# Challenges Associated with Government-Run Health Insurance Plans

A number of proposals for health reform include a government-run health plan which is described by proponents as simply creating an additional option for coverage in the private marketplace for employers and consumers. In reality, such a reform could actually bring significant challenges and unintended consequences, outlined as follows:

## Crowding-Out Private Coverage and Reducing Consumer Choice

Government-run health insurance plans will result in significantly-reduced consumer choice. While private plans negotiate with providers to set reimbursement rates, payment rates for government-run plans are set in law. Because providers have little choice but to participate in these programs and accept these below-market payments (e.g., it is a condition for receiving federal tax exemption for providing health care to the community), private plans would be competing on an unlevel playing field. The result of this competitive advantage for the government-run plan will be fewer and fewer private plans, effectively eliminating choices for consumers.

Several studies confirm a government-run health insurance plan will result in a government-run monopoly for health insurance. Several recent studies confirm that a government-run plan[1] would destabilize employer-sponsored coverage and potentially work against the concept of building on the existing system of what works today. The Lewin Group concluded that a new government-run plan would result in a "mass shift", with 119 million Americans shifting from private coverage to the new government-run plan, which represents about 2/3 of those currently in employer-sponsored coverage and a level that would be considered a government-run monopoly according to Secretary Kathleen Sebelius[2]. This kind of "mass shift" will destabilize the private market and is inconsistent with the concept of building on the existing system.

### *Impact of an Illustrative Public Plan*

*"There would be a mass shift of enrollment from private coverage to the public plan. We estmate that, about 119 million people would shift from their current coverage to the public plan, which is a two-thirds reduction in the number of people with private coverage (currently 170 million people)."*

*John Sheils, Actuary, Lewin Group*

## Higher Costs for Coverage, Reduced Quality

Government-run health insurance plans will exacerbate the cost-shift to private plans. It is generally accepted that government-run plans (e.g., Medicare and Medicaid) consistently do not cover providers' costs to deliver care to patients (with Medicare paying 30% less and physicians 20% less than private coverage)[3]. A recent study by Milliman concluded that significant under-payments in Medicaid and Medicare result in a shift of $88 billion (15% of provider costs) to private coverage, which increases private premiums by more than 10 percent[4]. To the extent more individuals enroll in government-run health insurance, this cost shift will only be exacerbated, resulting in private coverage costing even more. These higher costs for private coverage run counter to the goals of health care reform.

Government-run health plans facilitate lower quality health care than private plans. A recent study found that significant quality gaps can exist between government-run plans and private plans, with only 60 percent of publicly funded enrollees aged 52 to 69 getting a mammogram in the previous two years compared with 77 percent of the privately insured.[5]

A government-run health insurance plan will hurt efforts to improve quality and control costs. Private health plans have implemented and are in the process of implementing a variety of reforms that will work towards improving quality and controlling costs in the delivery system (e.g., pay-for-performance, high performance networks, disease management, health IT, etc.). To the extent that individuals shift from private plans to a new government-run health insurance plan that is less innovative, plans will have less of an ability to drive necessary changes in the delivery system to improve quality and control costs—the most critical element of health care reform.

Private plans' commitment to working towards improving quality and controlling costs is demonstrated by a large number of medical professionals working for private plans; many more than employed by Medicare. For example, WellPoint employs more than 4,000 health care professionals, including nurses, physicians and pharmacists.

Some government-run plans have higher costs than private plans. The state employee plan in California, CalPERS, has three government options that range from $448 to $742 per person per month, which is generally higher than the cost of private coverage[6].

1. http://healthcare.nationaljournal.com/2009/03/1314765
2. http://online.wsj.com/article/SB123867881605182367.html
3. http://www.lewin.com/content/publications/LewinCostandCoverageImpactsofPublicPlan-Alternative%20DesignOptions.pdf
4. http://www.milliman.com/expertise/healthcare/publications/rr/pdfs/hospital-physician-cost-shift-RR12-01-08.pdf
   http://www.cfcepolicy.org/NR/rdonlyres/0000001d/kmywcypuwqgwlcfpazenskuoxjcxyljb/CFCE_Cost_Shift_Study.pdf
5. http://www.startribune.com/lifestyle/health/43144867.html?elr=KArksUUUU
6. http://www.calpers.ca.gov/index.jsp?bc=/member/health/2009-health-info/rates/home.xml

