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# Health Care Reform



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**Our Perspective – 8/28/09**

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## The Debate

- The Obama Administration has requested Congress to pass revolutionary health care reform. We are completely opposed to this.
- Philosophically, the way that this has been approached has been un-American and may be unconstitutional.
  - The question of whether or not health care was even our main priority was never raised. Rather, the Obama Administration elevated it to the level of an immediate imperative that had to be pushed through within a matter of months. It was crafted behind closed doors, without robust public debate or wide inclusion by all industry stakeholders. Most legislators and citizens don't even understand it and most have not read the 1,100+ page documents.
- The nature of the legislation has a strongly socialist dimension, building on other socialist legislation passed in the last few months, ultimately leading to the erosion of our liberties, our sense of accountability, and ultimately American way of life.
- Our national leadership already increased our national debt of \$9 Trillion by 33% (\$3 Trillion) over the past 8 months. They have now confirmed that our debt is projected to increase by an additional \$9 Trillion over the next 10 years to a total of approximately \$20 Trillion. The Congressional Budget Office conservatively estimates that health care reform will cost \$1.2 Trillion over the next 10 years. When does it stop? When are we going to implode?
- President Obama believes it is a moral imperative to address fundamental issues in our health care system. We believe it is a moral imperative to oppose it and protect our liberties and financial way of life.

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## Our Recommendation

- We believe we should immediately put a hold on all current health care reform in progress. We should start from scratch. Congressional committees should hold meetings with key stakeholders in health care financing and delivery, among others, and create consensus about the 4 or 5 biggest problems with health care funding and delivery. From that, legislation could be crafted to provide cost effective, accessible and high quality health care.
- To help get that debate started, we have completed the following analysis, which includes:
  - Identification of the problem.
  - How proposed legislation does or does not solve for it.
  - Our preliminary recommended solutions to health care system problems.
- In the end, the best, most comprehensive and most democratic solutions will ultimately come from robust, broad-based dialogue among “We, the People”.

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## The US health care system has many advantages relative to other systems around the world, particularly socialized ones

- It provides enormously high quality care
  - There is immediate access to care
  - There are wide choices in terms of care
  - There is no rationing
  - Care is a private issue between patient and doctor, not patient and Government bureaucrat
  - US leads the world in terms of development of medical technology and new pharmaceuticals
  - This is different than health care in socialized systems - See Appendix I for a review
- **A recent ABC poll indicates that 83% of Americans are happy with their health care coverage**
- The reason that our health care is so good is that it is provided through a private system:
    - Employers and insurers, who underwrite the cost of coverage, are motivated to invest in new health plan design to maintain cost while providing the best benefit
    - Health care providers (doctors and hospitals), who deliver health care, must also provide a competitive product while adhering to their bottom line
    - This is different from socialized programs where there is no incentive to provide the best product at the lowest cost due to lack of competition and freedom to tax and spend if costs don't reconcile

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## So what's the problem we're trying to solve?

- The Obama Administration, in conflicting messages, appears to be trying to:
    - Provide universal coverage
    - Resolve the pre-existing conditions exclusions issue
    - Solve portability issues as most people get their insurance coverage through their employer and lose it when they leave
    - A far secondary objective appears to be health care cost containment
  - Our take:
    - The problem of universal coverage is a debatable one
      - The 47.3MM uninsured is largely composed of individuals who have access to care but have elected not to obtain it; the remainder are illegal aliens
        - 12.1MM are eligible for but not enrolled in Medicaid or SCHIP
        - 17.6MM have income at/above \$50,000, so theoretically could purchase insurance on their own; of these, 9.1MM have income of \$75,000 or more
        - 7.9MM are college age individuals, of which 7.6MM are actually enrolled in college and could potentially be covered under their parents' plans
        - 9.7MM are illegal aliens who are not eligible for coverage
- **The Congressional Budget Office calculates that only 16 million people are not currently eligible for coverage elsewhere who will be covered under this legislation.**
- We agree that portability and pre-existing conditions are issues

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**We believe health care inflation at 10%+ /year is THE key issue, however, the legislation will increase health care spending – drastically**

- According to Congressional Budget Reports in July 2009 to both houses of Congress, the legislation will actually increase spending - **by \$1.2 Trillion+ over 10 years\***
- So we will spend \$1.2 Trillion+ and completely overhaul our health care system to:
  - Cover 16 million people (if even that high a number)
  - Ensure portability
  - Eliminate pre-existing conditions exclusions

**DOES THIS MAKE SENSE??**

→Please refer to Appendix II, which outlines the major features of the legislation.

\*Note that per the House bill, half of this is to be funded by cuts to doctors and hospitals who provide Medicare coverage, half through tax increases to individuals with \$280,000+ or families with \$350,000+ in income.

