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COVERAGE WITHOUT GAPS: IMPLEMENTING SEAMLESS HEALTH COVERAGE IN CALIFORNIA

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In our fragmented health care system, the availability of health insurance is often tied to factors such as employment status, family income, and even age. Small life changes can radically affect the continuity of health insurance coverage and, consequently, the level of care received.[1] Like their fellow Americans, many Californians have intermittent health insurance coverage, or lack coverage altogether. While a majority of uninsured Americans are uninsured for more than 12 months out of any four-year period, roughly half those who are uninsured at any point in time will transition into and out of coverage of various types during the year. Recent research has shown that more than twice as many people who are uninsured on a given day are uninsured at some point over a four-year period.[2] An overwhelming body of research has clarified that insurance is the key to accessing timely and efficacious care. The Institute of Medicine has concluded that 18,000 Americans die each year because of lack of insurance and the access problems uninsurance entails.[3] Finally, insurance markets will work far more efficiently and fairly if all people participate in insurance pools.

Over the past several years, we have written that to achieve universal, seamless health insurance coverage in the United States, we must first create a system based on affordable and accessible health insurance, and then require individuals to purchase private or enroll in public insurance.[4] Mandates make insurance markets more efficient by significantly reducing the classic adverse selection problem, since the healthy will be forced to buy insurance, too. In turn, the improved risk pool allows premium regulation to be tighter which makes the market fairer.[5] Based on this approach, the New America Foundation released a series of three papers in November 2005 discussing how all of California's children could have insurance coverage.[6] The papers proposed an approach to comprehensive health reform for California's children by relying on the concept of "shared responsibility" among households, employers, and taxpayers.[7] Under this plan, coverage would be seamless—children would never face a break in coverage because automatic enrollment would occur in the absence of specific parental choice.[8]

In California's health care reform debate, lawmakers are grappling with how to achieve universal coverage. While many policy analysts have said that an individual mandate is the only way to achieve universal coverage,[9] questions have been raised about the feasibility of individual responsibility within the broader context of shared responsibility. This is in some ways the wrong question, for we will never reach 100 percent coverage under any system. A discussion focusing solely on enforcement and penalties is too narrow to capture the spirit of the reform approach that can be successful.

A better question is: How can we make having coverage the norm and not having coverage extremely rare? The answers lie much less in finding the perfect penalty than in creating a user-friendly and

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affordable insurance system. As part of a seamless system, it will be necessary to review insurance status and make every effort to ensure that everyone has insurance at every moment in time. Under a simple system that can both automatically enroll and support people once they are enrolled, enforcement activity will be of secondary focus. It will be primarily financial, and will only be relevant to a very small number of people.

Fundamental to this discussion is an understanding of how the financial risk of access to health care should be shared. Since the mid-1950s, when most Americans began acquiring health insurance through employers, employers and workers implicitly shared the risk of health care cost growth, with employers at least nominally appearing to bear the larger burden since they paid the vast majority of costs. In recent years, as employers have increasingly shifted explicit financial burdens—in premium share and in reduced benefits—to workers, the fear is growing that individuals will be left alone to bear untenable burdens.

Seamless coverage should serve as a bulwark against this risk shift from employers (and governments) to individuals by requiring a mutual support among all stakeholders in health care that ultimately protects the individual from absorbing all the risk that comes from being uninsured. The individual takes responsibility to obtain insurance, but only after a new paradigm is created for coverage to be offered through employers and the government, where appropriate. Seamless coverage is the formula for a new social contract that fills the gaps in the current system that leave Californians without coverage.

This paper provides a set of guiding principles for achieving seamless health insurance coverage for all, as well as a discussion of key operational steps. It assumes that these guiding principles will only be enforced once the state has created a system of affordable and accessible coverage, which will include key roles for employers and others. This paper focuses on ways to facilitate individual responsibility in a seamless system, building on the New America Foundation's original November 2005 paper "Seamless Coverage for Children."[10]

UNIVERSAL COVERAGE IS COVERAGE THAT IS SEAMLESS AND EVER PRESENT

While the vast majority of Californians have health coverage, far too many fall through the cracks. Those who cannot afford payments often are never enrolled or drop coverage due to the high cost. In addition, many who are eligible for public coverage, particularly children who have no control over their health insurance status, are not enrolled.

