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Health Financing Economic Development and Well Being
A *tax cut* that actually **is** economically stimulating

"You never change things by fighting the existing reality. To change something, build a new model, which makes the existing model obsolete."

- Buckminster Fuller 1895–1983
Architect, Systems Theorist, Author, Designer and Inventor

What we present in this letter is a value proposition directed to the state's Chief Executive and members of the state legislature. Everything we promulgate in this letter is true, accurate and well documented. This is a new strategic methodology for financing payments for health care services for beneficiary populations. This new strategic model is counter-intuitive and does not fit conventional wisdom or practices in health financing or public finance. It draws from and is an amalgamation of principles of insurance finance, public policy, public finance, law and other disciplines.

It has been 44 years since the enactment of the Health Maintenance Organization Act of 1973. The new health insurance model became commonly known as "managed care", however, this is at least in part a misnomer. In reality, the health insurance industry abrogated their insurance business model by shifting the pooling of risk away from the insurer and onto health care providers; in exchange for a captive patient base (the insurer's employer/employee customers). Fast-forward 45 years and managed care permeate the health insurance industry. Has it resulted in lowering the cost of health care? Minimally, at best.

The core idea behind managed care was that health insurers would compete based on price. Competition amongst health insurance plans, providers and suppliers have existed for decades. Has competition had any positive impact to bend the health care cost curve? Again, only minimally. Health expenditures have been rising at twice the rate of incomes for decades and will soon absorb one in five dollars in our economy. Finding an effective solution has been a haunting dilemma…until now.

Our nation is at a critical juncture and time for further debate on the health insurance issue is a luxury our nation and citizenry literally can no longer afford. A significant part of the health care in the U.S. is constructed and operates on a for-profit business model. Add this to the unstoppable aging demographics and you likely will not see the cost of health care go down. We addressed some of this in our book. Although we believe in the power of markets, we also acknowledge that some markets fail.

The HIRB program: A tax cut that all parties can embrace

We call this new approach the *Health Insurance Revenue Bond®* program or *HIRB®*. Consider the HIRB Program as *"the competition"*

A few notable characteristics of the Health Insurance Revenue Bond® or HIRB® program:

* The HIRB program creates the fiscal space and capacity for borrowing funds for a specific public purpose. What is highly unique and exceptional about the HIRB program is that it results in **spending less** in total <u>without</u> accruing a deficit or otherwise dumping our present socio-economic mess onto next generations.

- The HIRB program takes a giant step forward in resolving a profound and fundamental socio-economic problem *by securing the health care benefit obligations/ safety net <u>and</u> the Health Insurance Revenue Bonds®.*

- The HIRB Program may serve as a very strong and powerful economic development tool by providing a measure of certainty to businesses, government, and households as to what their future anticipated health care costs will be. **Making health expenditures predictable will create the economic benefit of a tax cut:** one that everyone can embrace.

- The HIRB program allows for deleveraging of both public and private sector finances with a very strong focus on bending the cost of funding health care benefits. It stabilizes both public and private sector finances and thus **reduces exposure to the recession** that is highly likely within a few years.

- The public policy supporting the HIRB program is the same public policy long supporting revenue bond financings for many other public infrastructure projects (e.g. schools, water & sewer systems, waste-water treatment plants, port facilities, mass transportation, airports, non-profit hospitals and more

Who we are

We are respectively, Dr. Philip Romero, a finance professor and former business dean at the University of Oregon and former chief economist to two California Governors' (Schwarzenegger & Wilson); and Randy S. Miller, an insurance and public finance specialist and the inventor of the Health Insurance Revenue Bond® or HIRB® program. In July 2016, together we published a book about health financing without deficits.

Health expenditures are the 800-pound gorilla wreaking havoc with every budget. Former OMB director Peter Orszag was right when he said: "The path to fiscal discipline runs directly through health care." We believe the best approach toward resolving this fiscal mess is at the level of State government. This allows for different States to experiment with different ideas and policy regimes. Additionally, this brings management of the health care financing down to a more grass-roots level and people have far easier access to their State legislators.

The Health Insurance Revenue Bond® (HIRB®) program model is very counter-intuitive and initially may seem to not make any sense. Nonetheless, the HIRB program model has been subjected to substantial due diligence in actuarial, accounting, law, economics/fiscal, finance and select state budget officials. No one has found any holes in the model. Part of the due diligence process was an actuarial review in the early-mid 1990's by Arthur Andersen & Co., the accounting firm. At that time Arthur Andersen & Co was the premier accounting firm in public finance. At the end of a half day grilling by the actuaries, the senior interrogator said (insightfully): *"We think what you have done here is invent the whole life version for financing health care".*

What HIRB is not

The HIRB program involves borrowing substantial principal amounts of debt; repaying the debt with interest; paying all health care and program expenses, incorporating new revenue and yet, in the end, spending less in total, <u>without</u> accruing a deficit, mortgaging the future or otherwise kicking the can down the road.