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## Furthermore, while the legislation is meant to increase competition through a public plan option, it will kill it – and likely lead to a single public option

- The fundamental issue is that a private plan cannot compete with a public plan which:
  - Will not have to reconcile to a bottom line – it can simply tax more if the budget is not met. A private plan must manage to the bottom line.
  - Can mandate reduced fee payments to providers (doctors, hospitals) in a way that private plans cannot. In fact, doctors and hospitals will push the price differential back to private plans to make up the shortfall, as has happened with Medicare.

### Additionally:

- Employers will be motivated to exit the practice of providing health care benefits, which will further drive employees into the public plan:
  - Employers will incur increased costs due to increased eligibility, underwriting and maximum benefit requirements
  - The penalties for not providing coverage are a fraction of the standard cost of current coverage (e.g. average employer contribution for employee coverage is \$8,300/year versus Senate HELP bill penalty of \$750/year).

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## Furthermore, while the legislation is meant to increase competition through a public plan option, it will kill it – and likely lead to a single public option

- Subsidies to low income individuals to purchase health care are not allowed for employer provided coverage, motivating individuals to choose public or insurance exchanges option
  - A study conducted in July 2009 by the Lewin Group, an independent health care policy research firm, conservatively projected that under health care reform, 2/3rds of the people with private coverage (170 million) would move to a public plan (113.5 million).
  - Both Barney Frank and Paul Krugman have admitted the public option will ultimately lead to a government-run health care monopoly.

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## Under health care reform we will lose the best features of our current system

- The legislation calls for \$500B in cuts to Medicare providers – doctors and hospitals.
- Studies suggest that reductions in fees and other mandates in the public plan will drive 5% of doctors to quit and disincentivize 5% more not to even enter the profession.
- At the same time, we will add 50 million new patients to the system.
- This can only lead to huge problems:
  - Longer waiting periods for procedures
  - Lack of choice in terms of care options
  - Problems in quality of care
  - Lack of investment in new technologies

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## If, over time, the system evolves into a single public option (a likely outcome), the impact could be catastrophic

- The most far-reaching issue will be hyper acceleration of health care cost increases due to:
  - Complete lack of competition
  - No need to reconcile to bottom line – Government can tax and spend
  - Lack of innovation in health plan design to contain cost
  - Sense of entitlement of participants and resistance to new cost containment initiatives
  - Huge bloated bureaucracies
- All of the other problems listed previously will be exacerbated
  - Waiting periods for procedures
  - Lack of choice in terms of care options
  - Quality of care issues
  - Lack of innovation in new technologies and drugs
  - Government control over your body and when, how and where you will receive treatment

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## Government bureaucrats will control health care decision making instead of having it be left privately to doctors and patients

- Currently health care providers (doctors, hospitals) typically work for themselves, a physician's group, a hospital network, etc. But they are NOT employees of the state.
- Currently health benefits are funded by employers through their health plans or by individuals who purchase private policies (i.e. the "payors"). Health benefits are NOT (except for Medicare or Medicaid) funded by the state.
- As a result, there is tremendous variety in plan design and types as payors and providers negotiate with one another. There is "rationing" so to speak, but only within the context of private plan design, for which there are hundreds of options.
- We noted above that if there is a public plan option, then most other funding mechanisms would be eliminated and the public option would be the only one. As such, it would have tremendous leverage over the provider.
- When that happens, Government bureaucrats will decide what procedures are covered – when and how.

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## Instead of simply cost shifting health care costs, health care reform should address the root causes of health care cost inflation – many of which involve excessive Government intervention

Root causes of health care cost escalation include:

- High cost of insurance due to insurance regulations which a) Prohibit inter-state insurance and b) mandate unnecessary and expensive coverages
- Lack of tort reform, resulting in billions of dollar in spend on defensive medicine and malpractice insurance
- Spiraling cost of new technologies and drugs
  - We are one of the few countries in the world that does not regulate the cost of procedures or drugs
  - Accordingly, we are the only market in which the costs of these investments can be recouped
  - Unnecessary drug spend, however, is spurred by direct consumer marketing
- Growing health issues of the nation due to:
  - Aging population (30% of health care costs are incurred by those age 65+)\*
  - Rise in chronic illnesses, in large part due to obesity and lifestyle (26% of health care costs are obesity related)\*

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\*Medical Expenditure Panel Survey – Department of Health & Human Services - 2009

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- Incentives in the marketplace to increase number of procedures instead of focusing on highest quality based care – leading to billions of dollars in unnecessary, ineffective procedures
- Lack of standardized information technology within the health care industry to ensure adequate information sharing and the most efficient delivery of care
- Medicare and Medicaid fraud and abuse – Medicare currently has \$39 Trillion of unfunded liabilities!