To achieve universal coverage through personal plus shared responsibility, health coverage must be seamless and ever present. By definition, universal coverage means that individuals can neither be allowed nor forced to be uninsured. This is consistent with the Governor's remarks when he announced his health care reform plan, "My solution is that everyone in California must have insurance. If you can't afford it, the state will help you buy it, but you must be insured."[11]

Under the New America vision of personal and shared responsibility, the system should be as affordable and easy to use as possible, and all individuals must participate in that system. Individuals are responsible for securing insurance for themselves and their families and for sharing in a reasonable portion of that cost. To achieve universal coverage, the individual must take personal responsibility.

Furthermore, if people are unable to pay a share of their insurance on time, they should not be relieved of the responsibility to pay once they are able. Low-income persons who truly cannot afford premiums will likely rely on government programs with nominal, or non-existent, cost-sharing requirements. For those who do have premiums, their private insurance companies must ultimately receive payment for the

coverage; insurers should not have to shift the cost of non-payment just as hospitals should no longer have to shift some uncompensated care costs to insured patients.

Rather, the state should assure that individuals have continuous coverage and that individuals pay their fair share. Their fair share could fluctuate with their income levels as jobs are lost and gained and changed. A seamless system will make sure individuals never become uninsured, but they may have to switch to public plans periodically if they cannot afford to pay for some period of time. It may also be cost-effective for limited periods of economic hard times, and far better for continuity of care for the state, to allow public subsidy dollars to be used to pay private premiums when someone's income drops. However, the individual would be responsible for back premiums and penalties should they try to defraud the government into paying more than its fair share. While the individual must take action, shared responsibility also means that the state must find ways to make the system easier to navigate and support individuals seeking to take responsibility for themselves.

To manage this financial risk, the state must have authority to pursue fair share premiums and levy penalties. In other words, to maintain seamless coverage for those who are required to pay a premium and do not, the state would pay the premium on their behalf and then recoup costs from the individual, plus a penalty designed to encourage compliance.

THE NEED FOR SEAMLESS COVERAGE

A system of seamless coverage based on shared responsibility in health reform will accomplish several critical ends. It will:

- *Improve the Health Status of Californians.* In the US, health care is accessed through health insurance, and gaps in insurance are associated with decreased access to the health system. The uninsured, especially children, are more likely to delay seeking needed care, and less likely to have prescriptions filled.[12] Even short breaks in coverage can have devastating health effects.

- *Create a More Efficient Health System.* Today, the cost of caring for the uninsured is transferred, at least in part, to those with private insurance and to taxpayers (in the form of public programs). This hidden cost shift increases premiums for those with insurance by almost 10 percent.[13] Cost-shifting is an inefficient way of supporting health care. By creating a system of seamless coverage, it is possible to eliminate this hidden tax and perhaps bring down health care premiums.[14]

- *Make the Insurance Market More Efficient.* In today's insurance market, insurance companies earn profits based on their ability to selectively enroll low-risk people. At the same time, because individuals have the option not to purchase insurance, those who are ill have the greatest incentive to enroll. An effective system of seamless coverage that requires everyone to have insurance must be accompanied by a guaranteed-issue policy to make sure that all Californians—those healthy and those ill—can purchase an insurance product. This will minimize adverse selection by spreading risk.

- *Achieve Universal Coverage.* As documented in "Growing Support for Shared and Personal Responsibility," the New America Foundation publication, a long list of policy experts and political leaders have written that universal coverage can only be achieved through an individual mandate based on shared responsibility.[15] John Holahan of the Urban Institute, who played an important role in developing the Massachusetts health plan, has made perhaps the clearest

statement: "Implementing universal coverage requires an individual mandate, which may or may not be combined with an employer mandate."[16]

- *Give Californians the Health Care System That They Want.* A recent survey by the Public Policy Institute of California found that a large majority of Californian residents (72 percent) support the idea of shared responsibility.[17] This mirrors findings from a recent survey of Massachusetts, where a June 2007 poll found that 57 percent support the state's new individual mandate requirements, while 36 percent opposed them.[18]

PRINCIPLES FOR CREATING A SEAMLESS SYSTEM

For this system to work, Californians must find a value in voluntarily participating. For those who otherwise would not participate, it is important to have a system in place that includes fair penalties and enforces them evenhandedly. These criteria lead naturally to the following principles:

- *Outreach and Affordability.* Most Californians want affordable and comprehensive health insurance and the reformed system must make it easier to learn about and obtain affordable coverage.

- *Review and Monitor Enrollment*. The state must consistently and in a timely manner review health insurance enrollment so that individuals can be encouraged to be seamlessly enrolled in coverage.

- *Fair Penalties*. The state must enforce reasonable penalties against those who can be expected to pay their fair share by the majority of Californians.

