

VII – Public Health Insurance Option

One of the most high-profile elements of health care reform is a proposed new public health insurance option, available to small businesses, the self-employed, and others without affordable, job-based coverage. This public plan would expand consumer choice, and would also help bring down costs.

The negotiating power of a large, nationwide plan would allow the public plan to leverage significant savings. Further, it would employ the cost-saving, quality-improving policies discussed under payment and delivery reform, above.

Additional savings come from the effect that such a plan would have on the private insurance industry. By offering a low cost alternative to private insurance, private insurers would have to innovate to bring their own costs down and so compete with the public plan. Such innovation would result in cost savings even for those who keep their existing coverage.

Cost Estimate

In 2007 the Lewin Group modeled a public plan proposal which served as the blueprint for President Obama's plan as a presidential candidate. They found it would save, per year: \$7 billion due to reimbursing providers at lower rates; \$25 billion due to decreased administrative costs; and \$20 billion due to the types of payment and delivery system reforms discussed earlier. Leaving aside this last category to avoid double-counting them, this is a net savings of \$32 billion per year, \$320 billion over the decade.³⁹

A second Lewin Group analysis of a different version of a public plan along the lines currently being considered by Congress updated this analysis found \$23 billion in yearly savings due to administrative economies of scale and savings due to increased bargaining power (\$230 billion over ten years).⁴⁰

These two studies provide the best estimate for savings traceable solely to incorporation of a public plan. However, the public plan acts as a multiplier for the savings discussed under payment reform and prevention, above. The public plan will directly implement the reforms for those covered through the public plan, and its competition will spur private insurers to also adopt these proven cost-saving policies.

Thus, the Lewin group found that combining the above policies could lead to savings between \$800 billion and \$1.8 trillion, as synergies between the policies produces greatly increased

³⁹ Lewin Group, *Cost Impact Analysis for the "Health Care for America" Proposal*, Feb. 2008, available at <http://www.sharedprosperity.org/hcfa/lewin.pdf>, pp. 28-29.

⁴⁰ Lewin Group, *The Cost and Coverage Implications of a Public Plan*, June 2009, available at <http://www.lewin.com/content/publications/June12HealthLawConference.pdf>, p. 12.

benefits.⁴¹ The federal government would be a major beneficiary of this approach, seeing its deficits decrease by \$130 to \$250 billion over the next decade.⁴² (A similar Urban Institute study found comparable federal savings, ranging from \$224 billion to \$400 billion over ten years).⁴³

*Net ten-year savings: The savings traceable to the public plan alone are estimated at \$230 to \$320 billion. *[*: See Appendix for state-specific savings from this policy]*

VIII – Ending Government Overpayments to Insurers and Drug Companies

Currently, a pair of federal government policies enrich insurance and drug companies at taxpayer expense. The Medicare Advantage program allows private companies to provide coverage to Medicare beneficiaries. The government pays these private middlemen 12% more than it costs to provide coverage to seniors directly through Medicare, but this extra money does not improve health outcomes – it simply acts as a windfall for the insurance companies.⁴⁴

In an analogous scheme of government underwriting, under the Medicare Part D prescription drug benefit the government does not currently negotiate directly with the drug manufacturers, contracting instead with a myriad of smaller plans. As a result, none are able to leverage the purchasing power or economies of scale that could allow all Medicare beneficiaries to see lower costs, increasing drug company profits while taxpayers pick up the tab.

Cost Estimate

The Commonwealth Fund has estimated the ten-year impact of reducing or eliminating these subsidies. Recalibrating Medicare Advantage reimbursement rates could save \$50 billion; allowing Medicare to directly negotiate with drug companies to get higher discounts would save \$43 billion.⁴⁵

*Net ten-year savings: \$93 billion *[*: See Appendix for state-specific savings from this policy]*

⁴¹ Commonwealth Fund, *Fork in the Road: Alternative Paths to a High-Performance U.S. Health System*, June 2009, available at <http://www.commonwealthfund.org/Content/Publications/Fund-Reports/2009/Jun/Fork-in-the-Road.aspx>.