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\*Medical Expenditure Panel Survey – Department of Health & Human Services - 2009

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## So solutions should involve rolling back Government legislation, not putting more in place

- Repeal state insurance laws
  - Allow insurance companies to operate across state lines instead of supporting a system with only 1-2 players per market
  - Repeal the list of mandated coverages in insurance plans that cater to special interest groups and reduce money available for other desired coverages
  - This will have a huge impact in lowering cost, providing more options and providing access by individuals who might not otherwise purchase it
- Institute tort reform to limit malpractice liabilities
  - The research of Dr. Stuart Weinstein of the American Academy of Orthopedic Surgeons determined that:
    - The average American family pays \$1,700 to \$2,000 per year in health care costs simply to cover the cost of defensive medicine
    - \$200 billion per year could be saved through legal reform
- Repeal legality of direct marketing to consumers on the part of pharmaceutical companies
  - The US and New Zealand are the only two countries in the world that allow this
  - Direct marketing results in billions of dollars of unnecessary pharmaceutical spending
  - At a minimum, eliminate tax deductibility of pharma spending on direct marketing

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## So solutions should involve rolling back Government legislation, not putting more in place

- Further incentivize wellness and wise health care consumerism through HSA tax breaks (versus new legislation which will actually reduce HSA tax breaks)
- Fund independent research concerning standardized treatment protocols for high cost conditions based upon quality and outcomes
  - Comparative effectiveness research is included in the legislation but amendments to prohibit its use to mandate, deny or ration care were defeated in both the House and Senate
- Encourage information technology adoption and standardization to facilitate information transfer across multiple providers of care
- Equalize tax laws so that individually owned health insurance has the same tax benefits that employer-provided insurance does
- Enact Medicare and Medicaid fraud reform to address the \$39 Trillion in unfunded liabilities – and not through simple cost cuts to providers as outlined in health care legislation
- Revise tax forms to make it easier for individuals to make a voluntary, tax-deductible donation to cover uninsured who aren't covered by other Government programs

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## To summarize...

- The Obama Administration is trying to:
  - Provide coverage to 16 million people who are not currently eligible for coverage
  - Eliminate pre-existing exclusions and portability
- In order to accomplish this we will:
  - Spend \$1.2 Trillion over 10 years – on top of our already gargantuan debt that alone may crush the country
  - Endure declines in health care quality and accessibility
  - Sacrifice innovation in biotechnology and pharmaceuticals
  - Lose personal control of health care to Government bureaucrats
  - Experience even higher inflation due to reduced competition in the marketplace
  - Ultimately live with a single public option – with the problems above multiplied tenfold
- We could resolve the problems of cost, accessibility and portability without creating other problems simply by repealing legislation currently in place.

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## So why are they doing this?

- In 1961 years ago Ronald Reagan said that one of the traditional methods of imposing statism or socialism on a people has been by way of medicine.
- One of the first things many of the countries did in the former Soviet Union was to privatize health care. They knew without freedom to control their own health, they had no freedom.
- The sinister implications are further reinforced by the fact that Congress may push through this legislation through the budget reconciliation process requiring just 51 votes in the Senate.

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## We need to stop it now

- We must **retract the proposed health care legislation now!**
- We must start from scratch by holding hearings with a wide variety of business and private interest groups to determine what we, the American people, want to achieve – and then how we are going to get there; and we must take the time to do it right.
- This is the only way we can save our freedoms and the financial future of our country.

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## Appendix I: Problems inherent in socialized programs around the world

### ■ **Canada:**

- Although Canada has a population smaller than California, 830,000 Canadians are currently waiting to be admitted to a hospital or to get treatment, according to a July 2009 report in Investor's Business Daily.
- The new President of the Canadian Health System announced in July 2009 that the health care system is imploding.
  - There are enormous problems with quality, accessibility, timeliness and choice.
  - There is a shortage of doctors.
  - Canadians are going to America for needed tests and treatments.

### ■ **Britain:**

- The current waiting list for procedures totals 1.8 Million out of a population of 55 Million.
- The waiting list for surgeries is nearly 800,000.
- Every year 4,000-20,000 people in need of coronary bypass surgery, 7,000 people in need of hip replacements and 10,000-15,000 in need of cancer chemotherapy are denied medical attention.
- Britain pioneered kidney-dialysis technology, and yet the country has one of the lowest dialysis rates in the world. 45% of those patients aged 65 or older are refused treatment, and those 75 or older rarely receive any treatment.

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## Appendix I: Problems inherent in socialized programs around the world

- **France:**
  - Health care system has been in the red since 1989. By 2010 the shortfall will be 10% of its budget.
  - France is increasingly adopting American style private market approaches including co-pays to rein in costs.
  - 90% of the population subscribes to supplemental private insurance plans to make up for the shortfall in coverages.
  