Implementing these principles will depend on several critical steps. Making affordability possible means more than the obvious need for subsidies. It means the creation of a specific system to ensure that everyone has insurance. Those who fail to voluntarily comply with the requirement to enroll in health insurance for any reason will be auto-enrolled into a basic "default plan," most likely through an insurance pool (or "exchange"), to help ensure that there is an organized structure to offer coverage. In such cases, parents and adult individuals will be charged the premium rate for the missed period of insurance, as well as substantial income-related penalty fees.

Automation will reduce the administrative waste and inefficiency that accompanies today's paper-driven process. Automation includes electronic, web-based enrollment where possible (everywhere eventually), auto-enrollment into default (lowest cost) plans, and a verification system that depends on shared information.

Another key operational element is effectively shared enrollment data tracking that will allow for the review of insurance status, verification of insurance status, and confirmation of premium payments. California already has an automated system for vital statistics, which can be linked to help track insurance status over an individual's lifetime. This new system will require a significant effort to collect data and develop updating protocols. Strict privacy protections will also be needed. Persons will also always be assumed to be in their last enrolled insurance program until they notify the carrier of proof of new coverage (or evidence that they have left the state). As mentioned previously, those who fail to enroll will be enrolled automatically in a health plan. For those who fail to pay their fair share, the state will seek reimbursement for premiums and penalties through a collections process, like the one employed today in the Access for Infants and Mothers (AIM) program already operated in California.

OUTREACH AND AFFORDABILITY: INSURANCE MUST BE EASY TO OBTAIN

The cost of enrollment must be reasonable relative to an individual's circumstances. This includes not only the cost of the premium, but the time and effort that is required to obtain insurance. Today's system can have very high costs. These costs include financial outlays and barriers to enrollment such as being barred from purchasing insurance due to pre-existing conditions. Once reforms make the health care system more accessible and affordable, there is every reason to believe that more businesses and individuals will obtain coverage when they are informed about the new availability of affordable insurance.

People Want Health Insurance. An October 2006 survey by the Kaiser Family Foundation found that, among the insured, 78 percent worry about being able to continue to afford insurance.[19] Among the privately insured, 71 percent worry about losing insurance due to job loss.[20] In fact, when offered health insurance through an employer, 85 percent of California adults accept. (See Table One).

TABLE ONE:
Most Adult Californians Offered Employer Insurance Take It[21]

	2005
Accepted health benefits	62.9%
Eligible, but did not accept	11.3%
Not eligible for employer benefits	8.4%
Employer did not offer	17.4%

- *Costs Must be Affordable.* The lower the costs of purchasing insurance (in both direct out-of-pocket costs and indirect costs), the more likely people will comply.[22] For example, the high take-up rate amongst employer-sponsored insurance plans is attributable to both ease of access (since the employer has done all the groundwork) and relatively low employee premium requirements (generally less than 30 percent of the total premium).

    - Indirect Costs. There is a high cost in time and effort required to sign up for public programs. In a survey conducted by the California HealthCare Foundation, 78 percent of Medi-Cal beneficiaries surveyed agreed with the statement that Medi-Cal required too much paperwork (about three-quarters of these indicated that they "strongly agreed"). This complexity contributes to the relatively high estimates of those who are eligible for Medi-Cal but are not enrolled. States that have simplified enrollment procedures have found that it is possible to increase enrollment.[23]

      Similarly, while cost is a major barrier, indirect barriers are problematic in the group and individual markets. Small business owners say that one of the top reasons for not offering insurance is the administrative burden, especially related to the complexity and time needed to find an insurer.[24] Obtaining insurance in the individual market can be even more burdensome and typically requires the completion of extensive questionnaires about an applicant's medical history. Search and enrollment costs should be reduced in the seamless system, since medical underwriting and risk selection will be greatly reduced.

    - Direct Costs. Premiums must be affordable. Unfortunately, there is no scientific definition of affordability. Ultimately, affordability is what the community at large thinks people at different income levels should be expected to pay on their own. Communities across the country are likely to reach different conclusions about this, for implicit in a

judgment of affordability is a willingness to subsidize, or not to subsidize, one's fellow citizens. Massachusetts put its recent reforms into practice by deciding that no one will be forced to pay more than 7.2 percent of their income for premiums. There is widespread agreement that people in households earning less than twice the federal poverty level ($40,000 for a family of four) cannot afford to pay very much toward the full price of health insurance. There is less agreement regarding people earning between two and four times the federal poverty level. An important recent paper by Urban Institute researchers has shown that people today with incomes between poverty and twice poverty pay between 5 to 35 percent of their income for private health insurance, and those between twice and three times poverty pay from 3 to 23 percent of income.[25] No one thinks the upper half of these ranges is affordable, yet many people are paying this much today. California will have to define affordability for itself, and this definition will in large measure determine the ultimate effectiveness of its health reform.

