are not with us. They are on their way. If you have been monitoring the traffic reports, due to the weather there are some traffic problems on the major arteries. Senators Sinagra and Bassano, and my Assembly colleague, Harriet Derman, will be with us shortly. They have telephoned, and they are on their way. But so as not to cause delay in the proceedings, we are going to start the meeting now.

As you all know, on the political landscape, health care reform is of prominence. In my travels around my legislative district in Monmouth County -- and I am sure it is true throughout the State of New Jersey, if not the country -- the need for a major health care overhaul and the foreboding price tag that goes along with it are heavy on every businessperson's mind. As a matter of fact, when you speak to anybody, they feel they are in dire need of economic relief. They need medical coverage.

I was at a constituent's store the other day. He was asking me to help him to address an envelope to the White House. I said, "What are you going to send to the President?" He said, "Just help me to address the envelope." So I addressed the envelope to the White House, Pennsylvania Avenue, Washington, D.C. I said, "What letter are you going to put in there?" He said, "I am not mailing a letter." So I said, "Look, don't get me involved with any kind of a prank." He said, "No, I am mailing him the key to the front door of my business, because if this health care plan goes through, I want him to take the business over, and I am going to come and work for him."

We are hoping that it doesn't come to quite that proportion. I think everyone is willing to pay a fair share of

the health care costs, but we want to keep it somewhere within an affordable range.

My colleague from Monmouth County, Assemblyman Tom Smith, has just joined us.

We are going to go ahead and call our first witness, Dr. Robert Sideli, from the Columbia-Presbyterian Medical Center. Is Dr. Sideli with us? (no response) He is delayed behind our other colleagues here.

Dawn Perrotta? Dawn, you're here, I saw you. Dawn is Assistant Vice President, Health and Federal Issues, New Jersey Business and Industry Association. Dawn?

D A W N P E R R O T T A: Good morning, Mr. Chairman, and members of the Committee and staff. I am Dawn Perrotta, with the New Jersey Business and Industry Association. As I think most of you know, we represent over 13,600 members statewide, most of which are small companies, less than 100 employees.

Can you hear me?

ASSEMBLYMAN CORODEMUS: Pull those microphones a little bit closer. (witness complies) That's it.

MS. PERROTTA: Can you hear me now?

ASSEMBLYMAN CORODEMUS: That's better. Thank you.

MS. PERROTTA: Okay. I would like to thank you for this opportunity to testify on President Clinton's health care proposal, entitled the "American Health Care Security Act."

BIA actually supports most concepts -- most aspects of the plan, including the concepts of universal coverage, emphasis on primary and preventive care, emphasis on a managed competition approach focusing on managed care, and the concept of health alliances. However, we are strongly opposed to the imposition of price controls on health insurance premiums, as well as accomplishing universal coverage in a manner that could literally force some companies out of business and threaten the job security of thousands of New Jersey workers.

Contained in the President's proposal is a provision that would require every business to pay for a portion of employees' health coverage. The provision requires that all businesses provide health insurance for all employees, paying about 80 percent of the premiums. The plan would cap employers' share of that cost at 7.9 percent of payroll for a large company, and 3.5 percent of payroll costs for companies with less than 50 workers. Employers unable to afford the new cost would be eligible for subsidies. However, we have some concerns about how all of that would work.

Despite the admirable goal of universal coverage, though, BIA must oppose the mandate. Requiring businesses that do not provide insurance now because they cannot afford to do so would really place an undue burden on the private sector. As I have referenced, particularly hard hit would be small businesses and the low-wage retail or service sectors that may be large but operate on a relatively small profit margin -- supermarkets, as an example.

President Clinton is promoting the cap, the 3.5/7.9 percent cap, as a positive aspect of the proposal. However, viewed from the perspective of these companies which cannot afford it, it literally means a 3.5/7.9 percent increase in personnel costs. In addition, the subsidies for companies that cannot afford the extra cost would come from -- as we understand it now -- a $15 billion tax hike from, as yet, unspecified sources. Exactly who would qualify for subsidies has not been clarified at this point either. Some experts say the tax hike -- which could come from cigarettes, liquor, a proposed 1 percent payroll surcharge on large corporations that are not members of regional alliances -- would actually need to be as large as $60 billion to subsidize those who cannot afford it.

A study was done by the Partnership on Health Care and Employment, based in Washington, D.C., last year. The study

was done in reference to a "play or pay" health care proposal that was pending in Congress at that time, but there is a similarity. The study found that nationwide, nine million jobs could be put at risk, and in New Jersey that could potentially be 203,000. "At risk" was defined as outright job loss or the possibility of changes -- dramatic changes -- in compensation, including reductions in hours, possibly lower wages, or the elimination of nonhealth benefits. At this time, BIA believes the Clinton plan could have a similar effect in New Jersey. So we would actually like to see the removal of the mandate from the President's plan before passage. We think that universal coverage could be accomplished in a variety of other ways, and I will get into that in a second.

I do want to mention, though, that BIA, just to make sure that we are on the right track, is conducting a survey of all of our membership -- I think it is going to go out probably next week; we might have results, say, by December -- really assessing our members' opinions and positions on the mandate, and trying to determine what percentage of payroll costs companies in New Jersey are expending at this point on health insurance. At this point, we really believe that the results will indicate an opposition to the mandate, especially, again, for those companies which are not providing insurance at this point.

The President's plan also proposes price controls -- as I have mentioned -- on health insurance premiums. We believe that history shows that price controls do not work. We think the cost of health care can, and should be controlled through the market forces managed competition approach, as we are attempting to do in New Jersey. With the passage of the Health Care Reform Act last November, we are seeing many hospitals going to networks. There are a lot of alliances actually informally forming at this point. We really think we are going to see that sort of situation take care of the bulk

of the health care costs problem. We would really like the administration to look more closely at that, rather than imposing controls.

As is referenced, we really do support many other aspects of the plan. Just real quickly I will reference a couple more. I don't want to be redundant or take up a lot of time.

Universal coverage, I have already-- We said that we support it. We just think it should be accomplished in a way other than the mandate. Perhaps more individual subsidies would be the answer. Again, in New Jersey -- and I think we can be a model for much of what President Clinton wants to do -- beginning in January, we will have a subsidized insurance plan available to those who cannot afford it. So we are really taking a lot of actions and steps right here in the State that are really in line with the goals of the President.

In terms of what the President is proposing as far as universal coverage and the package of standard benefits, we just have a question about the costs' predictions. He is estimating individual packages would be available for about $1800, and $4200 for families. As we have gone through small group and individual reform, we have seen that those prices might be a little low compared to what we are able to do in New Jersey.

Again, just to emphasize, we have already accomplished individual and small group reform in New Jersey. Again, in November a law was passed requiring reforms. We will be offering packages of standard benefits with portability and elimination of preexisting conditions, as the President is proposing.

The mandate I have already gone into. The health alliances: As was mentioned, we think they are a great idea. They give small companies bargaining power and clout. They can group together, and it really levels the playing field between

the sellers of health insurance and the buyers. So we think it is an excellent idea. We just hope that the President does not impose on each state how the health alliances should be structured. We really think states should be given flexibility in terms of deciding how to form the alliances, regional alliances, what size companies would be eligible, and how they would be set up geographically.

Florida, for example, has already instituted a statewide system of purchasing cooperatives. We think they should be given a chance to operate, and we should be given an opportunity to afford some creativity in this State.

Also, I mentioned the possible 1 percent surcharge on large corporations. In the President's plan, he is suggesting that multistate companies that currently are self-funded would be able to remain out of the regional alliances and form what would be called "corporate alliances." However, they would also be asked to pay, possibly, a 1 percent surcharge. We are recommending strongly that self-funded plans remain exempt from taxation and the imposition of other controls by the states. They are currently protected under ERISA, and we think it should remain that way.

With regard to the National Health Board -- I just want to reference this quickly also -- the President is proposing a seven-member National Health Board that would oversee the whole health care plan, set global budget limits for the states, and, again, impose price controls. We really think it unwise, at best, for the government to be overseeing a situation that really accounts for 14 percent of our gross domestic product at this point. Again, we think states should be given flexibility in terms of determining some of the issues.

The President is suggesting that Medicaid, or most Medicaid recipients, be folded into the regional alliances. We agree with that. We think that Medicaid consumers should be

able to have -- should be able to be part of a more efficient managed care system, so we support that.

In terms of emphasis on primary and preventive care, that is something that we have long supported. We believe it is essential to focus on those aspects of health care. Also, the President is suggesting that more alternative care providers be utilized, such as advanced nurse practitioners and physicians' assistants. We think that is an excellent idea.

That is basically it. I would be happy to answer any questions.

ASSEMBLYMAN CORODEMUS: Thank you, Dawn.

I know this is anticipating an answer from a poll that is about to be conducted by your organization, but would it be a surprise to you that employers, if mandated to provide health care coverage for all of their employees -- full-time and part-time -- might not decrease or shrink their employee pool, particularly the part-timers, if they are mandated to provide full-blown health care coverage for a part-timer, as opposed to giving overtime to existing full-timers? Would that be a surprise to you?

MS. PERROTTA: If they were not opposed to the mandate? I think it would be a big surprise, especially in reference to the part-time workers. Again, nothing formal has been conducted yet, and we are hoping that once we have the hard data, we will be able to speak a little more definitively on this. But based on anecdotal data, conversations with a lot of our members, they are really fearful that they would have to eliminate primarily part-time positions in order to absorb the increased costs that would come as a result of the mandate. We cannot predict -- right.

ASSEMBLYMAN CORODEMUS: The reason I asked that is because, again, just referring to some of the businesspeople in my community, particularly on the low end of the wage scale, when the minimum wages were increased-- Take a car wash, for

example. In my neighborhood, when the minimum wages were increased, the number of employees decreased, because they fired one or two people -- a polite way to say that would be to say they laid them off; it is not that they fired them -- and they increased the hours of the other full-timers who were there.

I am just wondering, if an employer who has to provide a $7000, or a $5000, or even a $3000 benefit package to a part-timer might just let that part-timer go, and give the full-timer a few extra hours to cover up the gap in that schedule.

MS. PERROTTA: We believe that would be the case, again, as you said, based on conversations with many of the small member employers.

One thing I didn't mention is, some Republicans in Congress have proposed a situation where rather than require every employer to cover every employee, that they be required to offer insurance, but not pay for it, and that small group and individual insurance reform really go forward in a very strong way. Again, as we have done in New Jersey, ideally making policies much more affordable, and therefore motivating more companies to be able to provide insurance. That is another way I think we can get at some of those companies that may be especially on the fringes. Right now, they cannot afford insurance, but if there were true reform to the point of affordability, they might be able to afford it, and then that would not mean the elimination of jobs.

ASSEMBLYMAN CORODEMUS: As a freshman legislator, I am rather pessimistic about the government's ability to be the gate valve for the management of health care through this proposed health alliance, but I don't want to be a pessimist. I would like to ask you, as a leader in the business community, what is your confidence level with the State of New Jersey, or the Federal government, to administer health care benefits, the

need of health care benefits for people, and the payment of those benefits to the providers?

MS. PERROTTA: Well, as I understand it, the President is saying that he does not want the administration to be directly involved in how the health alliances negotiate the cost and quality of health care within the regions. However, you're right. With the National Health Board being proposed, it is very possible that they could reach a point of wanting to oversee the alliances and trying to have a great deal of effect on how they operate. That is why in my testimony I am suggesting, or recommending strongly, that states be given flexibility in how the health alliances are formed.

We think the alliance concept is a great idea. It gives bargaining power to smaller companies. It allows them to group together to negotiate the best possible deals in terms of quality and service with the sellers of insurance. But having the government run that and literally being in the middle of it is of great concern to us. We would really like, ideally, for it to be a private sector/public partnership, you know, at the very worst. It would be great if we were just able to work it out within the provider business community, without any intervention from the government.

ASSEMBLYMAN CORODEMUS: As you know, our respective district offices provide constituent services. You know, we are happy to answer calls about problems with Motor Vehicles, Green Acres, the DEPE, and such, but I loathe the plethora of phone calls that are going to come from my constituents who are either being denied the opportunity for health care access or are not being paid--

I was in the hospital in the late spring for a knee replacement. I need an accountant now to help me sort the bills out. It is that bad between who is being paid by the basic coverage, who is being paid by the Major Medical. Some obstinate health care providers said, "Pay this $4000 bill

first. Don't submit it to your insurance company." It is a tough environment we are living in. I do not look forward to having to be the man who has to cut the red tape between the constituent, the voter, the taxpayer and some great health care alliance management team, on the national level or on the State level.

MS. PERROTTA: It could be an impossible myriad of problems. With reference to just the forms, though, the President is proposing the utilization -- or the implementation of one standard form that would be used by all providers to help deal with exactly the confusion you are describing. In New Jersey also, we are working toward that. Electronic billing will be another means of cutting through some of the red tape, and that is something in the President's proposal. But in terms of being guided or overseen completely by the government, that would really be problematic.

ASSEMBLYMAN CORODEMUS: Thank you.

With that, I am going to turn the meeting over to the able leadership of our Chairman, Senator Sinagra, who has just arrived. Welcome, Senator.

SENATOR JACK SINAGRA (CHAIRMAN): Thank you.

John, do you have any questions?

SENATOR MATHEUSSEN: The first question I have, Dawn, is: The imposition of this overseeing health alliance -- regional health alliances -- aren't we, in fact, creating-- Could we be creating another national bureaucracy of proportions that we really have never even seen before?

We are talking about a billion dollar -- a multibillion dollar industry suddenly now being controlled by a health alliance in a region. Aren't we, in fact, stepping into an area that has given us so much trouble before in Washington, and are we asking for more of the same kinds of bureaucratic problems that we have seen in the past?

MS. PERROTTA: Well, ideally, if the-- Again, if the states were given flexibility in terms of how to create the alliances-- As I understand it, the President is suggesting that the alliances be within the state. There wouldn't necessarily be national alliances, except for those corporations and companies that are multistate companies -- like the AT&Ts and all the other multistate companies -- so they are able to offer the same set of uniform benefits to their employees.

If the alliances are able to be structured within the state, dependent upon the demographic needs of each particular state, we think it is workable. If the government is overseeing and directing and dictating exactly how those alliances should be formed, I think we will lose a lot in terms of the pluses that can come out of the alliance situation. But if we are able to do it, again, based on a public/private partnership situation--

We have some alliances forming in New Jersey on a real informal basis at this point; companies banding together, one particular one in the Central Jersey area. They are attempting to negotiate better deals with the hospitals and physicians in their area, and really are optimistic. And there are a few others starting to spring up. They really can work, again, as long as we don't have a great deal of government intervention, as you are saying.

SENATOR MATHEUSSEN: But that is an alliance by choice, is it not?

MS. PERROTTA: Yes. We would like to see that be the sort of modus operandi; that those companies that want to band together in a region would be able to do so, but would not be told how to do it or what companies can or cannot be eligible.

SENATOR MATHEUSSEN: Under the reforms that have already been promulgated in the State of New Jersey through the

Health Care Act of 1992, aren't we, in fact, giving the opportunity to the market to go in that direction on its own?

MS. PERROTTA: Exactly. I mentioned earlier that we think New Jersey should be the model, really, for what President Clinton wants to do, because we have the managed competition concept at work full force in this State. We are already seeing insurers, including hospitals and providers, in networks based on negotiated deals and arrangements. We absolutely believe that the marketplace is in the best position to help control costs. It gives the consumer a greater stake in the outcome and delivery of health care, as well.

We definitely agree with you that we should be the model and that imposing price controls on insurance premiums is not the way to go. The National Health Board overseeing and dictating global budgets for each state, or the country as a whole, would really be detrimental. Sometimes when global budgeting occurs in certain-- I guess we believe in the area of health care, if global budgeting were to be a factor, that it could really cause the elimination, or minimization anyway, of certain services. Certain providers would begin to cut back; would reduce the, you know, amount of care that they might be providing, and we really don't want to see that happen. We don't want those controls to adversely effect what we in New Jersey have started to do in a really positive way.

SENATOR MATHEUSSEN: The biggest thing you seem to object to is probably-- I have heard a Congressman in my area, who represents part of the 4th District, say this very, very clearly, that he is very concerned about who is going to pay for this. The Congressman, in addressing the Camden County Medical Society, listed off a number of concerns about where the money is coming from and how much this plan is costing.

Isn't that, perhaps, the biggest hurdle we have to overcome, not so much the reforms, but who is going to pay for it and how much money is going to be required to fund it all?

MS. PERROTTA: I think so. We agree that-- I mean, the element of financing is still pretty much of a mystery at this point.

SENATOR MATHEUSSEN: A mystery, but do you have any projections from your organization as to what the costs would be to New Jersey businesses alone?

MS. PERROTTA: Well, in talking about-- If we just look at the employer mandate that would require businesses -- all businesses, and which would especially affect those companies not providing insurance at this point, their payroll costs are automatically going to increase 3.5 percent to 7.9 percent. The President is suggesting caps on what companies expend in terms of payroll -- expend for insurance in terms of payroll costs. However, for those companies that literally cannot afford to provide it now, that could mean being forced out of business, or the elimination of possibly a couple of hundred thousand jobs, as projected by a study that was done last year by a Washington-based group. It wouldn't necessarily mean that many jobs eliminated, but there could be changes in terms of wages, salaries, nonhealth benefits.

SENATOR MATHEUSSEN: Are you talking about New Jersey jobs now -- a couple of hundred thousand?

MS. PERROTTA: There was a study -- which I mentioned before you had a chance to be here -- done by the Partnership on Health Care and Employment, which is a Washington, D.C.-based group. They did a study last year specifically focusing on the play or pay proposal that was pending in Congress at that point, with the concept translated over. They projected nationwide 9.1 million jobs could be put at risk, and in New Jersey it could potentially affect 203,000, primarily through job elimination, but also through lower wages, the elimination of some nonhealth care benefits. That is one major problem as we see it.

Also, in terms of the subsidy the President has suggested would be available for those companies, which even though capped could not afford it, there are a lot of questions about where that money would come from. There are suggestions of a $15 billion tax hike where money could be raised, possibly cigarettes, liquor, the payroll surcharge on large corporations that are part of the corporate alliances. Other experts say, though, that that tax hike might have to be as high as $60 billion in order to accommodate everything.

SENATOR MATHEUSSEN: Do you have any specific projections as to the exact dollar amount, this increase in payroll contributions from employers -- how much it is going to cost New Jersey businesses to participate?

MS. PERROTTA: I really do not, at this point. We are going to be doing a study -- a survey rather, of all of our membership to try to really get some hard data and be able to be more definitive in some of this. We are going to be asking them exactly where they are. Based on anecdotal information, they are opposed to the mandate, but we want to get that actually through the survey results. And we are going to be asking them in that survey what percentage of payroll costs they currently incur in order to provide health insurance premiums.

That will give us a better handle on what companies -- what percentage of companies may, in fact, face increased costs as a result of this. There are some who say that many companies might see some decrease, but we are just not convinced of that, so we really want to get the hard data.

SENATOR MATHEUSSEN: Do you know how many, approximately, percentagewise, companies in New Jersey do not provide paid-for health care coverage for their employees now?

MS. PERROTTA: Well, I can tell you within BIA membership.

SENATOR MATHEUSSEN: Okay, which is representative of some larger and some smaller companies.

MS. PERROTTA: Exactly, and representative of the situation in general. There tend to be more small companies, just in general, in the State and nationwide. We have about 13,600 members. About 70 percent have less than 100 employees. In our membership--

Let me say it this way: Three years ago, 85 percent of our membership provided insurance to employees and their dependents. Over the past three years, we have seen a very gradual decline. Two years ago, it dropped to 82 percent for employees, 71 percent for dependents; and last year the results showed a drop to 81 percent for employees and 70 percent for dependents. So there was a smaller decrease between the second and third year of this recent three-year survey.

We have seen a decrease in terms of companies offering-- We may represent members which tend to provide insurance maybe more than is typical of other small companies, for a variety of reasons. We are not really sure what those are. So I don't know if that figure reflects other small companies in New Jersey that might not be members of the BIA, but I think it would probably be pretty reflective.

SENATOR MATHEUSSEN: So then those are the companies-- Perhaps even some of the companies which do provide coverage now would have to bolster the kinds of coverage they are providing, and those which do not would have to, obviously, be under the guidelines of the new proposal on health care from the national level and would have to provide insurance.

MS. PERROTTA: Definitely.

SENATOR MATHEUSSEN: Now, with the problems we have seen with the recession in New Jersey already, and the entire region -- the East Coast region -- isn't this-- I mean, this whole hearing is on the economic recovery of the State of New

Jersey. Is this going to be, in your projection, something that is going to hinder economic recovery for our businesses, or something that is going to help them?

MS. PERROTTA: Our gut feeling, at this point, is that if the mandate goes through as proposed, then it definitely could hinder-- It could be a hardship to many of the companies in this State, especially those that do not provide health insurance.

If we are able to see modifications in the proposal-- For example -- and I think I mentioned this; I don't know for sure -- there is a group of Republicans in Congress that is proposing that employers require -- or, be required to offer health insurance, but not necessarily to pay for it, and small group and individual reform on a basis such as we have done in New Jersey accompany that strongly, so that insurance is more affordable and more companies might be able to voluntarily purchase it.

We think that any mandate would adversely affect the economic base and stability of companies in New Jersey, yes, and that universal coverage is important, but there are other ways to achieve it. We would support those other ways: through reform, through the provision of individual subsidies in a manner similar to what we are doing in New Jersey, as well.

So at this point, again, I want to leave room to maybe modify that position if the result of our survey comes back and is really surprising, as Assemblyman Corodemus is suggesting -- "Would we be surprised possibly at some of the responses?" But I am fairly certain that we are going to have a lot of opposition to the mandate. It is going to mean, again, a 3.5 percent to 7.9 percent increase in costs for those companies not providing insurance. For those that have a very low profit margin, that is the edge of survival.

SENATOR MATHEUSSEN: Sure. Thank you.

SENATOR SINAGRA: Assemblyman Smith?

ASSEMBLYMAN SMITH: Multiplying this mandate and this mandated cost would serve as a further disincentive to entrepreneurial activity and new business activity in the State of New Jersey?

MS. PERROTTA: I'm sorry. I couldn't hear you very well. Would this adversely affect entrepreneurial activity in the State?

ASSEMBLYMAN SMITH: Yes, and new business start-ups in the State of New Jersey.

MS. PERROTTA: I think so. I mean, I think we might see that nationwide with the mandate, but I think especially in New Jersey, where costs in general are just so much higher. As all of you are well aware, the regulatory requirements at this point in all aspects are probably more severe on -- at least we are one of the most severe states in the nation-- I think we might see a stronger effect as a result of the mandate on new companies starting up, yes.

ASSEMBLYMAN SMITH: Do you see any way to solve this problem that may happen?

MS. PERROTTA: Well, again, I think the President's goal of universal coverage is very, very admirable, very credible, and very important in terms of achieving really, really fine-tuned, refined insurance reforms so that insurance can be more affordable, the offering of subsidies to individuals as a means. The mandate could drive companies out of business and prevent companies from starting up. For those reasons, we think that other avenues should be explored and that they are possible.

ASSEMBLYMAN SMITH: Thank you.

SENATOR SINAGRA: Assemblyman Sosa?

ASSEMBLYMAN SOSA: Thank you, Mr. Chairman.

Dawn, you wouldn't bet against me if I made the statement that this is going to create another huge bureaucracy in Federal government?

MS. PERROTTA: I probably wouldn't.

ASSEMBLYMAN SOSA: Some estimates are that it is going to create about 75 brand-new agencies at the Federal level.

The question I have then is: As a result of this bureaucracy and the National Health Care Alliance, could this limit the choice on the part of business to provide the best kind of health care package they feel is best suited to their employees?

Secondarily, you know, you can also perceive benefits packages -- health care packages -- being a competitive issue with regard to attracting topflight employees to your businesses. Do you see the relationship between that issue -- the growth of bureaucracy -- and the oversight at the Federal level, and the opportunity for business to still have a chance, on its own, to develop programs that would be reasonable for the kind of business that it is in, the size and scope of that business, and also as a tool to attract, as I said, topflight employees to the organization?

MS. PERROTTA: I think it is possible. The President's proposal is suggesting that every company, as a member of an alliance, would have to offer three health care plans to their employees and employees would be able to choose one of those three plans. As we understand it, one would be a managed care plan, which is theoretically going to be priced lower than the other two. Then two indemnity plans, or fee-for-service plans, one more comprehensive than the other.

His hallmark is that he is still providing choice. The choices will be limited to three plans. Again, in New Jersey we are limiting small companies and individuals to five plans, at least at this point, unless there is a reform of the reform. So in terms of limiting the choices in that sense, I don't think we see a problem. If companies, again, or if the states individually are limited or dictated to in terms of how these alliances are formed, I think that could be the biggest

problem. The alliances afford buying power to the small companies that really just do not have that clout at this point. But if governmental regulations or structure is imposed, then I think that really will take away from the marketplace being able to operate in the best possible way, and I think we could see the kind of hard-ball bureaucracy you are talking about.

ASSEMBLYMAN SOSA: For the most part, these plans, would you consider them to be economy part coverage? I mean, would companies have an opportunity to provide Cadillac coverage as well, or are they limited?

MS. PERROTTA: Well, as I understand it, all the plans would have to provide a basic package of standard benefits, but then at least one of the plans would be comprehensive and provide top-of-the-line coverage. But in terms of maybe choosing from just three plans, that could be a problem. There may be companies that want to include some things that are not a part of the plans at this point, so there may be limitations that we are not aware of, because all of the details have not been fleshed out. There is still so much unknown. But that is certainly a possibility, Assemblyman.

ASSEMBLYMAN SOSA: Another question: The National Health Board, if you will, would impose the regulations and so on that the states would have to comply with. If it finds that any state does not comply with those regulations, as I understand it they would have the responsibility, or the power to impose a payroll tax?

MS. PERROTTA: As I understand the proposal, the President is suggesting that if there are companies that do not want to be part of a state-based regional alliance--

ASSEMBLYMAN SOSA: Right.

MS. PERROTTA: --because they are multistate companies, like the AT&Ts and other, you know, across-the-country sort of corporations -- they are self-funded

and already offer similar benefits throughout the different states -- they would be able to be exempt from participation in the regional alliances and be part of what will be called "corporate alliances." To be in a corporate alliance, though, they will have to pay, at this point-- Being proposed is a 1 percent payroll surcharge. That money is being suggested as going toward the subsidation of those smaller companies that are unable to-- It would go into a sort of pool and would go toward the subsidation of small companies that are not able to afford the 3.5 percent to 7.9 percent increase in cost as a result of the mandate.

ASSEMBLYMAN SOSA: Have you been able to determine, in discussing this particular issue, if the corporations of New Jersey, perhaps in concert with a chamber of commerce -- the number of those that would be more interested in going into the corporate side, rather than the regional affiliation -- just to go off on their own?

MS. PERROTTA: At this point, the best guess I can give you is that within New Jersey there are probably-- Okay. Right now, also, the alliances -- the corporate alliances -- would only be available to those companies of 5000 or more employees.

ASSEMBLYMAN SOSA: How many of those do we have?

MS. PERROTTA: I am not sure exactly, but based on-- I can get that for you, but I think we are talking 500 or 600 at the most in New Jersey. It might not even be that high, but I can definitely get you that figure. I should have checked that out.

Most of our membership is less than 100 employees, about 70 percent. So moving up from 100, you know, the number of companies in certain employee sizes becomes much smaller. That figure might even be much higher than it really is, but I can find out and let you know.

ASSEMBLYMAN SOSA: Okay.

Thank you, Mr. Chairman.

SENATOR SINAGRA: I just have a couple of questions, trying to get back to where the Clinton proposal affects the economy of New Jersey. Now, is it a part of the proposal that employees pick up 20 percent of the cost? Isn't that taking more money out of the economy and out of the pockets of people who are working for companies today, and indirectly, isn't it almost a tax?

MS. PERROTTA: Employers have to pay at least 80 percent of the cost, although they are not restricted from paying more if they choose to do so. In some situations where possibly employers are paying the full 100 percent, or in a 90/10 situation, they may decide to continue that, so in certain situations, the employee won't see an increased cost. But certainly, in situations, especially in the case of those companies, again, not offering insurance, or those which are maybe doing a higher copay situation, it will -- or a lower copay situation, rather, it will be an increased burden to the employee, as well.

SENATOR SINAGRA: Isn't there also a risk-- As I understand it, the proposal is that anything over $4200 that an employer is paying for an individual -- for a family, rather -- would then be taxed? Isn't that the way the system -- as I understand it -- is going to work; that if you provide good-- In New Jersey it is not even good. I imagine that the average family benefit, even without dental, would be somewhere around $6000 today.

MS. PERROTTA: It is about that, $6000 to $7000 even.

SENATOR SINAGRA: Right. So if we start saying everything over $4200 is taxable, I see that as being very negative on the economy.

MS. PERROTTA: I attended a briefing about a week ago, and that is one major part of this whole proposal that has not

been totally fleshed out. There were a lot of concerns and complaints about that.

I think there is administration receptivity to modifying that. I think you are right that anything above $4200 is being suggested as taxable at this point, but there has been a lot of concern expressed. I think that threshold, or ceiling, or whatever it is, may be increased in terms of what would be eligible for taxation.

