INSURANCE, THE PUBLIC OPTION, AND RATIONING

Stephen L. Bakke – August 25, 2009

This is one of several topics which lead into my attempt at identifying reasonable and viable elements of health care reform – "soon to be completed". My suggestions will recognize the compelling need for reform, accept those aspects which virtually all citizens agree must change, and provide an alternative to the undesirable, and ever less popular, government imposed system.

I do not intend to imply that my predictions are specifically provided for in the proposed legislation. Rather, one can conclude that I believe my conclusions and concerns are logical and not "far fetched".

And …… Why Could a Public Option Lead to a Government System?

Obama and others in favor of a public (or even co-op) insurance option proclaim its value is to provide competition for private insurance companies. Many private plans will continue to fund their operations partly by attracting various forms of capital – and that requires a return on investment, or what is accurately referred to as profit. The government option would have no such limitation – it's "capital" rests in the various forms of wealth held (for the time being) by our citizens – and it accesses that capital through its ability to impose and collect taxes.

If the basic structures set up by a public option won't effectively reduce costs, as the Congressional Budget Office (CBO) has confidently predicted, then what? The only alternative for cost reduction will be to **artificially impose** a reduction in costs by controlling the amount that will be available to pay for services. What other alternative is there? If that means lower reimbursement rates for health services, it will be artificially cheaper than existing plans. That isn't the type of competition promised. On the other hand, if cost controls don't lead to lower reimbursement rates, the only other alternative is to "dole out" the funds systematically to fit within the established budget. That's the short term result, and that's rationing folks.

If the publicly subsidized option is cheaper for the employer, it's not outrageous to predict a movement to the public plan. Employers will certainly do it if money would be saved. The penalty imposed for doing so would be cheaper than typical premiums. It wouldn't matter if an individual wants to retain their coverage, as the Administration promises they can. That option would **not** be available if the employer decided to switch to the public/co-op option. The same applies to individuals when they understand there is a cheaper subsidized option. We would have a significant movement to the ever more dominant government plan. But as the "pool" of premiums paid through the private sector diminishes, there would be a shrinking opportunity for the public option to have

the private sector subsidize their operation – an opportunity that Medicare and Medicaid have benefited greatly from for many years. Who will pay the freight?

Just like with Medicare, physicians would limit services provided at a loss. And fewer physicians would be attracted to the profession. Eventually, this would reduce the number of physicians. And by adding close to 50 million people to the roles, things get worse. It just doesn't add up! The most logical reaction by the new subsidized public option would be to reduce care to fit the supply. In addition to reducing amounts paid for a service by government fiat, they would also be compelled to limit the number of procedures – that's rationing – saving money through reduction of services provided. In the long run the situation would get worse. Predicting rationing as a result is not outrageous or illogical. It happened in Canada and the U.K.

And remember, providing "coverage" under the public option doesn't guarantee "access".

OK … A Public Option Could Crowd Out Private Insurance – Any More Evidence?

The Lewin Group, prominent health care consultants, recently testified before the U.S. House committee developing health care legislation. As part of that testimony they confidently estimated that, in the third year, those covered by private coverage would decline by 30.8 million people. And the number moving from private coverage to the public option could grow to over 100 million people not long after that. Why? Because the subsidized public option is likely be arbitrarily priced approximately 25% under the private alternatives. If the private sector attempts to match those prices artificially and too quickly, they will be unable to raise capital and won't continue in business. Of course the sharp elbow of the government will be felt.

And consider the State Children's Health Insurance Program's (SCHIP). Its original purpose, when enacted in 1997 by a Republican controlled Congress, was to subsidize state governments as they subsidize health care for families too affluent to be eligible for Medicaid but not affluent enough to afford health insurance. It was said to be for "poor children" or children of the "working poor". Since Obama came on the job, legislation was passed which doubles the funding for SCHIP and makes it much easier for states to expand SCHIP eligibility up to almost $85,000. And with the ability to subtract certain rent, mortgage, heating, food, transportation, or some combination thereof, this proposed legislation could possibly benefit some families with real incomes over $100,000. Illegal immigrants are also covered. The overall increase in funding was almost $33 billion.

Why all this fuss by the liberals to reach so far to provide assistance to middle and even upper-middle income families? Some skeptics believe the unspoken goal under SCHIP is to quickly get as many people as possible on public health coverage and to have children, even from prosperous families, grow up thinking that it is normal to obtain health insurance from the government. Score one for the supporters of single-payer health care.

Can we learn anything about this as relates to the public insurance option now being considered. SCHIP was set up as an insurance "option" for children in qualifying

families. What is the result so far? **A significant portion of the children enrolling in the expanded SCHIP program already had insurance. But since SCHIP provided cheaper, subsidized coverage, the commercial insurer was elbowed out. Wouldn't the same reaction apply to a public alternative available to all persons? Of course the public or coop option would be cheaper than the open market alternative – why else have such an alternative?** The public option is cheaper because it is subsidized by taxpayers, and the government plan would have no requirement to make a profit or at least "break even". Why wouldn't the same market dynamics of the SCHIP program occur if a broad public insurance option were available to all? Quite simply, it would!

OK …… Any Other Examples We Can Learn From?

The reason for the public option is to provide competition in the marketplace and to "keep the private insurance companies honest". However, two impediments to true competition are prohibiting selling insurance across state lines and having state coverage mandates. If these obstacles were removed, there would be approximately 1,300 private insurance providers who would compete. There would be a downward pressure on premiums and competition would create a more competitive atmosphere for health services in general – hospitals, physicians, other service providers and medical products.

Witness the 2003 Medicare prescription drug entitlement which relies on competition among private insurers to control costs. It enjoys an 87% approval because competition has made premiums less expensive than had been projected. What? Cheaper than anticipated? When was the last time that happened? The program's estimated cost from 2007 to 2016 has been reduced 43%. Competition works!!

But …… What If There Isn't Mass Movement Toward the Public Alternative …… or if the Public Alternative is Squelched by the Opposition?

The same thing can be accomplished another way. I have read much of the House's draft legislation. It establishes a Commissioner for a new health standards/choices agency. This "Czar" would be charged with setting minimum coverage requirements and would mandate all carriers to comply within five years. What happens to the elimination of the state mandates? It seems to me this plan merely moves the very undesirable mandates, now at the state level, to the Federal Government. And it establishes the bureaucratic definition of what coverage you will receive – very little choice. Also, all private insurance providers would be operating within an "exchange" which would dictate many other aspects of our health system.

Sources of Information

The major sources of information used in developing my health care commentaries will be included in my future report on health care reform recommendations. A preliminary, but not complete, list of sources can be found in my April 2009 report on the status of our health care system and reform.