

MEMORANDUM

TO: Reporters and Editors
FROM: Antonia Ferrier and Julia Lawless for Senate Finance Committee
Ranking Member Orrin Hatch (R-Utah)
RE: Institutes of Medicine Essential Benefit Package Recommendations
DATE: Friday, October 07, 2011

The Institutes of Medicine (IOM) today released its Essential Health Benefit (EHB) recommendations to Health & Human Services (HHS) Secretary Kathleen Sebelius, which the Secretary could use in designing what mandated services each insurance plan offered to small employers and individuals must cover.

While proponents of the Patient Protection and Affordable Care Act (PPACA) argue that the purpose of the law is to expand access to insurance for individuals and employees of small business, evidence continues to demonstrate that insurance mandates, in this case EHB mandates, will only further escalate the increase in the cost of insurance, which IOM discussed in its report today.

Ranking Member Hatch issued the following statement today: *“The Institutes of Medicine couldn’t be more clear that the benefit mandates in the health law can only lead to higher costs for families and small businesses. As these costs continue to outstrip wages, more and more people will apply for federal premiums credits, further putting pressure on the federal budget. This law is unworkable, unsustainable and unmanageable to businesses, struggling families and the government’s balance sheet. I urge Secretary Sebelius to examine these recommendations with care and to understand that these mandates are a lead weight around the necks of families and businesses at a time of economic uncertainty and high unemployment.”*

In their report, IOM recognizes the fundamental problem of unchecked health care costs, writing that **“the pressure on federal and state budgets might lead to repeal of the EHB requirement.”** They also state that **“[u]nless a strategy for containing costs throughout the healthcare system is adopted, the definition of an essential health benefits package will ultimately fail to achieve congressional intent to establish an appropriate basic package that is affordable.”** They went on to write that without **“...stemming rising health care costs... , it will cost more to purchase the same package of benefits each year, eroding the purchasing power of the estimated 68 million people who will depend on EHB coverage. Eventually, the EHB package will become a hollow promise of coverage.”**

According to Price Waterhouse Coopers, health care costs are expected to increase, on average, by 8 percent next year. In 2010, insurance premiums increased by 9 percent, according to the Kaiser Family Foundation. Furthermore, according to the Council for Affordable Health Insurance, a benefit mandate can increase the cost of coverage anywhere from around 1 percent to 5 percent.

WHAT IOM RECOMMENDED & FOUND:

- IOM recommends that the Secretary use the expected national average premium of a typical small employer plan in 2014 with an actuarial value of 70 percent and to determine which benefits to include in the mandate without going above the estimated average premium amount. The purpose of using the estimated national average premium of a typical small employer plan in deciding which benefits to include is an attempt to contain costs.
- IOM also recommends that each year, the Secretary update the EHB package with the estimated national average premium amount of a typical small employer plan in the following year.

BACKGROUND:

- Section 2702 of PPACA mandates that all health insurance issuers that offer health insurance coverage in the individual or small group market cover all EHBs, as defined by the Secretary of Health and Human Services (HHS).
- The Secretary of HHS provided a \$1 million contract to the Institute of Medicine (IOM) to determine a process for which services should be mandated for inclusion in the EHB package.

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