- *People Must Have Access to Affordable Insurance and Understand the Value of Health Insurance.* Research shows that individuals' perceptions of the value of health insurance impact their decision to obtain coverage.[26] In crafting a new health system, insurers, with government guidance, must develop policies that individuals perceive as valuable. Then, the government and backers of reform efforts must develop a message that emphasizes the value of insurance and the risks of being uninsured.

- *Qualified Individuals Must be Supported in Their Effort to Enroll in Public Programs.* The state government must actively ensure that as many individuals eligible for programs with federal subsidies as possible are enrolled. This will require outreach efforts as well as reasonable flexibility on documentation requirements.

Once affordable and accessible coverage is in place, the health care system needs to institute new operations that eliminate barriers to enrollment and educate individuals on the benefits of insurance. The more automatic the enrollment process, the better the enrollment rates. There are several specific steps that can be taken to minimize the burden on individuals in complying with the new system.

Automated Payment. One of the reasons that employer-sponsored insurance is effective is because employee premiums are deducted automatically from each paycheck. There is no opportunity to forget the payment, let alone spend the money on something else. Likewise, the state should require payments to be automatically deducted from paychecks by employers for the employed and from bank accounts for the self-employed or unemployed who are enrolled in any purchasing pool established during statewide reforms. This would only leave the long-term unemployed and the unbanked without access to automatic payment. Of course, the new purchasing pool will need to inform non-offering employers how much each worker owes, based on the plan they selected during the open enrollment period.

Other Outreach Steps. The New America Foundation has long supported the outreach and enrollment measures for public insurance programs required by SB 437 (Escutia/Alquist). Sponsored by the 100% Campaign, PICO California Project, and others during the 2005 legislative session, the law will significantly streamline enrollment in public health insurance. Outreach and enrollment strategies specified in the bill include:

- "Express Lane" type simplifications and use of technology to expedite enrollment of children in multiple programs that use similar income rules to determine eligibility. Express Lane is a pilot program in California that uses the school lunch program as a preliminary application for Medi-Cal.

- A simplification of the existing Child Health and Disability Prevention (CHDP) Gateway application program. The Gateway program allows children receiving care through CHDP to become presumptively eligible for Medi-Cal, giving the child two months of temporary eligibility in which to submit a follow-up application.

- Accelerated enrollment in Healthy Families for eligible children who apply at county Medi-Cal offices.

- An online Medi-Cal health plan/health care arrangement selection system coordinated with the existing Healthy Families plan selection system.

- Reduced paperwork for children and families to apply for and renew insurance by requesting only as much paperwork as federal law requires.

- Simplification of the processes around the non-group market. The state should create a new "exchange" through which people without access to satisfactory employer-sponsored coverage will purchase insurance and be subsidized if eligible. Within this exchange, simple marketing materials will need to be created so that individuals can understand insurance products and compare those products easily to one another. The current system is simply too complex for individuals to make informed choices.

There is also an important opportunity for the purchasing pool to help with outreach as well. An excellent model for this is how California's Children's Health Initiatives (CHIs) function as flexible "one-stop-shops" for parents trying to enroll all their children into health insurance. Research has shown that this model can be very effective.[27] The techniques used by the CHIs should be adopted by the purchasing pool.

Similarly, insurance brokers will play an important part in outreach for the new system. Steps to educate brokers on options for their customers will be critical, as will be the creation of appropriate financial incentives to help insure effective participation.

Auto-enrollment, Controlled Disenrollment. The outreach strategy should include auto-enrollment and only allow for controlled disenrollment. In general, when an uninsured person is identified, he or she should be enrolled in the lowest cost plan available. If the individual is eligible for Medi-Cal or Healthy Families, he or she should be enrolled in the appropriate plan to ensure that the state receives matching federal dollars.

Everyone else, eligible for a subsidy or not, should be enrolled in the "default plan." This could take on different forms, including a system of allocating auto-enrollments to spread high risk enrollees randomly and fairly across the private plans. There could also be a single default plan operated by the federal government. Auto-enrollment will likely be an initial issue during the establishment of a universal coverage system, and then an ongoing issue with people who move to the state and need insurance.