SENATOR SINAGRA: Do you think there will be, as far as different alliances or different states, different regions, because one might imagine that health care might conceivably -- because of our cost of living and everything about New Jersey and this region -- be more expensive than it would be in another region? Is there any consideration as far as that $4200 might be adequate in parts of the country, but not adequate here?

MS. PERROTTA: That is absolutely true, so we are suggesting that the design of the benefit package, as well as the pricing of the packages in general, be allowed to, again, stay within the states. We should be given the flexibility to design based on our own demographic needs and the interest and desires of the different areas of the country.

As for the National Health Board imposing something like that on us, it would really be very problematic. In New Jersey, we have already experienced insurance reform. We believe that once it has had a chance to work, it will be successful in terms of allowing the marketplace to control costs. We would like to see that same sort of situation come from the President in terms of allowing states to do it, and based on our own demographic needs, be able to come up with plans and benefits and the pricing.

But you're right, we are in a situation where our costs are higher in general.

Thank you.

SENATOR SINAGRA: Are there any other questions?

ASSEMBLYMAN CORODEMUS: Jack, just one short one: Ms. Perrotta, a lot of my constituents and my legal clients and friends operate restaurants, the whole spectrum from fast foods up to large catering houses. Apparently, they are aware of a study that was done by the Employment Policy Institute in Washington indicating that should the proposal in its current form become law, they are looking at a 19 percent increase in costs.

Now, does that mean that, you know, the next time the President goes jogging into a McDonald's he is going to be paying another quarter on his Big Mac, another dime on his french fries, or another half-dollar on his Value Meal? You know, do you have any leverage on that?

MS. PERROTTA: I just think it has to be almost a certainty that besides the loss of many jobs, especially part-time workers in those kinds of situations, that it will be passed on to the consumer, as well. We will all be seeing higher prices if this comes to bear.

ASSEMBLYMAN CORODEMUS: Thank you.

SENATOR SINAGRA: Thank you.

MS. PERROTTA: Thank you.

SENATOR SINAGRA: Ms. Wild?

P E N N I W I L D: Do you mind if some people come up with me?

SENATOR SINAGRA: Sure.

MS. WILD: Good morning, Mr. Chairman, and members of the Committee. I am Penni Wild, State Director of the National Federation of Independent Business. We represent approximately 10,500 firms in New Jersey that employ between one and one hundred workers each.

With me this morning are NFIB members and owners of small businesses, and I will introduce them in a few moments.

First of all, thank you for caring enough about small business in New Jersey to hold this important hearing. It would be great if you could hold hearings like this occasionally as this debate progresses in Washington to help to keep people informed in New Jersey about this rapidly changing plan.

Now, I was told that the purpose of today's hearing was to learn how the President's health plan will affect small business in New Jersey. As some of us were thinking about it, we thought the last time that people in New Jersey were this frightened about something that didn't exist, was probably when Orson Welles' "War of the Worlds" was first broadcast in New Jersey more than 50 years ago. The difference between then and now is that no one has come back on the airwaves to tell us that what we've heard isn't true.

That is why there is a hair salon owner who just doesn't know how he is going to add the more than 2500 new haircuts to his business just to pay for the health care premiums. That is why two women partners who own a small gourmet shop and employ seven part-time employees are not sure how they are going to survive; how much longer they are going to be in business. That is why the father and son business that relies on independent consultants-- Again, under this plan it looks as though they would have to provide some sort of health care insurance for them. They are not sure how they are going to run their business. They are also not sure how, or when, it became such a bad thing to pay extra money out of their own pocket to be on the health care program their spouse has at his or her place of business.

Like the Business and Industry Association, NFIB also supports much of the President's proposal. But here are the scary parts for small business owners: the proposed employer mandate and a global budget.

President Clinton's plan would lock business owners into paying for 80 percent of the health care costs for all present and future employees and their families. Whether their employees work 40 hours a week or 10, whether it is affordable or not, small businesses will be shackled forever to an untried and unproven system. This mandate is a regressive, hidden tax that will fall most heavily on those who can least afford it, as you said before: the small, marginal businesses; the start-ups; businesses that employ lower wage employees; and the working poor. Even those who provide health care, but maybe at a 70/30 split, or 60/40, or 50/50, they are going to have to come up with the extra money or the extra business that they are wondering if the government is going to bring to their door, to help to pay for this program.

The President claims that employer mandates and global budgets must be in this mix to achieve health care reform. His claim is unfair and inaccurate. There are other ways to make health care insurance affordable, accessible, and renewable -- concepts for which the small business community has been fighting for more than a decade.

You all already know that there are other ways to go about this, because you have already passed an important health care reform law for small businesses in New Jersey. At another date and time, we will talk about some of those provisions that we would like to go back and revisit. In the meantime, we thank you for not saddling small businesses with the burden of a mandate.

You will be encouraged to hear that others on Capitol Hill agree with you, such as Senators John Chafee and Phil Gramm, and Representatives Robert Michel and Jim Cooper. None of their plans include an employer mandate. Instead, they embrace some of the concepts on which all of us can agree:

* Guaranteed access: You cannot be denied insurance coverage, even if you are likely to visit a doctor because of a preexisting condition.

* Guaranteed renewability: You cannot be dropped if you file a claim.

* Improved affordability: Purchasing alliances, as long as they are competitive and not government-run, will help small businesses pool together and pay lower premiums. And, Senator Matheussen and Assemblyman Sosa, we share your concerns that this could become some huge bureaucracy that is going to add further costs down the road later.

* Institution of a fairer rating system instead of experience rating.

* A purchasing incentive: 100 percent tax deduction for health insurance premiums for small business owners, sole proprietors, partnerships, limited liability companies.

* Medical malpractice reforms have to be central to any type of health care reform, and they are not even strong enough in the President's plan.

* Paperwork reduction and administration across-the-board, which is good for any small business and not a bad idea to include in anything.

Financing aside, again, much of the President's plan is acceptable.

The second most frightening concept is that America will have a limit on how much it can spend each year on health care. As with many parts of the proposal, we are not sure what will happen to that poor person who is on the emergency room gurney when the word comes over the loudspeaker, "Sorry, you have met your health care cap." What is worse is that according to the plan we have seen -- not seen -- if states exceed their Federal subsidy, the states are going to have to make up that difference. When you say that to a small business owner, to them that sounds like taxes, some sort of new fine, fees, penalties, or something that doesn't contribute to their comfort level. Again, we just don't know.

What small business owners do know is that they are not in business to receive subsidies. They do not want subsidies. That is not why they are in business. Subsidies are temporary, and a mandate is forever. Again, if the states exceed their caps -- and somehow that is going to be construed as not being completely responsible about your own health care in your own backyard -- your penalty could be that those subsidies will go away.

Small businesses want affordable health care insurance. The first problem all of us need to address would be ways to bring down the cost of health care insurance. There is no need for this wholesale reform. Again, the pieces I mentioned earlier on which we can agree are very important. No one has attacked them. Let's take those steps.

Health care costs increase at about 12 percent each year, more than triple the rate of inflation. Smaller firms actualy experience premium increases 50 percent higher than big businesses and pay more than twice in administrative costs. Their premiums are highly volatile, and policies are often suddenly canceled. Many small firms are finding it harder to obtain policies; others have been forced to drop their health insurance altogether. In fact, 90 percent of NFIB members said that health care insurance, attaining it or keeping the costs in line, is truly a problem. Again, that is why we have been asking for some of these reforms for more than a decade.

According to a 1993 NFIB/NJ survey, eight out of ten of our members say they offer health care insurance to their full-time employees. Sixty-five percent of them pick up the total tab; 32 percent share the costs. Of those that offer coverage, 80 percent also extend benefits to dependents of their employees.

When asked if their health insurance costs had increased over 1992 costs, nine out of ten said, "Yes." More

than half saw increases of at least 20 percent; nearly 42 percent cited increases between 25 percent and 50 percent.

According to NFIB studies over the years, firms that provide health care insurance tend to be more stable, mature, and profitable, and they have more full-time employees than those not offering coverage. Our members tend to be a little more stable and mature than other members of the small business community. A larger percentage of them -- two-thirds nationwide -- provide health insurance benefits. Again, that is NFIB members. Of the firms that do not offer health care insurance, two-thirds say they would do so if they could afford it.

But nationally -- and this is the figure that the administration has really been off-base with -- not more than 45 percent of the employers in the United States provide health care insurance. This percentage is driven by the huge number of employers with fewer than five employees -- about three million firms -- of which only 26 percent provide coverage.

In September, the Gallup organization conducted a poll for NFIB to determine whether small business owners were really as angry about this proposal, and upset about it, and frightened about it, as they had been saying they were before it happened. Well, 85 percent of the business owners surveyed said they still oppose proposals to require employers to pay 80 percent of health care insurance premiums for full-time workers, and even prorated for part-time workers. Even with the sugar-coated promises of a government subsidy, small business owners are not swallowing the administration's bitter pill.

That same poll also showed that small business payrolls have little room to absorb higher costs for employee benefits. When asked how small business would adjust to even a 3.5 percent payroll tax, over a third -- 35 percent -- said their first move would be to hike prices, passing the cost on

to consumers where they could. But a lot of people cannot do that. One in seven said their initial response would be to lay off at least some workers, or leave some vacancies unfilled. Other studies predict severe economic problems from this proposal, including the loss of as many as 1.5 million private sector jobs. Again, we also have a survey conducted by the Consad (phonetic spelling) Research Group that shows that it could be about 200,000 jobs in New Jersey that would be lost because of this proposal.

ASSEMBLYMAN SOSA: How many again, nationally?

MS. WILD: Two hundred thousand-- Oh, nationally?

ASSEMBLYMAN SOSA: Yes.

MS. WILD: I did not bring that figure with me, but it is pretty staggering.

ASSEMBLYMAN SOSA: Two hundred thousand in New Jersey alone?

MS. WILD: Two hundred thousand in New Jersey alone. That is being revised right now just to find out whether those numbers are still the same under the Clinton proposal directly. Dawn said two--

MS. PERROTTA: (speaking from audience) Nine million.

MS. WILD: Nine million. Oh, I'm sorry.

A quarter of the respondents hoped to avoid layoffs -- immediate layoffs -- by freezing worker pay, reducing the hours of some employees, or paring back other employee benefits, such as paid vacations and paid holidays.

Most believe they would have to take more than one action just to even offset a 3.5 percent increase. Phase 2 shows that, in order of preference, nearly half would hike prices; nearly a third would let workers go or not fill jobs; 28 percent would freeze or cut worker pay. Many of them would even cut their own earnings, as meager as some of them may be. A quarter would reduce hours of at least some workers, and 15 percent would trim employee benefits.

I will leave it to the three entrepreneurs and NFIB members with me today to tell you exactly how the President's proposal would affect them.

From my right: Sal Risalvato serves as NFIB/NJ's Guardian Advisory Chairman, owns Riverdale Texaco, a busy service station in Morris County, and has been an active and devoted volunteer at the national level on this issue.

To my left: Blaine Carpenter owns Blaine's Beauty Salon in Southampton, Burlington County. And to my immediate right is Joseph Marsar, who is a partner in Phelon -- I always mispronounce that -- Sheldon & Marsar in Fairview, a Bergen County direct mail marketing firm.

Before I turn it over to them, I just want to thank you again for listening to our concerns. As you heard, the differences we have with the President's plan are few, but extremely critical. We welcome your help in defeating an employer mandate and stopping the global budget proposals. Most people, when asked whether they would rather have health benefits or a job, say it is more important to have a job. You have already taken important job-creating steps in the last couple of years. We appreciate your efforts on behalf of small business, and we look forward to working with you to achieve even more business-friendly public policies in New Jersey.

With that, I will turn it over to Blaine.

B L A I N E C A R P E N T E R: Thank you very much.

As Penni said, I own a beauty salon in Southampton Township. I have owned it for 18 years, and did very well until the last few years.

I would like to express my opposition to the mandates that would require employers to provide and pay for health care insurance for employees. I have to explain that I am not against insurance for employees. At the present time, I have three part-time employees who are covered -- two of them are covered under their husband's plan. The cost of these premiums

would place a severe financial burden on my business. The fragile economic conditions we have experienced can be the cause of many small business failures.

I would like the government to stop making business decisions for me. I am opposed to government mandates because every time a mandate comes along, it costs me in my ability to provide jobs and also jeopardizes the jobs that I now provide. There are 6500 licensed beauty salons in the State of New Jersey. Many are small salons like mine. I know this will put many of them in the same position I will be facing.

Along with the three part-time employees, I have one shampoo person who works on weekends. She needs the money to help with her tuition to beauty school. She will be the first one that I will probably have to lay off. The only way I could be here today, or take a day off, or go on vacation is to ask one of my part-time employees to fill in for me. If I lay this girl off, I will not have that benefit at all. I would be putting more time into my salon, and it is very hard to take over other employees' appointments.

The mandate's costs would force businesses to cut back. Instead of a growth in job creation, many small business owners would have to lay some people off. Most small business owners are hard-working individuals who have risked their savings and their homes in order to own their own businesses. I ask you, please, to oppose any attempt that includes an employer mandate in this health care reform.

Thank you.

J O S E P H M A R S A R, JR.: Good morning. I appreciate the opportunity to speak before you this morning.

As Penni said, I am Joseph Marsar, Jr. I am 40 years old, married, and I have three children. I am the fourth generation owner of a 129-year-old family business. We started in 1864 under the Lincoln administration. We publish business

directories and provide direct mail services in Fairview, Bergen County.

Along with numerous taxes, fees, and regulations, I am now worried about a mandate on health care. Let me tell you a little about my company: We used to employ 19 people back in 1989. We provided health and dental care to the 10 full-time people. We paid approximately 60 percent of the costs, or roughly $12,000 a year. Due to economic conditions, technology, and the antibusiness climate of New Jersey, we are now down to eight employees. Due to the increased costs of health care, we no longer have health care insurance for anyone. We dropped it when our costs went to over $27,000 a year for five people in 1992.

Mrs. Clinton's health care proposal, if mandated, will force me to close or restructure my business to a one-man operation. Raising prices is not an option due to my competition. Being a family business, we have some specific problems that you may not have in other types of businesses. I am an insulin-dependent diabetic. Most insurance companies will not cover me in any way, shape, or form, or they will do so at an extremely high premium. We also have several family members who work and are over 60 years of age. With their particular health care problems, premiums remain high, or are not available at all for them either. These higher premiums, when available at a particular insurance company, affect the premiums of all of our employees. Of our eight current employees, four are family members, two are full-time workers, and two are part-time workers.

Speaking for all of my employees, with the costs of everything constantly going up, they are extremely worried that they are not even going to be able to afford the 20 percent they may have to pay, along with the increases in everything they have to purchase in their lives.

Let's take my part-timers first. They are a valuable part of my business, but they are working part-time because I cannot afford to keep them on a full-time basis. They perform clerk services, such as filling envelopes. I currently pay them more than the State of New Jersey's minimum wage, but I feel that a benefit package is a bonus that I should only offer to my full-time people. Forced to give them the benefits -- the part-time workers -- I will either have to let them go, or combine both part-time jobs into one job if the costs justify that.

My two full-timers are both working mothers. Both are currently covered by their husbands, who work for large corporations. Both turned down our health care and dental plans when we had them available, but should I be forced to pay a penalty or a surcharge for them, I will have to consider the costs and again weigh their jobs.

Of the four remaining workers, they are family, including: my parents, both in their 60s; my wife; and my daughter. I love my parents, but being older, health care costs will be higher. I do not believe I will be able to afford coverage for either of them. My wife and daughter would be covered under the same coverage that I am covered under, and again I worry: Will I have to pay a surcharge or a penalty for them also? Again, being a diabetic, I love the fact that I will get coverage, but being a business owner, I worry about more government interference.

My family business has survived many economic problems affecting this country since Lincoln was President, such as the Great Depression, several wars, and numerous economic slowdowns. Both the State and Federal regulations and mandates that are continually being heaped upon me are digging a grave site that my small family business may not be able to avoid.

I thank you.

S A L R I S A L V A T O: Good morning. My name is Sal Risalvato. I have been very active with the National Federation of Independent Business since 1980. I have been Chairman of our Guardian Advisory Council since 1986. I have been in the service station business for 15 years, not quite as long as Joe's family. I have only been around since Carter. (laughter)

ASSEMBLYMAN SOSA: Bad timing.

MR. RISALVATO: Well, I hope my business isn't measured from Carter to Clinton. That is what I am hoping.

I got involved in this debate several years ago while just happening to be in Washington, D.C. when Senator Kennedy tried to introduce legislation called, "play or pay." That is what health care reform was called two years ago and before the presidential election. It was called, "play or pay." The only reforms that were proposed back then were to mandate that employers provide their employees with health insurance, and this was going to solve the problem.

Naturally, the debate raged on into what we have today, the health care reform package that is before us. I was opposed to this two years ago for different reasons than I am opposed to it now. Two years ago I was opposed to this because I felt it was a severe violation of the free enterprise system. I had always provided health care benefits for my employees -- my full-timers. I did not provide health care benefits for the people who worked at my gas pumps -- college students, high school students, less educated and less skilled employees, or sometimes people who were just looking for supplementary income, a second job. These types of employees, if I were to have to pay their health care benefits, I would not be able to afford to have them. It is not even a question of maybe.

I have said this to anyone else I have testified before. I am going to use a calculator and I am going to add

everything up. If it comes out that I can keep them, I keep them. If it comes out that I can't keep them, I don't. Right now, preliminary figures -- and believe me, Washington does not even know what these figures are-- I happened to be fortunate -- or unfortunate, as the case may be -- to have attended some programs at the White House the day after the President's speech. The original figures they used for caps, small businesses that ranged from 3.5 percent to 7.9 percent, are:

a) still not set in concrete;

b) have already been changed twice since then;

c) rely on heavy subsidies.

As Penni said before, small business does not want any subsidies. I certainly do not need my business to be subsidized. I would prefer to be a businessman with the best possible health insurance benefits I can get for my employees, and inject free enterprise into the marketplace. I do not want to discuss the ills of the system right now, because--

Penni was smart making me go last, because she knows I talk too long. So I don't want to go into all of those things, but I do want to tell you that the plan they have now will severely affect my business and other small businesses that I have been speaking with, not just for the last few months while this debate has raged, but for two years, before people ever heard of health care reform. When I speak to small businesses and I ask them, "How would this affect you if these costs were imposed on you? If particular employees who are not covered now would have to be covered, what would you do?"--

To sum it up, I had a conversation about a year ago with a gentleman who is in the plumbing business. He works with himself and four other full-time employees. We happened to be talking about a broad spectrum of political issues, and we came upon health care. I started to explain to him about some of the legislation that was being proposed. Before I

could completely finish, he said, "Well, there's three less employees working for me." Okay?

Now, that was before he took out a calculator, before he knew anything. Just the simple effect of those costs will severely impact other small businesses, not just my own. The President, right now--

I received something in the mail that many other small businesses across the country received. I don't know how they selected who got it. But it was a plan that is really just a propaganda piece that is out to try to tell small business that they will benefit by this. The day I had gone to Washington was the day after the President's speech. I was asked to attend a program at the Small Business Administration. They had some fancy computers set up around a room about the size of this. They had brought in about 40 small business owners from across the country and were trying to sell this to small business. But of course, they brought us to the White House because they wanted the press to see that small business supported this plan and was surrounding the President with support, although many of the people who were there were not buying it.

They had these computers set up around the room, and they would plug any variable into the computers to make your specific business situation come out to be profitable with the President's health care plan. They arbitrarily changed numbers. It was very, very confusing, and they themselves do not know what to plug into the computers yet.

I think this Committee has to direct the State body to inform Washington that we are not in favor of this; that New Jersey has already taken a lead in providing some reforms that we have not even really tried out completely. I think we have to let some of those reforms go to work. Let's see what the advantages or disadvantages are. But the President's plan, as

it is proposed right now, will be very, very harmful to small business owners.

MS. WILD: Questions?

SENATOR SINAGRA: I want to start off with a question just to try to keep a logical perspective: How many small businesses presently today did you say provide health insurance for their employees?

MS. WILD: In 1993, 80 percent said that they offer--

SENATOR SINAGRA: Eighty percent? Okay.

I understand that most of the controversy today around the Clinton plan -- in addition to all of the substantive issues -- is the financial issue, and that the reason it has not proceeded and that they are pushing back dates to see the final plan, how it works, and the financial aspects, is because the numbers just do not add up.

I was just doing a little calculation in my mind and I was thinking about the beauty salon and those employees. Isn't it, under the Clinton tax plan, assuming she pays, because her workers mostly make tips also as part of their income, and the shampoo girl-- That makes $5000 a year or $10,000 a year. Under the plan, if it ever went in this way, wouldn't your responsibility only be $350 for somebody you are paying a $10,000 a year salary to? No one really believes the subsidies are ever going to come, but, I mean, isn't there--

Wouldn't most of your members actually benefit if that were the case; if the most they could pay was-- Those of your members who have less than 50 employees would be capped at spending 3.5 percent of payroll, according to the plan, even though I don't think the numbers will ever add up to that.

MS. WILD: Well, that is the big problem.

SENATOR SINAGRA: Assuming that was correct, wouldn't that benefit a lot of your members also?

MS. WILD: I don't even think we are ready to jump to the assumption that it could even possibly be correct. The numbers--

SENATOR SINAGRA: Well, I don't think it is correct either, but that happens to be the plan.

MS. WILD: --keep changing daily. In fact, as Sal said, this nice chart that shows what the subsidies are going to be-- They have already eliminated at least one of those middle categories and just said, "It is not going to be there anymore."

SENATOR SINAGRA: Well, they can't afford it. We all recognize it would be impossible, because-- We assume the average cost of health care for our employees in New Jersey, for someone who has a family-- Even though they say $7000, you know, in my case it is $6000. You take $6000 as a percentage of whatever you are paying the person, and then the subsidy would kick in over 3.5 percent. You're talking about a tremendous amount of money that has to be subsidized.

MS. WILD: Where do the subsidies come from?

SENATOR SINAGRA: Well, that is probably the reason we haven't seen the plan yet.

MR. MARSAR: You also have to keep in mind, from my perspective, we went from the 19 people down to 8. One of the biggest factors was my payroll taxes. I just cannot afford to pay the current percentages that I have to pay for those people. That was one of the big contributing factors to why we had to let a lot of people go. As you all know, a subsidy is only going to last until the State uses up that money, and then it becomes a tax.

SENATOR SINAGRA: Right.

MR. RISALVATO: Senator, I would like to clear one thing up. The subsidy and the percentage is going to be based on the average salary per full-time worker. So, for instance, in my situation, I have less than 50 employees, but 4 employees use up so much of the payroll that the average salary there comes out to be over the $24,000 allowance they use as an average salary. That means that the part-timers use up that

small balance, but I would have to be paying, then, the higher rate, the 7.9 percent, also on the part-timers.

So that subsidy is based on the wage per full-time equivalent worker. What they are going to do is average the salaries of your full-time workers. If that comes out over $24,000, it is 7.9 percent. Now, what full-time worker makes less than $12,000?

SENATOR SINAGRA: Very few.

MR. RISALVATO: Very few. That is what you would have to have your full-time workforce average out at to get the 3.5 percent subsidy.

So, you know, they throw out their 3.5 percent, and they really kind of fool you with it. It is not going to be 3.5 percent. It more than likely is going to be the 7.9 percent.

MR. MARSAR: Also, keep in mind that the State of New Jersey has one of the highest medium wages. Therefore, the State of New Jersey is going to get smacked severely with this also.

SENATOR SINAGRA: We've heard that.

Assemblyman Sosa?

ASSEMBLYMAN SOSA: I have nothing really, other than to ask you if you pitched a tent in front of Senators Lautenberg and Bradley's office? I am somewhat startled by the 200,000 figure just for New Jersey alone, and even more startled by nine million nationally. That is a very significant amount. It seems to be also, based on your testimony, that the administration is sort of throwing some things out there to test the waters, and are pulling them back in when they see that these things are not going to work and are not practicable in the business community, certainly not in the small business community.

Certainly, I think there is a sentiment on the part of the Legislature to work in New Jersey to provide the best kind

of health care programs. I think we have started that, and I think there are going to be some modifications to that as we move along, for a lot of reasons. But there is only so much we can do, for a lot of obvious reasons.

What is it that you folks are doing right now on a national scale to counter some of these things that are going on, and are you actively lobbying Congress on these issues? We have 13 representatives. Have they been apprized on this kind of information you are sharing with us today?

MR. RISALVATO: We are very active on the national level. In fact, our Vice President of Federal Government Relations, John Motley, was the opening speaker at the National Governors' Association Conference a few months ago out in Oklahoma. The main thrust of his speech was small business cannot afford what the President is going to be proposing in a few months. That was directed to all the nation's governors, to go back and discuss it with their legislative bodies.

We have been very much out front on Capitol Hill, doing a lot of arm-twisting, and trying to take the word to our legislators that small business cannot afford this. We are not joking; we are not doing this because of politics. We have been accused of politicking. I mean, we are adding up our payrolls; we are adding up our taxes; and we are saying, "We cannot afford it." We are out in front in Washington.

I would like to say that we were present in June in Washington, and we had a difficult time getting in. We had a few days to lobby on Capitol Hill. We had a difficult time getting in to see people in Senator Bradley's office and Senator Lautenberg's office. In fact, we never really got to speak to the respective legislators. We wound up with their aides, in some very heated discussion at times. We have let them know where we stand on this, and how important it is to us. We have also done some letter writing. We have been

asking our members to please write their members of Congress, and Senators Bradley and Lautenberg, on this issue.

ASSEMBLYMAN SOSA: Obviously, you voiced opposition to the current plan, but have you proposed alternatives to it as well, to members of Congress?

MR. RISALVATO: Yes, alternatives have been proposed. In fact, there are three proposals on Capitol Hill right now that we feel more comfortable with than the President's plan. One of them is called the "Cooper Plan." That is Representative Cooper from Tennessee, who has been an aggressive Democratic member of Congress on this subject for two years. In fact, many of the proposals that he has in his plan really were agreed upon by Republicans and Democrats alike last year in the 102nd Congress, but politics being what it is, these plans were never even brought to the floor of the Congress.

That is one plan that we are looking into and sort of favoring. There is another plan that has been proposed by House Republicans. Somewhere there is a combination of those plans that we are leaning towards. Of course, neither of those plans include an employer mandate. We feel very strongly that this could be done without an employer mandate.

MS. WILD: Assemblyman Sosa, excuse me. People say, "You are against this; you're against this." Again, we are really not too terribly far apart from the President's proposal. We support more: the basic benefits packages -- the creation of those; the ability to join health insurance purchasing groups; 100 percent deductibility; the guarantee to access; renewability; promotion of managed care and utilization review; education of health care consumers; medical malpractice reform; and uniform claims and filing procedures.

The sticking points are the employer mandated coverage and global budgets. We think, again, as you have already demonstrated in New Jersey, we are going forward with some sort

of health care reform that does not include an employer mandate. There are other states that are making similar efforts, and we should be able to give those time to work. This wasn't a problem that just happened overnight. It has been growing overnight -- over time -- and there is no reason for wholesale reform that won't take pieces into consideration. For some reason, there is a timetable that this has to be done overnight. It didn't happen overnight; it is not going to be solved overnight.

ASSEMBLYMAN SOSA: The last year or so in State and national politics has cast somewhat of a stigma over the term, "special interest groups" in this country. I think that, to some degree, has been justified, but another aspect of that is, all the so-called special interest groups that are in existence in our society represent people. They represent hundreds and hundreds of thousands of people who go out to work every day. You represent far more than 200,000 people in New Jersey, I'm certain, and more than nine million people on a national basis.

If you are telling me that you are having a problem in trying to reach your elected officials in Washington, then I would submit to you that, if your resources allow, you need to take your message to the American people as well. I know Washington has a habit of doing that now. It has become a marketing campaign whenever you want to try to push an issue across, from the congressional level, as well as the administrative level. Unfortunately, you have to fight that by playing the same game.

I think the people need to be educated, as well, about what their prospects are as employees of small businesses -- what their prospects are going to be over the next number of months if this plan gets pushed through as it is presently constituted. I can only speak for myself personally. I hope the President will ultimately succeed, but I also hope there is some effort -- bipartisan effort -- to come up with a solution

that would ameliorate a lot of the problems that I am hearing you folks talk to me about today.

I think one of the ways to do that is to get the public, who are a part of the special interest groups of our society, to contact their Representatives and let them know that they ought to sit down at the bargaining table and get this thing fashioned out. This ain't a good program right now, folks.

MS. WILD: Thanks.

We don't have big rooms with nice computers that we can plug in numbers, and we do not have the resources to send nice, slick brochures to every small business owner in America to tell them how crummy this is. It is hard to compete, but that is exactly what we are trying to do.

ASSEMBLYMAN SOSA: Well, you may have to join forces with other groups that may be impacted as well in a negative way. You have to pool your resources. Again, there is only so much the government at the State level can do to work with you.

MS. WILD: Well, the scary part is, you are going to have a lot more to do with it if it does pass. The governors of every state are going to have substantial input into the final program that comes down.

ASSEMBLYMAN SOSA: Right.