The HIRB program is a financing mechanism. It is entirely self-contained and self-liquidating. It is not a health policy framework. The HIRB program does not define the schedule of benefits provided. This is a very different approach toward financing any schedule(s) of benefit liabilities. The financial and fiscal results produced by the HIRB program <u>are not predicated</u> on changing the benefit liabilities or otherwise reducing benefits presently provided**. The HIRB program only restructures how such benefit liabilities are financed.** Based upon our "stress testing" we have a high degree of confidence the aggregate savings/stimuli in the cost of funding can range from 8 digits (small State population) up to 12 digits (large State population).

The HIRB program involves the restructuring of monetary contributions presently being spent on health care benefits within a State. This restructuring can result in substantial savings in the cost of funding the benefit liabilities. The HIRB program is a dynamically managed strategic financing structure offering far greater control on management and financing and maybe most importantly, it keeps the management of resources much closer to home instead of emanating out of Washington DC.

The ACA is flawed. The only debate is how seriously. The HIRB program enables state-level flexibility with a range of health system architectures. Whether considering the ACA or an alternative, any serious policy changes at the state level will require financing. As ironic as it may seem, leveraging these liabilities can mitigate the fiscal and budgetary pressures for households, employers, and governments.

Your State can be one of the leaders in a grass-roots effort to pull the American economy back from the precipice where one of five dollars is spent on health care.

Whether politicians are single payer advocates or believe government's role in health care should be severely limited, the HIRB program can help them pursue their vision and save their constituency substantial amounts of money per year while simultaneously building a sustainable and sound fiscal and financial health financing system that should prove to be a powerful economic development tool for the reasons previously stated.

Six Pro forma of HIRB's fiscal impact:

In order to provide some perspective of the economic and fiscal possibilities, we constructed six HIRB program scenarios. A SMALL State HIRB scenario (population est. 3-4 million using 5%; 15% and 25% health inflation rates. We did the same for a LARGE State HIRB scenario (population est. 35 million +/-). We changed the medical inflation rate to illustrate the magnitude of fiscal impact by leveraging the liabilities. **In general, the higher the rate of medical inflation, the *lower* the cost of funding the HIRB program.**

The table below summarizes the findings of the boundary conditions of these six illustrations outlined in this letter's appendix. (the intermediate scenarios, of 15% medical inflation, fall between the results in the table.)

Savings/Stimuli ($ millions) from use of HIRB program for state population

	Small state	Large state
Low inflation case (5%)		
Net income earned	$ 19.2	$ 273.2
State Medicaid	209.7	690.0
Federal Medicaid	209.7	6,900.0
Private sector sponsors	3,900.0	29,700.0
Total	$4,300.0	$ 43,700.0
High inflation case (25%)		
Net income earned	$ 179.9	$ 1,800.0
State Medicaid	864.7	28,400.0
Federal Medicaid	602.3	19,800.0
Private sector	16,000.0	122,500.0
Total	$ 17,700.0	$172,400.0

Note: Sums may not match due to rounding.

As you can see, use of this tool can provide a state with an enormous economic stimulus: between $4.3 and $17.7 billion for a small state, and about ten times the magnitude for a large state. Savings to state health programs alone will be at least in the hundreds of millions—similar to the size of *entire* deficits for many states.

This pro forma are summaries. It is not possible to fully explain a financial model in a brief letter. However, they allow us to illustrate what *"bending the cost of funding curve"* looks like.

From the liberal point of view, the health care safety net is strengthened and intact. Every state resident is covered. Everyone pays something. From the conservative point of view, there are substantial budget savings to the State, Federal Governments, Private Sector Plan Sponsors and Participants. For all practical purposes, a HUGE stimuli tax cut across the spectrum serving as classic economic stimulus for local, state and national economies.

More information is in our book: *"HEALTH FINANCING WITHOUT DEFICITS – Reform that Sidesteps Political Gridlock".* The publisher is BusinessExpertPress.com and is also available through any bookseller. . You can find more information at this LinkedIN page below including our last interview (4/28/2017) on the IHeart Radio Network.

https://www.linkedin.com/in/randy-s-miller-9045b813a/

Next steps

This letter is intent to pique your interest. Further exploration will entail a fiscal analysis of HIRB's impact on your state's finances. We can conduct that independently or in collaboration with state analysts, under a consulting engagement. Additionally, we also have drafted model legislation and an implementation handbook. We will also help prepare a business plan for adoption and implementation of the HIRB program.

We do not have a political agenda. We have substantive economic development agenda; one that everyone can embrace. Health financing reform is the journey. The far greater achievement, the destination, will be the HIRB program economic development impact.

The state that slays the health care dragon will lead the nation in solving a generational challenge. If you are up to the challenge to lead the nation in substantive economic health care reform, we welcome your inquiries. Thank you.

Sincerely,

/s/ Dr. Philip Romero
Professor of Finance; Dean Emeritus, Univ. of Oregon/ former Chief Economist for California

/s/ Randy S. Miller
Inventor of the Health Insurance Revenue Bond®/HIRB® program.