However, once an individual is enrolled in the seamless system, it will be critical to keep him or her enrolled. Individuals would not be permitted to disenroll from insurance without proof of new insurance. (For the purpose of this program Medicare and Medi-Cal are insurers.) For example, the new insurer could send electronic communication to the current plan notifying them of the individual's new enrollment. For someone going from one group plan to another, this is an easy concept. It is only slightly more complex for someone exiting a public program. If an individual is found ineligible for Medi-Cal, there are several options that may occur:

1) The individual may provide proof of having obtained private insurance from his or her employer.
2) If the employer does not offer or there is no employer, the individual will be given the option to enroll in the state's new default pool.
3) The individual will be auto-enrolled in the lowest cost plan available to him or her based on available documentation, and then will be charged. Auto-enrollment could occur into a private or publicly operated health care plan.

To be able to disenroll entirely from the California insurance system, a person will need to provide proof that they have changed their legal residence to another state. Disenrollment due to death will occur easily because the database will be automatically tied into vital statistics.

ACHIEVING SEAMLESS COVERAGE: REVIEW OF INSURANCE STATUS

Despite the best efforts to improve outreach and ensure affordability, some individuals will ultimately decide that they do not want to take responsibility for their health care costs and will try to avoid the system, much as a small minority of workers evades the tax system today. For these individuals, a system of review and proactive enforcement steps are needed to ensure seamless coverage. Under the New America approach, personal responsibility is key.

As part of these proactive steps, there needs to be a consistent and efficient review of insurance status. Absent this review, compliance will likely be lower than otherwise predicted. Monitoring must be routine and timely, preferably monthly.

Auto insurance is frequently cited as the example "proving" that seamless coverage will be ineffectively enforced. While rules vary from state to state, 47 states require car owners to have liability car insurance. Non-compliance rates range from 4 to 34 percent.[28] The reasons for different states' success and failure have been extensively studied; they can serve as an example for how best to ensure seamless health insurance in California.

The purchase of liability car insurance is not a direct analogue to enforcing the purchase of health insurance, contrary to some critics' claims. Liability auto insurance is for paying off the claims of anyone whose car you damage; the proceeds of these claims do not defray your own accident costs. So in essence, car insurance mandates are about making sure you can pay off the person whose car you hit. Health insurance purchase mandates, on the other hand, are fundamentally to guarantee you access to good providers and appropriate services when you need them.

Auto insurance status is often randomly and infrequently reviewed, with checks typically occurring only at registration and during traffic stops. Far from proving why individual responsibility fails, auto insurance in some states is simply a cautionary tale of what not to do. In states where review is more consistent, compliance rates are higher. Many states with organized, consistent review policies have higher compliance rates.[29]

Several states, including California, now rely on advanced technology and information sharing to improve compliance with uninsured motorists. Many are building on the success seen in Georgia when it implemented its Electronic Insurance Compliance System in 2001. Georgia cut its uninsured motorist rate from 20 percent to 2 percent in less than two years.[30]

Operationally, the focus of seamless coverage is developing an automated system for tracking insurance status.[31] Data matching between insurance companies and the state holds the greatest promise for a successful system. A possible model for this approach is already being implemented for auto insurance in California under SB 1500 (Speier).

State Oversight. The state would need to designate a clearinghouse for the collection and enforcement of enrollment requirements. A default pool, or exchange, operated by California's Managed Risk Medical Insurance Board (MRMIB), is the most obvious place to put this responsibility. The default pool must be able to interface with the various information suppliers—primarily insurers, employers, providers, and households—respect patient privacy, and provide real-time information among the major stakeholders, including Medi-Cal.

Automatic Tracking. Using this tracking system, the state will know very quickly who has failed to pay a premium. The most effective way to review health care coverage status is for insurance companies to give this information to the state, which can auto-enroll individuals in the default plan.

Liability for Failure to Pay. Under a seamless coverage approach, the insurer does not bear financial risk from the insured's failure to pay the premium. If an enrolled individual fails to pay an insurer in a timely manner, the insurer should notify the "exchange" and the state in order to receive the proper premium payment to keep the person enrolled while the exchange notifies the individual and ascertains the situation. If the person has had an income decline and is now eligible for full or partial subsidies, new arrangements and payment responsibilities will be clarified and fair responsibilities communicated to all involved. If necessary, the state will begin immediate steps to collect funds from, and levy appropriate penalties on, any individual not paying his or her fair share for coverage.

Secondary Review of Insurance Status. While automatic review will be effective, an overlapping system to review insurance status is needed to help identify and enroll individuals who are new to the state. In some cases, this also will help to verify accuracy of computer records.

