

Blue Perspective



**BlueCross BlueShield
Association**

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BCBSA Position on Legislative and Regulatory Issues

Healthcare Reform Should Not Create a New Government-run Plan

Issue: The House has passed and the Senate has proposed bills that include a new government-run health plan for the non-Medicare population that closely resembles the Medicare program. Both would cap provider payment rates and the Senate version allows individual states to opt-out.

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-run 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;
- Use its built-in advantages – no matter how it is initially structured – to take over the market;
- Create problems even if an alternative, such as an “opt-out” or “trigger”, is included;
- Underpay healthcare providers, creating major problems with access to care; and
- Increase federal costs by making the government liable for the solvency of the program.

A government-run plan would lead to millions losing 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 a government plan using rates based on Medicare, up to 88 million Americans would lose private coverage and be shifted into the government plan if open to everyone. Even if enrollment were limited to individuals and small firms, the CBO 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.

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

While the bills have attempted to address concerns by proposing that the government plan compete on a “level playing field” with private payers, this simply is not the case. For example, individuals would not be able to sue the government plan in state court like private plans and it also would not be subject to federal or state premium taxes or other assessments that private plans must pay. These and other 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.

Alternatives, such as “opt-outs” and “triggers”, do not resolve problems with a government plan

While some in Congress are proposing alternatives and compromises, these proposals do not resolve any of the fundamental problems of a new government-run plan – they would still call for a plan likely to be implemented in most states right away (2014).

- **An Opt-out will not be optional:** The opt-out in the Senate bill (HR 3590) requires the states to pass a law to opt out. Without any experience to call upon, states will find it very difficult to pass a new law before the government plan becomes effective. Once enrollment occurs, the chances of opting-out drop diminish further because of the political ramifications of disrupting enrollees.
- **Trigger could be triggered immediately in most states:** Some have argued that a trigger would force private health plans to lower premiums to avoid triggering a public option. However, the new benefit requirements and insurance reforms in the Senate bill will drive premium increases that quickly trigger a government plan. The government plan would be triggered in most states at the onset of reform (2014) and nationally within five years of reform.

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

The Senate bill requires the government to “negotiate” provider rates, but caps the maximum rates that could be paid. The federal government has no infrastructure to negotiate rates with hundreds of thousands of health care providers across the nation. According to CBO, a government plan would not be able to negotiate payment rates or control costs better than private plans and would actually have to charge higher premiums. Therefore, the government plan would likely resort to administered-pricing similar to Medicare.

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.

Require billions of dollars in start-up capital and increase the national debt

Creating a government plan would entail billions in spending to create a new federal bureaucracy, plus billions more to ensure the solvency of the program. The American Academy of Actuaries projected that start-up capital costs could be as high as \$45.6 billion, depending on the level of enrollment. These capital costs would be fronted by taxpayers and could be repaid over a 9 year period.

While the program is intended to be self-supporting, the proposal would require the President to step in and propose legislation to keep the program solvent if beneficiary premium collections are inadequate. It is unlikely that Congress would act on unpopular changes such as increasing taxes or cutting benefits – just as it hasn’t acted on a similar provision designed to assure the solvency of Medicare – raising the potential for significant unfunded liabilities over the long term. Instead, Congress is more likely to change the rules and allow the new government plan to use problematic Medicare-based rates and price-setting.

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.