MS. WILD: I am not sure if we know now where our gubernatorial candidates stand on employer mandates. Yes, it is a plan. No, there is nothing that is concrete. That is a big part of this dispute. But even so, people are going to have to sign off along the way, and if the subsidies don't work, if they are not fashioned correctly, if they are not realistic, then the Legislature is going to have to deal with, "How do we deal with this shortfall?" You are going to have to figure out: Is some sort of a payroll tax going to be automatic? How is it going to happen? What is the state of the economy at the time?

ASSEMBLYMAN SOSA: Well, when in doubt, again, 200,000 people vote.

SENATOR MATHEUSSEN: I would be a little bit concerned, since we have the First Lady campaigning before the Governor -- Governor Florio, here in New Jersey, today in South Jersey. I am sure the health care plan is one of the big topics she will be discussing as a representative from the United States government here in New Jersey. So it might be a good idea to have more of a forum with her first, since she seems to be the leading force on the Health Care Reform Act of the Federal government.

SENATOR SINAGRA: Thank you, Penni.

MS. WILD: Thank you for the opportunity.

SENATOR SINAGRA: I thank all of you.

Dr. Sideli?

R O B E R T V. S I D E L I, M.D.: I would like to thank you for this opportunity to come to my neighboring State to give testimony to your Committee on looking at the effects of the Health Care Reform Act on the State of New Jersey.

I would like to tell you a little bit about myself, so you will understand what expertise I am bringing here today. I am a physician at the Presbyterian Hospital in the City of New York, and a faculty member at Columbia University. I am a practicing pathologist, although today I primarily spend 100 percent of my time as the Director of Administrative Information Services at Presbyterian Hospital. So I am working firsthand dealing with many of the issues that health care reform is going to affect, i.e., patient billing, and things like that.

I don't have a written statement, but I would like to make a few comments. Then I would ask you to ask me whatever questions you might have, based on what expertise I am bringing here.

As a physician, one of the things I sort of was somewhat shocked at when the President presented his plan -- and I continue to read about it-- I spent the last 15 years studying health care problems, reading extensively, and we spent years talking about the resource allocation problems. One of the, sort of you might say, somewhat crude statements that we use in health care-- We actaully talk about the $100,000 funeral, which is an elderly patient who ends up in an intensive care unit and spends $100,000 and dies. We have those all over medicine, and we know they are a major contributor to the cost of medicine.

The State of Oregon has dealt quite aggressively with these problems. I was sort of hoping that the health care reform would at least start the debate on a national level. I feel somewhat disillusioned that we are really just talking about finance here. We have not gotten to some of the more difficult moral and ethical issues. Maybe we will get to them five years from now, or 10 years from now, but I think that is missing in the whole discussion. We are not really talking about some of the difficult issues. It is just money, and we either spend more or we spend less. But that is important just the same. I just needed to take this opportunity to sort of throw that out so maybe you could think about it. It will come back to haunt us. We will need to deal with that when we see a major portion and continuing escalation of costs. We will need to ration.

Getting more closely now to comments on the actual reform plan, which I have read, and the various working papers that I have seen from the technology side, I think there are a lot of opportunities here. I want to come across today stating more about opportunities than about problems for small businesses. I think what we have heard about this morning so far are the actual losses that will occur in the State of New Jersey, and likewise in the State of New York -- 200,000 job

losses, etc. But I would also like to point out certain issues that will actually stimulate the creation of small businesses and opportunities for entrepreneurs.

It is very clear, when the President held up the health security card, I saw great opportunities there, but I also saw some problems. That card is basically a credit card. It has a magnetic strip on the back of it. You will be able to swipe that in some device, hopefully sort of like a cash register, so you won't have to sit there while they dial the phone, etc. That simple act will demand extensive computing facilities, networking facilities between institutions, from the small physician all the way up through the major medical centers. Really, those facilities do not exist today.

I know I have been spending some time at the New Jersey Institute of Technology with the group over there. They have been looking into networking in the State of New Jersey, but we are really not where we need to be for that alone. I think Vice President Al Gore's push for a national data highway fits in very well with this health security card. You will be able to go into a health care provider, wherever he or she may be, swipe that card, and receive the mental demographic information on the patient: Are they eligible for care at your facility? Have they consumed all their eligibility for the year? What is their actual real name, their date of birth, their sex, their home address, their phone number, fundamental information that most medical centers, even down to the physician level, have difficulty finding? Filling out an insurance form is very difficult when you don't have the information and you have difficulty communicating with a patient. I think that subtle little card is actually a very powerful symbol. It actually will stimulate a lot of businesses to build the devices, to connect the institutions, consulting services, etc.

So I don't say that it will recreate the 200,000 lost jobs, but I think that has to be put into the equation of the economic impact.

On the other hand, there is a lot in the plan about simplification and being responsible for a patient billing system, where we have about 300 employees. We are currently looking to purchase a new one if my hospital loan-- The first bid came back at $5 million for a billing system for our hospital. Simplification of billing would be a tremendous boost to our institution, actually, in increasing revenues and decreasing our expenses.

What I worry about -- and it actually goes back to-- I reread over a few times the President's speech. He talked about a nurse who had to go to training -- and couldn't help but sit by a young boy who was going under chemotherapy -- to get training to fill out forms. There was no mention of what the form was. I wonder if the form really was-- He insinuated that it was an insurance form; it was sort of in that context. I don't know many nurses in hospitals who fill out insurance forms. What I do know nurses have to fill out extensively are quality outcome forms, quality assurance forms; forms about what happened during the procedure. They are actually asking for more of that, not less of that.

So on the one hand, the billing forms will be simplified, but I think we are going to see a lot of increase in the demand for data on what is going on in the hospital to a patient, because that is how we will get our report cards. I, as a physician, how good am I? Well, how do you know? Somebody has to fill out a form that talks about my morbidity, mortality rate, how many times a patient comes back to the emergency room, and what were the complications during the procedure? It is very, very difficult today to capture that information. We do it all on paper. We have very few computer systems that have that sophistication.

So I worry about that one aspect of it -- very subtle. We are going to simplify forms, but on the other hand we are asking for very extensive quality outcome information, which I know that no hospital or health care provider is geared up for today. There are opportunities there also. Software can be developed. Systems can be purchased. So companies will respond to that.

On another hand, I think we have been somewhat victimized in the business I am in of information systems of sort of bureaucratic, very simple views of information. If we collect these 500 variables from a hospital, we will be able to determine their quality. They are called "minimum data sets." They exist now, and that actually showed up in the current health care plan. It is a somewhat oversimplistic view of the complexity of medicine. We don't really know today how to monitor quality in health care.

I know that in New York State if you want to have bypass surgery, you can get a brochure from New York State that actually lists all of the physicians and their morbidity and mortality rates. They sort of try to give you a risk ratio. If you go to this doctor, you are more apt to have successful surgery. It is frought with difficulties. HCFA actually pulled back on the national level from mandating that across-the-board, because they are not sure how well it will work. So there are a lot of issues here regarding the outcomes.

On the other hand, there are a lot of opportunities. I think what we are seeing today is that we are actually having ongoing negotiations with various hospitals, HMOs, and health insurers. As a matter of fact, MetLife is visiting our hospital tomorrow, and some consultants from the insurance industry are visiting our hospital tomorrow. Without health care reform, there is a movement underway already. Basically, everyone is trying to interconnect so that we can share information about patients. Insurers want easier access to the

clinical information so they can validate health care. The HMOs want to intercede in the care of the patient so that they know that good medical care is ongoing.

These are actually going to be opportunities to form these connections. We need consulting services; we need computing facilities; we need the input of the telecommunications field to be able to connect institutions together. The average health care provider would have no idea how to connect to a hospital. They might go to a computer store and find out that they can get a modum, but what would they-- They would need a lot of help. I think there are real opportunities here to fund that work and to stimulate it.

I think that sort of caps what I wanted to say today, other than to answer any of your questions from either the medical side as a physician, or more specifically, if you can ask me questions that relate to the information technology impact.

SENATOR SINAGRA: Questions?

ASSEMBLYMAN SOSA: Yes. Doctor, if there is price fixing and rationing in the system ultimately, I guess we need to understand that research development is not just reduced to the corporate sector. It is very much a part of the health care environment, the medical institutions, the medical schools, of which you are a member.

Could this have a deleterious effect on the amount of research and development that could come out of your shop?

DR. SIDELI: Oh, absolutely. We are trying to adjust now, but it is very difficult. Many medical centers are in some sort of loose alliance -- these are academic medical centers, and New Jersey has some very important ones -- between hospitals and universities. The universities, on one hand, want to perform research and want to compete for national dollars. The hospitals, on the other hand, need to pay for patient care. It is clear in the plan that the national

government will no longer pay and subsidize the education of subspecialty and specialty training. They really only want to pay for primary care education.

It is those dollars that pay for a lot of the fundamental--

ASSEMBLYMAN SOSA: Right.

DR. SIDELI: --building that goes on in medical centers. Then, on top of that, we put the national research dollars. But a lot of the fundamental university structure comes from those extra dollars to fund education. We are very worried about that, but at the same time, we are responding to that already, and appropriately so. I think we as a nation have trained too many specialists, and not enough generalists.

ASSEMBLYMAN SOSA: I agree.

DR. SIDELI: So on one hand, personally I see a loss, but on the other hand for the country I see a benefit. We need more gatekeepers and less specialists. I think the medical schools are responding already. They are encouraging primary care specialties, and decreasing their reliance on subspecialty training. They are looking at what you might call centers of excellence.

Why should we at Columbia University be excellent at everything? Why don't we pick a half a dozen, and be the regional center for heart transplants, for kidney transplants, for bone marrow transplants, and not try to do everything? I think you are going to see that fallout. You are going to see institutions pick their centers of excellence, decrease their programs for specialists, decrease the actual funding research for that, and move to other areas and increase generalists.

ASSEMBLYMAN SOSA: Do others share your view about that?

DR. SIDELI: I absolutely believe that. In my institution, the Dean and the President are responding

aggressively to that today, and negotiating, "What are we going to do?"

ASSEMBLYMAN SOSA: Of the moneys you get for research, how much of that comes from the Federal government, and how much of it comes from the corporate sector, from the private sector?

DR. SIDELI: I don't really know the exact number, but I would say that the vast majority is Federal dollars at the university level. We brought in, I think, last year, $50 million at Columbia University for clinical trials, drug research. That really is a new initiative. We are building a new building -- the Audubon Building -- which is actually going to be built at the Audubon Ballroom where Malcolm X was shot. That building is really geared towards corporate-aided research, and not Federal-aided reserach.

ASSEMBLYMAN SOSA: One last question: I just want to make sure that I understood your earlier comment about your seeing this as opportunities for entrepreneurs. I agree with you, but that isn't to say that you dispute that this kind of opportunity would make up for those job losses that would possibly come?

DR. SIDELI: I tried to say, "Yes, there are opportunities, but if it is true that 200,000 jobs could be lost in the State of New Jersey, there aren't those sorts of opportunities." But I think we have to remember that whatever happens, there will be opportunities for start-up companies.

ASSEMBLYMAN SOSA: I agree with you, although if the system that unfolds -- that is being discussed is unfolded as we know it, there may be limited opportunities for entrepreneurs, simply because of the system being so constrained, you know. Because a lot of organizations out there will be part of a collective, so there may be somewhat limited opportunities for entrepreneurs to get in that door and maybe get involved in the bidding process, and so on and so

forth. So there may be winners, but there may be a whole bunch of losers along with it.

DR. SIDELI: Sure.

ASSEMBLYMAN SOSA: Thank you.

SENATOR SINAGRA: Assemblyman Smith?

ASSEMBLYMAN SMITH: Yes. Won't this plan essentially force nearly every worker, even those who are satisfied with their present health plans, to switch their coverage to a government plan? How will this impact on the existing doctors' clientele and consumer choice with regard to his or her doctor?

DR. SIDELI: As I understand the plan, it is supposed to -- and I use the words "supposed to" -- offer a full range of options so you could still stay with your personal physician at a fee for service, with certain limits as to how much is being paid for. But on the other hand, I think we are going to see a lot of pressure to go the managed care direction, where you do not have the full range of choices.

We just recently -- at Columbia University -- changed because of unbelievable increases in our benefit package. We really looked at a severe economic problem at Columbia University, where I think my overhead right now for my Columbia University employees is 34 percent. It had gone up from 27 percent just two years ago purely because of health care problems. We actually have now offered a managed care option. If you enroll in that managed care option, you are given a book which has a list of physicians who participate. That is the list. If you go outside of that list it is not covered.

Now, we also get an option to go to a fee for service, but they cover a lot less in the fee for service. So I think we are going to see a push towards managed care decreasing options.

Now, we should not be decreasing quality. I think that is critical here. That is one of the reasons why there has to be the monitoring of quality at a national level -- the

report cards on physicians and health care providers. But we will have a limited choice, undoubtedly. If you meet with the five physicians and you don't like any of them, you have a problem.

I don't know if I answered your question.

ASSEMBLYMAN SMITH: I think you did.

SENATOR SINAGRA: Assemblywoman Derman?

ASSEMBLYWOMAN DERMAN: One aspect of the plan that has bothered me that there hasn't been much coverage about -- maybe people are not concerned, but I find it so contra to the American way -- is the fact that the government is going to micromanage the number of residencies in each specialty. I understand that the goal is primary care and that we need more physicians in this area, but somehow I find it offensive that the government is going to dictate how many places there are in surgery, or nephrology, or in, you know, subspecialties -- those areas. I would not want to see the Federal government say, you know, you can only have so many French teachers and so many social study teachers, when the emphasis may be on generalists there, too.

I find that system offensive as an American. I have always raised my children to believe that if they worked hard, they would be able to compete and get the positions they wanted. I would not want to think that one of them couldn't get a position as a resident because the government decided that we have enough hand orthopedists, and where there may have been 10 positions across the country before, there may only be four.

So to me I just find it contra to the American way. I mean, I think let market forces work. Let those people who might enter the area of hand orthopedics realize that there may not be people who are going to pay the bill, and so forth, or that they might do better in primary care. But I don't want the government dictating how many, you know, subspecialties and

surgeons there should be at UCLa, or at San Francisco, or at Beth Israel in Boston. I just don't think that is where the government belongs, but I think that is only just one small part of what the government will be doing in this area.

DR. SIDELI: If I may respond to that, I think we in the medical profession have failed to respond to that problem over the last decade. We knew it was coming; we absolutely knew it was coming. We wrote a lot about it; we talked a lot about it, but we could not find a way to control, because the dollars were there, frankly. If you go back in medicine 30 or 40 years, if you look at what I call the "white-haired" physicians in my institution, they all came, in their period, from wealthy families, because nobody paid for their training. They actually lived in the hospital. We all know the stories of the residents and interns who slept in the hospitals and were not paid very well. Back in those days, poor people did not become specialists. They were all very highly financed people by their families.

What happened 20 years ago when the government started to pay the bills, they actually paid for the education to train everything. What we see today is a much better mix of specialists. We see everyone, all races, male and female. We see a much better distribution. We see people from different economic groups and different social classes. We don't have that old historic problem that we saw in the past in medicine.

I think what is happening is that it was a bit too much, and it is pulling back. I am not sure that the Federal government in the end will actually count specialists. They will just stop paying for it. If a hospital wants to have a program, if a person wants to go in, they might pay on their own. In most businesses, if you want to go on for special training, you go and you pay for your own education. You find a way to finance it. In health care we figured out a different way. You can become a cardiac surgeon and spend seven years in

training totally at the country's expense, and then submit outrageous bills later on.

So I question the value of that. If you could fund it yourself, i.e., find some way to live and work, sort of like a college degree where you pay for yourself, I think that is what we are going to start seeing. I have had friends who wanted to compete for certain very coveted slots, where only one was funded and one wasn't. They actually worked two years without pay to actually get that training, because they knew in the end they would get a skill that would be very marketable.

So on one hand, I do not want to see the micromanagement. On the other hand, I would like to see more free market, and we have not had that. We have seen a lot of bureaucratic control, actually. So I think there are two edges to this problem.

SENATOR SINAGRA: Thank you, Doctor.

Bill Healey?

W I L L I A M R. H E A L E Y: Thank you very much. I appreciate the invitation of the Committee to speak and represent the State Chamber today. This is the second time I have seen Senator Sinagra this morning. We participated in a forum earlier this morning with the Health Underwriters Association. Talk about an industry that is scared by the President's health plan--

Joining me this morning for our testimony is our Director of Human Resources on the State Chamber staff, Don McCambridge. Don has been involved in employee benefits and industrial relations for the State Chamber for the past dozen years, and has been involved in the field for better than 30 years.

At the outset, let me apologize first. You truly have the insider's copy of my testimony, because it has all my cues back and forth to Don. I will make sure-- We were rather busy yesterday with our gubernatorial debate that was held last

night, so I asked that this be copied. Unfortunately, the wrong copy was copied. I will make sure you get a clean copy.

But to the issue at hand. As you know, the State Chamber has been an outspoken advocate for its members on health care issues. There were times that we agreed, and there were times that we strongly disagreed with the actions the Governor and the Legislature have taken. Our membership, as many of you know, is made up of 2800 direct members and a network of 110 affiliated local and regional chambers of commerce. That network represents 45,000 businesses in this State. The vast majority -- more than fully three-quarters of them -- are small business.

I arrived here a little bit late. I was moderating the forum that Senator Sinagra attended this morning, so I got here about halfway through the presentation by the NFIB, and I heard comments from the Doctor who preceded us about the issues of bureaucracy and paperwork. Much of our comment this morning -- my comments -- will be relatively brief and will center on the issue of cost, which is certainly of interest to small business.

I note for the record that at the same time the President offered this plan in a one-hour speech four weeks ago, the flesh on the bones of the plan has yet to be offered. But at the same time, the President's Labor Secretary is recommending a 25-cent-an-hour increase in the minimum wage. So we are looking at two very substantial direct hits at small business.

If I could put a perspective on our testimony, I would call it "reasoned skepticism," skepticism because the Federal government's history of managing entitlements and cost containment is abhorrent, and that is probably being charitable. That is why the business community probably remains skeptical. I have heard comments from our members over the last three or four weeks since this plan was introduced,

and the skepticism is that the cost of the program, either to business directly or in the form of taxes -- payroll taxes, what have you -- are vastly underestimated.

Let me put a little lighter note on my testimony. I saw a statement emblazoned on a bumper sticker on a car a few weeks back as I was stopped at a traffic light on Route 1, and it said this: "National health care -- the compassion of the IRS, the efficiency of the Post Office, at Pentagon prices." That kind of sums it up right now. But the joke on the bumper sticker, however, is probably all true. The President's plan proposes a series of health care alliances in each state, 50 new bureaucracies, and then some.

But to address the issues of cost and some of our other insights on this plan, although it is still pretty much an outline, I would like to turn the presentation over to Don McCambridge.

D O N A L D L. M c C A M B R I D G E: Thank you, Bill.

I would like to take a step backward for a moment and talk about the Social Security system. The small businessperson has to pay into this Social Security system regardless of their size or number of employees. That safety net which was instituted in 1933 has experienced so many add-ons and has been manipulated to such an extent that Franklin Roosevelt and his staff would hardly recognize their handiwork.

Today we are experiencing the difficult Federal bureaucracy of "entitlement programs," employer and employee tax dollars going to Washington. But do not misinterpret that statement. The State Chamber, and we two representatives, are not opposed to Social Security and ancillary programs. We are opposed to the use of moneys collected under this guise of a social program to be used for the Federal budget and all that entails.

We also would point out that in 1937 when this program began, the tax rate for employer and employee alike was 1 percent of $3000 maximum earnings. In 1965, the rate had grown to 4.8 percent for $7800 earnings. This amounted to $374.40 annual contribution.

Today, the rate is 7.65 percent for both employer and employee on $57,600 annual earnings, which means $5528 goes to a fund in Washington. This does not include the self-employed, who pay in 15.3 percent of their earnings.

Rolling the FICA tax rate into the other mandates from State and Federal governments -- that is Federal Unemployment Compensation, State Unemployment Compensation, and a guesstimate on Workers' Compensation -- the bite on the employer is a minimum 10 percent of payroll. This, unto itself, is greater than the suggested 7.9 percent cap of the Health Security Act which is suggested for payment of the employers' share of the health insurance premium.

Since September 7, we have been working from a "Preliminary Working Group Draft." We believe we are a long way from seeing a bill with substance concerning the Health Security Act. However, there are several points made by the draft plan that we believe, as others believe, will be a keystone in the preliminary bill. We do not believe for an instant that the Health Security Act first introduced will be anywhere near the same as the one signed, if a signing becomes appropriate.

The point which we believe to be a keystone is: Employers are mandated to provide health insurance plans for their employees. First, the Chamber believes we have enough mandates. We in the business world would like once to hear from government, "How can we halp you in growing, being more successful, hiring more people, and making our community a better place to live?" We don't hear it, and doubt if we ever will.

What about the "bottom line" of that mandate? Let's take a simple example: Don's Garage employs 10 people. The average salary is $10 an hour; work year is 2080 hours. The payroll is $208,000. FICA and other mandated benefits amount based on payroll is $20,800. We will not address other benefits which could claim another 15 percent of payroll, such as paid time off and other side benefits.

By the way, this example reflects the 165,000 plus organizations that are currently in New Jersey and employ 10 or fewer employees.

Regarding an earlier question concerning the number of possible job losses, let's just look at that 165,000 and say that each owner terminates one person. You have lost 165,000 jobs.

The Health Act states that Don's Garage must provide health insurance. We will use the New Jersey Small Employer Health Plans which will become operational January 1, 1994. I know that all of the i's have not been dotted nor the t's crossed; however, we shall forge ahead.

For the purpose of this example, we are going to assume that the employees in Don's Garage fall into several actuarial categories: single, two adults, parent and child, and family. We will also assume that we have four singles, two as two adults, one parent and children, and three as family. The New Jersey plan offers five indemnity plans and several HMOs. We will show you some numbers for Plan A, bare bones; Plan C, middle of the road; Plan E, top of the line; and an HMO. Also remember that the Health Security Act mandates that 80 percent payment is by the employer and 20 percent by the employee.

Plan A: The employer contributions would amount to better than $4400 for the single one -- for the single plan; better than $6000 for the two adults; $2000 for the parent and children; and $11,634 for the family coverage. That amounts to

a grand total of $25,002 per year for those 10 employees. This is 12.02 percent of payroll.

Plan C: The employer contributions total up to $45,376. That is 21.81 percent of payroll.

Plan E: The employer contributions would amount to $52,667, which comes to 25.32 percent of payroll.

Under the HMO, we have a total of $48,621 contributions by the employer, and that amounts to 23.37 percent of payroll.

Now, I might add at this juncture-- This is not in my notes, because I woke up this morning and I said to myself, "Ten dollars per hour for an average worker in New Jersey is a bit low." So when I got into the office this morning I resurrected the most recent information from the Department of Labor, and I found that the average wage in the State of New Jersey is something like $15.65. This is what our Workers' Compensation, our TDB, and our Unemployment Compensation rates are based on. So my average here of $10 is a bit low compared to the average, which includes everybody. Even so, if I would extrapolate those figures out -- and I did this very quickly -- if I would move these out to $15 on an average payroll basis, only one, Plan A, bare bones, would be under the 7.9, and that would fall at 7.85 percent. All the rest would be over the 7.9 percent cap of the Health Security Act.

In our examples, we have been using estimates for the premium amounts. But accepting a 5 percent plus or minus error, we would still find that every plan under New Jersey's program would have the employer paying more than the 7.9 percent cap. The difference, then, becomes reimbursable dollars coming from some source which has not yet been identified, other than tax on tobacco, savings on administrative costs of insurance companies, and/or savings within the Federal government, i.e., Medicaid -- Medicare and Medicaid.

The second major point is the bureaucracy that is being suggested.

First, we are to have a "National Board of Directors" to govern this Act. Although the number of Directors is small, one can envision the staffing will be in the 100s, if not the 1000s, and will continue to grow.

At the State level, there is to be an Alliance established. The Alliance objective is to enroll all eligible individuals in the Alliance and that the Alliance offers a health plan which provides a comprehensive benefit package. There are also available corporate Alliances for those organizations with more than 5000 employees.

An earlier witness was asked the question: How many possible corporate Alliances would occur here in the State of New Jersey? The Star-Ledger, two weeks ago, had a listing of the corporate 100 in the Sunday edition of their paper. Of the 100 corporations in New Jersey, 82 of them could be eligible, and probably would opt for corporate Alliance -- 82 out of 100 of the top.

These Alliances will operate in New Jersey with direction from Washington, including budgetary allowances. We question the need to bring forth yet another governing department.

To emphasize, we of the Chamber of Commerce are not opposed to the premise that all citizens should have adequate health insurance, which in turn permits them to actively participate in the best health care system in the world. As an add-on to my statement, let's do it by marketing, and let the marketing -- the business world handle their own, without government dictate.

What we do not care for is mandatory participation on part of the employers, an increase of unknown numbers of regulatory employees, and the very obvious direction of increased taxation of the employer community.

I thank you.

MR. HEALEY: Let me just return briefly for some additional comments.

In listening to the President's speech, it was interesting, because I listened to it entirely on my car radio driving home from an event in East Rutherford. I did not see all the visuals and the members of Congress standing behind the President and in front of him, so I had a chance to listen to the words. I also had a chance to listen to some analysis on the radio after the President's Address was finished. I think one of the truer statements that was spoken was the phrase: "When people get benefits, they tend to use them." We are talking here about a rather rapid expansion of benefits.

Let me just take issue with something that was done on the State level 13 years ago, when the State made a commitment that no person should be denied access to hospital care. It was certainly an admirable goal, and one which our organization supported. This is an example of a State entitlement ballooned in cost from just $9 million that year to more than $800 million just two years ago. Why? Because no reasonable and meaningful controls were placed on the Uncompensated Care Program.

As another example, for nearly 15 years, senior citizens and disabled persons have had access to the Pharmaceutical Assistance Program -- the PAD Program. The Program takes a sizable portion of revenues from a rather large source, taxes levied on our casino industry. The Program has grown in cost, yet only last year the co-pay was increased for the first time since the Program was instituted, from $2 to $5. I use that example because one of the statements the President made in his speech on September 22 was proposing to add prescription drugs to the Medicare Program. I think it is probably naive at best, and misleading at worst, to think that that could be done without substantial additional costs.

I noticed in Assemblyman Sosa's questioning a few moments ago that he was talking about the members of Congress. I think the members of this Committee could serve to join in partnership with the members of Congress who represent this State. I know that many of the members of the congressional delegation have formed their own advisory committees to look into this issue, and we will be having additional comment once the flesh is put on the bones of this plan.

Members of the Committee, I would like to thank you for the opportunity to offer comments. If there are other questions to be asked, we would be happy to try to answer them, or get an answer back to you.

Thank you.

ASSEMBLYWOMAN DERMAN: Did you mention the increased costs for providing for long-term care too, which is part of the President's proposal, as well as early retiree health care benefits?

MR. HEALEY: There are many things I think we could take issue with.

ASSEMBLYWOMAN DERMAN: These are all laudable goals, but the dollars have not been spelled out.

MR. HEALEY: Absolutely tremendous costs. That is the rub right there, quite frankly.

ASSEMBLYWOMAN DERMAN: Thank you very much.

MR. HEALEY: Thank you.

ASSEMBLYWOMAN DERMAN: Dan Capriotti? Is he here? (no response) Ed DeRose?

E D W A R D C. D e R O S E: Good afternoon. I want to thank you for giving me the opportunity to say a few words. I don't really have anything prepared. I didn't think I would be saying anything today, but I just can't help it after what I have heard so far.

I am an independent insurance broker/agent here in New Jersey. I have a rather unique perspective of the health care plan as proposed by President Clinton.

Number one, I am self-employed. I am a small businessman.

Number two, I represent insurance companies to deliver health insurance.

Number three, and most important, is my particular client base, which consists of about 500 small businesspeople -- small business owners, self-employed people. So, although I do not have any prepared statements or statistics, and I do not represent anyone where I have a fancy title, I consider myself on the front line, the blood and guts, if you will, of the people -- the small businesspeople in the State of New Jersey, specifically in southern New Jersey.

I want it to be known that I don't represent insurance companies as a broker. I represent clients, and I provide them with various insurance companies.

I believe our problem with health care in the United States is really a combination of a cost problem from the health care provider standpoint, along with the insurance companies. I believe the greed over the years of the insurance companies has a lot to do with the problem we are at right now, but it is not the only reason. I believe the cost of medical care also has a large responsibility for this problem. I think it is a combination.

It is a cost problem; it is not an insurance problem. A lot of what we have seen in the ways of government trying to solve the problem has been in going after the insurance -- the cost of the insurance, as opposed to the cost of the health care.

I want to compliment any of the legislators who are here who had anything to do with passing the New Jersey Reform Act on the individual and small group basis, because it showed a lot of guts. It showed the intention of trying to solve the insurance cost problem on the State level as best as possible. I believe, as an insurance agent, that we can live with the New

Jersey State reform as it is right now. There are a few warts on it, but the good thing about it is that it is constantly being monitored and it is really not a final product yet. We are able to at least put something out there and look at it and address the problems that are occurring, and hopefully straightening them out.