	New State Resident	**Current Residents**
Schools	Upon enrolling in a California school district, children will need proof of insurance for themselves and legal parent or guardian.	Verify the insurance status of each enrolled child and report to the exchange each semester.
Employers	Upon taking a California-based job, employees will be asked for proof of insurance. Those without insurance will be referred to the state.	No role necessary, though the possibility for employers to report insurance status may be helpful.
Department of Motor Vehicles	Those registering a vehicle or applying for a driver's license will be informed of the state's insurance requirements and referred to the state's pool.	Those registering a vehicle or applying for a driver's license will have their insurance record checked to be sure that insurance payments are current. Persons delinquent in paying their fair share will have their drivers license and car registration invalidated.
Franchise Tax Board	No role is necessary.	No role is necessary, though there is the possibility of a role for high-income individuals and the self-employed.
Providers and Hospitals	Hospitals will report parents to the state who do not provide proof of insurance for newborns, who are technically new residents, upon leaving the hospital.	Given the seamless system, persons will always have an insurance carrier once they enroll. Providers will report "uninsured" to the state and auto-enroll on the spot. The ability to check enrollment status in a database in real time is needed.

Department of Corrections. Individuals released from prison will be auto-enrolled in the appropriate program before discharge.

Undocumented Persons and Seamless Coverage. An ideal system would treat all persons living in California identically, for this is the only way to end uncompensated care cost-shifting and to ensure that all pay their fair share. Political reality, however, means that undocumented adults are likely to be kept out of the insurance and subsidy system, and some provision must then be made for humane emergency care. Today an undocumented person can receive health insurance coverage under Emergency Medi-Cal. This program helps to protect not only the health of individuals, but also the financial health of Medi-Cal providers. This also protects Californians from the cost-shifting of the medical expenditures of the uninsured to those with insurance. In addition, an Emergency Medi-Cal card could serve as proof that an individual is in compliance with the mandate. The sales and payroll taxes paid by the undocumented help compensate for the health resources used.

Another critical issue will involve the documentation of children. Federal law now requires proof of citizenship and identity to qualify for Medicaid. If we operate under a system where all children have health insurance, there will be little incentive for parents to provide a birth certificate or other evidence of citizenship. The child will be covered either way; it is simply a question of the state's liability and whether or not that cost is shared with the federal government.

To respond to this issue, it will be critical to have successful data matching efforts with birth records. For California, this should be easy enough as all birth records are now recorded electronically. But for children that move into the state, parents will likely need some incentive to obtain and provide health records. A financial penalty for not enrolling kids should suffice. The state will need to assist low-income persons in obtaining documentation.

ACHIEVING SEAMLESS COVERAGE: PENALTIES AND COLLECTIONS

Despite all reasonable efforts, some will try to avoid, or just fail to meet, their obligation to their fellow Californians to enroll in health insurance and to pay their fair share of the premium.

This will likely be a small portion of the population. California is already close to full coverage with 80 percent of state residents maintaining uninterrupted insurance for a full year. (See Table Two). If the vast majority of Californians already have full year insurance, and another portion of the population is eligible but not enrolled in public programs,[32] then any collection effort will likely only apply to a very small portion of Californians. This is especially true since premium costs will likely be reduced under any reform effort with subsidies.

TABLE TWO:
Most Californians Already Have Year-Round Coverage[33]

	2001	**2005**
Had no insurance for entire past year	12.4%	11.1%
Had insurance only part year	9.5%	9.1%
Had insurance full year	78.1%	79.8%

When payment is not made for health insurance under a system that is accessible and affordable, the individual puts the health care system at risk for increased cost-shifting and weakens the entire health insurance system. These externalities carry a cost. Consequently, individuals who fail to pay their premium in a timely manner should pay some amount to cover these costs. However, setting the

appropriate penalty level is complex and ultimately a political decision. An equitable and enforceable system should create a sliding scale penalty based on one's financial circumstances, in cases where the income level is known. If the income level is unknown, then a flat fee would be charged.

In addition to appropriate penalties, the state must have the right to aggressively pursue non-payment of premiums (as any vendor can today) through the courts. Specific rules should be created to govern contact with those who fail to pay. This will ensure that both the state's and individuals' finances are protected, and people are treated with dignity. Any operational plan will have a number of models to choose from around the state. One of the strongest options is the Access for Infants and Mothers (AIM) program operated by the Managed Risk Medical Insurance Board (MRMIB), which simply places a missed payment on an individual's credit report.

