

May 2009

## CHALLENGES ASSOCIATED WITH GOVERNMENT-RUN HEALTH INSURANCE PLANS

### SUMMARY

A number of proposals for health reform include a government-run health plan, described by proponents as an additional option for coverage in the private marketplace for employers and consumers. In reality, such a plan could result in significant challenges and unintended consequences. This article discusses how a government-run plan would impact private coverage, consumer choice, cost of coverage, quality, barriers to access and incentives that ultimately increase costs and reduce coverage.

### CROWDING OUT PRIVATE COVERAGE AND REDUCING CONSUMER CHOICE

Government-run health insurance plans will result in a significant reduction in 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 their below-market payments (e.g., it's a condition for receiving a 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.

Studies confirm a government-run health insurance plan will result in a government-run monopoly on health insurance. Other findings suggest that such a plan would destabilize employer-sponsored coverage and potentially work against the concept of building on the existing system.<sup>1</sup>

The Lewin Group concluded that a new government-run plan would result in a “mass shift,” with 119 million Americans moving from private coverage to the new government-run plan. This represents about two thirds of those currently in employer-sponsored coverage and a level that would be considered a government-run monopoly according to Kathleen Sebelius, U.S. Secretary of Health and Human Services.<sup>2</sup>

#### What would be the impact of an illustrative public plan?

*“There would be a mass shift of enrollment from private coverage to the public plan. We estimate 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's generally accepted that government-run plans such as Medicare and Medicaid consistently do not cover provider costs to deliver care, with Medicare paying hospitals 30% less and physicians 20% less than private coverage.<sup>3</sup>

A recent Milliman study concluded that underpayments 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%.<sup>4</sup> 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% of publicly-funded enrollees aged 52 to 69 getting a mammogram in the previous two years compared to 77% of the privately insured.<sup>5</sup>

A government-run health insurance plan will hurt private health plans' efforts to improve quality and control costs in the delivery system (e.g., pay-for-performance, high performance networks, disease management, health information technology). Private plans are committed to improving quality and controlling costs, as evidenced by the large number of medical professionals working for private plans – many more than employed by Medicare. WellPoint alone employs more than 4,000 health care professionals, including nurses, physicians and pharmacists. As individuals shift from private plans to a government-run health insurance plan that is not as innovative, plans will be less able to drive necessary changes to improve quality and control costs – the most critical element of health care reform.

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.<sup>6</sup>

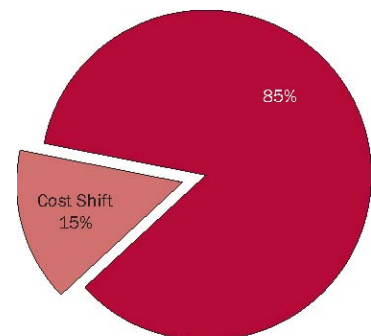
**GOVERNMENT-RUN PLANS MAY CREATE BARRIERS TO ACCESS**

By under-paying providers, government-run plans can create barriers to access. With Medicare paying hospitals 30% less and physicians 20% less than private coverage,<sup>7</sup> and Medicaid plans often covering only a small fraction of provider costs, enrollees in government-run plans may experience difficulties finding a provider that meets their needs.

According to the 2009 MedPAC report, 28% of beneficiaries who looked for a new primary care physician had problems finding one.<sup>8</sup> Another recent study of primary care physicians found that only 58% were unconditionally accepting new Medicare patients.<sup>9</sup>

A California study concluded that Medicaid and State Children's Health Insurance Program (SCHIP) beneficiaries have "significantly less access to physicians than the larger population," in part because many physicians choose not to participate in these programs.

**Medicare and Medicaid Cost Shift as Percent of Commercial Hospital and Physician Cost**



Source: Milliman, December 2008

**PLANS 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. For example, a "guaranteed issue" provision is likely to be included in the new plan. This means that all applicants must be accepted. Unless the government-run plan includes an effective and

enforceable individual mandate that everyone must purchase coverage, a “guaranteed issue” option creates a perverse incentive for people to wait to get coverage until they get sick. Guaranteed issue without an individual mandate has been tested in several states and shown to drastically increase costs and decrease coverage – results that contradict the goals of health care reform.

## CONCLUSION

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A government-run insurance plan would destabilize the market, reduce consumer choice, increase the cost of private coverage and lower health care quality. It would result in a massive shift of individuals from private plans to the government-run plan and increase taxpayers’ financial risks – all without accomplishing the ultimate goal of health reform, which is to improve quality and decrease costs.

### ***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.*

### **What do voters think?**

*According to a poll commissioned by the Kaiser Family Foundation (April 23, 2009), 59% 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.*

## ABOUT THE WELLPOINT INSTITUTE OF HEALTH CARE KNOWLEDGE

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<sup>1</sup> <http://healthcare.nationaljournal.com/2009/03/1314765>

<sup>2</sup> <http://online.wsj.com/article/SB123867881605182367.html>

<sup>3</sup> <http://www.lewin.com/content/publications/LewinCostandCoveragelImpactsofPublicPlan-Alternative%20DesignOptions.pdf>

<sup>4</sup> <http://www.milliman.com/expertise/healthcare/publications/rr/pdfs/hospital-physician-cost-shift-RR12-01-08.pdf>;  
[http://www.cfcepolicy.org/NR/rdonlyres/0000001d/kmywcyuwqgwlcfpazenskuoxjcy/ljb/CFCE\\_Cost\\_Shift\\_Study.pdf](http://www.cfcepolicy.org/NR/rdonlyres/0000001d/kmywcyuwqgwlcfpazenskuoxjcy/ljb/CFCE_Cost_Shift_Study.pdf)

<sup>5</sup> <http://www.startribune.com/lifestyle/health/43144867.html?elr=KArksUUUU>

<sup>6</sup> <http://www.calpers.ca.gov/index.jsp?bc=/member/health/2009-health-info/rates/home.xml>

<sup>7</sup> <http://www.lewin.com/content/publications/LewinCostandCoveragelImpactsofPublicPlan-Alternative%20DesignOptions.pdf>

<sup>8</sup> [http://www.medpac.gov/chapters/Mar09\\_ExecSummary.pdf](http://www.medpac.gov/chapters/Mar09_ExecSummary.pdf)

<sup>9</sup> <http://www3.interscience.wiley.com/journal/117995822/abstract>