In that respect, I believe that insurance, health insurance anyway, should be controlled on the State level, and not on the Federal government level. I think it would be a lot easier. Okay?

All that being said, there are a couple of issues I would like to discuss. A lot of it is echoing what has already been said.

Having my finger on the pulse of small businesspeople, the first comment I hear, you know, when it comes to employer mandates, is that it is going to put them out of business. Plain and simple. "I won't be able to survive. I will close my business." You know, the guy who has a water ice and hamburger stand in South Jersey, who hires six or seven people to help him out, in no way will he be able to continue doing business if he has to pay for benefits for the people who are helping him.

You know, the funny thing is -- and no one has addressed this yet -- small business hires the bulk of the employees in this country. So if we are going to put a very undue burden of financial responsibility on small business, I mean, what are we doing here? Okay? I mean, we are putting out of business the people who are hiring most of the people. I don't see where that is going to help economically whatsoever, or in the State of New Jersey, for that matter.

I think the President -- or Mrs. Clinton -- in a six-month period of time, has come up with a tremendous solution to a problem that we are deeply mired in. They have done it by shifting the costs. Okay? We have a cost problem.

Health care costs too much; to buy insurance to pay for the cost, therefore, costs too much. Unless we address the cost, we are going to do nothing but shift the cost. That is what is happening here.

It is amazing how-- The guy who was up here from the small business, when he was in Washington, he told the story about how they had these computers that were programmed to solve every possible objection that would come up from a small businessman. I mean, I think they are more interested in the political aspect of getting this thing passed, than they are in solving the problem. It is a cost problem. Unless we address the cost of the providers, we are never going to solve the problem. We are always going to have health insurance reform, and we are never going to have health care reform.

The only way that I have heard of addressing the cost problem is through an artificial means of spending caps. That is doing it backwards. Okay? That is like, what happens when the State of New Jersey runs out of money? What happens when the money that the National Health Board has allocated to the State of New Jersey-- What happens when that money runs out? Do we tell the doctor, "Sorry, we can't pay you anymore"? I don't think that is going to happen. Unfortunately, what is going to happen is the money is going to come from somewhere else, and we know it is going to come from us in the form of another type of tax or something of that nature.

I believe that Clinton is missing the boat totally. I applaud all the great efforts that Mrs. Clinton has made with her Board. Unfortunately, there were no insurance agents on there. I mean, we are the ones who really know what is going on. We are the ones who talk to the customers every day, yet we had no representation.

As a matter of fact -- and I wanted to save this until last -- there is no sympathy whatsoever for the agents in this. The establishment of regional health Alliances will

eliminate the insurance agents selling health insurance. I don't know if anyone is aware of that, but the Alliances are going to do what we, the agents, do right now. The Alliances are going to deliver health insurance to the people through an 800 number, through mailings. I cannot imagine how they are going to go about servicing the customers.

When we had some agents ask Mrs. Clinton point-blank-- It is amazing some of the quotes I heard from Mrs. Clinton: "Anyone as obviously brilliant as you can find something else to market." That is a quote. Here is an official in the White House, they didn't say what his name was: "There will be no compromise with them, the agents. They are going to have to just go and find another line of work." This is the attitude toward the insurance agents. Yet in California, where they do have some Alliances in place, over two-thirds of the employers participating in the state's new health Alliance have voluntarily chosen to pay more for their coverage in order to continue a relationship with their agents. In a state where health care reform includes consumer choice, people are choosing to hire agents because they want us, and they need us.

I could tell you on a Saturday or a Sunday when one of my clients has an emergency appendectomy, and he is rushed to the hospital, who does he call first? He calls me. I would like to see an 800 number being manned 24 hours a day by a national health Alliance.

By the way, we will be only nationally overseen. It will be run and administered by the State of New Jersey. So Mr. Clinton has established these great rules, and has thrown them right into the laps of the states. So we in the State of New Jersey, you the legislators, will have the responsibility of running health insurance in the State.

A couple of little scattered points that I made notes on: The Clinton plan claims to use subsidies to help small

business so that they never pay more than 3.5 percent of payroll. If you believe that, I have some land up north in this State for sale -- swamplands. I don't trust it. There is nothing that has come out saying how he is going to subsidize it. The only thing I can think of is that he can subsidize it someway by a tax, deductions, or rebates, which will come after the fact and will not really help small business from a cash flow standpoint. If you are paying benefits for your employees, you are going to have to pay them every month. If you are getting subsidies or rebates, are they going to come every month, or are they going to come on your tax return a year and a half later?

Small business has a cash flow problem, and I do not believe subsidies will address the cash flow problem. I think they will just make it worse.

Small businesspeople have told me they just flat out won't hire part-timers. They won't hire a person that they may be considering hiring because they know they are going to have to offer them health benefits. They flat out won't hire the person.

The term "managed competition"-- Does anyone know what an oxymoron is? I don't know how you could manage competition. It is either competition or it's a monopoly. What Clinton calls managed competition to me is forming a monopolistic, noncompetitive, government-controlled -- federally government controlled -- state-run, one health Alliance per state.

Health Alliances can work. We are seeing them happen. By themselves they are evolving. But to make it an exclusive health Alliance in the State of New Jersey, and this is the only place you can go to buy your health insurance, and this is the only place that is going to service you if you have questions, it will never work. If we want to look at a health Alliance, let's let the health Alliance compete with the

private sector. Let's see how good managed competition is by allowing business to compete with the government.

I believe the reason the Clinton administration is being so stubborn about those types of ideas is because they know in their heart of hearts that it won't work. The government cannot compete with business.

The State of New Jersey will have a choice on how they want to run health care in the State. They can either go to a single pay system, so you don't have to go to the Alliance. You can either form an Alliance statewide, or you can go to a single pay system like they have in Canada, where the poor Canadian people are lined up at Buffalo hospitals because they want to get their open-heart surgery before nine months are up; they want to get their CAT scan before six months are up. They want private insurance. They have a single pay system. They want private insurance in Canada, and of course, look at what it is doing to the tax situation up there in Canada.

So single pay, forget it. Anything I hear about single pay-- I think we are really moving backwards; we are not progressing. So we are left with forming one health Alliance which, as I stated, is a monopolistic-- It is really bordering socialism.

Just to sum it up, I think, you know, the main reason I am here is really not as an agent. I am here as a representative of the people I sell to; the people who are in your constituency; the people who are only now hearing and understanding what is really included in the proposal that Mr. Clinton has put forth. The only reason they are understanding it is because I am telling them, because I have studied it. I don't see a health Alliance out there telling them what the new law is going to be once it is passed. So there is another argument for--

I am not here as an agent, but just by my being here, I think you can understand the value of an agent in our

system. Again, I don't represent the insurance companies. I represent the people I sell to, because by definition a broker under the State of New Jersey Insurance Code -- a broker represents the customer, and I am here representing my customers.

Thank you very much for your time and attention, and for the opportunity to speak a little bit. If anyone has any questions, I will be glad to try to answer them.

ASSEMBLYWOMAN DERMAN: How many employees would you say the insurance agents employ throughout the country, who may be out of business?

MR. DeROSE: The agencies? I cannot answer that question. I myself am a relatively new business. Right now, the only person I employ is my wife. However, I do business through a lot of general agents who, on average, employ 10 to 20 to 30 people. General agents are basically the same as me, except that they have other agents working for them. There is a lot of clerical work that needs to be done, and they employ a lot of people. How that is going to work from a health insurance coverage standpoint, God only knows, under the new Clinton proposal. So I can't give you a number; I don't have statistics. All I have is the blood and guts as to what is out there.

SENATOR MATHEUSSEN: The testimony is alarming, because I don't think that the NJBIA, or the New Jersey Chamber of Commerce, or the New Jersey Federation of Independent -- excuse me, the National Federation of Independent Business have really touched upon the loss of jobs with respect to the insurance agents themselves. So Mr. DeRose brings up another whole tier of those people who could be adversely affected in their employment skills.

I certainly appreciate and welcome the fact that you stayed around and traveled a great distance today to be here. I also would publicly invite you back. You have discussed some

of the, I think you called them "warts" on the New Jersey Health Care Act, small business health care reform, and individual health care reform. We are going to be working on some of those things, and will continue to revive them, to make New Jersey's system, regardless of what has happened or what will be predicted to happen under the Clinton administration-- We will continue to work here in New Jersey on reforming our own health care and reforming our own insurance, so that we will be, I think, clearly the leader in this field.

We welcome you back for that testimony. As Vice-Chair of the Health Committee -- the Senate Health Committee -- I really look for the input of the independent agents in this.

MR. DeROSE: Well, I appreciate that. I certainly will come back.

You know, I am here because I care. Okay? I canceled appointments where I could be making sales today. I think that is a small sacrifice to make in order to really let you know what is happening out there, and in order to have some input.

You know, when the State law first went into effect, I was not totally happy with it. I will be quite honest with you, it was a 60 percent pay cut for me, because part of where they squeezed the cost out of-- Now, the insurance companies did this. Part of where they squeezed the cost was out of the commissions. So I went from where I could make 10 percent on something to where I am making 4 percent on it now. That is a 60 percent pay cut.

But you know, in thinking about it, I can live with that, because what we gained there is accessibility for people who could not get covered before. My job, in essence, is a little bit easier now, because there is no more underwriting. I don't have to sit there and ask questions about someone's health, because they are going to be guaranteed that they are going to get that policy issued.

So from an administrative point of view, I have saved time; I have saved the cost of running my business. But more importantly, I do not have to look someone in the eye right now and tell them they can't be covered. That means a lot to me. I have always been one -- and, in fact, it has gotten me in trouble a lot-- I fought with the insurance companies. I fight with underwriting departments, because they do not want to cover people, they want to put exclusionary riders on people's coverages, or they want to rate them double for their health. I don't like that because, again, I fight for the client. So what the State law has done is, it has eliminated a lot of that. In fact, it has eliminated all of that. So to take a pay cut in order to be able to look someone in the eye and say, "Hey, you are going to be covered. Don't worry about it," is worth it.

But what I am seeing happening on the Federal level is, well, first of all, eliminating us altogether. I don't think that is fair to the customer, because I think the customer really -- especially with health insurance-- They really rely on the agents to tell them what to do, to help them through the process. "Who do I call?" You know, "I need a form." Most of the work I do is service work. I already have clients on the books who pay their premiums every month. What I do is service them. I think I could do a much better job of servicing them on a local level than the Federal government could do, you know, on a statewide level. I think that is really hurting people's choice. I think, from an economic standpoint, it is going to become a nightmare for the small businesspeople in the State of New Jersey.

ASSEMBLYWOMAN DERMAN: Assemblyman Sosa, do you have any questions?

ASSEMBLYMAN SOSA: No questions. Thank you.

ASSEMBLYWOMAN DERMAN: Thank you very much.

MR. DeROSE: Thank you.

ASSEMBLYWOMAN DERMAN: JoAnna Gregory?

J O A N N A G R E G O R Y: Good morning, or good afternoon, shall I say. My name is JoAnna Gregory. I would like to thank the members of the Committee for this opportunity to speak to you. I do not have written testimony prepared, as I was just invited yesterday. However, I felt it was important to stick around today just to give you my brief -- I am going to be very brief, so we can all get out of here -- view on the health care reform.

I am the Chairperson of the Legislative Committee of the Middlesex Regional Chamber of Commerce, which represents over 800 small businesses, but we do have large member businesses in our group. I am also the Regional President for the New Jersey Association of Women Business Owners. We have 1000 members throughout the State. I am the owner of Fortis Corporation. We are a search and staff recruiting firm located in Edison, New Jersey.

I am really in the forefront. I know what is going on in the business community. I talk to my clients every day. I have about 1000 clients right in Middlesex County in Central New Jersey. What is really happening is, these clients are very, very frightened about what is going to happen. I have spoken to many people. On our Legislative Committee, we, four years ago, had six people who were interested in legislative issues in New Jersey and what was going on. I now sit in my conference room, which seats about, I think, 12 or 14 people, and we have standing room only. We can't fit in any more people. Those people are from large businesses, such as Bristol-Myers Squibb, Johnson & Johnson, down to the little pharmacy owner who lives and operates a business in Middlesex County.

The major issue that has been on the table for the last four years is health care reform. Our Middlesex County Regional Chamber was very involved with the State reform that

was going on. I have come down to Trenton before to testify before some committees, and we are continuing to do that.

I am not here in particular today representing that Committee, because we met last month and decided that we were going to take on the national issue. It was never our tradition in the Regional Chamber to take on national issues, because we felt it was much more important to focus on local issues. However, this particular issue is going to hit all of us right in the pocketbook.

I am here today, though-- Yesterday afternoon, when I got the call to come here to tell my side of the story, I sat down with my controller and we did a little bit of a calculation. I am a small business; however, to some people, I guess, I would be considered a large business. I have one company-- I actually own two companies, but one company does temporary staffing, contract staffing. We go into the warehouses and large distribution companies and we take over their entire bathroom, offices, or whatever. We run the lines for them. A lot of these companies, because of the costs associated with that and with employees and carrying Workers' Comp, have been going and outsourcing these because it is more cost-effective.

I employ close to 4000 people this year. My payroll will be close to $2.5 million -- payroll costs. When my controller sat down, I said, "Let's just do some figuring on this." Okay, if I am $2.5 million in payroll, at 7.9 percent, my costs on that would be $200,000 a year. Now mind you, these 4000 employees-- That is 4000 employees for the total year. My weekly employee base is probably about 300 employees. We have been cutting a little bit over that, depending-- We are in our seasonal point right now.

That means that I will be paying $200,000 more a year. Well, that's fine. I have been in business for eight years. I have survived the recession; I have worked hard; and

we have done many different things, added new services, done different types of things. I may make that profit on paper. That is my big point here as a small business owner. You might make that profit on paper, but in real money it is not there. As my accountants keep telling me-- I keep saying, "When am I going to make some money?" They keep laughing at me, and they say, "JoAnna, you are making money." But I am not making real money. It is in the paper; it is in the receivables; it is the money that rolls over, the money that I am investing back into my company, so that I can go out and market and create more jobs.

Most of those 300 people who work for me are minority workers. I take that responsibility very seriously. Those people -- a majority of them -- come out of the New Brunswick/Perth Amboy sector. Those people would have a very, very difficult time finding work. What I do is, I take those people, non-English-speaking people-- I make sure I have bilingual people running lines, and I provide jobs for those people. That's 200 (sic) people per week who are getting paid by me.

No, I cannot afford to give them benefits. I have offered to give them benefits in the past, especially for the good workers who continue with me throughout the year. What I will do is take those people-- Those people who are very, very good workers, I will take them and when one project ends up, I will put them on another project, and I will put them on another project. What I offer is to pay 50/50 with those good employees who stay with me. Do you know what the answer is? The answer is no. They cannot afford it either. The reason? Because I am forced to give the minimum wage salary to those people, because when I go back to my client and add on a very small profit margin -- and in my business it is a very small profit margin-- The way you are able to make money in my business is to do a lot of volume. But when I go back and I

ask them for a salary increase, my clients cannot afford it, because their budgets are so tight. So what happens is, everybody gets squeezed down the line.

That is the temporary and the contract staffing business. Now I would like to address the permanent search side, a business that I handle.

Four years ago -- no, six years ago -- I had a very, very active company, the permanent search and staffing. I was assisting companies and people in finding permanent jobs in New Jersey -- in Central New Jersey. With the recession, that business practically disappeared. Thank the good Lord we made it, but it practically disappeared. What happened to the clients was that they stopped hiring. They stopped hiring people because they could not afford it. Or, a secretary, who four or five years ago was making $35,000, is now out on the street in the last two years and has had to accept a position for $20,000.

What do you think, if there is a mandated employer health coverage benefit, is going to happen to the regular permanent workers of New Jersey? They will be affected in pay raises. Pay raises probably won't happen. When they go out and try to find another job, the same thing will happen, because the employers are going to have to have an added cost there. Where are they going to put that added cost? They are going to lower the salaries or keep them at the levels where they are now.

Just now in the last quarter of this year, I am finally seeing some movement in the permanent search division, where some of my clients are rehiring. I am hearing from clients I have not heard from in four years. They are calling me and saying, "JoAnna, we need more clerical workers. We need this, we need that." And I am saying, "Terrific." The salaries are still very, very low. Then when you get a person in who has made $35,000 all his life and he can't find a job,

the only thing he can accept is $19,000, $20,000. It is very disheartening for that person. In some instances, those people choose not to go back to work, so it lowers the standard of living of all the families in New Jersey.

Those are just some of the points that I wanted to bring out. I do not want to belabor this Committee. It is time to go, and I am sure we are all hungry. It is past lunchtime. I have to get back to work, but I would be happy to entertain any questions you might have.

ASSEMBLYWOMAN DERMAN: Thank you for coming. You are a very articulate spokesman for this issue, really.

Assemblyman Sosa?

ASSEMBLYMAN SOSA: Just a compliment to you that you have been able to withstand the last number of years of this period of time.

Have you been able to gauge, from your perspective, the potential job losses that you would have from this plan?

MS. GREGORY: Well, to tell you the truth, I am not really quite sure what is going to happen to my company. If I have to, in the temporary contract staffing-- Nobody has really mentioned temporary workers. They are saying, okay, there might be an increase in payroll costs, but nobody is really coming out-- They are talking about part-time workers, but they are not talking about temporary workers who go from a temporary agency, to another temporary agency, to another temporary agency.

So at this point I do not know if we will be excluded or not. It could do two things: It could-- If I cannot withstand that increase, or I cannot pass it along to my customers-- My controller figured out that we would have to raise our prices by 7.3 percent in order to withstand the $200,000 hit we would take. If I cannot pass that along to my customers, I have to face a very serious business decision: whether to just close my doors, thereby not having 300

employees who are working in the minority community, who otherwise might not be able to find work -- we have 100 regular contract staffers, professionals, semiprofessionals, white-collar workers, secretaries, that type of thing -- or the opposite could happen. The opposite could happen because companies are then going to approach companies such as mine that do outsourcing and temporary employment. They might say, "Okay, we cannot afford to do this, so we will take the hit of a little bit of an increased cost and we want to use your people." Then, of course, they would be my employees and they would be on my payroll.

However, I don't think that is a great way to grow my business. I could grow my business that way, but I would hate to see that happen, because that is going to hurt everybody in the long run. The impact of job loss will be very severe in New Jersey, and New Jersey cannot take that. We are just starting-- My business feels it first coming back, and we feel it first when it hits us. Half the people in my industry have closed their doors. Now you are just starting to find some of those people who were in our industry a couple of years ago coming back in, but it is very, very difficult. I used to have 25 employees in my own particular office. I am now down to 10 full-time people and 5 part-time people. But it has been very difficult. We have flex hours. We have done all kinds of innovative, creative types of things in order just to stay in business and keep our doors open.

I feel it is a responsibility. I have 300 people that I am responsible for, for the payroll, for their food, their rent. I go down to my New Brunswick office -- I have an office in New Brunswick -- and hand out the payroll checks from time to time to these people, and some of the stories you hear are absolutely sad. "If I don't have my check this week, my landlord is going to kick me out." "Oh, I have to feed my child," and blah, blah, blah, blah, blah. I hear it every

single day, and I am the one who is on the line. I am the one who is speaking to real people, not people who sit in the Legislature or write the rules. I am the one who sits and listens to people's stories about how they can't find jobs. That is what I am afraid it is going to do to New Jersey if this goes through -- the mandated health benefits.

I think creative competition among businesses has worked. I think it should be encouraged a little bit further in New Jersey, and I think you can, by education and by reaching for those businesses through the State Chamber and regional Alliances, and different kinds of health plans-- I think it is starting to work. The reforms New Jersey did last year in providing a small group health plan will start to work. I think if you mandate the employer health benefits, we will all be in real trouble.

ASSEMBLYMAN SOSA: The testimony I have heard today seems to indicate that people from the small business community want the President to proceed with health care reform, but proceed with extreme caution. I am just curious to know just how much the Health Care Task Force in Washington was involved with speaking with people who obviously would be impacted by this reform; namely, the people who are out there working, and also the people who employ those folks, and how much of that time was allotted for those constituencies, as opposed to people up in the health care industry. You know, take the whole spectrum that I know was involved very closely with Mrs. Clinton's Task Force.

Certainly, if this were broached, I would think, to the small business community, they would have learned early on that this was a red herring; this was a red flag that simply was not going to work. There seems to be a lot of variables in this plan that, one way or another, are going to hurt small businesses.

As I said before, please carry on the mission, but carry it on in such a way that, you know, all of these

prospects are laid out on the table and, as I mentioned earlier, in a bipartisan fashion, so these things get hammered out to everyone's benefit.

MS. GREGORY: Right. Thank you. Thank you.

ASSEMBLYWOMAN DERMAN: I think we are adjourned.

(MEETING CONCLUDED)

APPENDIX

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NEW JERSEY BUSINESS & INDUSTRY ASSOCIATION

Statement

of the

New Jersey Business and Industry Association

by

Dawn Perrotta

on

President Clinton's Health Care Plan
the
"American Health Care Security Act"

before the

Senate Health and Human ServicesCommittee
and
Joint Legislative Committee on Economic Recovery

October 20, 1993

Good morning Chairmen Bassano and Sinagra and members of the Senate Health and Human Services Committee and Joint Legislative Committee on Economic Recovery. I am Dawn Perrotta, Assistant Vice President of Health Issues for the New Jersey Business and Industry Association. NJBIA represents over 13,600 employers Statewide. I would like to thank you for this opportunity to present the views of the business community on President Bill Clinton's Health Care Reform Plan. NJBIA is generally supportive of the President's proposal, entitled the "American Health Care Security Act" which was presented to a joint session of Congress on September 22, 1993.

NJBIA supports the broad goals of the proposal including the concept of universal coverage, emphasis on primary and preventive care, emphasis on a managed competition approach focusing on managed care and the concept of Health Alliances. However, we are strongly opposed to the imposition of price controls on health insurance premiums and to accomplishing universal coverage in a manner that could force some companies out of business and threaten the job security of thousands of New Jersey workers. In addition, we have concerns regarding how the Health Alliances would be structured.

Contained in the President's proposal is a provision that would require every business to pay for a portion of employees' health coverage. The provision requires that *all* businesses provide health insurance for *all* employees and pick up 80 percent of the cost of premiums. The plan would cap employers' premium costs at 7.9 percent of payroll for large companies

and as low as 3.5 percent for companies with 50 or fewer workers. Employers unable to afford the new cost would be eligible for subsidies.

Despite the admirable goal of universal health care, NJBIA must oppose the employer mandate. Requiring businesses that do not already pay health insurance premiums to do so would place an undo burden on the private sector. Particularly hard hit would be small businesses and the low-wage retail or service sectors that may be large but operate on small profit margins, such as supermarkets.

President Clinton is promoting the 3.5/7.9 percent cap on the cost of premiums as a positive side of the proposal. Viewed from the other side, however, it means that some companies can expect their personnel costs to increase between 3.5 and 7.9 percent. In addition, the subsidies for companies that cannot afford the extra cost would come from a $15 billion tax hike from, as yet, unspecified sources. Exactly who will qualify for subsidies has also not yet been clearly spelled out by the Clinton administration. Some experts say the tax hike—which may come from cigarettes, possibly liquor and a one percent payroll surcharge on corporations that are not members of regional alliances—would actually need to be as large as $60 billion.

Independent studies indicate that the Clinton plan could have an adverse effect on the profits of many companies and the jobs of their employees. A 1992 study by the Partnership on Health Care and Employment in Washington, D.C., estimated that a "play or pay" health care proposal then pending in Congress would put 9.1 million U.S. jobs "at

risk." Included would be 203,000 jobs in New Jersey, or seven percent of the State's private sector payroll. The study defined "at risk" as outright job loss or the possibility of dramatic changes in compensation, including reductions in hours, lower wages, or elimination of non-health benefits. At this time, NJBIA believes the Clinton plan could have a similar effect in New Jersey.

NJBIA would like to see the removal of the employer mandate from the Clinton plan before passage. An alternative plan presented by Republicans in Congress would achieve many of the same goals but without requiring payment of insurance premiums by employers. The President's plan also proposes price controls in the form of federal limits on private health insurance premiums, but history shows that price controls do not work. The Association believes the cost of health care can and should be restrained through market competition.

Despite the Association's opposition to price controls and employer mandates, NJBIA believes the Clinton plan has many good features that ought to be preserved or modified. Following is a more detailed point-by-point comparison of the major elements of Clinton plan and NJBIA's positions.

Universal Coverage

Clinton plan: Every American citizen and legal resident would be covered as soon as their state joins the new national system, as early as 1995 and not later than 1997. They would receive a health security card guaranteeing them a broad package of benefits, from checkups to hospital

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stays, prescription drugs and eye exams. No one would lose coverage when they change jobs, move or become ill.

NJBIA position: NJBIA supports the concept of universal coverage, but in addition to opposing the mandate, is concerned that the list of benefits is so comprehensive that the standard package will cost more than the Clinton administration predicts: $1,800 for individuals and $4,200 for families. NJBIA also believes the states should be free to create their own benefit packages, tailored to regional needs and demographics. New Jersey has already accomplished individual and small group health insurance reform as required by P.L. 1992, Chapters 161 and 162. Reforms include a package of basic benefits, portability and elimination of pre-existing conditions as recommended in the President's proposal.

Employer Mandate

Clinton plan: Every business would have to buy health insurance for their employees. Employers would pay 80 percent of the cost with employees paying 20 percent. Some low-wage workers would be eligible for subsidies, as would some companies with fewer than 50 employees or many low-wage workers. However, every company would have to pay an amount equal to at least 3.5 percent of payroll. Employers would also have to buy coverage for part-time workers, although part-timers would pay a larger share of the cost.

NJBIA position: The Association is opposed to any employer mandate. Past studies of proposed "play or pay" mandates present compelling evidence that they would cost millions of jobs nationally and tens of thousands of jobs in New Jersey. For example, a 1992 study by the Partnership on Health Care and Employment in Washington, D.C.,

5X

estimated that a then-leading "play or pay" proposal in Congress would put 9.1 million American jobs at risk, 203,000 of them in New Jersey. The study defined "at risk" as the possibility of dramatic changes in compensation, including reduced hours, lower wages, elimination of other benefits and outright job loss.

Health Alliances

Clinton plan: Each state would create health alliances to serve as health-care purchasing agents for the vast majority of residents. The alliances would use their clout to compel networks of insurers, doctors and hospitals to provide quality medical care at a competitive price. The health-care consumer, not the employer, would choose coverage from competing plans offered through the alliance. Companies with more than 5,000 employees would be able to operate their own health plans, but the states could impose taxes and other assessments on those plans.

NJBIA position: NJBIA has long been a supporter of managed care initiatives and strongly supports the creation of health alliances. These large purchasing cooperatives would level the playing field between health care sellers (insurers and medical providers) on the one side and health care buyers on the other. The alliances would give individuals and small companies the clout they now lack to negotiate for the best combination of price and service.

NJBIA believes, however, that the states should be given flexibility in how they structure these alliances. Many creative solutions are already being put to the test. Florida, for example, has become the first state to create a statewide system of purchasing cooperatives.

NJBIA also opposes any attempt to tax self-funded employer plans set up under the federal Employee Retirement Income Security Act of 1974. According to the President's proposal these plans may be subjected to a one percent surcharge. NJBIA believes that self-funded plans should remain exempt from taxation and regulation by the states.

National Health Board

Clinton plan: A seven-member board, appointed by the President, would oversee the new health system. The board would impose price controls by setting a national health budget ceiling and imposing annual insurance spending targets for each state and health alliance. The board could also recommend changes in the benefit package.

NJBIA position: NJBIA is opposed to the creation of a National Health Board that has the power to control overall health care costs. It seems unwise to give a federal agency control of an industry that accounts for 14 percent of the nation's gross domestic product. The Congressional Budget Office recently warned that regulation of insurance premiums "could be difficult to design and costly to put in place." The history of price controls is that they do not work. In the health care arena, they are likely to reduce medical care and restrict access to new cost-saving medical technology. NJBIA favors creating a system that encourages competition among all players by giving consumers an incentive to make choices and a stake in the outcome.

Medicaid

Clinton plan: Many currently employed Medicaid recipients would be folded into the regional health alliances by virtue of their jobs. States would have to pay the alliances what they now spend directly on Medicaid.

NJBIA position: Medicaid recipients make up a huge pool of health-care consumers in every state. It makes sense to fold them into the alliances so that they can become part of more cost-efficient managed care systems.

Primary Care

Clinton plan: The new system would emphasize primary and preventive care and would revamp medical education to turn out more primary care doctors. It would also expand the role of advanced nurse practitioners and physician assistants.

NJBIA position: NJBIA supports the emphasis on primary and preventive care and the increased utilization of alternative care providers.

Thank you for this opportunity to testify on the President's health care proposal. I will be happy to answer any questions.

Would You Fare Better Under Health Reform?

YOUR MONEY MATTERS

THE CLINTON HEALTH PLAN

By Ellen E. Schultz
And Georgette Jasen
Staff Reporters of The Wall Street Journal

What would the Clinton health plan mean for you and your family?

The answer depends a lot on what kind of health coverage you have now.