- **Tennessee** (per Wall St. Journal 8/17/09):
  - 1994 Tennessee launched a public program to cover the uninsured.
  - This program nearly bankrupted the state (eating up 1/3 of Tennessee's budget) until it was scaled back in 2005.
  - Quality of care declined as doctors refused to take patients under the Tennessee plan due to the lower payments they would receive from the Government.
  - It undermined the employer system as 45% of the participants were individuals who left their employer plans to be covered under the Tennessee plan
  
- Note: Many of these countries cannot provide complete health care coverage, and are increasingly turning privatized, US style solutions. For example, employers in the UK and Canada are increasingly providing insurance for health care not provided through the Government system.

**Appendix II: The solutions in Congress (1 bill ready to be passed by the House and 2 bills being considered by Senate Finance Committee and Senate HELP Committee) include the following key elements:**

Element	Description
Individual mandate	All individuals would be required to enroll in basic health coverage, with limited exceptions
Individual/small group market reform	<ul style="list-style-type: none"> <li>■ Insurers would be required to issue guaranteed coverage (cannot exclude pre-existing conditions)</li> <li>■ Insurers would be required to offer standard plan designs</li> <li>■ Premium price differentials would only be permissible for certain factors (e.g. tobacco use, age, place of residence, family size), etc.</li> </ul>
Subsidies to low income individuals	<ul style="list-style-type: none"> <li>■ Federal subsidies would only be provided for individuals earning up to a specified percentage of the federal poverty level</li> <li>■ Federal subsidies may only be available for health coverage obtained through Insurance Exchanges/Gateways (including public plan option), and NOT through an employer-sponsored plan</li> </ul>
Health Insurance Exchanges/Gateways	National, regional or state insurance Exchanges/Gateways would be established to facilitate health coverage for individuals or small groups
Employer “pay or play” mandate (not in Senate Finance bill)	Employers would be required to offer employees who work a specified number of hours a health plan that meets minimum requirements, and subsidize a certain percentage of the cost of that coverage, or pay a per employee, or percentage of payroll, assessment to the government

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<b>Element</b>	<b>Description</b>
Create new public plan (not in Senate Finance bill)	<ul style="list-style-type: none"> <li>■ A newly established public plan would compete with private plan options offered through insurance Exchanges/Gateways.</li> <li>■ The public plan may be administered on a federal or state level.</li> <li>■ Insurance Cooperatives are under consideration as an alternative to a public plan in the Senate Finance version - purchasers of insurance would be part-owners of the Cooperative. This would not be a public plan.</li> </ul>
Tax cap on employee exclusion for employer coverage OR tax on wealthier Americans	<ul style="list-style-type: none"> <li>■ Currently, all benefits are excludable from taxable income. Senate Finance considering taxing individuals on employer-provided health coverage above a certain value. An alternative approach might instead tax employers and insurers on plans they offer that exceed certain value (e.g. \$25,000/year) – as opposed to taxing employees.</li> <li>■ House bill has no tax cap but instead would tax those individuals with income at \$280,000+ or families with income of \$350,000+ to raise \$500B.</li> </ul>
Reduce tax exclusion on employee contribution to HSAs	<ul style="list-style-type: none"> <li>■ Reduce compensation which is excludable from income if contributed to an HSA (Senate Finance). Reverse exclusivity of certain items currently excludable.</li> </ul>

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Element	Description
ERISA Changes (House bill only)	<ul style="list-style-type: none"> <li>■ Would allow states to preempt ERISA and implement a single payer, state system</li> <li>■ Prohibits employers from reducing retiree medical benefits unless done to active population</li> <li>■ Would limit pre-existing exclusions</li> </ul>
Health Care Administration/ I.T.	<ul style="list-style-type: none"> <li>■ Simplify health insurance administration by adopting standards for administration</li> <li>■ Senate HELP – Create Health Care Program Integrity Coordinating Council to oversee health care fraud and abuse.</li> </ul>
Comparative Effectiveness Research	<ul style="list-style-type: none"> <li>■ Centralized research about effectiveness and quality of health care services so providers and patients can choose the most effective therapies</li> <li>■ Medicare and Medicaid – Pilot programs for physician/hospital total care approach; new incentive programs to strengthen role of primary care provider</li> </ul>
Medicare and Medicaid	<ul style="list-style-type: none"> <li>■ Restructure reimbursement levels to doctors and hospitals with a focus on REDUCTION, for e.g. –Medicare payments by \$500 billion reduce Medicaid DSH payments by \$6 billion by 2019</li> <li>■ Significantly expand eligibility for Medicaid.</li> </ul>