⁴² *Id.*

⁴³ The Urban Institute, *Is the Public Plan Option a Necessary Piece of Health Reform?*, available at http://www.urban.org/UploadedPDF/411915_public_plan_option.pdf.

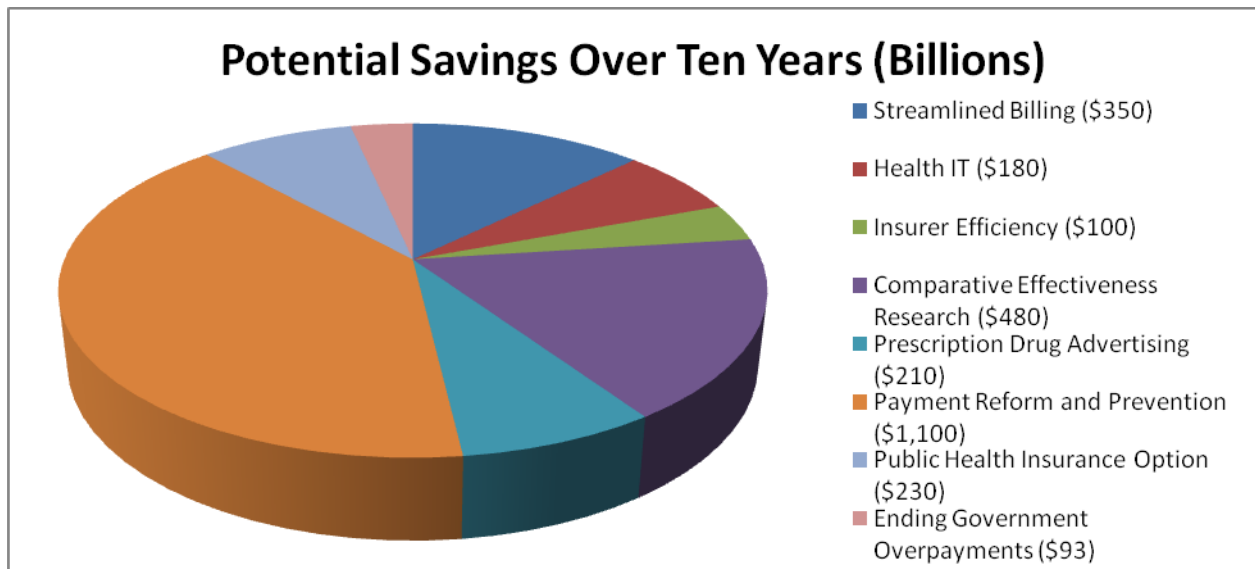
⁴⁴ Peter Orszag, “The Medicare Advantage Program: Enrollment Trends and Budgetary Effects,” Testimony before Senate Finance Committee, Congressional Budget Office, April 11, 2007, available at <http://www.cbo.gov/ftpdocs/79xx/doc7994/04-11-MedicareAdvantage.pdf>.

⁴⁵ Commonwealth Fund, *Bending the Curve*.

Total Savings and State By State Breakdown

The problems in our health care system necessitate a fundamental shift in many aspects of how we pay for and provide care – a shift towards higher-quality, more affordable care. The benefits we can reap in improved health are hard to quantify. But as to the dollars we can save, this report shows that firmer estimates are possible – and even a conservative approach, summing the lower end of every range listed above, still leads to savings of nearly \$3 trillion over the next decade.⁴⁶

Figure 3: Potential Savings Over Ten Years (Billions of Dollars)



It is possible to estimate the state by state impact of such savings by allocating them according to each state's share of total national health expenditures. The picture that emerges shows billions of dollars in benefits to every state of the union – benefits that will allow for increased private and public investment, higher job growth, and increased savings.

⁴⁶ Summing the lowest estimates given in each category above leads to combined savings of \$2.7 trillion. A more optimistic assessment increases the estimate to \$3.4 trillion.