Clear winners would include the millions of people currently without health coverage, including part-time workers and those who work at small businesses. People near or in retirement, the disabled, the unemployed, dependent students and independent contractors would also stand to gain.

But the plan could be a mixed blessing for people already covered in the workplace. While they would gain increased security in the event of unemployment or a job switch, they could end up paying more, and facing new restrictions.

Among other proposed changes, the Clinton plan would repeal a major benefit enjoyed by employees at many companies who use pretax dollars to pay for some of their health-care premiums and for unreimbursed medical expenses. And if an employer is offering richer benefits, with more dental, mental health or medical coverage than would be mandated under the basic federal package, the value would—after a 10-year grace period—count as taxable income to the individual.

Of course, there is enormous uncertainty about the fate of the sweeping health-care overhaul proposed in a 239-page draft making the rounds in Washington. Numerous changes are not only possible but likely, as health-care consumers and others weigh in with their views.

"It's political dynamite to tax health benefits. So this is a delayed fuse," says Frank McArdle, partner and manager of research group Hewitt Associates.

Under the administration's draft proposal, all Americans would have health-care coverage. The basic choice would be between a health maintenance organization, a fee-for-service plan, or a combination plan.

But how the proposal would actually work, and how much an individual or family would have to pay, would depend not only on which option you selected but also on such things as your employment status, the size of your employer and income.

Here's how the plan would affect different groups of people:

Corporate Employees. The estimated average premium cost for individual coverage under the proposal would be $1,800, and $4,200 for family coverage. Employers would be required to pay a minimum of 80% of the premium cost for a mandated package of benefits. The employee would be required to pay as much as 20%, probably through payroll withholding.

In addition, employees would be responsible for out-of-pocket costs, which could include $10 per visit to an HMO, or 20% co-payments plus annual deductibles under a fee-for-service option. These out-of-pocket costs would be capped at $1,500 a year for individuals and $3,000 for a family.

An employee opting for a high-cost plan that offers more choices and additional services than the minimum mandated under the Clinton proposal could end up paying more than 20% of the premium cost. It works like this: Let's say the annual premium for family coverage is $4,500, compared with the $4,200 average. The employer would be obligated to pay $3,360, and the employee could pay as much as $1,140, more than 25% of the annual cost.

A few things could also add to an individual's costs. In addition to ending the ability to pay for certain expenses with pretax dollars, the plan wouldn't permit employees to opt out of coverage. So those who currently have the option under corporate "flex" plans to receive only catastrophic coverage would no longer be able to do so.

Small Business Employees. People working for small businesses are likely to have better health-care coverage than they have now, since many small businesses currently don't pay for health insurance for employees, or require employees to pay a significant share of the cost for coverage that is limited compared with big-company offerings.

"Those who have never had [coverage]

Please Turn to Page C18, Column 3

What to Do Now

Whatever happens to President Clinton's proposed health plan, many employers are already increasing deductibles, co-payments, and the percentage of premiums employees have to pay for medical coverage, and that trend is likely to accelerate. As a result, here are some things employees should consider doing now:

- Have medical and dental appointments this year. Your share of the costs will almost certainly increase next year, and some coverage may be cut back.
- Sign up for tax-deferred medical savings accounts. While these would be repealed under the proposed plan, they would be in effect next year and can save you hundreds of dollars.
- File claims immediately. Many companies are installing cutoff points that disqualify you from getting reimbursed if you don't file in a timely manner.
- Before getting costly care, double check with your benefit office to see if it's still covered, and if it requires prior approval. While many plans are implementing changes next year, many have already installed further limits, which employees may be unaware of.

How Would You Fare Financially Under Clinton's Plan for Reform?

Continued From Page C1

will have it now," says Joel Kavet of benefits consultants William M. Mercer Inc. in Stamford, Conn., "and employees of small companies will have coverage on a par with IBM."

Still, critics of the Clinton plan contend that employers who have to pay more for health-care coverage will seek to pay less for other things. "Pay raises are going to be constrained, they're going to have to lay people off," predicts Hal Daub, director of federal government affairs for accountants Deloitte & Touche and a former Republican Congressman from Nebraska. "After a while, people are going to say [they] had a better deal the other way."

Self-Employed. Self-employed individuals would have to pay both the employer and the employee portions of the health-care premium. They would pay the same rates as large corporations, which would be lower than current premiums for individual coverage. Still, some people would pay more than they do now because they would be required to pay for at least the basic minimum coverage.

Currently, the self-employed may be covered under a spouse's plan at work or they may opt for a policy that is limited to hospitalization or catastrophic illness and costs significantly less than the comprehensive plan proposed in President Clinton's draft plan.

But their total health-care costs could be lower with the coverage under the Clinton plan. An HMO, for instance, might give more coverage than they have currently at lower cost. What's more, it would be easier to get coverage. Currently, many insurance companies are reluctant to write individual policies and such policies can be quite costly. People with health problems often can't get coverage at all.

"The situation of being left alone to buy your own care won't be as hideous as it is today," says Mr. Kavet of Mercer. The total cost of the premium could be tax-deductible for the self-employed under the Clinton plan, compared with 25% now.

Independent Contractors. Independent contractors who earn more than 80% of their annual incomes from one employer would be covered as an employee of that employer. This provision is intended to prevent employers from classifying workers as independent contractors to avoid paying their health premiums.

Part-Time Workers. People who work more than 30 hours a week would be entitled to full medical benefits, while those who work 10 hours to 30 hours would be entitled to coverage on a pro-rated basis. This would be a clear boon to many part-time workers who currently have little or no medical benefit.

Mr. McArdle of Hewitt believes this would raise costs for companies with large pools of currently uncovered part-time workers, which may lead them to increase overtime for full-time workers, shift jobs offshore, or automate.

Retirees. Retirees would be among the biggest winners under the proposal. At a time when employers are increasingly cutting health-care coverage for retirees, these individuals often find themselves without medical coverage or with exorbitant costs until they reach age 65 and qualify for Medicare.

Under the proposal, employers that provide health coverage to retirees would pay 20%, and "regional health alliances" would pay the remaining 80%. If an employer doesn't offer coverage, individuals would pay 20% and the regional alliance would pay the 80%.

But Mr. McArdle thinks early retirements would increase by a third, since the Clinton plan would provide people with security they now lack. This would be a boon to companies that are downsizing, and to companies with large retiree health obligations, such as automotive and steel companies, since they could shift most of their costs to the regional alliances.

Medicare Recipients. Individuals over age 65 would continue to enroll in the Medicare program, but the federal government would increase premiums for individuals with incomes of more than $100,000 and for couples with incomes above $125,000.

Unemployed Workers. A person who is laid off or fired would be covered by a spouse's plan. If single, or if the spouse is also unemployed, the worker would be covered by the regional alliance. Some larger employers would be required to continue to pay their share of the health premium for six months.

Low-Wage Workers. Employees who couldn't afford to pay their 20% of the health insurance premium may qualify for government subsidies. The subsidies would kick in if family income fell below 150% of the poverty level, based on a sliding scale.

People who now receive Medicaid, the federal health system for the poor, would instead join a regional health alliance. If employed, their employer would pay part of their premium; if unemployed, the government would pay the costs.

Disabled Workers. Disabled individuals in the workplace would find relief under the plan, since they could not be excluded from coverage or be forced to pay higher premiums. The plan would also encourage the nonworking disabled to move back into the work force, since they would not jeopardize any benefits they were receiving under Medicaid or Social Security.

More important, the proposal would provide employed individuals who require assistance with daily living a tax credit for 50% of their costs, up to $15,000 a year. This could include home help, communication and mobility services, work related support services, and assistance with life skills, including money management services.

Injured Workers. The plan would continue to provide workers' compensation for employees who become sick or injured on the job. The big difference is that employees would receive care under the same regional alliances that provide their health coverage. Further, the plan would prevent doctors from charging injured workers more than their insurer would reimburse.

Students. Under the Clinton proposal, dependent full-time students would be enrolled under the regional alliance where they attend school, and their parents' plan would pay the premiums. *Independent students would enroll in the regional alliance where their school is located.*

often can't get coverage at all.

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New Jersey. The plan would con-

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WALL ST. JOURNAL 9/22/93

Health Plan Holds Gains, Setbacks for Entrepreneurs

Providers of Medical Services May Prosper, but Biotech Firms Could Suffer

By Udayan Gupta
Staff Reporter of The Wall Street Journal

President Clinton's health-care plan could give many entrepreneurs a welcome booster shot. For others, the plan may spell disaster.

Among the winners are small providers of low-cost care outside hospitals and similar alternatives to traditional medical services. But certain biotechnology start-ups may suffer sharp setbacks in their quest for critical capital; investors are uncertain about the administration's approach to price controls and new-drug approval.

The Clinton package, which the president officially unveils tonight, seeks comprehensive health benefits for all citizens. The proposal also outlines steps to drastically slow the rate of growth in the nation's medical spending.

With an estimated 37 million people uninsured, Mr. Clinton's call for universal health insurance would greatly expand the population that can pay for health care.

Expanding Markets

As a result, a number of small health-care businesses see their markets expanding greatly. The winners will be "low-cost providers that help keep people healthy," says Thomas McMillen, chief administrative officer of Clinicorp Inc., a West Palm Beach, Fla., start-up that runs small ambulatory clinics. He thinks the Clinton plan favors smaller companies sensitive to local health-care markets because decentralized regional alliances would control the purchase of drugs and medical care.

The administration's proposal "could increase the market for our services by 35%," agrees William Youree, chief executive officer of Rehability Corp., a Nashville, Tenn., provider of outpatient rehabilitation services. Rehability could benefit from the Clinton plan's willingness to provide wider coverage for rehabilitation and work-related injuries.

But the reform package also would increase federal regulations, reducing profit margins for small health-care concerns, Mr. Youree concedes. "There will be more scrutiny. Providers will have to prove they are providing better outcomes," he says. But in the long run, he adds, "the opportunities far outweigh the risks."

The plan also would widen prospects for many nursing home operators now opening "sub-acute care" facilities. Such facilities serve hospitalized patients who need major medical care but not the full range of hospital services. By typically charging less than half as much as hospitals, the facilities fulfill a key cost-reduction goal in the draft of the Clinton health bill.

Jousting With Insurers

"Our business could triple," predicts Robert Elkins, president of Integrated Health Services Inc., a Hunt Valley, Md., provider of sub-acute care. The company reported net income of $11.7 million on sales of $195.3 million last year. It currently operates 33 sub-acute care facilities with more than 2,200 beds. Integrated says it charges between $300 and $400 a day—or about half of what a full-service hospital would charge for similar services.

The Clinton proposal could benefit small providers of home health care as well. For years, such firms have served the home-bound sick and elderly, and then jousted with insurers for reimbursement of certain chronic conditions. The president favors a long-term care program that would widen the range of home and community-based services covered by private insurers and government programs.

Expanded long-term home care could increase annual revenue by 40% for HealthForce Inc., a Woodbury, N.Y., provider of home health aids and specialized home services, says Gary Spirgel, the firm's president. HealthForce had revenue of $72 million in the fiscal year ended June 30, according to Mr. Spirgel. Many services that HealthForce currently offers to chronically ill patients such as arthritis sufferers would receive Medicare coverage for the first time, he explains.

Certain operators of private managed-care networks, which help consumers control medical costs, also may profit from the Clinton package. The biggest beneficiaries probably would be established, medium-size firms that don't depend on significant rate increases to enhance profits. Physicians Health Services Inc., for instance, could score big under the plan, says Michael Herbert, president of the regional managed-care provider in Trumbull, Conn. The company posted 1992 revenue of $269 million.

Through expanded volume and guaranteed contracts with doctors, Physicians Health has slowed its premium increases to about 5% a year from 20% in 1990, Mr. Herbert reports. So even if the federal government limits the size of health insurers' rate increases, "the [expected] growth in enrollment will more than compensate the rate caps," he says.

Restricting Flow of Capital

Cash-starved biotechnology businesses, however, aren't universally greeting the Clinton plan with open arms. The absence of specifics about issues such as price controls and drug approval will continue to restrict the flow of capital to many small biotech firms that have yet to fully demonstrate their strategic direction, says investment banker Reynaldo Diaz, head of the health-care banking group at Wertheim Schroeder & Co. in New York.

"The fear of bureaucratic control on new-drug prices and their availability to the public has scared investors out of the biotech market," says Carl Feldbaum, head of the Biotechnology Industry Organization, a Washington trade group.

Mr. Feldbaum and others say investors' worries about the Clinton plan already are hurting biotech businesses, which need large infusions of capital to develop and market new drugs. For the 12 months ended June 30, biotech companies raised $1.1 billion from public investors; that represents just 34% of the $3.2 billion raised in the year-earlier period, according to accountants Ernst & Young.

The Clinton bill would especially hurt biotech firms developing expensive drugs targeted at small groups of patients, says venture capitalist Walter Channing of CW Ventures, New York. But biotech makers of inexpensive drugs affecting large numbers of people would be winners, Mr. Channing says.

Other possible beneficiaries are small firms with a broad base of biotech products on the market or close to introduction, says venture capitalist James Blair of Domain Ventures, Princeton, N.J.

At the same time, the Clinton plan may make firms equal in the competitive drug business, says Paul Abrams, chief executive officer of NeoRx Corp., a biotech firm in Seattle. Under a mandate that drug purchases be made through regional alliances, biotech companies could thrive even with small sales forces, he says. The upshot: Some of the smaller firms may find it much easier and less costly to compete against their larger rivals.

Owners Wary of Health Plan in Long Ru

By JEANNE SADDLER
Staff Reporter of THE WALL STREET JOURNAL

OWNERS FEAR any financial benefits of health-care reform may be temporary.

Many entrepreneurs like President Clinton's proposed subsidies for smaller businesses. But they also have concerns.

GOVERNMENT Watch

Barry Siegfried, head of Omni Cable Co., an electrical wire distributor near Broomall, Pa., says the Clinton proposal would save his small company an estimated $83,000 a year in health-care costs, which would be capped at 7.9% of payroll. He now spends about $115,000 a year, or 8.3% of his payroll, to insure 40 employees. But with more government involvement expected, "what we're really concerned about is what happens in the long run," he adds. "We all know the government runs the Medicare and Medicaid systems, and they're screwed up."

Small businesses' possible increased financial burden over the long term could become a greater worry than the contentious issue of requiring employers to provide insurance, says John Polk, senior vice president of the Council of Smaller Enterprises or COSE. The Cleveland insurance buying group served as an early model for the Clinton plan.

Mr. Polk says that small businesses would be the only private entities regularly paying into the proposed health-care purchasing alliances. The alliances also would include retirees, unemployed people without private insurance and recipients of Medicaid, the government health program for the poor. "If I'm a small-business owner in the same alliance with all these groups, I'd be a little nervous," Mr. Polk says. "I'm not sure how the government subsidies will insulate small employers" against future increases in state taxes for health care, he continues. Under the Clinton plan, states will run or oversee these alliances.

COSE's 11,000 members, mainly small companies, generally think the plan's proposed cost is too good to be true, Mr. Polk says. Many members pay 12% of their payrolls for the kind of health coverage envisioned by Mr. Clinton. In the President's program, contributions of businesses with 50 or fewer workers would be capped from a low of just 3.5% of payroll if wages average less than $12,000 a year to a maximium of 7.9% if wages average more than $24,000.

The administration's suggested sub-

Mr. Polk says. He notes: "The less you pay your people, the better the administration's proposal is for you."

Meanwhile, some owners want proposed subsidies expanded to provide greater relief for concerns with more than 50 workers. "There are too many businesses in that bubble with low-wage employees," says William Fergusen, owner of three Denver restaurants that together employ 200 people.

This month, the Small Business Administration expects to offer owners a toll-free number to help figure out the bottom-line impact of health-care reform.

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Major Employers Fear New Restraints

WALL ST. JOURNAL 9/13/93

Companies Fret Over Controls, Increased Costs

By Ron Winslow
Staff Reporter of The Wall Street Journal

After working more than five years to control health costs, big employers that have led health reform face new government rules that could tie their hands.

Business coalitions that in many communities have pioneered the collective-purchasing strategy at the heart of President Clinton's health-reform plan will likely be forced out of business if certain features of the proposal become law.

Even big companies like General Electric Co., which because of its size has been able to negotiate to keep its health costs down, would find its bargaining position diminished by the plan's huge, government-administered purchasing alliances, says Robert Galvin, manager of health-care service at GE in Fairfield, Conn.

These are just a couple of the possible consequences for employers that emerge from Mr. Clinton's 239-page blueprint for overhauling the health-care system.

Revamping ERISA

The sweeping proposal affirms and expands America's longstanding reliance on employers to finance the purchase of health care for their workers. And by providing for generous coverage for all Americans, it addresses the plight of millions without health insurance.

But the plan proposes to revamp the Employee Retirement and Income Security Act, or ERISA, which has long exempted large multistate employers from adhering to state health-care laws – a development that could subject major companies to a confounding array of new state regulations.

In particular, states for the first time are expected to be able to levy, in effect, a health-care tax on large corporations that choose to purchase care on their own; the tax would be a way for the states to help finance coverage for the poor and uninsured.

"What we see in the plan is that most of the incentives seem to be budget controls rather than incentives to control quality," says Mary Jane England, president of the Washington Business Group on Health, a health-policy group representing about 200 major U.S. companies. While she lauds the plan's features for revamping the health-delivery system, she says, "We don't believe the only way to control costs is to set budgets."

And companies fret that they will bear the brunt of paying for reform, amid widespread skepticism that the plan can be financed, as proposed, through savings from federal medical programs for the elderly and the poor and through sin taxes on tobacco and alcohol.

'Enormous Threat'

"We may be on the right road, but if the system doesn't control itself, where are we going to get the money?" asks Kathryn Abernethy, practice leader for health care at benefits consultant Towers Perrin in Washington. "Business is the first place they go. It's an enormous threat."

As proposed, the plan requires employers to provide coverage for at least 80% of a standard package of benefits for their full-time employees, and a pro-rated share of the package for part-timers who work less than 30 hours a week. For companies with less than 5,000 employees, the premiums will be paid to state or regional purchasing alliances that will negotiate contracts with local health plans. Employees would choose their health plans through the quasi-public alliances rather than through options offered by their companies as is generally the current practice.

Companies with more than 5,000 workers will be allowed to opt out of the alliances and operate as their own "corporate alliance" as long as they follow rules established for the government-sanctioned purchasing groups. The 5,000-employee threshold has already provoked enormous debate, and many observers believe the ultimate number in any plan approved by Congress will be perhaps 1,000 or even lower.

How the plan affects individual companies depends largely on the makeup of their work force and their current health-benefits policies. "For some companies this will be a devastating financial loss and result in dramatic changes in employment and compensation policies," Ms. Abernethy said.

Potentially Huge New Costs

Big retailers such as Sears, Roebuck & Co. and service companies such as Marriott Corp., both of which hire large numbers of part-time workers who have little or no

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Major Firms Fear Health Reform Will Impose Onerous Restraints

Continued From Page B1

coverage, will face potentially huge new costs. Small businesses that currently don't provide any coverage will be required to contribute, although at subsidized rates in many cases.

But the Big Three auto makers, as well as other industrial concerns that complain that the cost of providing health care to their huge retiree populations undermines their competitiveness, could get a windfall. The plan anticipates the government will bear much of the cost premiums for early retirees.

Thus, in the short term, at least, the plan appears to rearrange rather than rectify differences in the impact of health costs on the financial health of companies and industries.

For large employers who choose to purchase care on their own, the plan appears to offer an ingredient that many business leaders consider important – the ability to negotiate premiums based on the experience of their employees. Presumably, that would enable companies with healthier workers to negotiate savings that wouldn't be available through government-administered alliances, where premiums would be the same for every consumer served by the alliance.

But with those huge alliances dominating the market, GE's Dr. Galvin, among others, worries that individual companies' clout will diminish and health plans won't have much reason to offer them a better rate.

In addition, the likelihood that the ERISA exemption will be weakened may help discourage big companies from going it alone. The plan offers flexibility to states in determining how the regional purchasing alliances will operate, raising the possibility that corporations with employees in several states would have to follow different rules in different locations. "If you're a multistate employer, it's going to look like a bewildering patchwork quilt of requirements," says Towers-Perrin's Ms. Abernethy.

Of course, some companies, both large and small, are likely to welcome the chance to unload the headache of managing health benefits onto the state-sanctioned alliances. But many large employers who have the option to stay out probably will, at least initially, Ms. Abernethy says. For one thing, once companies choose to use the new alliances, it is almost impossible to get out. For another, these companies are convinced they can do a better job than a quasigovernment organization managing programs they believe are critical to maintaining a productive work force.

At DuPont Co., which launched an overhaul of its benefits plan a year ago to move most of its 66,000 employees and 75,000 retirees into managed-care networks, the prospect of increased state authority over health care poses the daunting possibility of having to deal with 50 different health plans. But for now, "we want to run our own plan the way we have been," says Bruce W. Karrh, vice president, integrated health care.

At Xerox Corp., which is considered to operate one of the nation's most innovative health-benefits plans, Helen Darling, manager of health-care strategy and programs, says: "We're assuming we'll still be allowed to pick and choose as long as we meet minimum standards, which we do anyway."

But she also worries that a new regulatory apparatus will emerge to oversee the operations of corporate purchasers. "We may have to create a paperwork system to document that we're doing what we're doing," she says.

Meantime, business coalitions in such communities as Memphis, Tenn., and Minneapolis, that have made headway both in saving money and helping to develop a more cost-effective health-delivery system won't be able to act as purchasing alliances, under the plan.

In Memphis, for instance, the 50-member Memphis Business Group on Health, in a contract with Baptists Hospital, has held average annual health-cost increases to about 6% over the last five years, compared with a national average of about 15%.

At a meeting in Seattle in July, Sean Sullivan, executive director of the National Business Coalition on Health, an umbrella group for business coalitions, urged the administration not to institute a policy that would dismantle coalition efforts. "Please don't break what we're fixing," he said, "while you fix what's still broken."

Angry Drug Makers Say Rules Would Strangle R&D

health advisers, something he has been

a 15% discount for drugs used by the elderly would reduce total sales.

and Human Services secretary can negoti-

Angry Drug Makers Say Rules Would Strangle R&D

By Michael Waldholz
Staff Reporter of The Wall Street Journal

NEW YORK – Top pharmaceutical industry executives reacted angrily to aspects of the Clinton health reform proposal, saying it would create harsh price controls that would restrict research for new medicines.

"We're talking about [regulations] that could affect the very survival of an industry that used to be very successful," said Lodewijk de Vink, president and chief operating officer of Warner-Lambert Co. He said the regulations "may actually make it impossible to conduct costly high-risk research necessary [for combating] diseases that still aren't well-treated such as Alzheimer's disease and cancer."

In conversations with numerous key drug company executives, it was clear that the industry, long known for its fractiousness, was in unusual agreement. Some executives speculated that the Clinton health plan, as described after its draft's release on Friday, would unify an industry that has failed to effectively lobby Washington because of the companies' diverse opinions.

The officials said they opposed the plan's demand for steep discounts for drugs used by Medicare recipients. They also attacked a proposal that would allow the secretary of Health and Human Services to exclude newly developed prescription medicines from the Medicare program if the price was deemed excessive.

Those facets "are price controls, no matter what you call them," said Charles Sanders, chairman and chief executive officer of the U.S. unit of the huge British drug maker, Glaxo Holdings PLC. "They are real show-stoppers for our ability to do innovative R&D."

Drug Benefit Requirement Sought

As described in the draft of the Clinton administration's health plan, a prescription drug benefit would be a standard, required part of all insurance plans. This would extend prescription drug coverage to elderly Medicare recipients for the first time.

But in exchange, the plan would require pharmaceutical companies to discount drug prices to Medicare by about 15% about the level companies provide states and Human Services secretary can negotiate prices of new medicines considered excessively high. It proposes that the government can exclude from Medicare coverage any new medicine whose price isn't acceptable to the secretary.

Those two regulations weren't unexpected, since the administration has been criticizing drug prices of double the rate of consumer inflation during the 1980s. But company officials had hoped the administration would allow them to restrain drug prices voluntarily since many companies have pledged to limit price increases to inflation.

Some executives said, however, that they were surprised by the draft plan's size. On Sept. 2, President Clinton said it wouldn't include drug-price controls. As a result of that statement, investors bid up shares of pharmaceutical company stocks, which had dropped sharply since late 1992. Several analysts said they expected drug stocks to tumble anew as a result of the new details.

Tempered Responses

Some of the industry's most respected leaders were guarded in their criticisms, making a point to applaud what one called Mr. Clinton's "courage" in trying to extend health-care coverage to uninsured Americans while trying to contain costs.

P. Roy Vagelos, the widely esteemed chairman and chief executive of Merck & Co., said he didn't want to discuss the plan until the president released it. But, he said, the draft as described "concerns us since it evidences a distrust of the free market-place which recently has been undergoing vigorous and constructive change."

Many executives pointed out that the growth of large managed-care insurance plans had forced drug makers to compete aggressively for business by giving unprecedented discounts. This has caused companies to increase price discounts to 15% on average from 4% a few years ago, several said. As a result of the voluntary price-control pledges and intensifying competition, drug company profit on average is expected to rise about 10% this year, down from an average 17% in 1991.

Dr. Vagelos and others said they had hoped the Clinton plan would attack drug prices by encouraging the growth of managed health advisers, something he has been trying to arrange since early this year. Added Jerry Karabelas, president of SmithKline Beecham PLC's North American operations: "We need to have a constructive dialogue. We haven't had an opportunity to speak to anybody about these proposals yet."

The executives said they expected extension of a drug benefit to all Americans to increase pharmaceutical sales by 3% to 5%. But because Medicare recipients represent about 25% of revenue, providing a 15% discount for drugs used by the elderly would reduce total sales.

"In the next 15 to 20 years, we are looking at a revolution in the research approaches to major diseases for which we only have rudimentary treatments now," said Andrew Bodnar, president of specialty pharmaceuticals at Bristol-Myers Squibb Co. "But that's going to require investment of enormous resources. Why would you do that if you couldn't be certain that in 10 or 12 years you could recoup your investment?"

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HEALTH CARE
SEPTEMBER 20, 1993

BUSINESS CAN'T HIDE ITS DOUBTS

MANY FEAR CLINTON'S HEALTH PLAN IS BASED ON FALSE ASSUMPTIONS

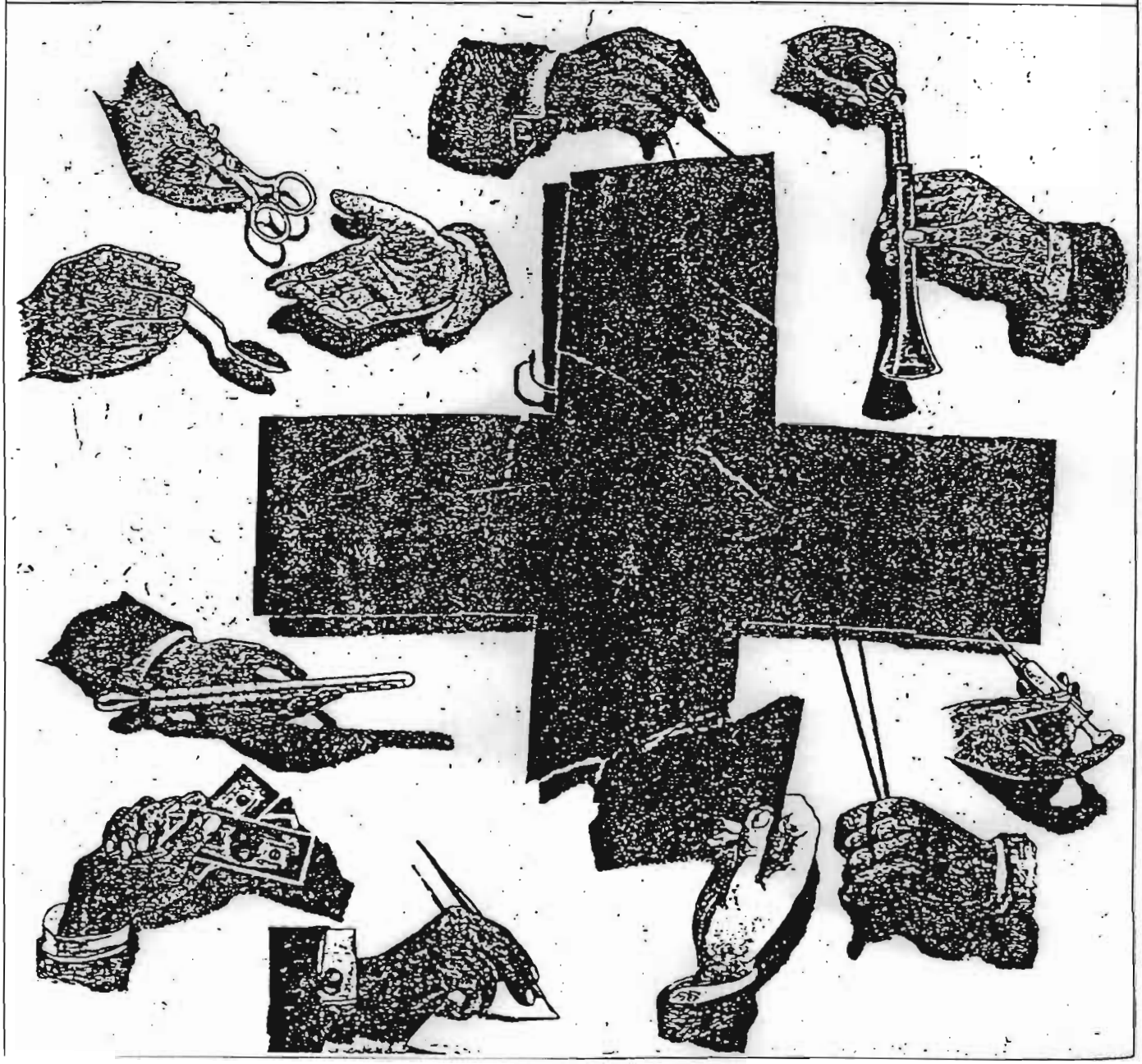
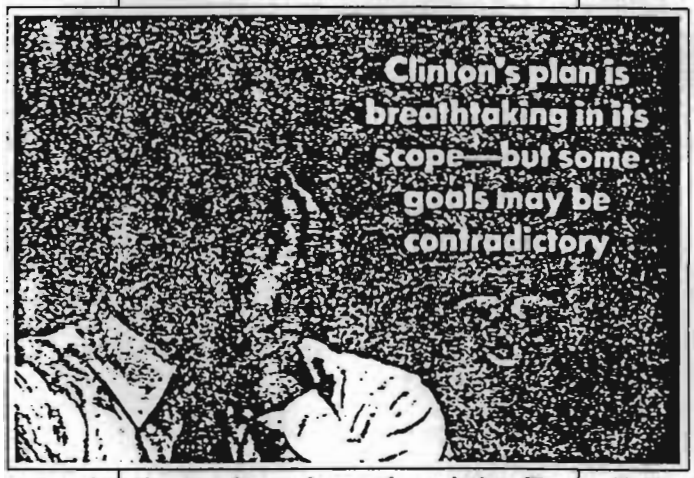


ILLUSTRATION BY BCO INKS

Battered by years of relentlessly rising medical costs, Corporate America has been at the forefront of the drive to overhaul the nation's health system. Now, that overhaul has arrived in the outlines of a sweeping new health plan that President Clinton will unveil in a speech to the nation on Sept. 22. But the details of Clinton's reform have some executives asking, "Can we get a second opinion?"

