



FIRST FOCUS

MAKING CHILDREN & FAMILIES THE PRIORITY

| 1110 Vermont Avenue NW, Suite 900 | Washington, DC 20005 | T: 202.657.0670 | F: 202.657.0671 | www.firstfocus.net |

May 26, 2009

The Honorable Max Baucus
Chairman, Senate Finance Committee
U.S. Senate
Washington, DC 20510

The Honorable Charles Grassley
Ranking Member, Senate Finance Committee
U.S. Senate
Washington, DC 20510

Dear Chairman Baucus and Senator Grassley:

We are writing to thank you for your ongoing efforts to develop legislation to move our nation on the path toward the day when everyone in America is assured access to high quality and affordable health care. As an organization committed to ensuring that all of our nation's children are able to get the health services they need and deserve, we urge you to remember that children make up a significant portion of the U.S. population – they are one-third of the nation's non-Medicare population – and their health and developmental needs differ greatly from those of adults. Children's unique health issues must be appropriately recognized and directly addressed in the legislation that is currently being drafted by your Committee if they are to benefit from health reform.

We appreciate this opportunity to provide feedback on the Committee's recent policy options document, "Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options," and to offer some insight regarding how children might fare if the proposals under consideration in the document were signed into law.

Below First Focus respectfully submits our specific comments in response to the Committee's "Financing" proposals:

Extend to and Collect Rebates on Behalf of Managed Care Organizations (MCOs) (Page 11)

First Focus strongly supports the Committee's option to extend and collect the Medicaid drug rebate on behalf of Medicaid MCOs. The inability of states to collect rebates on behalf of drugs prescribed to enrollees in Medicaid health plans poses a serious threat to patient care and the ability of health plans to manage the Medicaid pharmacy benefit. The data that health plans receive from pharmacies regarding enrollees' drug utilization allows health plans to monitor patient compliance with treatment regimens, identify incidents of overprescribing and drug abuse, and reduce harmful drug interactions.

However, states are increasingly carving prescription drug management away from the health plans for the sole purpose of obtaining savings through the Medicaid rebate, effectively destroying the ability of the Community Affiliated Health Plans to maintain and improve patient care. Equalizing the drug rebate to eliminate the incentive for states to carve-out prescription drugs will not only save billions federal dollars, it will also preserve systems that allow health plans to protect their enrollees.

Section II: Options to Modify the Exclusion for Employer-Provided Health Coverage (Pages 17-19)

First Focus appreciates the Committee's efforts to identify sufficient funding sources to ensure that health reform transforms the current health care delivery system into one through which coverage is available, affordable, and more reliable for all Americans. While modifying the tax exclusion for employer-sponsored health coverage could raise significant funding to help pay for national health reform, as advocates for children, we wanted to highlight some specific concerns we have with regard to how proposals along these lines have been designed in the past and to urge you to ensure that any policy reform pursued by the Committee on the tax cap does not have a disproportionate impact on children and families.

In recent years, there have been several proposals, introduced on Capitol Hill and on the campaign trail, to modify the tax exclusion for Employer Sponsored Insurance (ESI) coverage. Sadly, there has been a consistent weakness in all of these; that is, none of the policy proposals on the tax cap issue has properly recognized nor addressed the differential in the cost family plans versus single plans. Specifically, health coverage for families costs on average 2.7 times more than individual coverage. While the specific parameters of the Committee's proposals were not included in the policy options document, we remain concerned that the modification or elimination of the tax exclusion would unintentionally disadvantage family-based coverage.

If the Committee pursues this policy option, we urge you to ensure that the any proposal to set a cap on the ESI exclusion takes into account the true cost of family coverage. Care should be made to ensure that children and families on ESI family plans are not disproportionately affected by a cap on the amount of premiums that can be excluded from income or payroll taxes. Any policy proposal to change the tax treatment of ESI must take into account the 2.7:1 ratio between the costs of family coverage and individual coverage.

Another concern related to the impact of any modification or cap on the tax exclusion on children is that such a policy change might incentivize employers to reduce the quality of the insurance products they make available to their employees in an attempt to remain under the cap, providing employers with a perverse incentive to reduce costs by limiting benefits, increasing cost-sharing, or eliminating coverage offers for families and dependents altogether.

While not specifically discussed in this policy options paper, First Focus also is concerned about proposals to provide subsidies or tax credits for individuals and families to purchase health coverage. Similar to the concerns raised above, if the Committee pursues a subsidy or tax-credit approach to expanding coverage, it is important that any subsidies or tax credits be structured to reflect the true costs of coverage. In recent years, health-related tax credit proposals have not recognized the 2.7:1 cost differential. In fact, most of the previous proposals only doubled the

amount of the credit available for families relative to individuals. Any tax credit/subsidy approach to making coverage available and affordable must be variable to reflect real costs and family size.

In both cases – modifying the tax exclusion for ESI or providing tax credits or subsidies to help individuals and families buy coverage – the Committee must ensure that any policy is fully adjusted to reflect the full cost of family coverage.

Section IV: Lifestyle Related Revenue Raisers (Pages 34-36)

First Focus applauds the Committee for including new excise taxes on alcoholic and sugar-sweetened beverages as a means to raise federal revenues to pay for national health reform. Alcoholic beverages are a major cause of illness, addiction, death, injury, and psychosocial problems. Similarly, soft drinks are a major contributor to obesity, and its related illnesses diabetes, hypertension, stroke, heart attack and cancer. By imposing new taxes on alcoholic beverages and soft drinks, consumption would be reduced and would lead to additional cost savings. In addition, a tax on soft drinks would likely help to slow the obesity epidemic for all Americans, including the obesity crisis that is prevalent and growing among U.S. children.

While not included in the policy options document, we also urge the Committee to consider imposing additional taxes on tobacco products. Tobacco is harmful to all users at all doses – there is no safe level of tobacco use. It is the only product which, when used exactly as intended, causes addiction, disease, and early death. From the research and through experience in the states, the research is clear that higher cigarette taxes are one of the most effective ways to reduce smoking among both youth and adults. Imposing additional taxes on tobacco products is, in our estimation, among the most appropriate sources of revenue for health care reform.

We appreciate this opportunity to provide feedback on the Committee’s policy proposals. We are grateful for your long-standing commitment to our nation’s most precious resource, our children, and we welcome the opportunity to work with you in the coming days, weeks, and months to ensure that health reform meets the unique needs of children, indeed the needs of everyone in America.

Sincerely,

A handwritten signature in blue ink that reads "Bruce Lesley". The signature is written in a cursive, slightly slanted style.

Bruce Lesley
President