

Don McCanne on State HC Reform Programs

The California State Legislature is currently in a special session, negotiating with Gov. Schwarzenegger the terms of a compromise bill on health care reform. They are fixated on using private health plans to expand coverage, even though private insurers cannot provide a product that is reasonably comprehensive and still has premiums that are affordable for average-income families. It appears that the governor would strip the plans of the financial protection that insurance must provide in order to make the plans (but not health care) affordable, and then mandate universal coverage. The legislators seem to be insisting that the plans must be required to be comprehensive enough to prevent financial hardship for those with health care needs, but since these plans no longer would be affordable for the majority of us, the legislators would leave millions of Californians without coverage.

Following is a letter that I sent to the governor last month making the point that affordable, comprehensive health care for everyone is attainable if we truly accept his call for a post-partisan solution with shared responsibility. Although the negotiations are not public, there is no evidence that the policy discussions have extended beyond the obsolete model of private health plan financing. This letter is being distributed in hopes that others will join in the call for reform that will achieve our goal of comprehensive health care for everyone. Please share this message with others who do care.

September 3, 2007

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol Building
Sacramento, CA 95814

Re: Shared responsibility, the hidden tax,
and affordable private health plans

Dear Governor Schwarzenegger,

You are to be commended for taking the lead in reforming health care financing for the state of California. The decades-long ideological gridlock has allowed affordable access to our very expensive health care system to deteriorate to a level that threatens almost everyone. We are spending enough to provide comprehensive, high-quality care for everyone, yet millions without insurance, and millions more who have inadequate insurance, face financial hardship as a consequence of significant illness or injury. Not only are the uninsured a major problem, our insurance system is now failing us.

An essential first step for reform is to answer your call for us to enter a post-partisan era wherein we set the rhetoric of ideology aside and address the actual policies that will be required to accomplish our common goals. You are right to insist that everyone must be provided with health insurance coverage now since any major reform enacted in the near future will likely bring an end to efforts to achieve comprehensive reform.

Your concept of shared responsibility must be a component of reform since everyone must be included, and all individuals and entities must participate equitably, based on their ability. You have acknowledged that the hidden tax that we all pay for uncompensated care is an important resource that is already a part of our health care financing, but that it should be replaced with a more equitable, transparent source of funds.

In establishing policies of shared responsibility, it is important to understand the public's perceptions of the costs of health care today, as contrasted to the realities. Since most of us are insured by private plans, it appears to us that our primary costs include our insurance premiums (whether paid individually or as a salary reduction for employer-sponsored plans), our deductibles, copayments and coinsurance, and out-of-pocket payments for products and services not covered by our plans. But we shall see that our actual health care spending is far greater than that represented by the covered and uncovered costs through the private plans.

Although representing only a small portion of our total health care spending, it is these private plans that are becoming unaffordable

for everyone. Businesses, especially small businesses, are less and less able to afford the premiums of group plans. And in order for premiums in the individual market to remain affordable, insurers are decreasing the financial protection for those who do develop health care needs. The combined costs of the premiums plus the cost sharing and other out-of-pocket expenses are now so high that coverage through private plans is no longer affordable for the average-income family. The primary flaw of the proposal for an individual mandate to purchase private insurance lies in the fact that it is impossible for the insurance industry to provide innovative products that would have both affordable premiums and adequate benefits, especially if they are to expand their essential insurance function of pooling risk.

As stated, these expensive private plans that are no longer affordable for average-income individuals represent only a minor portion of our health care spending. Private plans are sold to the largest and healthiest sector of our society: the relatively healthy workforce and their young, healthy families, and the healthy sector of the individual market that passes underwriting standards. If the private insurance industry can no longer provide us with affordable products for this large healthy sector, how could they ever create a product that brings in those with significant health care needs, and expands benefits and reduces cost sharing to a level that does not create a financial hardship for those who must access the system? Although Blue Cross of California has been criticized appropriately for its anti-consumer practices, it is the only insurer that has been forthright on this issue. Blue Cross has been very successful in keeping payment for actual health care services at a minimum, and its business model would fail if they had to include all individuals with health care needs while providing them with adequate benefits and protecting them against potential financial hardship. They know that they cannot provide such coverage at a competitive premium.

If we think that private insurance premiums and our out-of-pocket spending represent most of our health care costs, then we have really deceived ourselves. Our greatest costs are financed by a massive hidden tax. According to Princeton health economist Uwe Reinhardt, two-thirds of our health care financing is already through the tax system. Amongst the programs that are funded by the taxpayer are Medicare, Medicaid, SCHIP, Veterans Health Administration, military

health care, US Public Health Service, Indian Health Service, other public hospitals and clinics, insurance programs provided by taxpayers for public employees including FEHBP and CalPERS, the tax subsidy of employer-sponsored coverage, and, of course, the hidden tax of uncompensated care shifted to the rest of us. The amount we pay for health care on a per capita basis through our tax system alone is more than other nations pay in public and private spending combined. Except for Medicare payroll taxes, most of the taxes we pay for health care are hidden since there is no transparent link for general revenue taxes, and much of the tax we pay for health care is passed on to us as overhead expenses built into the products and services that we purchase.