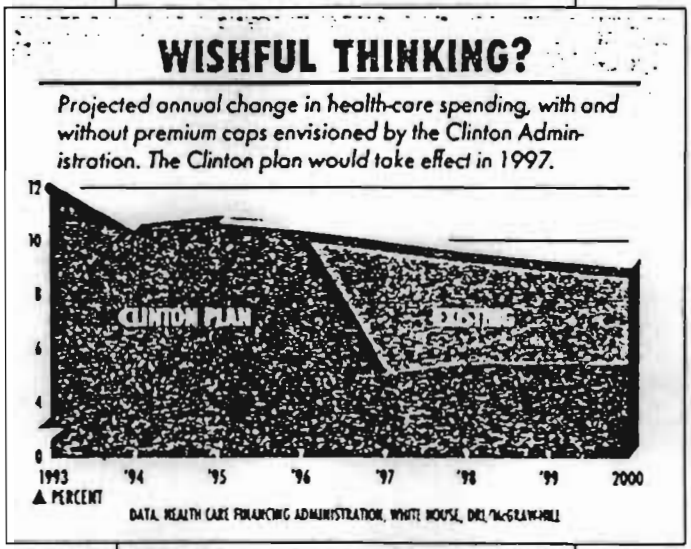
The plan, developed under Hillary Rodham Clinton, aims to blend two hugely ambitious and seemingly incompatible goals: extending health insurance to all Americans without major new taxes, while controlling the relentless growth of the $900 billion health-care industry. To accomplish this, the scheme calls for wrenching changes in the way health care is financed and delivered. All employers would be required to pay for health coverage for their workers. Every American would be eligible for a standard package of benefits. They would be purchased through massive, state-run "health alliances" that would use their clout to hammer down prices.



A SQUEEZE? Will the plan work? Politically, the blueprint sounds a starting gun for a Congress under pressure to address a growing source of insecurity for many Americans. But few outside experts think that the Clintonites can slam the brakes on the health industry without economic and political whiplash. Economists worry that requiring all employers to pay for insurance will squeeze some 500,000 low-wage workers out of their jobs. The potent elderly lobby is gearing up to fight the $100 billion Medicare cut that results from the plan's spending caps. Insurers warn that cost controls will cut into care.

The plan's biggest flaw is its dependence on a heroic assumption championed by top White House health planner Ira C. Magaziner: that the new Clinton scheme can slash the double-digit rate of increase in medical spending almost in half in the first three years of reform (chart). As things stand now, the cobbled-together Clinton plan, itself a series of delicate political and budgetary compromises, isn't capable of pulling that off. "The proposed savings are illusory, because the assumptions are crazy," says an Administration insider.

Beyond the Potomac, business leaders have fears of their own—mostly, that they'll give up control over health-care benefits without gaining control over costs. Companies that are already aggressively containing costs worry that the Clinton approach will wrap competition in a heavy layer of regulation. The plan would take 98% of all companies out of the benefits business and turn 70% of the market over to the new alliances. Business fears the resulting bureaucracies will stifle innovation. "I'm not sure turning the system upside down is the way to fix these problems," says Edwin Moore, owner of Electric Metering Co. in suburban Chicago.



If competition doesn't shave medical spending, the plan has a backstop: "premium caps," which would limit rises in insurance premiums. But price controls have a dubious track record: Companies typically spend more time beating the price ceilings than they do managing. And when the controls are lifted, cost pressures that had been building explode. In the interim, doctors and hospitals may be forced to ration services. Worse, the caps are coming just as the Clinton plan calls for insurers to invest in new networks of health-care providers. "If there are premium caps, nobody's going to win," warns Lawrence P. English, president of CIGNA Corp.'s Employee Benefits Div.

The White House, of course, insists its strategy is rock-solid. The Health & Human Services Dept. on Sept. 3 put the health plan through its 100th run on a computerized model of the medical economy, to calculate the impact of the plan's hundreds of proposals. But the Administration isn't publishing those data yet, leaving health economists to puzzle over the plan's contradictions. Clintonites claim, for example, that no employer will pay more than 8.5% of its payroll in health premiums—and that many will pay less. But Labor Dept. surveys show that big businesses already pay 9.9% of payroll—and the smallest firms that insure pay 13.5%. "Who's going to fill the gap?" asks William S. Custer, research director at the Employee Benefit Research Institute in Washington.

IN SHOCK. Business fears that it will be them. Clinton's promise to rein in health costs will help him garner support from big manufacturers, such as Ford Motor Co., which are burdened by generous benefits for retirees and an aging work force. But small employers—toting up the cost of mandated coverage—are going into shock. Stephen E. Elmont, owner of the upscale Boston restaurant Mirabelle, figures the cost of insuring his 30 employees will double even if small-business premiums are capped at 3.5% of payroll. And big companies, especially those with younger employees, worry that they no longer will benefit from their own cost-containment efforts. "We don't want health-care reform to interfere with our ability to manage our costs," says Ron A. Wyse, benefits director at Harris Corp.

Analysts attempting to sort out the plan's impact are stymied by its sheer reach. The Clinton blueprint proposes a basic reorganization of the U.S. health-care system. The goal: to bring cost con-

PHOTOGRAPH BY ALEX QUESADA/MAIBL. ICON BY RAY VELLA/BW. CHART BY ALBERTO MENA/BW

sciousness to a market that has long operated on the idea that patients should have any treatment that's available, no matter how costly.

Under the new scheme, workers and their families would no longer get coverage from health insurers picked by their employers. Instead, they would choose their own health plan—a traditional insurance package, a preferred-provider network, or a more restrictive health-maintenance organization—from a list of plans certified by a regional health alliance. While each would provide the same benefits, the prices would differ. Big companies, those with more than 5,000 employees, could run their own "corporate alliances."

Few outside experts think the Clintonites can slam the brakes on the health industry without political as well as economic whiplash

To cover the cost of insurance for all, every employer would be required to pay 80% of its workers' premiums. Since 85% of the 37 million uninsured Americans are workers or their families, Clintonites figure this mandate will solve the bulk of the nation's problem of uneven access to health care. Small firms and those with low-wage workers would get subsidies to cap their costs. The $70 billion tab for subsidies would be financed in two ways. A hike in "sin taxes" on cigarettes and perhaps alcohol would yield $16 billion annually. The Administration's claimed savings from Medicare and Medicaid would fill the gap.

Ideally, the new health plans would compete vigorously to offer high-quality care at the lowest possible premium. To ensure that consumers shop on price, the Clinton package would require them to pay a share of their health premiums—up to 20% if they choose an average-price plan. A family can save by picking a low-cost plan. That should encourage more Americans to enroll in HMOs and PPOs, which typically charge 10% to 20% less than traditional insurance, thanks to limits on expensive procedures.

For some private companies and state governments, this model for the health market—known as "managed competition"—has already helped slow medical inflation sharply. HMO enrollment among the 55,000 U.S. employees of Xerox Corp. leaped from 40% in 1990 to more than 60% after Xerox started passing the extra costs of traditional insurance on to workers. The result: While Xerox projected that its $250 million health bill would climb 12% this year, it's only rising at a 10% rate.

To Magaziner, that's proof enough that nationwide managed competition will rein in health spending. Just to be sure, the Administration proposes some regulatory insurance. As each state joins the system from 1995 to 1997, a new National Health Board in Washington will assign its regional alliances a target average premium. If insurers and HMOs in a region don't match that target, the alliance will have broad powers of persuasion—including the ability to lock laggard plans out.

Businesses applaud the goal—but worry about the Administration's means. Politically appointed health alliances, says Xerox health-care manager Helen Darling, "could be a nightmare—another Empire Blue Cross," the scandal-ridden New York insurer. Even Ford's director of insurance, Robert L. Ozment, frets that his employer could be dwarfed by the "brute economic power" of massive alliances. The danger: These mega-purchasing co-ops could negotiate such discounts that the health plans would have to shift costs onto companies that manage their own benefits.

A BLITZ. These fears are sure to influence lawmakers worried about imposing an untested system on one-seventh of the U.S. economy. Business concerns compound the White House's political problems: a Congress splintered over the best way to overhaul the system and a public that harbors deep suspicion of both Clinton and his abiding faith in government. "Nobody will believe him when he says that this won't cost you," says Republican pollster Tony Fabrizio.

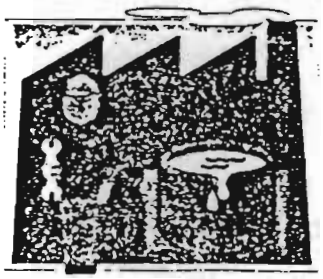
To help sell the plan to a wary public, the Clintonites will unleash a sophisticated public-relations blitz. The pitch: The health plan offers health security and better benefits at lower costs. But as the public begins to read the fine print, it may be unwilling to make required trade-offs. The plan may tax the value of employer-paid benefits—such as dental care—that go beyond the basic benefits package. And voters may be spooked by the specter of reduced quality of care if doctor choice is curtailed and medical technology is rationed.

The White House must also gingerly navigate a fractious Congress. "I'd be lying if I didn't tell you I wasn't worried about everyone," says a top Clinton

GOOD FOR BUSINESS? IT'S NOT THAT EASY...

The Clinton health-reform plan won't mean the same thing to any two companies: Some will have higher costs, some richer coverage, others greater risk. Workers, likewise, may either gain or lose benefits, and some will pay taxes on perks they get now for free. Here's how three representative businesses would fare:

BIG METALBENDERS INC.



▶ Old-line manufacturing company.

▶ 10,000 workers, average age 50, and many retirees.

▶ Unions have won rich health benefits.

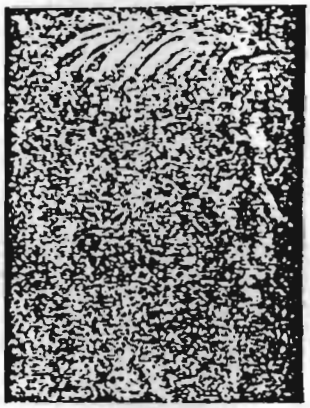
BIG WINNER
Clinton reforms eventually will cap expenses for primary medical benefits at 8.5% or less of payroll, below Big MetalBenders' current costs. Premiums won't be based on age of workers. The federal government may take over much of the expense of retiree benefits.

CAUTION FLAGS After transition period, workers will be taxed on value of extra benefits—such as dental coverage—paid by Big MetalBenders.

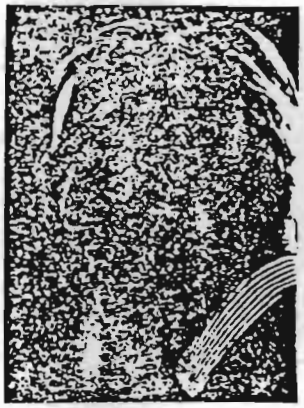
THE DOCTORS DIDN'T ALWAYS AGREE

Months of consultations have produced a cobbled-together scheme

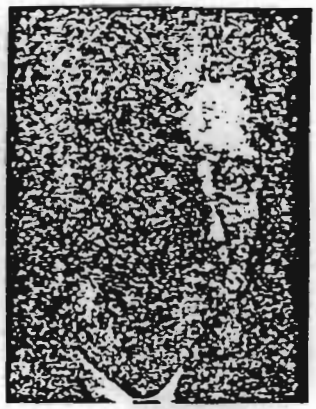
LAURA TYSON She warned that the package's mandates and controls could damage a slow-growth economy



HILLARY CLINTON She pushed for more benefits—and even succeeded in adding some at the last minute



LLOYD BENTSEN The Treasury Secretary worried about burdening business—but his views did not prevail



IRA MAGAZINER He believes the plan can slash the double-digit inflation of costs in half in the first three years

strategist. "I'm worried about the liberals who want a single-payer system, the moderate Democrats who don't want an employer mandate, and Republicans who will refuse to give us a victory."

Passage of the bill by next spring, as the Administration hopes, will require forging a centrist alliance. The White House needs to enlist a bloc of Republican votes to offset defections from liberal Democrats. It hopes to enlist Minority Leader Bob Dole of Kansas and GOP moderates led by Senator John H. Chafee of Rhode Island. "I look forward to sitting down with the White House to find a compromise," Chafee says.

Such a deal may well solve many of business's concerns with the Clinton proposal. Moderate Democrats, led by Representatives Jim Cooper (Tenn.) and Michael A. Andrews (Tex.), will come out with their own version of managed competition a week before the President's speech. Their legislation would let more businesses run their own plans, would eschew premium caps, and wouldn't require all employers to finance coverage.

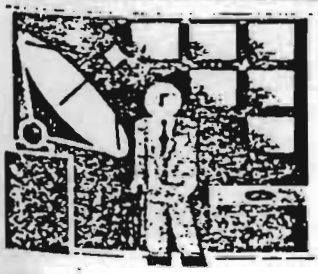
PUBLIC BATTLES. In the wake of the bloody budget battle, Congress also may require more realistic assumptions about health costs to guard against a future raid on the Treasury. That could mean a public replay of the internal battles over benefits and financing already waged within the Administration. When the senior White House economists got their first look at the Magaziner plan last spring, they balked. Treasury Secretary Lloyd Bentsen opposed cost controls and worried about burdening business with big bills, while Council of Economic Advisers Chair Laura D'Andrea Tyson warned that the package's mandates and controls would damage a slow-growth economy. But Hillary Clinton and Magaziner prevailed—and even added benefits at the last minute.

Whatever the disputes, only the most jaded in Washington doubt that some semblance of health-care reform will pass before the 1994 elections. "For the President, this is a must-do," says Democratic pollster Mark Mellman. "And on Capitol Hill, nobody wants to be the person that stops health-care reform."

The final legislation may well resemble Clinton's in its reliance on managed-care networks and purchasing alliances. But business's fears of regulation, price lids, and political control of the health system may strip the final product of many of the President's notions. The result could be an Rx for health care that business would find easier to swallow.

By Mike McNamee and Susan B. Garland in Washington, with bureau reports

ABACUS COMPUTER CO.

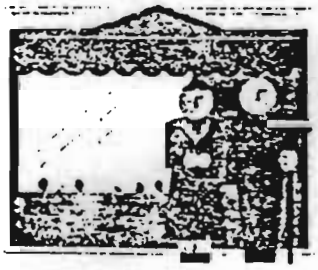


- Fast-growing computer maker.
- 3,000 workers, average age 33, and no retirees.
- Workers use cafeteria plan to buy health benefits. Company funds wellness center.

LOSER Regional health alliance will charge Abacus premiums based on average medical costs in the region, so the company won't get a price break for its young, healthy workers. Workers will lose their tax breaks for cafeteria health benefits, and the company its financial incentive to maintain wellness programs.

BRIGHT SIDE Workers will have more choice of health plans.

ON-THE-BUTTON BOUTIQUE



- Family-owned dress shop.
- 10 employees, most of them middle-aged women.
- Owner buys family coverage for herself and a manager.

LOSER The Clinton health plan will require On-the-Button's owner to pay premiums for all employees, even those now covered on their spouses' plans.

BRIGHT SIDE Owner's personal insurance policy will probably cost less when bought through the proposed regional health alliances. Some employees will receive coverage for the first time.

THE CLINTON HEALTH PLAN

Highlights of the Proposal

■ **UNIVERSAL COVERAGE:** All U.S. citizens and legal residents would receive health-care coverage through regional,

Illustrations by Rupert Howard

state-established "alliances," even if they become sick, unemployed, switch jobs or move.

■ **MEDICARE:** Individuals 65 years and older would still be covered by Medicare, but have the option of receiving coverage through the regional alliances. High-income individuals—those with annual incomes exceeding $100,000 for couples with more than $125,000—would pay more for their Medicare benefits, though the White House hasn't yet spelled out by how much. A new prescription-drug program would be added. Spending caps would sharply limit the growth in Medicare expenditures.

■ **MEDICAID:** The money that state Medicaid programs reimburse doctors and hospitals for treating the poor would go to the regional health alliances to pay for private coverage. Spending caps would sharply limit the growth in Medicaid expenditures.

■ **EMPLOYER MANDATE:** Every employer would be required to pay on behalf of its workers at least 80% of the average

premium of the benefits package offered in its region. Workers would pay the remainder, unless the employer chose to pick up all or part of their share. The federal government would offer financial assistance to low-income and unemployed people as well as to small, low-wage businesses.

■ **CORPORATE ALLIANCES:** Companies with more than 5,000 workers would be allowed to form their own "corporate alliances." But they would be required to provide the same federally guaranteed benefits package and meet virtually all other government guidelines. If the number of employees at a company falls below 4,800, the employer must join the regional alliance.

■ **BENEFITS:** Services covered in the federally guaranteed benefits package include: hospital services, emergency services, services of physicians and other health professionals, clinical preventive services, mental health and substance abuse services, family planning services,

pregnancy-related services, hospice care, home health care, extended-care services, ambulance services, outpatient laboratory and diagnostic services, outpatient prescription drugs and biologicals, outpatient rehabilitation services, durable medical equipment, prosthetic and orthotic devices, vision and hearing care, preventive dental services for children, and health education classes.

■ **TIMETABLE:** The states must establish alliances no later than Jan. 1, 1997. Some states that have shown a good-faith effort to get up and running could be granted a grace period. Other states could come on line as early as 1995.

■ **WORKERS' COMPENSATION AND AUTO INSURANCE:** The health plans would treat work-related injuries and injuries from automobile accidents. Workers' compensation and automobile insurers would reimburse the health plans for services provided.

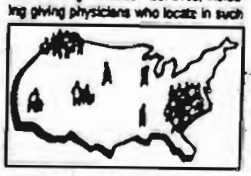
■ **BUDGETING AND OVERSIGHT:** A new seven-member, presidentially appointed National Health Board would set the spending budget for the regional alliances. The alliances, in turn, would contract with health plans—including

health maintenance organizations, fee-for-service plans or hybrids—making sure the average premium price in the region doesn't exceed the specified target.

■ **ANTITRUST CHANGES:** The plan would clarify antitrust rules so that physicians and other providers could negotiate effectively to form their own health networks as part of the new system. The exemption from antitrust laws currently enjoyed by health insurers would be repealed, eliminating the ability of health plans to collectively determine the rates they charge.

■ **LONG-TERM CARE:** A new long-term care program for elderly, disabled and chronically ill people would provide, among other things, expanded home and community-based services that are funded primarily by the federal government with some input from the states. Premiums for individuals would vary, depending on income. The program wouldn't be fully phased in until the year 2000.

■ **UNDERSERVED AREAS:** Health services would be expanded for rural residents through various incentives, including giving physicians who locate in such



underserved areas a personal tax credit of $1,000 a month that could be claimed during the first five years of practice. In addition, efforts would be made to expand access to medical care for inner-city residents.

■ **MEDICAL SCHOOLS:** The government would direct funding so that after a five-year phase-in period, at least 50% of new physicians would be trained in primary care rather than specialty fields.

■ **CONSUMER INFORMATION:** The regional alliances would publish information on the cost of health plans and list the doctors and hospitals participating in each one. The alliances would issue annual "quality performance reports" on each plan.

■ **CONSUMER PROTECTION:** Physicians no longer could refer patients to outside facilities in which they have a financial interest. Penalties would be stiffened for those who commit health-care fraud.

■ **STANDARD FORMS:** All health plans would adopt a single, standard claims form by Jan. 1, 1996.

20 K

COVER STORIES

READY TO

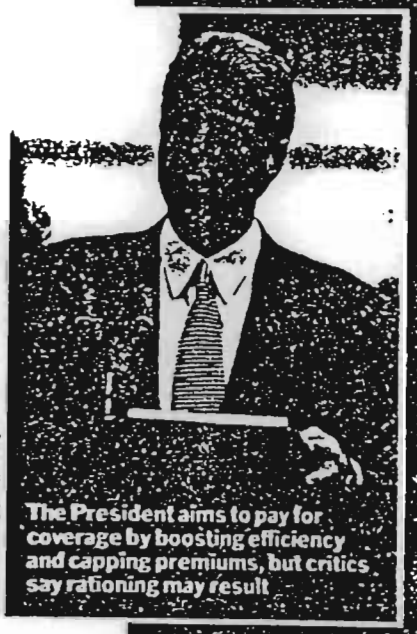
Clinton's plan would cover everyone. Here's

By DAN GOODGAME WASHINGTON

NOT SINCE MOSES CAME down from the mountain bearing the Ten Commandments, Hillary Clinton joked last week, has a document been so anxiously awaited as her husband's proposal to reorganize radically the nation's ailing health-care system. That plan—a 239-page brick of plain white paper printed last Tuesday and stamped PRIVILEGED AND CONFIDENTIAL—would represent the boldest, most expensive social initiative since the New Deal, bigger even than F.D.R.'s institution of Social Security half a century ago. It would intimately affect the health and livelihood of every American, while shifting billions of dollars in costs and savings among the country's biggest industries and tiniest shops. And despite occasional press leaks, the First Lady, assigned by the President to oversee health reform, jealously guarded the full text of the proposal.

Until last Thursday. On that day, Mrs. Clinton visited Capitol Hill to persuade key Congressmen that she welcomed their suggestions. But Fortney Stark, the irascible California Democrat who chairs the House health subcommittee, complained that he could not seriously study the plan under Mrs. Clinton's ground rules: that legislators could see it only in guarded "reading rooms" in the Capitol, where they would be forbidden to make copies or take notes. By early evening, majority leader Dick Gephardt ordered that they be given copies of the plan. And by 6 p.m., copies of those copies began making their way to news organizations, including TIME.

While many details had been published earlier, those stories failed to convey the proposal's sheer size, audacity and intrusiveness into personal and business decisions. The plan, which President Clinton is scheduled to announce next Wednesday night, would push Americans away from private doctors and into less expensive group medical practices such as health-maintenance organizations. It would hold down the income of many doctors, hospitals, insurers and drug manufacturers through stringent federal cost controls. It would dramatically cut health-care costs for many large, high-wage companies such as automakers. But those costs would increase for many mom-and-pop businesses that now pay nothing toward their workers' health insurance and would be forced to do so under Clinton's proposal.



The President aims to pay for coverage by boosting efficiency and capping premiums, but critics say rationing may result

CYNTHIA JOHNSON FOR TIME

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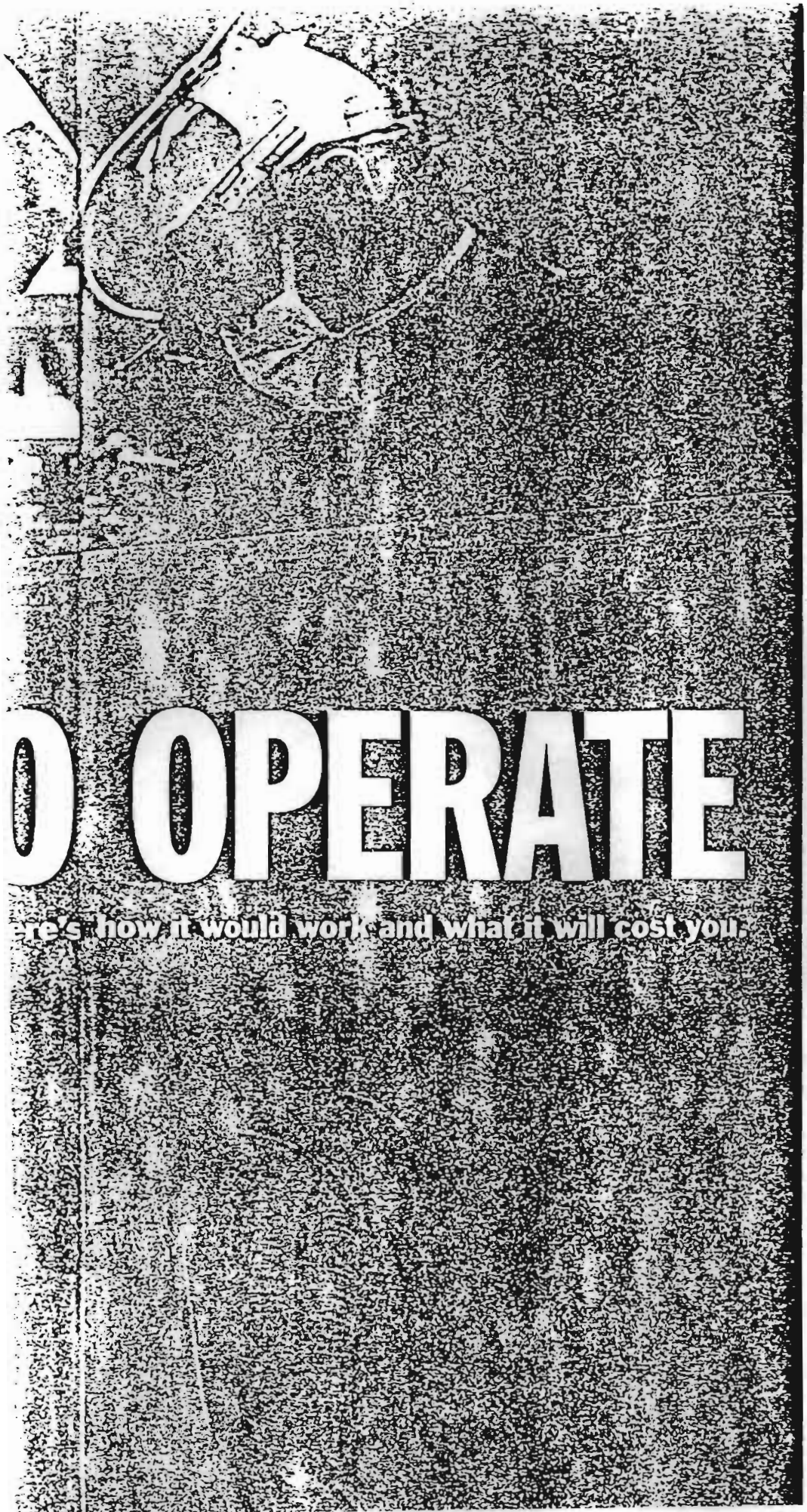


O OPERATE

re's how it would work and what it will cost you.

Overall, the President's plan would cost a budget-boggling $700 billion over five years, half of which represents new spending. Clinton proposes to cover the cost mainly through a new $1-a-pack tax on cigarettes and savings in existing federal health-care programs, with $91 billion left over to reduce the federal budget deficit. Meanwhile, the plan promises to:

▸ Guarantee a generous, minimum package of health insurance to all Americans. The 37 million people who now lack health insurance would be covered either through their employer (85% of the uninsured are workers and their dependents) or through expanded welfare schemes. The basic package of benefits would be comparable to that offered by most major corporations and would include extensive benefits for primary and preventive care. Well-baby visits and annual physicals, for example, would be covered with no out-of-pocket cost. The U.S. is the only industrial democracy that does not provide such universal coverage, a situation that Clinton has decried as "a national disgrace" and that spurred him more than anything else to reform the system.

