



OFFICE OF THE GOVERNOR

The Honorable Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
1236 Longworth House Office Building
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
317 Russell Office Building
Washington, D.C. 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
2421 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Charles E. Schumer
Minority Leader
United States Senate
322 Hart Senate Office Building
Washington, D.C. 20515

January 7, 2019

Dear President Trump, Majority Leader McConnell, Minority Leader Schumer, Speaker Pelosi, and Minority Leader McCarthy:

On my first day as the Governor of the State of California, I write with a request: empower States like mine to design and implement truly transformative solutions for securing affordable health care for all.

Historically, California has led the nation in designing and executing on innovative policy solutions to help address our most pressing problems. But when it comes to health care, California's spirit of innovation is stifled by federal limits on how we can innovate and experiment.

Existing law permits only limited, piecemeal innovation—not the comprehensive reform necessary to address the myriad challenges that Californians face when navigating today's health care system. California families continue to struggle with rising health care costs. For example, this year alone, some families are expected to see an average 9 percent rise in health care costs,

according to Covered California. We have taken action and will do more to make health care more affordable and available for all Californians.

However, to address this ongoing cost crisis in health care in the most effective way, we must have the federal tools to support California's ability to provide quality healthcare for everyone, financed through a single-payer model like Medicare. We must have the tools to innovate and expand on the Affordable Care Act, even as we build towards a more comprehensive, universal system that works for patients, providers, and taxpayers alike.

I ask that you amend federal law to enable States to apply for and receive Transformational Cost and Universal Coverage Waivers, empowering California to truly innovate and to begin transformative reforms that provide the path to a single-payer health care system. I am eager to take these challenges head-on and—together with my colleagues in the Legislature and with the benefit of federal policies that more fairly promote innovation, quality, and cost-effectiveness—to create an affordable, easy-to-navigate health care system for all Californians.

Within existing federal law, California has done what we can, and will continue to do more. We have made tremendous progress in expanding health care coverage under the Affordable Care Act. For example, in the span of five years, the State's uninsured rate dropped from 17 percent to an historic low of 7 percent.

Our work, however, is far from done. Despite the financial support provided by the Affordable Care Act, our health care system remains too expensive and too complex even for Californians who have insurance. High and rising health care costs mean workers' wages have not increased to the extent they should have, and small businesses struggle to offer coverage to their employees. The rising costs are unsustainable and are exerting immense pressure on the budgets of State and local governments, employers, and families.

In the absence of a bolder transformation, the Affordable Care Act is a strong foundation to build on: the goal of universal coverage; the promise of simplicity and protecting those who are sick or need care; clear limits on health plan profits and assuring premium dollars are spent on needed care; using competition to lower costs not only for those in California's marketplace, but for all the 2.4 million in the individual market. We can and must build on these elements as we go forward.

In doing so, we must create federal and State partnerships that support the positive transformation of health coverage and care throughout our country. We must turn away from making health care political and place our focus on meeting the needs of all Americans.

Building on the Affordable Care Act's solid foundation, I will tackle these challenges head-on. Later this week, I will submit a budget to the Legislature that proposes to, among other things:

- Expand coverage and affordability for Californians, including those in the middle class who currently receive no financial assistance;
- Enact a state Individual Shared Responsibility Provision;

- Provide state-based support for our younger undocumented Californians;
- Implement fixes to better manage care and contain costs; and
- Address rising prescription drug prices by counterbalancing the bargaining power of the pharmaceutical industry.

However, in order for California to achieve a truly comprehensive solution to making health care more affordable and accessible to all, the federal government must act. As I explain below, the federal government should provide for transformational waivers that empower States to truly innovate; build on the successes of the Affordable Care Act; and avoid further changes that erode the gains achieved in the past five years.

Together, these reforms would enable California and other States to finally achieve affordable health care for all.

1. Create New State Transformational Cost and Coverage Waivers

The federal government has given States the flexibility to make innovative changes in health care through the use of waivers. However, the existing State Innovation Waiver is too limited to effectively design and implement comprehensive solutions. Congressional leaders have recognized this fact, proposing legislation last year to expand States' waiver authority to promote universal coverage.

In this spirit, the federal government should enact new law enabling States to apply for Transformational Cost and Universal Coverage Waivers to re-invest federal funding—combined with State funds—to increase coverage, contain costs, and drive improvements in health care quality. Employing such waivers, States could design and tailor their own solutions, and lay the groundwork for more comprehensive solutions, such as a single-payer system.

Under this approach, States would be able to apply to:

- Reallocate funds to best meet the needs of all the State's population;
- Use public exchanges as a platform for portable benefits, leveraging funding from both employers and workers;
- Assure competition by making public plan options available in areas with limited health carriers;
- Support clear, continuous, and seamless coverage as residents move between individual coverage, employer-based insurance, Medicaid, and Medicare;
- Use tools such as all-payer pricing to address rising health care costs;
- Promote improvements to how care is delivered, supporting care coordination and payment systems that reward better quality;
- Integrate critical public health initiatives into the health care delivery system to address emerging and ongoing threats to health, such as conditions precipitated by climate change; and
- Finance locally anchored programs that close health disparities and address underlying social determinants of health.

