



Health Care Reform- The Public Plan Option

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Political Landscape: The majority of Americans under age 65 have health insurance coverage through their employer. Public programs provide coverage for some individuals with low incomes who do not have access to employer-based coverage or other insurance options. In 2007, almost 46 million Americans under 65 lacked health insurance, and the number and uninsured and underinsured continues to rise relative to the crippled U.S. economy.

The public plan option to help provide affordable, quality health care coverage to increasing number of uninsured Americans is not a new phenomenon in the health care reform debate. All of the major Democratic presidential candidates, Barak Obama, Hillary Clinton, and John Edwards, had a public plan as an element of their overall package. All three of the candidates' proposals centered on competition in a new exchange marketplace, the centerpiece of which was private insurance competition, but with the public plan competing.

In 2009, the question of whether to provide a public plan option has become the most contentious question in the health reform debate today. It invokes fundamentally partisan positions on a number of relevant issues, including cost control, the proper role of government in the system, whether a level playing field between public and private plans can be established.

The idea of a government-run plan to compete with private insurers and drive down costs is proving to be politically challenging but still is viewed by many as essential to the passage of broad, meaningful health overhaul legislation. Though most Republicans vehemently oppose any form of a government-directed insurance plan, while many Democrats, especially those in the far left wing of the party, are demanding its inclusion. So, the major work of the White House is to focus neutral territory between Democrats and Republicans on the role, if any, a new "public plan option" should play in covering the uninsured. However, at this point in the search for a balanced approach, Congress and the White House still are trying to determine the definition of what exactly a public plan is or should be. There is discussion of having private sector elements in a public plan to attract at least some Republican support, but avoiding defections by those who ardently believe that direct government funding of health care is the only long-term solution to controlling costs and providing universal coverage.

But in keeping its options open, the Obama administration clearly is encountering confusion about the concept, which is likely to keep the public plan issue firmly on the front burner of the debate for some time.

Legislative Status: In terms of status, currently, the congressional standing committees with health care jurisdiction (in the Senate –Health, Education, Labor and Pensions (HELP) and

Finance; and in the House- Ways & Means, Energy & Commerce, Labor & Education) are holding hearings, “roundtable sessions” and private stakeholder meetings on various components, such as delivery, coverage and financing, of health care reform with each committee supposedly overseeing the development of its own complementary part of the overall bill. At this point, Senate Finance and Health, Education, Labor and Pension (HELP) Committees seem to be the most focused on developing a comprehensive plan. Committee markups are slated for mid to late June with bill passage promised in the Senate and House by August recess.

ARGUMENTS FOR A PUBLIC PLAN

Recently dubbed the “consumer-directed” plan by advocates, a public plan option within the context of health care reform is being debated in Congress because it is seen as a way to help create a level playing field within the insurance industry to better control costs, increase accessibility for the uninsured, underinsured and hard to insure, as well as improve the efficiency and effectiveness of the care provided. The public plan option is one of the most controversial elements of the legislative debate on reform precisely because it has the potential to be so valuable to the progress and improvement to our health care system. Proponents believe it would drive competition, improved quality and lower costs. Ideas for construction currently ranges from a single-payer system to building a public plan component into a government sponsored health care exchange which also includes private plan competitors, perhaps a model similar to the Federal Employer Health Benefit Program (FEHBP). And then the other related issue is whether to invoke an individual mandate to ensure universal coverage, expand Medicare and subsidize low-income Americans.

- **EXPAND ACCESS:** A government-sponsored insurance plan should be available as an alternative to private plans to enroll the uninsured.
- **CONTROL COSTS:** A government plan could help keep costs contained. Public health care plans have inherent advantages in that they have very low administrative costs, limited providers/networks and they do not have to pay-out profits.
- **CREATE COMPETITION:** Encourage private insurers into providing more efficient care in order to compete. The central premise of having a public plan is that the private insurance market, even if better regulated, is not going to have enough pressure on it to provide more affordable quality care without public plan competition.
- **PROVIDE NATIONAL STANDARDIZATION:** Provide a standardized set or package of consistent benefits for individuals and small employers to access coverage through an insurance exchange somewhat similar to the Federal Employee Health Benefit Plan or the Massachusetts Health Connector Program.
- **IMPROVE CARE EFFICIENCY:** Follow the lead of Medicare as a public plan model which collects, measures and rewards providers based on the quality and efficiency of care, not the volume of services provided.
- **REFORM INSURANCE INDUSTRY & PROVIDER PAYMENT RATES:** Ensure payment rates that are consistent with Medicare and eliminate the ability to deny coverage based on pre-existing conditions.
- **IMPROVE CONSUMER TRUST:** Many Americans distrust private health plans and a new public plan would assure them their plan is transparent and accountable to consumers and not profits. A public plan also would serve a benchmark role. A public plan also could provide a set of essential security guarantees for quality, affordable insurance that is not contingent on employment.
- **PRIVATE SECTOR COST-SHIFTING:** The Medicare Payment Advisory Commission (MEDPAC) recently released data indicating that the causality of cost-shifting runs contrary to popular belief in that some provider costs are not fixed. Hospitals, for instance, can get a lot more efficient and it's the high reimbursement on the private end that allows costs to become bloated, and then that ends up causing the low Medicare margins rather than the other way around.