▸ Safeguard the security and "portability" of health insurance, even for workers who change jobs, get laid off or develop chronic illnesses. Though 86% of Americans have health insurance, White House polls have shown that many people are anxious that they will lose their coverage because of layoffs or cutbacks in employer-provided insurance. The Clinton plan would ensure that workers can get insurance at any new employer, at comparable prices, even if they already need medical treatment.

▸ Make health insurance more affordable. At the heart of the Clinton plan is the concept of "managed competition." Health-insurance buyers would band together in large "alliances" to bargain with competing networks of doctors, hospitals and other health-care providers for the best service at the best price. The theory is that such bargaining will encourage lower costs and greater efficiency (fewer unnecessary tests, for example). Rather than simply trust in this theory, however, the Clinton plan would also strictly enforce limits on health-care spending through a powerful new National Health Board that would decide when health-care providers were charging "too much." Some providers warn that such cost controls will result in development of fewer new drugs and in rationing of care. Example: requiring that elderly patients in declining health be denied such operations as hip replacements and cardiac bypasses.

▸ Require all employers to contribute to the cost of their workers' health care. Employers would pay 80% of whatever an average health-insurance plan costs. The White House estimates that in 1994 such policies would be $1,800 a year for an individual and $4,200 for a two-parent family.

Workers who want this average plan would pay the remaining 20% of the premium. Those who want a more expensive plan would have the option of paying more out of their own pocket. And those willing to settle for a no-frills (HMO) could pay less.

▸ Require that all Americans be given a greater choice of insurance plans at different levels of price and service. Under the current system, says Paul Starr, a Princeton health-care expert who helped write the Clinton plan, "most people don't have a choice of any plan. They just take whatever their employer gives them." Under the Clinton plan, people would be offered several options. The most expensive would be the traditional fee-for-service medicine from an individual doctor. Less expensive would be the so-called preferred-provider organizations (PPOs) that many companies are now using; these require that workers go to specified doctors and hospitals that are part of the plan. An even cheaper option would be the HMOs that provide health care for a fixed price, although often with some waiting and rationing of specialist's services. Given such choices, health-care economists believe, consumers will economize by shifting toward HMOs and PPOs, which will further drive down health-care costs.

▸ Relieve consumers from the nightmare of medical billing and insurance-claim forms. Clinton's plan envisions a world of instant electronic billing before the patient leaves the doctor's office. Consumers will spend less time listening to Muzak on the phone while waiting for someone at the insurance company to track down their reimbursement, while care providers and insurers will spend less time and money processing piles of claims and bills and other paperwork.

▸ Allow states flexibility in choosing various health-care plans. A state might, for example, implement a Canadian-style "single-payer" system, in which the state pays its residents' medical bills from tax revenues. Single-payer plans are expected to be popular in rural areas that have too few health-care providers to allow for the managed-competition approach.

▸ Provide financial relief for companies that currently spend the most on health care. The employer contribution to workers' health insurance would be capped at 7.9% of payroll. This would represent a huge saving for big manufacturers with unionized workers, notably General Motors, which now spends 19%. It would also help the average company, which spends about 12%. Automakers and other unionized corporations would benefit from a new health-care subsidy for their employees who retire before age 62.

▸ Subsidize the health-care premiums of small businesses that employ low-income workers. While big companies that save on health insurance are expected to create

In rural Virginia, diabetic John Parris gets checked by a visiting nurse

IT WOULD INTIMATELY AFFECT THE HEALTH

HOW DOES IT AFFECT ME?

SMALL-BUSINESS EMPLOYEES Premiums for the standard package of benefits can average $4,200 for a family and $1,800 for an individual, based on current prices. The employer would pay 80% of the average cost of the premiums, but small firms would get subsidized rates.

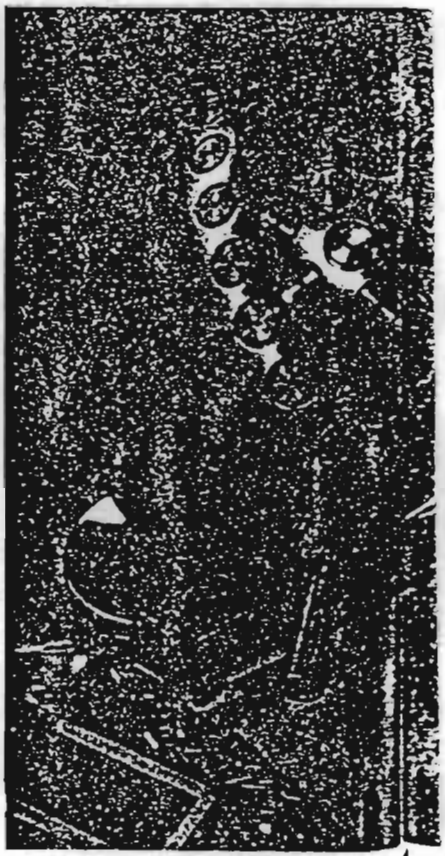
BIG-COMPANY WORKERS Employers with more than 5,000 workers could operate their own health-care plans. But they would be required to offer workers a standard package of guaranteed benefits.

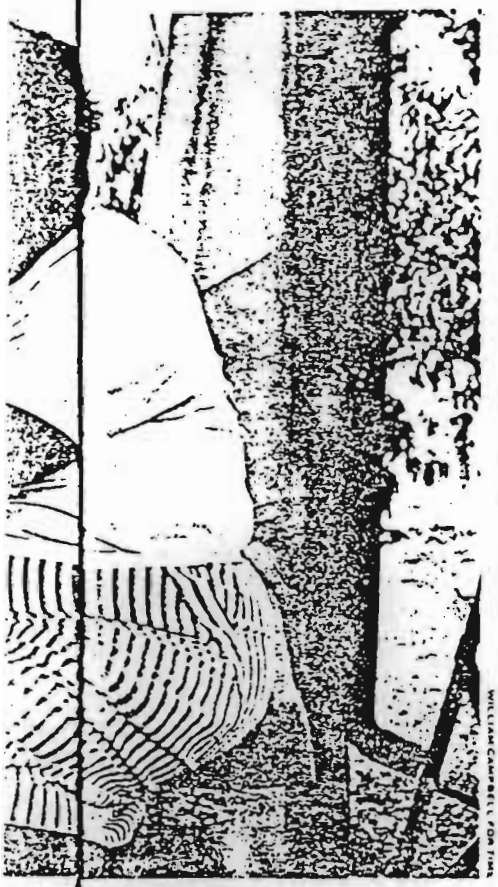
THE DISABLED People with severe disabilities would get long-term care, regardless of age or income.

RETIRED PEOPLE Medicare beneficiaries would not be required to buy policies at an alliance, but could do so if they wish. Medicare would pay for prescription drugs.

THE POOR Families and individuals with incomes less than 150% of the poverty level would pay subsidized rates and reduced premiums.

THE UNINSURED No such condition anymore. Everyone would be covered by a comprehensive plan.





BASICS AND BOTTOM LINES

WHAT'S BASIC A smorgasbord of guaranteed benefits, including hospital stays, doctor visits, ambulance trips, drugs, lab tests, preventive dental care for children and pregnancy-related services.

WHAT'S EXCLUDED Nonessential medical services, such as private-duty nursing, cosmetic surgery, hearing aids, adult eyeglasses and contact lenses, in vitro fertilization, private hospital rooms and sex-change operations.

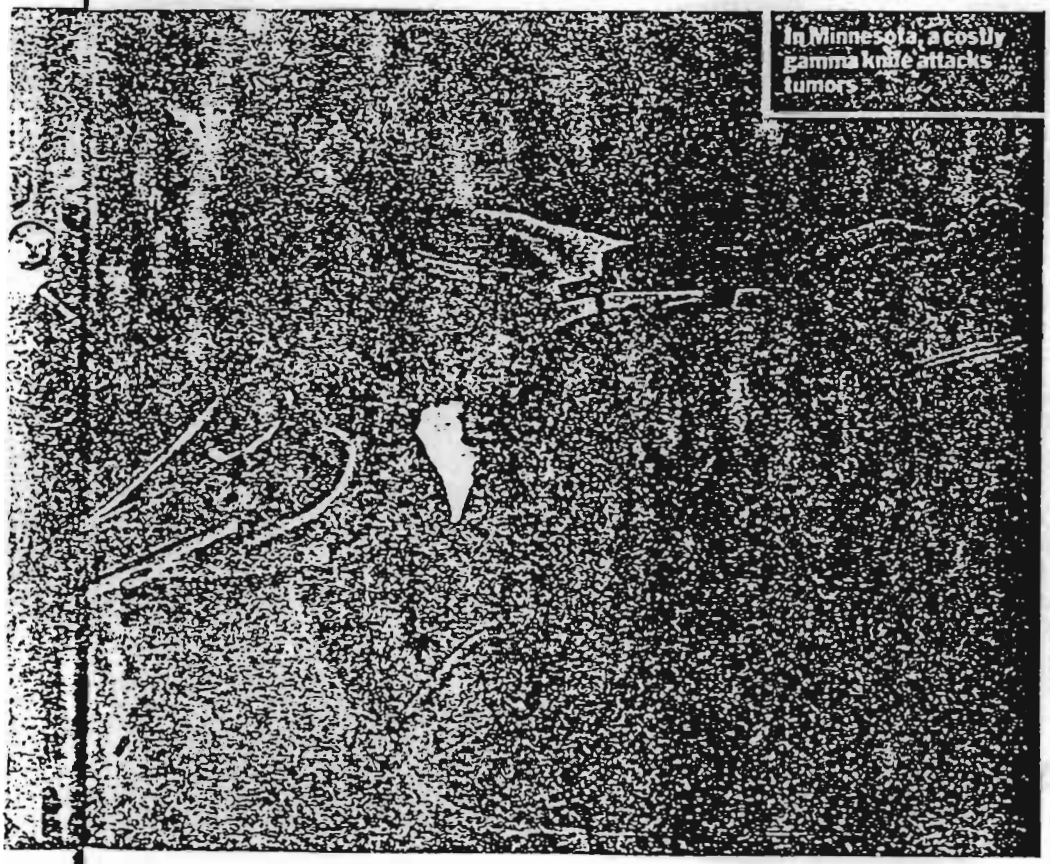
WHAT IT WILL COST In a typical corporate plan, workers will have a choice of at least three options of varying cost. Those who choose to join health-maintenance organizations, for example, would typically pay no deductible and $10 for each visit.

WHO'S ELIGIBLE If you are an American citizen, a legal resident or a "long-term nonimmigrant," you are covered.

WHEN IT STARTS States could begin setting up alliances as early as 1995, and would be required to do so no later than January 1997.

THE PAPERWORK All plans would adopt a standard claim form by January 1995.

ALTH AND LIVELIHOOD OF EVERY AMERICAN



In Minnesota, a costly gamma knife attacks tumors

new jobs, internal White House studies predict that those gains would be more than offset by jobs lost among low-wage workers at small businesses. Many of these businesses do not now pay anything to insure their workers, and would be required to pay at least 3.5% of payroll under the Clinton plan—a payment some could finance only by shedding workers. President Clinton recently approved new transitional subsidies for businesses with fewer than 50 employees and average wages of less than $12,000. Those subsidies are expected to avert some but not all of the net job losses caused by health-care reform.

▸ Offer new benefits for mental-health care. Tipper Gore, the Vice President's wife, led those who wanted full coverage of mental-health care, including weekly therapy sessions. The White House judged that it could not afford to create another expensive subsidy for the middle class. Yet it proposed significant new mental-health benefits: for example, covering 30 visits a year for psychotherapy.

▸ Provide new federal subsidies for prescription drugs. Patients treated in lower-cost group medical networks would pay only $4 a prescription. Those in more expensive health plans would be insured for 80% of the cost of prescriptions, after paying a $250 annual deductible.

▸ Offer new benefits for long-term care for the elderly. Medical care at home (for example, by a visiting nurse) would be covered as an alternative to hospitalization. Long-term care, usually in a nursing home, would be covered for as many as 100 days a year.

The Clinton plan is surprisingly persuasive in supporting the longtime claim of the Clintons and their top health-care strategist, Ira Magaziner, that reform can be financed almost entirely from savings, without broad-based new taxes and with enough left over to reduce the federal budget deficit. Ever since the campaign, when Clinton first floated this claim, budget experts have derided it as a "free lunch" approach. But now the President has backed it up with tough choices on spending—choices that might prove politically impractical or diminish the quality of health care, but which at least demonstrate his seriousness.

The boldest of these proposals would cut in half the runaway rate of growth in spending on the two largest federal health-care programs. Clinton would cut spending on the Medicaid program for the poor by $114 billion over five years. And he would cut the Medicare program for the elderly and disabled by a whopping $124 billion, mainly by slowing inflation of payments to doctors and hospitals. These care providers would not be able to shift costs to non-Medicare patients, as they do now, because of new federal cost controls.

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HOW REFORM IS FINANCED

(From the President's confidential draft)

Source of funds	Uses of funds
In billions of dollars, 1994-2000	
Medicare savings: $124	Long-term care: $80
Sin taxes: $105 (LATER YEARS)	Medicare drug benefits: $72
	Public health administration: $29
Sin taxes: $105 (EARLY YEARS)	Subsidies for low-income firms and workers: $169
Medicaid savings: $114	Deficit reduction: $91
Revenue gains: $51	
Other federal-program savings: $47	
Medicare and Medicaid recipients, who will be covered by alliance plans: $259	Alliance coverage: $259

Chart: Steve Hart

As Congress and special-interest groups began kicking Clinton's plan around last week, its political strengths and vulnerabilities began to emerge. Among the President's allies are the major lobbies for the elderly, who like the new benefits for drugs and long-term care. Says John Rother, legislative director for the American Association of Retired Persons: "There are people with a lot at stake who will try to derail this plan: the insurance industry, the National Federation of Independent Business." The small-business lobby, led by the NFIB, has targeted the plan's requirement that all employers pay at least 3.5% of payroll for health insurance. Most small businesses that don't offer health insurance "just cannot afford to do so," even with the subsidies proposed in the Clinton plan, contends NFIB spokesman Terry Hill.

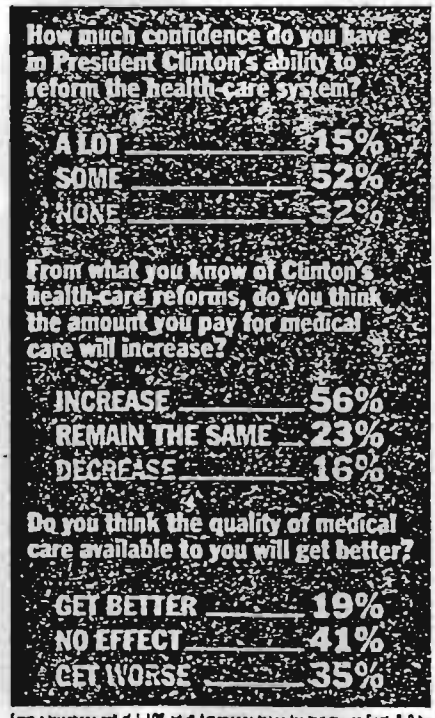
At the same time, Clinton's proposed cuts in Medicare and Medicaid are drawing fire from liberals. And some health experts think Clinton may be going too far. "No one can tell you with any assurance that these levels of cuts will not affect patients," says Stuart Altman, an economist at Brandeis University.

Republicans and conservative Democrats criticize Clinton's proposed caps on insurance premiums as a back-door version of oppressive government price controls. Says Lawrence English, president of the health-care division of Cigna, a major insurer: "I was initially encouraged to hear them say they were rejecting price controls. So I have a hard time understanding how that squares with the notion of caps on insurance premiums."

California, Texas and other states with large populations of illegal aliens will not be pleased with the plan's exclusion of illegals from guaranteed coverage. Those states would have to continue to cover the unpaid medical bills of illegals who seek treatment at hospital emergency rooms—and with less federal aid for such care.

Others think Clinton is replacing one mess with another. Congressman Stark of California faults the President's plan as "amazingly complex. It creates many new bureaucracies. It is confusing. It eliminates traditional fee-for-service medicine as we know it."

Politicians and lobbyists are keenly aware of polls that reflect little public trust in Clinton's attempt to reform health care. In a TIME/CNN survey conducted last week, only 15% of those polled had "a lot of confidence" in Clinton's ability to reform the health-care system, while twice as many expressed "no confidence" and 52% had "only some." Asked what effect Clinton's reforms would have on the quality of health care, only 19% said it would "get better," while 35% expected it would "get worse" and 41% predicted "no effect." A majority, 56%, expect that reform will increase the cost of their medical care.



From a telephone poll of 1,108 adult Americans taken for TIME/CNN on Sept. 8-9 by Yankelovich Partners Inc. Sampling error is ±3%.

Even so, there are reasons to believe that Congress will pass a plan like Clinton's within the next year or so. When voters are asked which issues concern them most, health care is right behind the economy and jobs. Even some conservative Republicans report that they are under pressure from constituents to "do something" about the price and security of health care, and some, notably Utah Senator Orrin Hatch, have submitted their own thoughtful, more market-oriented plans.

Part of the political problem is that there is little consensus either in Congress or among the public about the "something" that should be done with health care. Lawmakers are splintered among liberals who want a government-run, Canadian-style single-payer system; conservatives who prefer minimalist reforms to the insurance market; and those in the middle who support various versions of managed competition.

This leaves Clinton where he wants to be: somewhere near the political center with a plan that incorporates some market mechanisms and a lot of government regulation, cuts in some spending programs, and new health benefits in other areas. "The Clinton health-care bill," predicts Senator Tom Daschle of South Dakota, "will be the only vehicle in town with real credibility."

Robert Blendon, a Harvard expert on public opinion about health care, predicts that Clinton's plan will be popular because it offers "new benefits, no new taxes except for cigarettes," and control of the prices charged by doctors, hospitals and drug companies. Says he: "To be popular, the public has to think the money is coming from the provider community, which they think is doing too well anyway."

But Blendon's assessment will hold only after the tangled complexities of the Clinton plan begin to sink into public consciousness. "There has never been a national debate over health care, and these terms are all new to the American people," says Clinton pollster Stan Greenberg. "We're going to have an extraordinary period of public education."

That campaign will be dramatically joined next Wednesday night when Clinton delivers his televised address on the issue. An advocacy group has prepared a billboard near the Capitol that will light up that night and begin ticking off the number of Americans who have lost their health insurance: 50 every minute, or almost one a second. That should serve as a reminder of what Mrs. Clinton often calls "the cost of doing nothing" on this issue.

—With reporting by Laurence I. Barrett and Dick Thompson/Washington

25¢

Clinton's Health Plan Holds the Fort for Big Business

By William Tucker

Health security cards *would assure all Americans of health care benefits.*

Summary: Large corporations and unionized employees have enjoyed tax breaks and regulatory exemptions under the current health care system, enabling generous benefits packages. President Clinton's health care plan creates its own exemptions for them. Who would get the short end of the deal? Many economists believe it would be small businesses and, consequently, people on the fringes of the labor market.

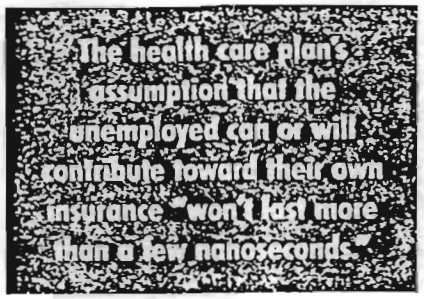
"Health care that is always there." It has such a beguiling sound. But to many economists, it has the ring of disaster, disguised in the mellifluous language of entitlement — an open-ended commitment by the government to provide services to people no matter what the cost.

President Clinton presented his six-principle health care plan to Congress and the American people on Sept. 22 — "security, simplicity, savings, choice, quality and responsibility" — but his heartfelt speech lacked

specifics about how his administration will finance what may be the most ambitious government undertaking since the New Deal. How *will* Clinton achieve his goal of universal insurance coverage for the entire nation without bankrupting the federal government? The current $300 billion budget deficit already yawns with entitlements — specifically the $125 billion a year in open-ended commitments through Medicare and Medicaid. The president's program would, in effect, extend entitlements to the entire population.

One of the administration's primary strategies — and the last but not least of the six principles — is to force employers and individuals to accept responsibility for health care costs. "If we're going to produce a better health care system for every one of us, every one of us is going to have to do our part," Clinton noted toward the end of his address. "There cannot be any such thing as a free ride."

Hillary Rodham Clinton, head of the President's Task Force on National Health Care Reform, declared several times during the past few months that businesses not providing health insurance for their employees *have* been getting a free ride. The Clinton plan mandates that every employer insure its employees. The costs to businesses are expected to be $30 billion to $50 billion.



Even if small businesses and the self-employed accept Clinton's mandate — or are forced to by legislation — the plan's assumption that the unemployed can or will contribute toward their own insurance "won't last more than a few nanoseconds," says Richard Vedder, an economist at Ohio University and coauthor of *Out of Work: Unemployment and Government in Twentieth Century America*, a critique of government intervention in the labor market. "The obvious answer is that the government will have to pay the health care premiums for people who are unemployed." Paying the $1,800-per-person premium for the 8 million unemployed and their dependents would cost the Treasury at least $15 billion a year.

Indeed, any understanding of American health care must begin with the realization that 87 percent of Americans already have health insurance and 60 percent receive fairly generous coverage through their employers. Although health care inflation is a pervasive problem, Medicaid and Medicare are spurting ahead at a rate of about 10 percent per year, nearly triple the rate of the general economy. Clinton has vowed not only to halt this cost spiral but to lower Medicaid and Medicare spending over the next five years by $238 billion.

In order to achieve this savings, which would offset expenditures in the plan, the administration would shift large numbers of Medicaid and Medicare patients into health insurance purchasing cooperatives, or

President Clinton's Prescription

How the Plan Works

- All Americans and legal residents will receive a health security card guaranteeing a comprehensive package of benefits with limits on out-of-pocket payments to protect against catastrophic costs.
- No one will be excluded from a health plan or pay more because of age, health or financial status.
- Policies are portable. Those who lose or change their jobs are still covered.
- Nearly everyone will select medical coverage from one of the health plans offered by a new government-controlled middleman, the regional health alliance.

EMPLOYERS

- Companies with more than 5,000 workers may offer their own plans outside the alliance.
- Employers will be required to pay 80 percent of full- and part-time workers' insurance premiums, provided the total cost is no more than 7.9 percent of payroll. Workers will pay the rest. Subsidies will ease the burden on low-income individuals and small employers.

MEDICARE

- Medicare recipients won't be included in the new system. Two new benefits are added—coverage for prescription drugs and some long-term care—but no new protections against catastrophic illness.

OVERSIGHT

- A federal board will be established to oversee changes in premiums and benefits.

STREAMLINING

- A standard insurance form will cut down on paperwork. Federal health care regulations will be simplified.
- Health services covered by workers' compensation and automobile insurance will be merged into the new health system.

INCENTIVES

- Financial incentives will encourage more doctors to offer primary-care service in urban and rural areas.
- Malpractice reform will limit lawyers' fees but not the size of the recovery.

GOVERNMENT COST JUGGLING

- Cigarette taxes will be raised 75 cents a pack to help pay for the plan.
- Medicare will be cut by $124 billion; Medicaid by $114 billion.

Source: *Draft of American Health Security Act*

What You'll Pay

A look at how much some Americans would pay under the Clinton plan, assuming the estimated average cost of basic benefits is $4,200 for a family and $1,800 for an individual.

SINGLE, EMPLOYED FULL-TIME

You'd pay $360 a year as your share of the insurance. Then you'd pay no more than the first $200 of your medical costs for the year—your deductible. After that, it would be the per-visit or prescription cost up to a $1,500 cap.

SELF-EMPLOYED

You'll pick up the full $1,800 cost of the insurance yourself. You also pay the $200 deductible and copayments. But the full cost of the premiums are tax-deductible, up from 25 percent under present law.

WITH DEPENDENTS, EMPLOYED FULL-TIME

You'll pay $840 for a family policy. Then you'll pay the first $400 of medical bills—your deductible—and the per-visit cost after that, up to a $3,000 cap for the year.

RETIRED

If you're under 65, you'll pay $360; the government will cover the rest of the premiums. If you're covered through Medicare, you'll continue to pay Medicare premiums for physician services, plus copayments as you do now and for drugs.

SINGLE OR MARRIED, UNEMPLOYED AND NO SOURCE OF INCOME

The government pays for your health insurance and your per-visit health costs.

MARRIED, ONE MEMBER EMPLOYED FULL-TIME

You'll pay $840 a year. Then, after meeting the initial deductibles of no more than $400, you pay the per-visit cost for each member of your family up to the maximum limit of $3,000.

TWO OR MORE MEMBERS OF FAMILY EMPLOYED FULL-TIME

The same as above, except each worker will contribute to the $840 premium.

RETIRED, ON FAMILY PLAN

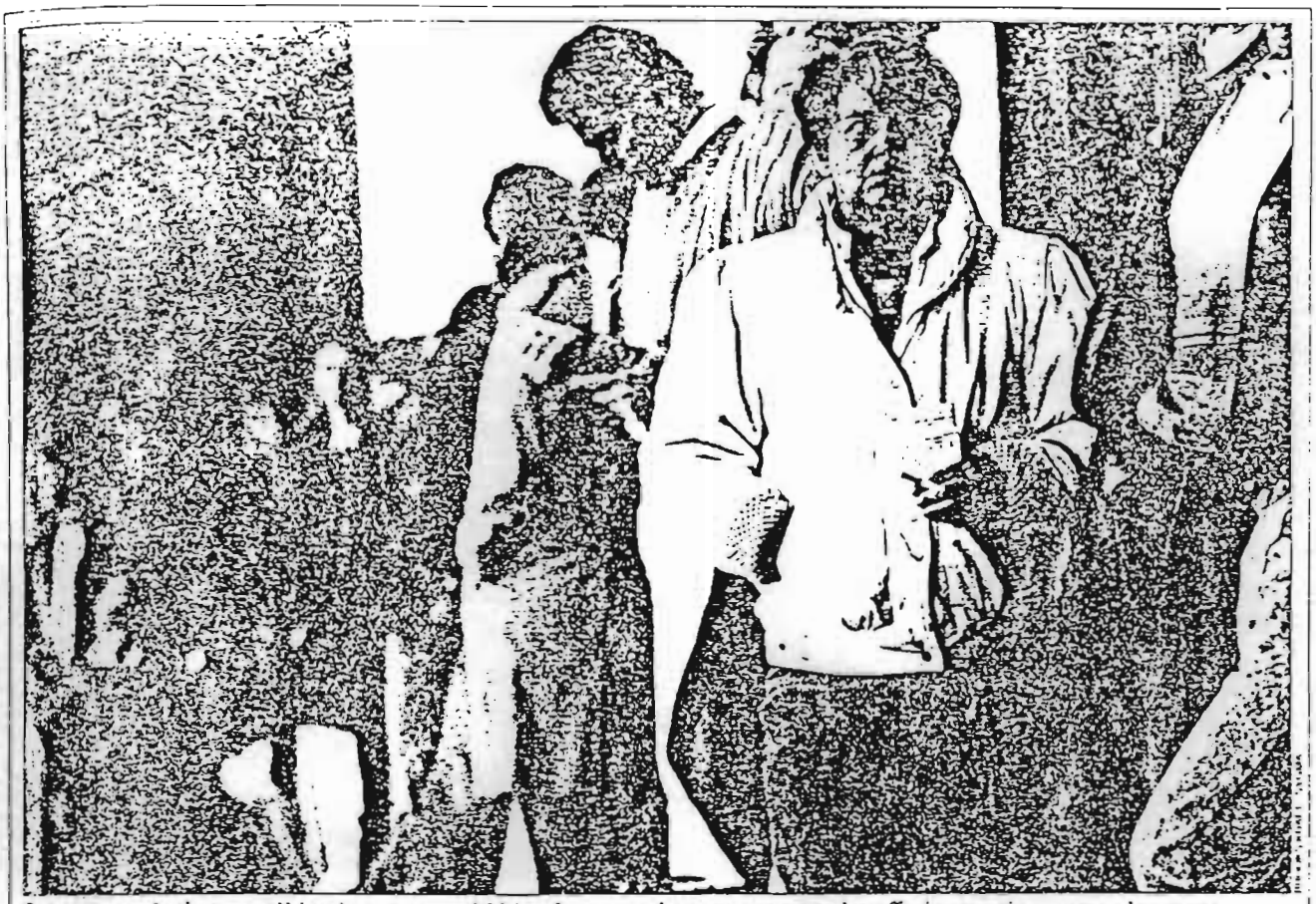
Under 65, you'd pay premium of $840; the government would pick up the rest. Over 65, you and your spouse would continue to pay Medicare physician-insurance premiums, plus copayments for office visits as now, and for prescription drugs.

The expectation is that insurers, *limited in what they can charge customers, would force hospitals to lower prices.*

HIPCs. These regional, semiprivate entities would offer "managed care," selling insurance to employee pools and individuals, then bargaining with conglomerates of doctors and hospitals at wholesale rates. In theory, the savings from the "managed competition" would further reduce health care inflation.

What if these savings don't materialize? Ira Magaziner, the New Age business guru who devised much of the plan, would subject insurance companies to "premium caps" — price controls on insurance premiums. The expectation is that insurance companies — limited in what they can charge customers — would work even harder to force doctors and hospitals to lower prices.

