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May 15, 2006

Ms. Laurel Johnston
Hawaii Institute for Public Affairs
ASB Tower, Suite 1132
1001 Bishop Street
Honolulu, HI 96813

Dear Laurel;

At your request, we have estimated the effect of making selected modifications to the illustrative single-payer program suggested by the task force, as described in your letter dated April 20, 2006.

We address each suggestion below.

Question: Medicare reimbursement rates at 130% To 150%, as current Hawaii reimbursement rates are insufficient.

Compare:
- EUTF PPO and HMO with PHCA PPO and HMO
- PHCA reimbursement rates with Medicaid and Medicare rates

Because of PHCA, proposal can't drop benefits too far or Prepaid Health Advisory Council may not approve it.

Answer: ***Figure 1*** presents estimates of the impact of using reimbursement rates equal to 110 percent and 130 percent of Medicare reimbursement levels. We show total program cost, the net change in state-wide health system spending and the payroll tax rate required to fund the program. (The payroll tax is assumed to be changed to the level required to fully fund the program.)

Figure 1
Selected Impacts of Changes in Provider Payment Levels on Singe-Payer Program

	Program Costs (millions)	Net change in State-wide Health Spending (millions)	Required Payroll Tax Rate
Medicare Rates[a/] (April 4 presentation)	$3,922.0	$(554.6)	5.6%
110 Percent of Medicare Rates	$4,270.7	$(205.9)	7.1%
130 percent of Medicare Rates	$4,968.1	$491.5	10.1%

a/ "Analysis of the Impact of an Illustrative Single-Payer System for Hawaii," (presentation to the Hawaii Health Care Task Force), the Lewin Group, April 4, 2006.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

We do not have the resources to perform comparative analyses of payment levels under other sources of insurance. We are able to estimate the impact of using Medicare payment levels only because studies comparing provider payment levels by state already exist for Medicare, Medicaid and private coverage (state-wide averages).

Question: Include complementary/alternative care and identify costs and percentage of total costs.

Answer: We define alternative medicine includes the following services:

- Chiropractic;
- Acupuncture;
- Nutritional Service;
- Massage Therapy;
- Herbal Remedies;
- Bio Feedback;
- Meditation Training;
- Homeopathic Therapy;
- Spiritual Healing;
- Hypnosis; and
- Other Alternative Medicine.

Chiropractic care is covered under the EUTF benefits package and is already included in our estimates. Information on utilization and spending for other alternative medicine services is virtually non-existent.

We estimated the cost of providing other types of alternative medicine based upon the 1996 Medical Expenditures Panel Survey (MEPS) data, which provides information on the amount spent on these types of alternative medicine. These data indicate that total spending for these services nationwide was $4.2 billion in 1996, which is an average of about $16 per person per year.

We assumed that utilization of these services would increase by about 67 percent once they become covered (This is based upon analyses of the increase in health services utilization for the uninsured once they become covered). We also indexed spending growth by 5.0 percent per year since 1996. This results in average spending for these alternative medicine services of $43.5 per person, which we used as a basis for estimating the cost of covering these services under the Hawaii single-payer plan. ***Figure*** 2 presents our estimates of the impact of including these services in the benefits package.

Figure 2
Impact of Including Alternative Medicine in the Hawaii Single-Payer Program

	Program Costs	Net Change in State-wide Health Spending	Required Tax Rate
Without Alternative Medicine (April 4, 2006 presentation)	$3,922.0	$(554.6)	5.6%
With Alternative Medicine	$3,979.6	$(520.4)	5.7%

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

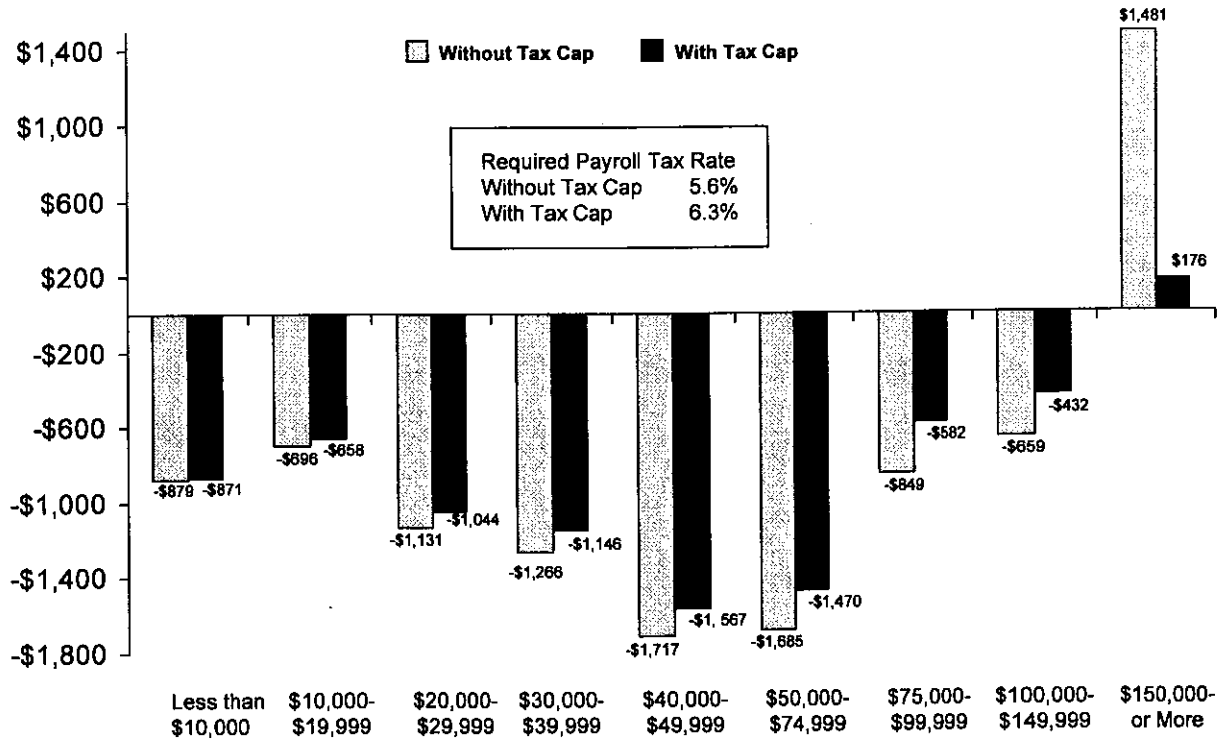
Due to the lack of data on spending for these services, our estimates may be far from the actual cost of covering these services. In particular, covering these services could result in larger increases in utilization over time. Therefore, these estimates should be considered to be illustrative only.

