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A PUBLIC HEALTH INSURANCE PLAN: REDUCING COSTS AND IMPROVING QUALITY

This is a summary of a 31-page report that provides a compelling case for why national health care reform legislation being drafted in Congress should include President Barack Obama's proposal to provide consumers with an option to join a new public health insurance plan that would directly compete with private health insurance plans. As a presidential candidate, Obama proposed that such an option be part of a new National Health Insurance Exchange, through which individuals and small businesses could purchase health coverage. Sen. Max Baucus (D-Mont.), chairman of the Senate Finance Committee, has made a similar proposal.

The report compares the long and successful track record of Medicare's public health insurance plan, whose features would be improved under a new public health insurance plan, against the record of private health insurance plans. Major findings in the report include:

- **Medicare has controlled health care costs much better than have private health insurers over the last 25 years.** Private health insurers' spending per enrollee grew 29 percent faster than Medicare spending between 1983 and 2006, and it grew 59 percent faster than Medicare between 1997 and 2006, according to Centers for Medicare and Medicaid Services data. The spending was for comparable benefit. The beginning of these two time periods correspond to major reforms to Medicare's provider payment policies designed to deliver greater value for our health care dollar.

- **The private health insurance market is highly consolidated and needs competition from a public plan to lower skyrocketing premiums.** In 16 states the dominant carrier accounts for at least 50 percent of private insurance enrollment. In 40 states the top three carriers account for between 60 percent and 100 percent of the market. Despite this consolidation, dominant insurers are not driving hard bargains for reduced prices from hospitals. In this increasingly consolidated insurance marketplace, employer-paid premiums increased an average of 9 percent a year since 1999.

- **Insurance company and hospital profits have skyrocketed during this consolidation.** The combined profits of 14 of the country's largest private health insurance companies rose from \$3.5 billion in 2000 to \$15 billion in 2007 – an increase of 330 percent, according to company SEC filings. CEOs at the health insurance companies were compensated a combined \$147.6 million in 2007 – an average of \$10.5 million each, or 259 times more than the \$40,690 an average worker made that year. Despite complaints about Medicare payment rates, U.S. for-profit hospitals reported \$43 billion in profits in 2007, their best single-year jump in profits in at least 15 years, according to the American Hospital Association.

- **Administrative costs are dramatically lower under public health insurance plans, resulting in enormous savings to the system.** The administrative costs and profits of Medicare Advantage plans, which are run by private insurers, were 11 percent of spending in 2005, according to the Congressional Budget Office (CBO). By comparison, Medicare's public plan had administrative costs of less than 2 percent. A Government Accountability Office study found an even bigger gap – private Medicare Advantage plans spent 16.7 percent of their revenue on administrative costs and profits in 2006. Moreover, private health insurance industry spending for administration and profits jumped 12 percent *a year* from 2000 to 2005 – 40 percent faster than overall health spending growth and 50 percent faster than growth in hospitals' and physicians' spending. Private health insurance industry employment grew 52 percent from 1997 to 2007, but during the same period private health plan enrollment of those under 65 grew by just 3.4 percent.

- **Public health insurance plans' much greater bargaining power achieves more reasonable provider costs than do private health insurance plans.** Medicare pays hospitals about 25 percent less than private insurers pay for comparable benefits, according to the Medicare Payment Advisory Commission (MedPAC). Yet, virtually all hospitals participate with Medicare. Medicare pays physicians 19 percent less than private insurers pay for comparable services, according to MedPAC. Yet, 97 percent of all doctors are taking new Medicare public plan patients, virtually the same rate as are accepting private PPO patients. The number of physicians billing Medicare is growing much faster than enrollment growth in Medicare Part B, which pays for physician care.

- **The quality and effectiveness innovations occurring under the public Medicare plan show that public plans have greater potential to drive the quality revolution than do private plans.** Medicare is leading the private insurance industry when it comes to developing practice guidelines and quality measurements, requiring public reporting by providers of quality indicators, developing a pay for-performance system, among other innovations. As with Medicare, the large market share of a new public plan for people under 65 will have the resources, power and incentive to reshape market practices to promote quality and cost effectiveness.

- **Public plans increase choice, competition and accountability.** A new public plan will offer many people more choice – public or private insurance – as well as broader access to health care providers. Competition will place an important check on both public and private plans. And a new public plan will promote greater accountability and transparency compared with private insurance, whose billing, payment, claims and outcomes data are mostly proprietary.

The report is available at http://ourfuture.org/public_plan