Unlike the current standards tied to “budget neutrality,” this new waiver would be fiscally aligned with the federal government’s goal of reducing the uninsured, lowering costs, and improving quality. The waivers would serve as the funding mechanism rewarding States that are relatively more successful in achieving these goals. For example, additional funding should be made available for States that are more effective at lowering the rate of the eligible uninsured, containing costs effectively, and promoting quality.

While California and other States look for ways to improve upon the health coverage and care systems currently in place, we need to preserve the national standards that provide vital consumer support and protection, along with much needed access to coverage and care. Federal waivers should focus on meeting the explicit goal of driving positive change in health care, whether through expanded coverage, increased quality, or lowered costs.

By empowering States and tying flexibility to positive outcomes, Transformational Cost and Universal Coverage Waivers would enable States to finally enact comprehensive solutions to securing affordable health care for all.

2. Build on the Successes of the Affordable Care Act

The Affordable Care Act greatly increased the number of Americans with affordable health coverage by expanding Medicaid, setting affordability standards for employer-sponsored coverage, and establishing health benefit exchanges tasked with administering the Act’s premium tax credits and cost-sharing reductions. The federal government should continue to fund and evolve these programs to ensure they continue to meet the needs of Americans. Building on the Affordable Care Act should, among other things, include:

- **Reinstituting the Individual Shared Responsibility Payment to Prevent Coverage Losses and Resulting Premium Increases.** The Congressional Budget Office projects that the repeal of the individual mandate will increase the uninsured by 4 million in 2019 and by 13 million in 2027, with individual market rates increasing by about 10 percent in the next 10 years relative to what they would have been with the provision. The individual mandate is a cost-effective tool to create a virtuous cycle of strong enrollment that holds down annual rate increases.
- **Ensuring Affordable Health Insurance for Middle-Class Americans Who Do Not Receive Financial Help.** Under the Affordable Care Act’s current structure, consumers who earn less than 400 percent of the federal poverty level (FPL) are eligible for tax credits that limit the cost of their premiums to no more than 10 percent of income. However, that financial help stops abruptly when a consumer earns more than 400 percent FPL, or more than \$48,560. This means that an individual who earns \$49,000 a year has no protection from or assistance with premiums costs. This so-called tax credit “cliff” disproportionately impacts older individuals and individuals who live in areas of high health coverage costs. In California today, a couple in their sixties making \$70,000 a year may have to pay upwards of 20 percent of their income for a plan.

Premiums should be capped for all, instead of only those fitting under an arbitrary federal poverty level. In California, this action would benefit the approximately 1 million people

bearing the full cost of coverage today and would incentivize coverage take up among the 500,000 middle-class Californians who are projected to be uninsured in 2020.

- **Expanding Cost-Sharing Subsidies to Ensure Access to Needed Care.** The Affordable Care Act's cost-sharing reduction program lowers copayments and other out-of-pocket costs based on income. For individuals below 200 percent FPL (\$24,280), this subsidy significantly boosts the value of coverage. For individuals earning slightly more money, the cost-sharing subsidy is minimal and it phases out entirely above 250 percent FPL, or above \$30,350. Survey research shows that, even among those who receive significant help, one quarter of enrollees delay or avoid accessing care due to cost. In California today, the average employer-sponsored plan covers more than 80 percent of the cost of care. By contrast, individual market enrollees who choose the lowest level of coverage have only about 60 percent of their health care costs covered by their monthly premiums. Extending eligibility for cost-sharing subsidies to 400 percent FPL would support an additional 600,000 individuals in California with help paying for the care they need.
- **Implementing a Reinsurance Program that Will Reduce Premiums by 10 Percent.** The temporary federal reinsurance program in place between 2014 and 2016 lowered premium costs by 10 percent or more by funding health insurers for certain, defined high-cost claims. A permanent national program should be established, funded at the level needed to reduce rates by 10 percent.

Together, these improvements to the Affordable Care Act would build on the successes of a proven model.

3. Avoid Further Erosion of Progress

Equally important as building on the Affordable Care Act is avoiding steps that would return us to the days of skyrocketing individual market premiums, junk health insurance, and millions denied coverage because of their health history.

The promotion of alternative benefit plans, such as short-term, limited-duration insurance, come with significant drawbacks for consumers, including those with pre-existing conditions. Such plans also fragment the individual market, creating adverse selection and driving up premiums. While we have taken action in California to prohibit the sale of short-term, limited-duration insurance, consumers in many other States could be denied coverage or be left with uncovered medical bills due to limited coverage. Policies such as these contribute to rising health care costs, make meaningful coverage less affordable, and add pressure to our health care system that will ripple across sectors.

A comprehensive solution to affordable health care will require both wisdom and courage, with States and the federal government working together as partners. First and foremost, I ask that you amend federal law to enable States to apply for Transformational Cost and Universal Coverage Waivers, empowering California to pursue transformative health care reform, such as a single-payer system. Further, I ask that you build on the progress of the Affordable Care Act, especially by bolstering the affordability provisions of the law.

Sincerely,



Gavin Newsom, Governor of California