ARGUMENTS AGAINST A PUBLIC PLAN The public plan option is a truly partisan, ideological component of the overall health care reform debate. Most Republican members of Congress, even relatively moderate members of the party view the public plan option with suspicion. In fact, there is concern that the public option could derail the entire reform effort. The Senate Finance Committee's top Republican, Charles E. Grassley of Iowa, known for bipartisan legislating, warned at an April 9 forum in Mason City, Iowa, that Democrats should not include a public plan in their health overhaul proposals. Grassley said that

- **RUIN CONGRESSIONAL BIPARTISANSHIP:** Given the ideological divide, mandating a public plan as part of the health care overhaul will destroy the collegiality and goodwill that so far has marked this year's health care reform debate.
- **PRIVATE SECTOR COST-SHIFTING:** A Medicare-type plan that has low, below-cost payments to providers could necessitate cost-shifting to employers and consumers, but there will be fewer and fewer places to cost-shift.
- **DIMINISHED ACCESS TO COVERAGE & PROVIDERS:** Private plans clearly offer significant advantages over a large private plan in that they can and are motivated to construct tight networks of providers, even in remote, rural areas of the country. They also have a greater ability to innovate and to do things with their flexibility that a closely government regulated public plan cannot do.
- **OBSOLETE-EMPLOYER-SPONSORED & PRIVATE COVERAGE:** Insurance companies fear they would lose customers to a government-ran public plan option. Also, if a public plan is offered, employers, especially small businesses, would end their coverage and tell employees to join a public plan. Ultimately, the public plan could become a "de-facto" national single-payer plan and make the employer-sponsored system obsolete. Many large companies are self-insured and government by ERISA. Instead of buying coverage directly from a health insurer, they take on the risk themselves and pay an insurer to administer the plan. To the employee, there is little difference, but the company can lower costs by taking on the risk itself.
- **UNFAIR COMPETITIVE ADVANTAGE:** A public plan, particularly combined with the impact of Medicare, Medicaid and other public plans, cannot operate on a level playing field and compete fairly if it acts as both a payer and a regulator. A public plan's unfair competitive position, both by its size and regulatory authority, could merely shift costs to the private sector and employees covered by private plans. Providers would get reimbursed less and taxpayers ultimately would pay more through cost-shifting.
- **PREFERENTIAL TREATMENT OF A PUBLIC PLAN:** The significant risk with a public plan, particularly one that has some agency involvement or a link to government in some other way is that over time the plan is going to be favored in some way by the governmental entity that governs the whole system.
- **INSTEAD, REFORM THE CURRENT SYSTEM:** As an alternative to creating a complicated new government-run plan, it may be more efficient and effective to create stronger rules and regulations for the private insurance market, such as no longer charging higher or lower rates depending on health status.
- **EXPAND BOTH PUBLIC & PRIVATE INSURANCE OPTIONS:** Focus on preserving the insurance system for self-insured companies while expanding private insurance and public programs such as Medicaid, the insurance program for the poor. This strategy could result in more private insurance and more public insurance that together could help improve much needed access to coverage.

DIPLOMATIC PERSPECTIVE: Support for a public plan ranges from a public option that competes with private plans within an insurance exchange to a completely full-fledged single - payer universal system. One thing for certain, all insurance market rules would have to apply to

all plans equally, the authority managing the insurance marketplace could not be the same as the public health insurance plan, and the public plan could not leverage Medicare to claim an unfair advantage. In addition, a public plan should not be getting subsidies from general federal revenues. For this change to work, the public plan and the private plan should have to abide by the same rules governing enrollment, consumer rating and marketing. And, there should be risk adjustment, and the public plan should be priced regionally in that it should be competing against private plans that are regionally- based on a regional foundation so that its premium is based on the local cost of delivering the benefits of the public plan.