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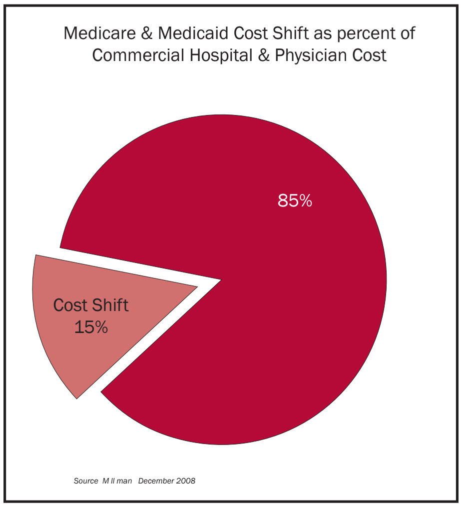


## Government-run Plans May Create Access Barriers

By under-paying providers, government-run plans can create access-to-care barriers for enrollees. With Medicare paying 30 percent less and physicians 20 percent less than private coverage[7], and Medicaid plans often covering only a small fraction of provider costs, enrollees in government-run plans can experience difficulties finding a provider that meets their needs. According to the 2009 MedPAC report, among the beneficiaries that reported looking for a new primary care physician, 28 percent reported problems finding one[8]. Another recent study of primary care physicians found that only 58 percent were unconditionally accepting new Medicare patients[9]. A study in California concluded that Medicaid and SCHIP beneficiaries have "significantly less access to physicians than the larger population", in part because many physicians choose not to participate in these programs.

## Could Create a Perverse Incentive that Increases Costs and Reduces Coverage

Government-run health insurance plans may include rules that will reduce incentives to purchase coverage. A government-run plan option is likely to be "guaranteed issue", which means all applicants are accepted regardless of whether that individual waited to get coverage until they needed services. Unless there is also an effective, enforceable individual mandate for everyone to purchase coverage, a "guaranteed issue" option creates a perverse incentive for someone to wait to get coverage until they get sick. Guaranteed issue without an individual mandate has been tested in several states, and it has shown to drastically increase the costs and reduce coverage—opposite of the goals of health care reform.

Thus, a government-run insurance plan destabilizes the market, reduces consumer choice, increases the cost of private coverage, reduces health care quality, would result in a massive shift to the government-run plan, and shift financial risks to taxpayers—all without accomplishing the ultimate goal of health reform—improved quality and reduced costs.

***What do Voters Think?***

*According to a poll commissioned by the Kaiser Family Foundation, 59% of of the public oppose a government-run health insurance option if it has an advantage over private plans, and only 32% support such an option (Kaiser Family Foundation, April 23, 2009)*

***Excerpt from Washington Post Editorial (April 27, 2009)***

*The argument for a public plan is that, without the need to extensively market itself or make a profit, it would do a better job of providing good health care at a reasonable cost, setting an important benchmark against which private insurers would be forced to compete. Even in a system where insurers are required to take all applicants, public plan advocates argue, incentives will remain for private plans to discourage the less healthy from signing up; a public plan is a necessary backstop. Moreover, if the playing field is level, public plan advocates argue, private insurers -- and those who extol the virtues of a competitive marketplace -- should have nothing to fear.*

*We disagree. It is difficult to imagine a truly level playing field that would simultaneously produce benefits from a government-run system. While prescription drugs are not a perfect comparison, the experience of competing plans in the Medicare prescription drug arena suggests that a government-run option is not essential to energize a competitive system that has turned out to cost less than expected. Insurers and private companies have been at least as innovative as the federal government in recent years in finding ways to provide quality care at lower costs. Medicare keeps costs under control in part because of its 800-pound-gorilla capacity to dictate prices -- in effect, to force the private sector to subsidize it. Such power, if exercised in a public health option, eventually would produce a single-payer system; if that's where the country wants to go, it should do so explicitly, not by default. If the chief advantage of a public option is to set a benchmark for private competitors, that could be achieved in other ways, for example, by providing for the entry of a public plan in case the private marketplace did not perform as expected.*

7. http://www.lewin.com/content/publications/LewinCostandCoverageImpactsofPublicPlan-Alternative%20DesignOptions.pdf
8. http://www.medpac.gov/chapters/Mar09_ExecSummary.pdf
9. http://www3.interscience.wiley.com/journal/117995822/abstract