

Blue Perspective



**BlueCross BlueShield
Association**

An Association of Independent
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BCBSA Position on Legislative and Regulatory Issues

Healthcare Reform Should Not Threaten Employer Coverage By Creating New Government Plan

Issue: The Senate HELP Committee and three House Committees have reported healthcare reform legislation that includes a new government health plan for the non-Medicare population that closely resembles the Medicare program, with rates either directly tied to Medicare or “negotiated” with providers and capped at the average private rates in a given area.

Position: The Blue Cross and Blue Shield Association strongly supports passing comprehensive healthcare reform this year that builds on the employer-based system to rein in costs, improve quality and extend coverage to all Americans. A new government plan is unnecessary to achieve these reform objectives and will have devastating consequences because it would:

- Cause millions of people to lose their current health plan and increase federal costs;
- Underpay healthcare providers, creating major problems with access to care;
- Use its built-in advantages – no matter how it is initially structured – to take over the market; and
- Undermine delivery system reforms critical to improving quality and controlling costs.

A government plan would cause millions to lose the coverage they enjoy today

Employer-based coverage – currently enjoyed by over 160 million individuals – would be threatened by creating a new government program. The Lewin Group estimates that under the proposal approved by two House committees, up to 88 million Americans would lose private coverage and be shifted into the government plan if it is offered to everyone. Proponents say that the government plan’s impact will be minimal if limited to only individuals and very small firms. However, even under those limitations the Congressional Budget Office estimates that one-third of those eligible (10-12 million) would still move into the government plan. Lewin estimates enrollment at 33.6 million and the Urban Institute estimates enrollment at 45 million people.

Employers are likely to be forced to drop coverage because the government plan would exacerbate the cost shifting that already occurs from public programs to private payers as a result of the inadequate reimbursement rates that Medicare and Medicaid pay to hospitals and physicians. A recent Milliman study shows the annual cost of a family health insurance plan is \$1,788 higher today because of the significant underpayments to providers by Medicare and Medicaid. With a new government plan, private premiums would skyrocket even higher because of lower government payments, making private insurance unaffordable for most employers and individuals; the government plan would become the only affordable option for them. An expensive government-run “single-payer” health system would be the likely result.

A government plan would underpay providers, creating major problems with access to care

The legislation approved by two House committees calls for a government plan that would pay Medicare rates to hospitals, and Medicare + 5% for most doctors. Medicare currently pays hospitals 30 percent less than private insurance and 20 percent less for physicians. The Lewin Group estimates that even if paid slightly more than Medicare, hospital net income would decline by \$7.3 to \$36 billion and physician net income would decline by \$17 to \$33 billion. Over the long term, healthcare providers would see their revenue cut by hundreds of billions of dollars even after considering reduced uncompensated care once everyone is covered.

The government plans proposed by the Senate HELP Committee and the House Energy and Commerce Committee would “negotiate” provider rates. However, the federal government has no infrastructure to carry out the mammoth task of negotiating rates with every doctor and hospital nationwide. Therefore, it is likely that the government plan would resort to administered-pricing based on Medicare or use existing government programs as leverage for negotiations, creating similar effects.

A government plan would use its built-in advantages to take over the market

While the various bills have attempted to address concerns about a government plan by proposing that it would compete on a “level playing field” with private payers, this simply is not the case as a government plan would be exempt from many of the rules that apply to private health plans. For example, individuals would not be able to sue the government plan in state court like private plans, it would not be subject to federal taxes, state premium taxes, or other state assessments like private plans, and it would generally be exempt from stringent state insurance rules and oversight. These advantages would quickly shift the market towards the government plan.

Regardless of how the government plan is initially structured, political pressure to reduce costs would quickly lead to price-setting. This is precisely what happened with the Medicare program, which was initially set up to pay private rates in 1965, but quickly resorted to government price controls.

A government plan would undermine critical delivery system reforms

Rising healthcare costs can only be addressed through delivery system reform that increases quality and enhances value in today’s system. A robust private insurance system is critical to achieving much-needed delivery system reforms. Private plans are free to innovate whereas a government-run plan would be stifled by enormous political pressure and traditional government payment methodologies.

As one example of private innovation, Blue Cross and Blue Shield Plans have awarded Blue Distinction® designations to over 800 centers of excellence where readmission rates for heart attacks are 26 percent lower. Programs like these would evaporate if a government plan is created. The loss of private innovation and investment would undermine attempts to improve quality and rein-in cost.

Recommendation

Instead of creating a new government plan, the government should focus on: (1) expanding Medicaid to cover all those in poverty; (2) reforming Medicare to pay for quality and to ensure solvency; and (3) creating new rules and providing subsidies to ensure access for all Americans. Creating a new government plan would be an unnecessary, costly, and harmful distraction from the critical tasks government must perform to ensure the success of reform.

The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 100 million individuals – nearly one-in-three of all Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.