Privacy is a critical concern as part of this system. Every step of this process must be compliant with the federal government's HIPAA privacy rules. This will ensure that the individual's information is only used for legally permissible purposes. Under HIPAA, health plans can share information with the state under the privacy exclusions for payment collections (45 CFR 164.506), provided that the entities have a business relationship and that only the minimum required data is shared.[34] Any operational plan will need to carefully detail privacy protections for all those living in California.

SETTING A PROCESS FOR PENALTIES AND COLLECTIONS

Determining the right level of penalty is more political than scientific. To be equitable, the penalty should be on a sliding scale based on income or ability to pay. The penalty must be large enough to deter non-compliance, but small enough to keep the mandate enforceable. A delicate balance is clearly needed. Additionally, specific rules should be created to govern state contact with those who fail to pay so that they are treated with dignity and the state's budget is protected.

Defining the Penalties. There is a temptation to identify a range of penalties, beyond financial, to help make sure that the premiums are paid. The difficulty in identifying these penalties is one of equity. For example, children without vaccines can be denied participation in school to protect other children and adults from infectious diseases. Parents who do not send a child to school can ultimately be charged with a crime. Cars without insurance can lose their registration. We believe that penalties for health insurance compliance should only be financial. Criminal charges and denial of health care are antithetical to the goals of seamless coverage and are not recommended. In drastic cases, in addition to financial penalties, perhaps after six months of non-payment, a person's state driver's license or vehicle registrations could be revoked.

Financial penalties should be tied to the amount most likely to motivate action. For those under 250 percent of the poverty line, the penalty should be 5 percent of the cost for the unsubsidized insurance premium. For those between 250 percent and 400 percent of poverty, the penalty should be 25 percent of that cost in addition to back payments for months in which premiums were not made. For those over 400 percent of the poverty line, the penalty should be 50 percent of the unsubsidized premium cost in addition to back payments for months in which premiums were not made. The unsubsidized insurance premium is used as the base because, for many, the premium will be fully or partly subsidized under the New America Foundation's proposal. This approach provides the motivation to ensure that insurance is purchased.

Those eligible for *public* programs will never be penalized for eligible months, in part because for such populations, it may be difficult to document income and because they owe little or no premium anyway. For example, the homeless will never be penalized for failure to enroll upon presentation to a health provider. Instead, they should be enrolled in a premium-free program (such as Medi-Cal).

It is worth considering offering a cash-incentive to those who enroll in public programs. It is difficult for individuals to work through the enrollment process and a nominal payment of $25 for time and effort could, in the long run, help motivate individuals to obtain public insurance. Such a nominal payment could very well be cheaper for the state than the administrative burden of tracking those eligible for public programs and enrolling them. This fall, Mayor Michael Bloomberg will launch "Opportunity New York" which will test the effectiveness of providing cash incentives to reward certain actions by lower-income New Yorkers. Opportunity New York is being funded with philanthropic dollars and aims to build on the success of similar cash-incentive programs in developing countries. This approach was also piloted with strong results by the Family Independence Initiative in Oakland, California.

Collections. Collections of any late payments can be addressed in any number of ways. No system is going to be perfectly effective. It is reasonable to assume that some families, particularly those lacking documentation, will be more challenging to track and collect money from. However, and more importantly, this population will not be eligible for subsidies or subject to the mandate anyway.

- *Collection Agency.* There would be notifications and opportunities to make partial payments over time at a nominal interest fee. Those who simply refuse to pay will have missed payments reported to credit reporting agencies, which is existing policy in the Access for Infants and Mothers program. The result is that it is difficult, if not impossible, for persons with such debts to get new credit to purchase a car or house. MRMIB already uses this approach effectively for collecting missed payments.

- *Wage Garnishment*. This collections method is only recommended as a last resort for those who refuse to pay but obviously have jobs and means. In some cases, it might be appropriate to rescind car registration or driver's licenses.

Use of Minimum Data . A critical element of this new culture is protection of privacy. The system will collapse if there is a failure to respect the privacy of all those living in California. That means the enforcement system must operate by using a minimum of data with strict protections.

Exemptions to Penalties and Collections. Ultimately, any mandate program will need to accept that there will be some level of lost premiums due to an individual's inability to pay. Consequently, a hardship provision will need to be created to write off and budget for these losses. In addition, any mandate program will need to permit exemptions for those who do not believe in modern health care for established religious reasons.

CREATING A CULTURE OF COVERAGE

Without such key reforms as a new market with new subsidies mandating a system of individual responsibility would likely only be an exercise in futility. Indeed, calls for universal coverage are at odds with how our culture has seen health insurance for 80 years: a benefit to those who work. The first health insurance package offered in Baylor, Texas between a school district and a hospital was in part an incentive to keep workers productive and to remain with their employer. This concept of "coverage as reward" has had almost 80 years to take hold in our culture, and it continues today.