The entire health care industry — one-seventh of the U.S. economy — would be supervised by a national health care board. Under a provision called "global budgeting" — another form of price control — the board would dictate how much money HIPCs could spend on health care in a region or state. Each HIPC would apportion its money as it deems best.



One concern is that *small businesses would hire fewer workers or resort to layoffs, increasing unemployment.*

"Basically, the plan is something that has been patched together from several different ideas," says Merrill Matthews, director of the Center for Health Policy Studies at the National Institute for Policy Analysis in Dallas. "There's a little bit of price controls, a little bit of mandates, a little bit of subsidies. The premise is that if 87 percent of the population is already covered from Medicaid, Medicare and our employer-based system, maybe all these changes can jiggle it up to 100 percent."

When disassembled piece by piece, however, it is fairly easy to predict where this Rube Goldberg contraption would carry us: more unemployment; accelerating government outlays; and continued health care inflation, declining health care services or both. It is useful to remember that when President Lyndon Johnson introduced Medicaid in 1965, he projected the 1990 costs would be $10 billion. Actual costs were $110 billion.

Clinton has repeatedly said his plan would offer everyone not covered by Medicare or Medicaid a package similar to the benefits offered by Fortune 500 companies. In fact, even Fortune 500 companies couldn't offer their generous benefits without breaks from the government, including significant tax exemptions. The insulation of health benefits from income taxation has long been pointed to by critics of the current system as one of the major factors driving health care inflation.

> "The plan has been patched together. There's a little bit of price controls, a little bit of mandates, a little bit of subsidies. The premise is that if 87 percent of the population is already covered, maybe all these changes can jiggle it up to 100 percent."

"The whole thing started during World War II, with wartime wage controls," says Ed Haislmaier, a health care policy analyst at the Heritage Foundation. "Employers began offering health benefits as a substitute for wages. As postwar income tax rates rose, the major unions discovered that improving health care benefits was a way of taking home more pay without having to pay federal income taxes. The employers benefited as well, since they could deduct the cost of these benefits from their own profits. The result is a system that puts enormous inflationary pressure on the health care system while costing the federal Treasury $60 billion a year."

Most often criticized is the "first-dollar" coverage in these packages — the low-deductible, low-copayment policies that allow people to use health care services as if they were free. "Many people who use this system don't pay a penny for their care even though they can afford to," Clinton said in his Sept. 22 speech, and most if not all experts agree.

"What we're calling 'health insurance' really isn't insurance at all," says John Goodman, coauthor of *Patient Power: Solving America's Health Care Crisis*. "It's really prepayment of your medical expenses. You don't expect your auto insurance to cover every oil change. Yet people want their health insurance to cover every doctor's visit. The amount of

overutilization and administrative costs this adds to the system is enormous." Indeed, a study by the Rand Corp. showed that people who had to make copayments on their routine doctor's expenses used medical services 33 percent less than those who didn't, yet suffered no decrease in health.

But large corporations receive a further exemption from the government through an obscure federal statute, the Employees Retirement Income Security Act, or ERISA, which allows major self-insured corporations to escape state regulation. Adopted in 1974 at the behest of labor unions, ERISA was supposed to protect employee retirement funds from state interference. Over time, it has been extended to health benefits.

Today, any company that insures itself — 65 percent of employers with more than 2,500 employees do so — is exempted from state laws prescribing minimum benefits and from state taxes applied to insurance benefits.

Even more important, ERISA has exempted major employers from state high-risk pools. About 2 million Americans are considered by insurers to have prior medical conditions so severe that they are, in effect, uninsurable. Many states have tried to help these people get insurance by pooling them with low-risk, healthy people. "We're trying to set up a high-risk pool now, very similar to what President Clinton is proposing to do," says Bobbie Berkowitz, deputy secretary of health in Washington state. "But more than half our employees — including all of Boeing — are now exempted through ERISA. Unless we can get these basically healthy people into the state pool, we won't be able to do it."

Clinton has proposed ending the ERISA exemption and forcing the major employers to rejoin state pools. (The ERISA Industry Committee, a lobbying group of exempted companies, has already voiced its objections.) But the president's health care package would create its own exemptions — companies with more than 5,000 employees could opt out of HIPCs and offer their own plans. This exemption would probably extend to both the federal and state governments — and the race to escape the high-risk pools would be on again.

"What the Clinton administration doesn't want to acknowledge is that larger companies have already insulated themselves from the numerous state and federal mandates and requirements that make insurance so expensive," says Terry Hill, manager of national media relations for the National Federation of Independent Business. "That leaves small businesses as the primary customers in the health insurance market. What we face are highly volatile premiums, sudden cancellations of policies, plus a patchwork of state and federally mandated benefits that prevent flexibility and increase the cost of policies."

Rather than being treated with any sympathy, however, small businesses often are cast as the villain of the present system for failing to provide health insurance to their employees. "If you're an employer and you aren't insuring your workers at all, you'll have to pay more," said Clinton. "But if you're a small business with fewer than 50 employees, you'll get a subsidy. If you're a firm that provides only very limited coverage, you may have to pay more, but some firms will pay the same or less for more coverage."

The fact is, most small businesses will simply hire fewer workers or lay off employees rather than face this nebulous scenario. As Carlos Bonilla, chief economist of the Employment Policies Institute, points out, the sectors most affected — restaurants, retail stores, repair services and household help — already have such low wage and profit margins that mandated health insurance could only mean loss of jobs for employees or

Paying the premiums *of the jobless and their dependents would cost billions.*

bankruptcy for employers.

(As for government subsidies, the plan states that no employer should have to pay more than 7.3 percent of payroll to cover health benefits. For small businesses, that figure could be as low as 3.5 percent. But General Motors now spends 19 percent in providing its unionized employees their generous benefits. The average for major corporations is 12 percent. One remarkable proposal on the table is to have the government assume the enormous health benefits that the major corporations have promised their retirees.)

Employers are likely to avoid the cost of buying insurance for new workers by extending the working hours of existing employees. Ohio University's Vedder believes this is already taking place. "We predicted that by September unemployment would be up to 6.5 percent. The actual figure was 6.7 percent. That error, I think, reflects the growing reluctance of employers to hire any new employees, because they see them as *future* liabilities in terms of health care mandates."

The result may well be a "jobless prosperity," with older, established employees being paid higher overtime wages while new employees are shut out of the labor market. "What we're seeing is an increasing division between blue-collar haves and blue-collar have-nots," says Vedder. "The established, unionized workers are laughing all the way to the bank. They're going to retain their benefits while seeing the government pick up some of their costs. But people on the fringes of the labor market will suffer more unemployment."

Thus arises again the Achilles' heel of Clinton's program — the unemployed — who will be further affected by proposed reductions in Medicaid and Medicare. Sen. Daniel Patrick Moynihan, a New York Democrat, has already labeled this aspect of the administration's plan a "fantasy." Whether the unemployed and indigent are placed in Medicaid or in HIPCs hardly matters. The government will be paying the bills.

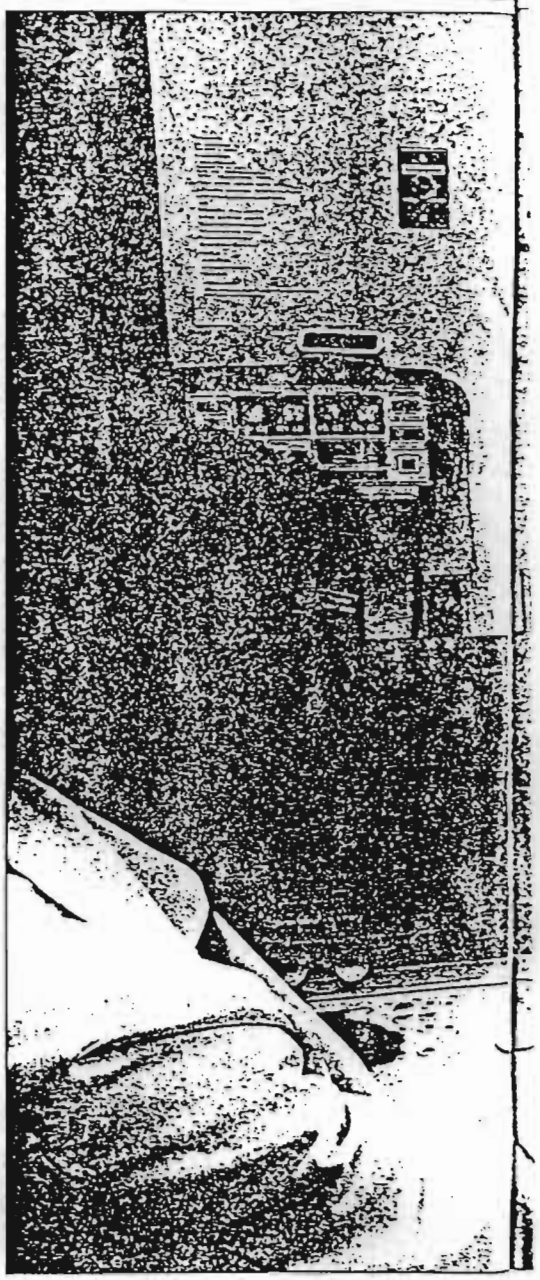
Clinton's health plan has been ballyhooed by many observers as the most ambitious U.S. government program since the New Deal. The president invited this comparison in his speech when he drew an analogy between the elderly of the early 1930s and the uninsured today.

The New Deal, however, involved more than Social Security for the elderly. It is worth remembering that the National Recovery Act of 1933 was an attempt to cartelize American industries around a "government-private partnership" eerily similar to the Clinton health care plan.

The Great Depression, according to New Deal rhetoric, resulted from "cutthroat capitalism," which supposedly led to inefficiency and waste. Major corporations in each industry were given the right to cartelize and exclude competition from new and smaller competitors. (Stores displayed the Blue Eagle to show they were in compliance.) In return, big businesses handed out more generous benefits to their employees — higher wages, better working conditions and shorter hours.

There was one problem: Such ben-

Vedder says *the jobless rate is already being affected.*



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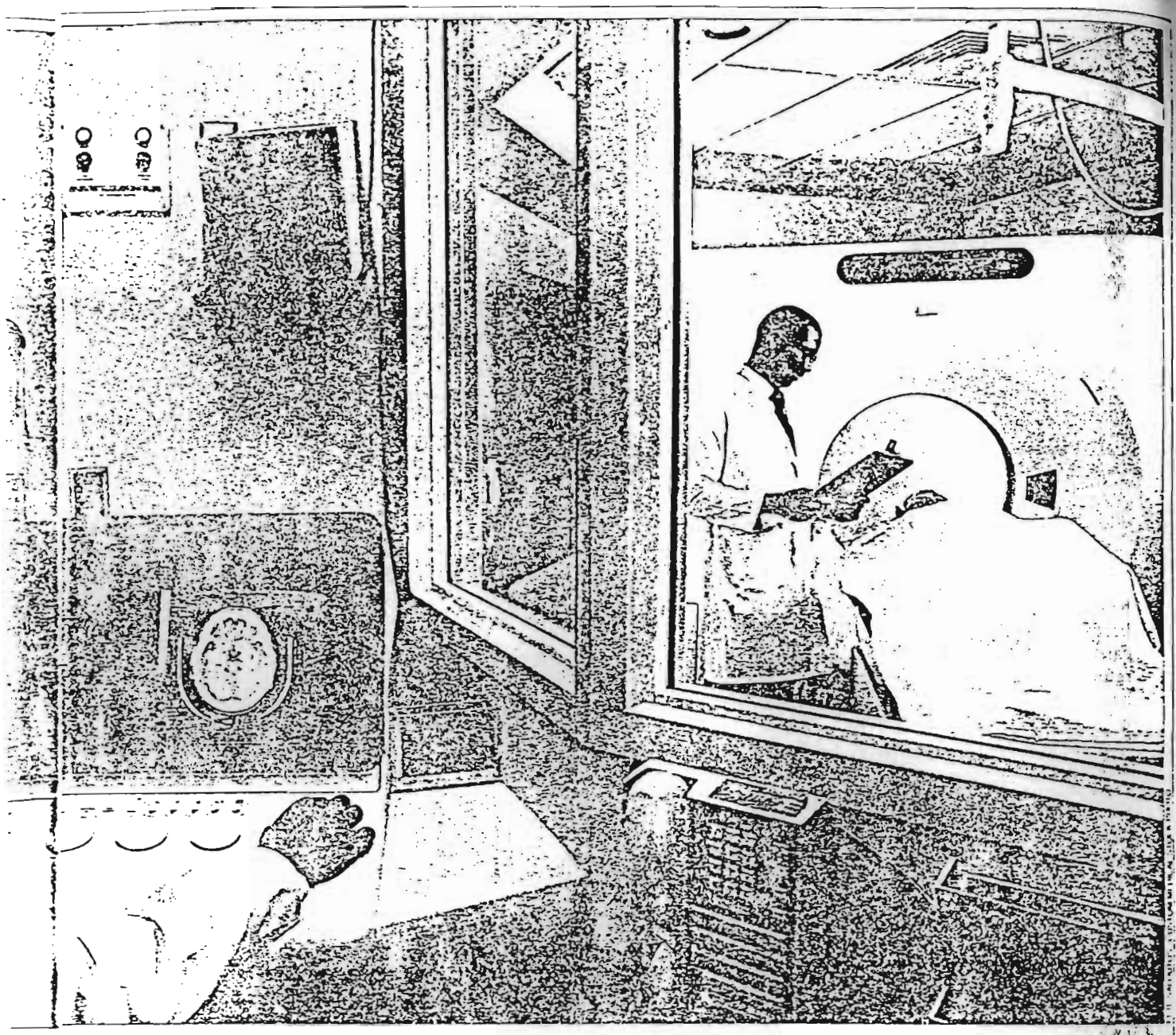


efits could be won at the expense of cheap labor, more often than not blacks and immigrants, who had long been perceived as union busters and unfair competition. The government, in turn, created the welfare state to care for marginalized workers — the very system that has proved to be the moral and financial undoing of so many people it was supposed to protect. Now, 60 years later, Clinton is proposing to repeat the process all over again.

Are there alternatives? Both the Heritage Foundation and the Cato Institute have proposed offering everyone tax-free "medical savings accounts" that would enable consumers to choose between buying reasonable insurance coverage (not first-dollar coverage, with its enormous inflationary impact) or saving a portion of their own money to meet medical expenses. In an April article, "Health Care in Critical Condition," Insight offered a similar proposal that would give everyone in the country health insurance similar to what the Clinton administration has proposed at a cost to the Treasury of about $40 billion a year, as opposed to the $60 billion to $110 billion for Clinton's plan.

Both these alternatives would sever the link between employment and health insurance and level the playing field for everyone.

By failing to face down the special interests that benefit enormously from the current system — the major corporations and unionized work forces — the Clinton administration has set health care on a course to becoming yet another wedge separating the haves from the have-nots in the labor marketplace.

Critics believe *"global budgeting" — spending limits — would stifle innovations in medical technology.*

The predictable outcome would be greater benefits for those who already have them, greater underemployment for those who don't and a growing "welfare pool" at the bottom that would cause more social disruption and place an ever-increasing burden on taxpayers.

POLITICS & POLICY

HEALTH REFORM: LET'S DO IT RIGHT

Look inside Clinton's plan, and you can find the elements of a sleek, market-bas system—but his proposed price controls could crush it. ■ *by Edmund Falterma*

POLITICAL tides can sweep in with astonishing power. A previously apathetic public suddenly demands action. Sensing opportunity, leaders reach for arcane remedies understood by a handful of experts and urge them on millions. It's happening at last with health care. Those who have quietly debated and refined concepts for reform could scarcely believe their ears when President Clinton, informing a joint session of Congress in late September that a "magic moment" has arrived, said so many of the right things.

And, alas, some wrong things. In the months of hearings and headlines that stretch ahead, it will be important not to lose sight of what could make the final legislation a landmark worthy of emulation around the world—or a lemon.

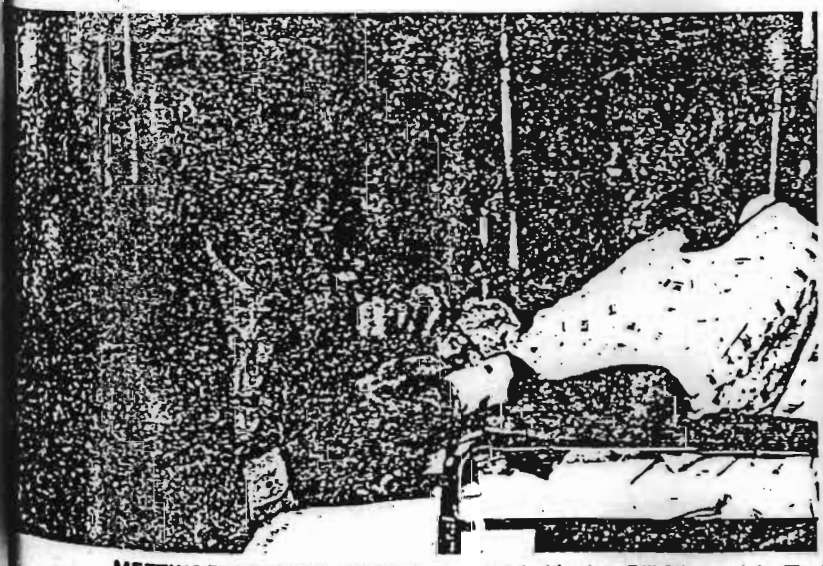
The President is dead right in believing that by building a more competitive market for health care, as his plan would do, "we can find tens of billions of dollars in savings." But he's wrong in wanting price controls and far-ranging regulation just in case competition doesn't deliver results fast enough. In an era when socialism is in decline, Clinton wants to impose economic planning on a $900-billion-a-year health system as big as Britain's GDP.

The President and the plan's chief architect, First Lady Hillary Rodham Clinton, evidently regard controls as the only way to hold total medical spending down and cover the 37 million uninsured by 1997 without imposing major new taxes. Ira Magaziner, the President's senior health policy adviser, has played down the reform plan's bureaucratic bent. Basically, he has said, government wants to "get out of the way" and rely on competition to streamline the system. Experts who have pored over the plan's briefing book get a different impression. John O'Donnell, director of health care policy at Buck Consultants in New Jersey, says the document calls for "an incredible amount of control and regulation of j about every aspect of the financing and livery of health care."

That would be a travesty of the origi concept of "managed competition," the tellectual wellspring of what's good in President's blueprint. Listen to the c cerns of two venerable reformers who to managed competition what the Wri brothers were to the airplane. Econom Alain Enthoven of Stanford Univers who coined the term in 1986, fears that Clinton plan will be "a giant step towar single-payer system" like Canada's, which government pays all the medi bills, and in which the allocation of sources will be based on "political cons erations rather than economic meri Because of weak incentives in the Clint plan, Enthoven warns, "price controls v be the first line of attack, not a mere 'bac stop' as advertised."

The other Wright brother is Dr. Paul E wood, president of the Jackson Hc Group, a policy research outfit based

REPORTER ASSOCIATE *Jane Furth*



MEETING THE BENEFICIARIES of reform in Washington, Bill Clinton visits Tim Hale, and Hillary talks with Jessica Dion, whose family has insurance problems

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Wyoming. He too is disappointed with what the Administration has crafted. But he remains hopeful because key elements of managed competition are woven into the Clinton plan, as well as into two alternatives advanced by a group of moderate Republicans in the Senate and by conservative Democrats in the House. Says Ellwood: "I think virtually every part of the Clinton plan can be modified in a satisfactory way. All the pieces are there. We're just talking about how you tweak it to make it work."

Signs abound that competition is already beginning to check health care inflation. The last survey of employers by the Foster Higgins consulting firm showed that health insurance premiums grew 10.1% on average in 1992, the smallest increase in five years. The trend continues downward, says John Erb, a principal for health care policy at the firm: "We're looking at single-digit [increases] in 1993 and 1994. I know this sounds like capitalism, but how about letting the market work?"

IT'S WORKING at Xerox, whose success in applying managed competition on its own was cited by the President in his speech to Congress. Helen Darling, Xerox's manager of health care strategy and programs, reports that premium increases quoted for 1994 by the company's "benchmark" health maintenance organizations—generally the lowest-cost plans that employees can choose in a given city—average less than 4%, down from 5.5% for 1993. Incentives at Xerox enable employees to save money if they select lower-priced health plans, and the company leans on all HMOs to restrain premium increases. Says Darling: "If anybody comes in with an increase greater than 5%, we want to know why."

Making companies like Xerox the rule rather than the exception does not require complex new legislation and elaborate control machinery—a potential nightmare given the immensity of the health care system. All it takes is enough law to oil the wheels of competition. Here's a basic set of requirements to look for as the issue works its way through Congress:

▶ For starters, every citizen must have health insurance. The best approach is to require all employers to pay for it—the so-called employer mandate—and for government to subsidize low-wage employers who might otherwise be ruined by the expense. An alternative, as called for by the moderate Senate Republicans, is to require individuals to buy health insurance if the employer does not. The point is that everybody must be onboard, and not just for compassionate reasons. It's expensive to treat the uninsured in emergency rooms when diseases are advanced—a cost already borne by the rest of society.

▶ Another cardinal principle of managed competition is informed, cost-conscious choice of health plans by workers. It sounds logical and simple, but in health care it takes some arranging. Employees must be given a menu of health plans from which to choose, with an annual sign-up period, as called for by Clinton and the conservative House Democrats. That's crucial, because the ability of consumers to go elsewhere deters HMOs and other efficiency-minded health plans from skimping on services.

Health plan benefits must be standard-

A FORTUNE REPRINT

▶ WHAT THE HEALTH SYSTEM SHOULD HAVE

- **A mandate.** All employers must provide health insurance for workers, and government must subsidize companies that pay low wages.
- **Informed, cost-conscious choice of health plans by workers.** If dissatisfied, they should periodically be allowed to switch.
- **Standardization of health plan benefits.** This will eliminate confusion and force plans to compete solely on price and quality.
- **Standardized report cards on each health plan.** Workers will choose more wisely if they can see data on results and patient satisfaction.
- **Employer contributions limited to the cost of benchmark plans.** Companies should make workers pay the added premium if they choose the more expensive health plans on a menu.
- **A cap on tax benefits.** By limiting a tax break that subsidizes expensive plans, the government can generate revenue to help cover the uninsured.
- **A level playing field.** In an environment of cost-conscious pricing, many workers will be attracted to HMOs and other managed-care plans that have no incentive to overtreat patients.
- **Pooled purchasing power for small companies.** To get the same premium rates as big corporations, they should buy coverage through regional cooperatives or "health alliances."
- **Denial of coverage to no one.** Insurance companies should accept all applicants regardless of medical history, and they should be barred from charging wildly varying rates.

▶ WHAT IT SHOULD NOT HAVE

- **Price control,** in the form of government-set caps limiting the growth in health insurance premiums.
- **Too much latitude for the states,** which would create havoc for companies that operate nationwide.
- **Massive bureaucracy and micromanagement,** which would result if health alliances get dominion over most of the work force and are given quasi-governmental powers.
- **A powerful new National Health Board** along the lines proposed by President Clinton instead of a smaller body, analogous to the Securities and Exchange Commission, that could delegate much regulation to independent boards.

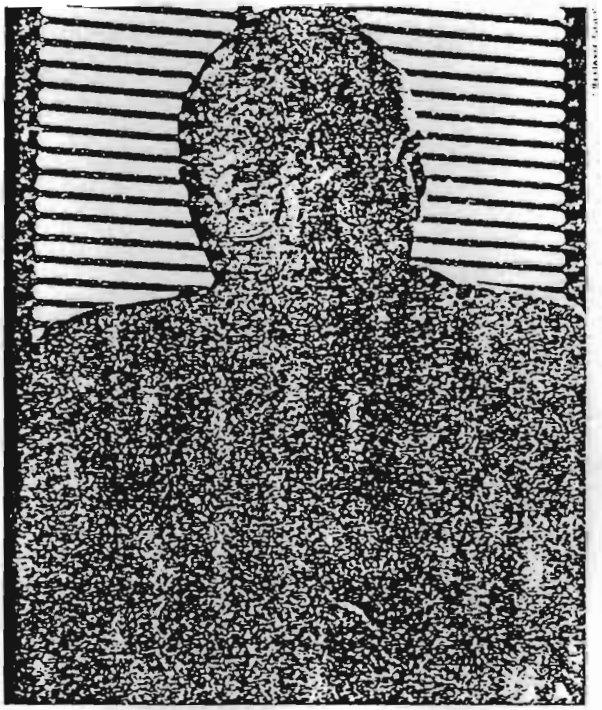
ized by law so that workers choose purely on price and the quality of service. The present welter of plans blurs such comparisons. Plans must also issue annual report cards showing data on performance and the results of consumer surveys. Even before the law requires it, the National Committee for Quality Assurance, a nonprofit organization, is working with 22 managed-care plans to develop such a report card.

▶ Employers should limit their contributions to health plan premiums. That's where cost-consciousness comes in. A worker should be free to choose a fee-for-service health plan offering unlimited choice of doctors and hospitals, but if the premium is higher than a benchmark plan, as it usually is, he or she should pay the difference. Xerox and Stanford University follow this policy, which has caused many workers to switch to lower-cost plans. The Clinton proposal does not call for such an approach. It would merely require employers to pay 80% of the average premium in an area, leaving them free to pay the other 20% if they wish, as well as all the extra costs of a higher-priced plan. That blunts the marketplace effects. If your employer will buy you a Cadillac, why pick a Chevrolet?

The government doesn't need to set a limit on the employer's contribution if it uses a less intrusive weapon at its disposal. Enthoven calls it "the single, most crucial point" in the whole scheme. At present, not a penny of an employer's contribution to health plan premiums is taxed as income to the employee. By making any contribution above the cost of a benchmark plan taxable, as advocated by the Jackson Hole Group, Washington would induce workers to shop more carefully. It would also generate revenue—real revenue, not just promised savings from Medicare—that would help pay for the uninsured. Lynn Etheredge, a Washington health policy consultant, notes that the federal government already limits tax breaks for other fringe benefits: "Health care just stands out." But the Clintons, wimping out on this one, would tax only benefits beyond those in their generous standard package—and not for ten years if an employer already provides them.

Meeting these basic requirements would create a level playing field for health plans. To save after-tax income, most workers would gravitate to HMOs and other managed-care plans that have no incentive to pile on extra tests or procedures. But even if people clung to fee-for-service systems, it would no longer matter from a policy standpoint because they, rather than employers or government, would be shouldering the extra cost.

The same effects would occur among small businesses, which would get more predictable prices than now by buying jointly through regional purchasing cooperatives or "health alliances." A cooperative that recently began operating, the Health Insurance Plan of California, serves 12,000 workers and dependents and is adding 5,000 a month. Steven Levine, who heads a six-person advertising agency in Los Angeles, is a happy customer. A diabetic who has had a kidney transplant, Levine previously saw his outfit's health insurance premium soar to nearly $4,000 a month before he lost coverage for himself. Now he's buying through the new cooperative, and everybody's insured for a total of $894 a month.



STANFORD ECONOMIST Alain Enthoven, who helped invent the managed-competition concept that underlies much of the Clinton plan, finds that it has "important strengths and major deficiencies," which in his view "can and should be corrected."

Of the features that Congress should throw out of the Clinton plan, the most objectionable is price control. Several weeks ago the President said he was for no such thing, but he was speaking narrowly about fees for physicians' services and certain o er items. Starting in 1996 he wants a p posed National Health Board to limit t rate at which health plan premiums can ri Call it what you want, but this has the qua as well as the waddle and webbed feet, price control. History shows that it ne works for long. One of the many possit bad outcomes, says Sylvester Schieber of t Wyatt Co. consulting firm, is that "you w see effects on quality" if Washington's cza start applying the limits before the heal system is able to achieve widespre savings through greater efficiency.

In a regime of price control ar national health care budgets, the r gional health alliances would balloc from the mere "trading floors" f health plans that Enthoven wants t quasi-governmental enforcers c those budgets. Clinton would allo only firms with more than 5,0 workers nationwide to stay outsic the alliances, and some say the plan designed to lure much of the For TUNE 500 crowd in. If a mature com pany with a relatively old work forc signed up workers through the all ances, down the road it would enjo the rates available to a younger poc of workers. Says consultant Rober Laszewski of Health Policy & Strate gy Associates in Washington: "This i the greatest deal for Chrysler ever." A Chrysler spokesman says it's pre mature to say what it might do.

The potential disappearance of ma jor buyers from the health care marke concerns Ellwood. "I want to keep those big buyers in there, exercising their clout," he says. Without them, says Enthoven, it's just a matter of time until the alliances turn into mini-single-payer systems. The plan needs careful scrutiny so it doesn't tilt decisions on joining alliances one way or the other, and the 5,000-employee cut-off also needs to be lowered drastically to keep more companies in the market. The Clinton plan also needs to be altered so that states cannot adopt single-payer plans or create a patchwork of regulations.

That sounds like a lot of tweaking, which could postpone the day when everybody in the land is covered unless Congress passed a new broad-based tax. Compared with the alternative—new governmental machinery that might require more new jobs than the 252,000 federal positions Vice President Gore wants to eliminate—even a tax would look good. F

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