Professor Reinhardt also makes the point that risk pooling must not only serve its traditional role of transferring funds from the many who are healthy to the few who have significant health care needs, but now, since health care costs are so high, risk pooling must also serve the function of transferring funds from the wealthy to average- and low-income individuals with health care needs. Although some would oppose accomplishing this transfer through the tax system, it is already taking place since our relatively progressive taxes are currently being used to fund two-thirds of our health care system.

It is fortunate that we do have this transfer through our tax system. We already are spending \$7500 per capita for health care (current national health expenditures divided by the total population). If we were each to pay our pro rata share into a single risk pool, a family of four would be paying \$30,000, obviously an impossibility when the median household income is \$48,000 (nationally). Although the tax transfer has reduced the impact of health care costs on average-income families, it has not prevented the costs within the private insurance risk pools to push premiums and out-of-pocket expenses to unaffordable levels. The segregated risk pools of private plans have become an obsolete method of financing health care.

In a post-partisan environment, we can dismiss the ideological debate over whether or not health care should be funded through the tax system, because we see that much of it already is. Further, since tax systems are much more equitable in the funding of health care than are private health plans, we already have accepted implicitly the

doctrine of shared responsibility through our massive hidden tax programs.

What we have not achieved is value for our health care spending. Much of the waste is directly due to our very inefficient and highly ineffective, fragmented system of financing health care. The private insurers continue to sell us a profusion of administrative services while greatly compounding the waste by placing an intolerable administrative burden on the health care providers. Since the private insurers have failed to provide the market solutions that would provide us with the effective risk pooling that we need, some might consider it to be irresponsible for us to continue to finance their wasteful administrative excesses and the costs of the administrative burdens placed on the providers.

Reports from the Organization for Economic Development and Cooperation (OECD) and from the World Health Organization (WHO) address the superfluous costs of the private insurance plans.

OECD:

Whatever the role played in a health system, private health insurance has added to total health expenditure. Most OECD countries apply less government control over private sector activities and prices, compared to public programs and providers. Private insurers tend to have less bargaining power over the price and quantity of care as compared with public systems, particularly single-payer ones. Countries that have multiple sources of primary coverage, including those with significant private health insurance market size, tend to be those with the highest total health spending levels per capita, such as the United States, Switzerland, Germany and France.

WHO:

Evidence shows that private sources of health care funding are often regressive and present financial barriers to access. They contribute little to efforts to contain costs and may actually encourage cost inflation.

If an individual mandate to purchase private insurance were to be

adopted, important trade-offs would have to be accepted. All modeling simulations and the experience of other nations have demonstrated that building on the private insurance model is by far the most expensive way of reforming health care financing. Risk pools would be difficult to manage since inter-pool transfers would be required to risk-adjust the pools based on claims experience. If a simpler, separate universal pool were to be established, then it would be difficult to justify the high administrative costs of an industry that would serve little function other than claims processing. Since reasonably comprehensive plans are no longer affordable for average-income families, a complex, means-tested system of tax credits or vouchers would have to be created, which would require constant administrative readjustments because of changing income levels. It is difficult to justify adding on an administratively complex system of credits or vouchers to a private health insurance system already heavily weighted down with administrative complexity. It would be far simpler to use the equitable policies of our tax system to fund the health care system up front, and then to grant everyone unencumbered access through our own public insurance program, not burdened by means testing.

Although most but not all of us are concerned about ensuring that everyone has access to health care, the one issue on which we all do agree is that we can no longer tolerate the escalation of health care costs. From a policy perspective, public insurance addresses the cost issues most effectively by eliminating administrative excesses, and by realigning incentives to provide greater value in health care purchasing. Setting ideology aside, a decision must be made as to what role, if any, the private insurers should have in the future of our system of financing health care.

The current partisan divide on health reform is unfortunate. The Democratic proposal would leave millions of people without coverage unless they are able to find a way to raise the billions of public dollars that would be required to support the individual mandate. Those dollars would be added to the financial burden that society already bears for health care. And the Republican proposals fail to address realistically any of the major concerns in health care financing. Your post-partisan proposal calls for including everyone by effectively pooling risks, with everyone sharing responsibility

equitably, and using the hidden tax to help fund health care for all of us. The adjustment that we would make to the massive tax funding that we already have would be more than offset by providing relief for businesses and individuals from the excessive premiums we are paying to the inefficient and ineffective private insurance industry.

Since there have been innumerable meetings during which various concepts have been vetted, it is tempting to claim that AB 8 merely needs to be adjusted to conform to the principles that you support, and that we are too close to reform to reopen the discussions to other options. But since we may live with these decisions for decades, it is important that we get it right. We should look again at the massive government financing that is already in place and see how that can be modified and meshed seamlessly with the expansion of coverage that we need. In this post-partisan era, it is no longer necessary to dismiss policy improvements merely because they are drawn from the single payer model.

All policies that would improve our flawed system of financing need to be on the table. A model that would automatically include everyone by establishing a single, universal risk pool that is equitably funded through the tax system is the most efficient, effective, equitable and least expensive model and should certainly be on the table with the rest of proposals. In contrast, consideration should be given to removing from the table the very expensive, highly inefficient and ineffective private insurance model that served us well in the last century but now is obsolete in our current environment of very high health care costs.

Thank you for your sincere personal efforts to achieve health care reform that will serve all Californians. Your post-partisan leadership should help to bring us reform that is based on sound policy science rather than on simple partisan rhetoric.

Sincerely,

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