

February 27, 2008

Mr. Chip Kahn  
President,  
Federation of American Hospitals (FAH)  
801 Pennsylvania Avenue,  
Suite 245  
Washington DC, 20004-2604

Dear Chip:

The purpose of this letter is to explain why we do not expect the FAH health reform proposal to result in a reduction in the number of people with employer-sponsored insurance (ESI). The concern is that once subsidies are provided for non-group coverage, employers would discontinue their plans assuming that their workers would obtain coverage in the individual market with the help of the Health Care Passport (HCP). However, the FAH proposal is designed to increase the appeal of ESI. In fact, we estimate an increase in ESI enrollment under the proposal of about 3.5 million people.

Our underlying assumption is that currently insuring employers provide health benefits to attract and retain workers. We do not expect employers to discontinue coverage if it leaves workers worse-off. Under the FAH proposal, ESI would continue to be substantially less costly than non-group coverage, which would bolster the demand for employer insurance. Elements of the FAH proposal that strengthen the demand for employer coverage include:

- Group coverage would continue to be substantially less costly than individual coverage. Administrative overhead for non-group coverage is equal to between 20 and 40 percent of covered claims, compared with overhead of as little as 3.5 percent of claims in the largest employer group plans;
- The mandate for all Americans to have coverage would actually increase worker demand for lower-cost group coverage from their employer;
- The HCPs can be used to pay the employee share of the premium, thus further reducing the after-tax cost of employer coverage to the worker;
- Uninsured workers who currently decline coverage offered by their employer are likely to take that insurance to comply with the requirement that all Americans have coverage (about 20 percent of uninsured workers have declined the coverage offered to them through work). Workers would take the ESI rather than non-group coverage because the employer usually pays a large portion of the premium for the worker (the national average is 80 percent);


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- The proposal adopts community rating in the individual and small group markets. This eliminates cases where younger and healthier people can purchase non-group coverage for less than the cost of group coverage; and
- Many employer groups include a cross-section of workers at varying income levels, only some of whom would be eligible for subsidies. These firms would not be able to discontinue coverage without leaving a portion of middle- and higher-income workers worse-off.

We tested these hypotheses using the Lewin Group model for a representative sample of employers. For each employer, we compared the after-tax cost of employer provided group insurance (i.e., less tax exclusion and the HCP for employee contributions) with what workers would pay for coverage if they purchased non-group insurance with the help of the HCP. In nearly all of these firms, continuing with employer insurance was less costly for their workforce overall than if all of the workers were to purchase non-group coverage with the HCP.

Please call me if you have questions at (703) 269-5610.

Sincerely;



John Sheils  
Senior Vice President