Question: Even out costs per family so they are shared more evenly among income levels.

Answer: We did this by capping the wages subject to the payroll tax at the social security maximum taxable earnings amount (currently about $95,000). Limiting the taxable wage base in this way requires that we increase the payroll tax rate

from 5.6 percent without the Cap to 6.3 percent with the cap. *Figure 3* presents the estimated change in total family health spending with and without the tax cap.

Figure 3
Change in Health Spending Per Family by Income Group Under the Single-Payer Program in 2006, With and Without Tax Cap [a/]



a/ Taxable earnings are capped at the Social Security maximum taxable amount.
Source: Lewin Group Estimates using the Health Benefits Simulation Model (HBSM).

Question: Produce a table the shows the net effect of the change in spending per household.

Answer: ***Figure 4*** presents these estimates for the families by income under the original simulation (i.e., without taxable earnings cap).

Figure 4
Change in Average Family Health Spending Under the Single-Payer Program for Hawaii in 2006

	Number of Families (thousands)	Average Family Health Spending in 2006 Under Current Law [a/]	Changes in Family Health Spending Under the Single-payer Program in 2006: Change in Out-of-Pocket Payments for Health Services	Change in Premium Payments	New Tax Payments	After-Tax Wage Effects [b/]	Average Net Change per Family Under the Program
Changes in Average Family Spending under Single-Payer Program in 2006							
Less than $10,000	52.7	$1,463	-$405	-$395	$42	$121	-$879
$10,000-$19,999	58.6	2,260	-262	-530	215	119	-696
$20,000-$29,999	60.1	3,169	-493	-853	418	204	-1,131
$30,000-$39,999	46.6	3,437	-482	-1,078	587	292	-1,266
$40,000-$49,999	40.4	4,073	-603	-1,403	707	418	-1,717
$50,000-$74,999	81.2	4,439	-664	-1,790	1,062	293	-1,685
$75,000-$99,999	64.2	4,412	-694	-1,646	1,385	-106	-849
$100,000-$149,999	74.2	5,315	-942	-1,963	1,903	-343	-659
$150,000 or more	48.9	5,726	-1,385	-2,049	3,577	-1,337	1,481
All Families in Hawaii							
Total	**526.9**	**$3,877**	**-$662**	**-$1,341**	**$1,114**	**-$34**	**-$856**

a/ Includes family premium payments and out-of-pocket spending for health services.
b/ Increases in wages resulting from the program are counted as reductions in family health spending while decreases in wages due to the Act are treated as increases in family health spending. . For example, the average net change in family health spending for people with under $10,000 income (i.e., savings of $608) is computed as: - $405 - $395 + $42 - $121 = -$879 (i.e., the $121 increase in after-tax wages is counted as a reduction in family health spending).
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Question: Costs for long-term care benefits need to be forecasted.

Answer: We are revising our estimates of long-term care spending under current law. However, this information is not required for the single-payer analysis because long-term care is not covered under the program. The single-payer program also does not cover anyone eligible for Medicare, which accounts for the overwhelming majority of long-term care spending.

Question: Is it possible to provide a cost analysis of what it would cost to cover only the under-insured and the un-insured (versus a plan for all)?

Answer: We estimate that the uninsured consume about $290 million in health services under current law. We estimate an increase in utilization of about $191 million if they were to become insured. This would be a total cost for the uninsured of $480 million.

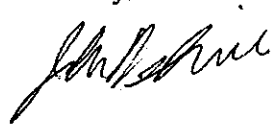
However, much of the care provided to this population is already paid through the cost-shift as uncompensated care and through public safety-net programs. Thus, the net cost of covering this population would be about $286 million. These costs could be further reduced if the state were to target resources for only vulnerable sub-groups of the uninsured population such as the chronically ill.

Next Steps

We are preparing a revised analysis of the single-payer program for Hawaii. This will reflect any changes you may wish to include in program design. We are also revising the underlying cost data in the model based upon comments from the Task Force and a thorough review of the available data. Our narrative report will address the topics identified in the Summary of Task Force Feedback provided to us.

Please do not hesitate to contact me at 703-269-5610 or at john.sheils@lewin.com if you have any questions.

Sincerely,



John Sheils
Vice President