Getting to universal coverage will take a fundamental shift in how we perceive coverage. It can no longer just be a reward for the economically successful; it needs to be an opportunity and a requirement for all. We need to shift to a culture of coverage, in which it is expected by all that all will be covered.

But as the system is transformed under reform to one where insurance is widely available, individuals will have a responsibility to support the new, more efficient system. There will be those who say that the

individual bears no responsibility for their insurance status. This argument is easier to make for adults who have been turned down by carriers for pre-existing conditions. However, this argument is harder to make for parents whose children are eligible for but are not enrolled in public programs.

These distinctions are lost in an efficient system. Once the new health insurance infrastructure and subsidies are put into place, Californians will have seamless coverage. When this occurs, the mandate will be easily enforceable. Penalties will be rare. While today we all lament the broken system and its victims, a transformed system should result in the exact opposite. Those who fail to take advantage of society's resources and take responsibility for costs will be viewed with the same stigma as the parents who fail to ensure their children are vaccinated and attend school.

While legally required to do so, most parents voluntarily send their children to school. This was not always the case in the US. We expect that, under a seamless coverage approach, the system will be the same for health insurance. Shifting cultural norms so that buying insurance is expected is a step that is as important as the creation of the seamless system itself. As it has in the past, public policy can be a catalyst for shifting norms.

Indeed, the law is typically a vehicle for driving social change. A Supreme Court decision and the US military were needed to integrate public schools. The Voting Rights Act and federal enforcement (in some states) were needed to ensure the franchise. At the time, some believed these steps were radical. Today, these legal requirements are accepted as fair and reasonable by all but a small minority.

There is also a long history of responsibility placed on parents to promote the welfare of children.

- *Mandatory School Attendance.* A California compulsory school attendance law was first passed in 1874 and has been expanded since. The courts can assess fines of up to $500 and mandate parenting classes for failure to comply. Extreme cases can result in charges of contributing to the delinquency of a minor, a misdemeanor punishable by a fine of up to $2,500 and up to one year in jail. Research shows such mandatory education laws positively increase education attainment.[35]

- *Vaccines for School Children.* Before a child can enroll in either public or private school, an immunization record must be submitted to the school showing compliance with age appropriate vaccinations. For low-income children, vaccines are made available free of charge. Parents are, however, responsible for finding these services.

- *Child Safety Seats.* Persons convicted of failing to secure their children in safety seats can be required to attend a safety education program and pay fines of up to $250. There is no formal state program that provides car seats to parents.

With respect to adults, the precedent for individual responsibility is less obvious but still clear. We mandate behavior for things that cause large externalities: speed limits to keep roads safe, bans on public smoking, environmental protection laws, and paying taxes in a timely manner. Not having health insurance limits an individual's access to care. In addition, the current cost-shift and overall economic loss from inappropriate access to care are damaging to society as a whole.

CONCLUSION

We live in a society where increasing pressure is put on individuals and families to fend for themselves. Seamless coverage and shared responsibility would reverse this trend by enabling all to access health

insurance and health care. To achieve universal coverage there must be a full and unbreakable partnership between the individual and the state, with lingering and important roles for employers and health stakeholders as well. Risk is widely shared under the New America Foundation's model, which asks all individuals to obtain insurance and join the 80 percent of Californians currently insured, but only in the context of a system where comprehensive, affordable coverage can be easily obtained. The responsibility of the individual to obtain insurance is triggered by the existence of the new health care paradigm of seamless coverage. We can only achieve universal coverage if there is strong personal responsibility within the broader context of shared responsibility.

The goal of California health reform should be seamless, universal coverage, achieved by sharing responsibility among government, businesses, and taxpayers. This goal is achievable if we develop a system that encourages people to enroll by removing barriers and making insurance affordable.

As a society, we—sadly—have no history of seamless coverage and individual responsibility in health care. That is why an effective system is needed to ensure all Californians have needed care. Once we create a health care system that supports people to buy and maintain health insurance and gives them access to quality, affordable care, the societal responsibility to cover oneself and one's family will become the status quo. By changing our health care infrastructure, we can change our culture into one in which people will choose to enroll in affordable coverage when it is offered. Ultimately, the only way to achieve universal coverage is to create a culture of individual plus shared responsibility where everyone plays a part in the process of covering all. This paper has outlined the concepts and proposed the new practices that can begin to make that paradigm shift a reality.

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