Table 1: Potential savings from health care reform over 10 years, state by state.⁴⁷

State Name	Total Savings, Low End (Billions)	Total Savings, High End (Billions)	State Name	Total Savings, Low End (Billions)	Total Savings, High End (Billions)
Alabama	40	50	Missouri	57	71
Alaska	7	9	Montana	8	10
Arizona	43	53	Nebraska	17	22
Arkansas	23	28	Nevada	19	24
California	296	367	New Hampshire	12	15
Colorado	39	49	New Jersey	86	106
Connecticut	39	48	New Mexico	14	18
Delaware	9	11	New York	223	276
District of Columbia	11	14	North Carolina	79	98
Florida	168	209	North Dakota	7	9
Georgia	73	91	Ohio	116	144
Hawaii	11	14	Oklahoma	29	36
Idaho	10	12	Oregon	31	38
Illinois	115	142	Pennsylvania	132	163
Indiana	59	73	Rhode Island	12	15
Iowa	27	33	South Carolina	37	45
Kansas	25	31	South Dakota	8	9
Kentucky	40	49	Tennessee	60	74
Louisiana	40	50	Texas	187	231
Maine	15	18	Utah	18	22
Maryland	54	67	Vermont	6	8
Massachusetts	78	97	Virginia	63	78
Michigan	88	109	Washington	56	70
Minnesota	55	68	West Virginia	18	22
Mississippi	25	31	Wisconsin	55	68
			Wyoming	4	5

⁴⁷ Center for Medicare and Medicaid Services, National Health Expenditures by State of Provider, available at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/nhestatesummary2004.pdf>.

CONCLUSION

The stakes for the current health care reform debate could hardly be higher. Inaction would mean millions of Americans no longer able to afford insurance, heavily-burdened businesses dropping coverage, more lost jobs, higher premiums, and trillions of wasted dollars.⁴⁸ As this report has documented, there are proven ways to help prevent such an outcome. And the benefits to all of us, even in strictly economic terms, are significantly higher than the costs of the reforms currently being discussed in Congress, which hover around \$1 trillion.⁴⁹

In some respects, this may be because the plans in Congress are less ambitious than what is possible. But the larger point is that health care reform done right can more than pay for itself. The question, critical to the health and economic well-being of all Americans, is whether Congress will push for strong measures to bring down costs, or will instead settle for more modest reforms.

So far, the impact on the federal balance sheet is front and center in the current health care debate. But just as most health care spending falls on the backs of families, businesses, and state governments, so too do the benefits of potential savings.⁵⁰ Leveraging federal investment into system-wide savings is the best way to get rising premiums under control – by fostering investment in health IT, by reorienting perverse payment policies within public programs, by funding all-important medical research. We cannot allow a fear of greater federal outlays to limit the scope of cost-saving, quality-enhancing policies.

Winning the reforms that will help free America's families and businesses from the crippling burden of rising health care costs will not be easy. Savings to the system are lost profits to one interest group or another, and the losers will fight to protect those profits. Nevertheless, the way is there for an improvement in health care treatment that will reduce the costs for all of us. We must convince our leaders to stand up to the drug makers and insurers who benefit from the status quo, and work for the cost-saving reforms that can make our health care affordable.

⁴⁸ See U.S. PIRG Education Fund, *Health Care in Crisis*, Jan. 2009, available at <http://www.uspirg.org/home/reports/report-archives/health-care/health-care/health-care-in-crisis-how-special-interests-could-double-health-costs-and-how-we-can-stop-it#hVipwl-QP7-wGchsXTYm6w>; U.S. PIRG Education Fund, *The Small Business Dilemma*, July 2009, available at <http://www.uspirg.org/home/reports/report-archives/health-care/health-care/the-small-business-dilemma---how-rising-health-care-costs-are-tough-on-small-business>.

⁴⁹ See Congressional Budget Office Blog, House Democrats' Health Reform Proposal: Preliminary Analysis of Major Provisions Related to Insurance Coverage, July 14, 2009, at <http://cboblog.cbo.gov/?p=324>.

⁵⁰ Center for Medicare and Medicaid Services, *National Health Expenditure Web Tables*, at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>.