RPC HEALTH CARE FACTS

CBO: Democrats' Signature Policy Item Makes Health Care Costs Go Up

CBO says Government Plan would *INCREASE* Premiums

The Congressional Budget Office (CBO) dealt a devastating blow to advocates of a government-run plan last week when it said that their so-called "public option" would have higher premiums than private plans. In their score of the House bill, CBO said that the government plan would "**typically have premiums that are somewhat higher than the average premiums for the private plans in the exchanges**." Senator Joseph Lieberman recognized the importance of this when he said on Face the Nation: "[L]isten, amazingly nobody has talked about it. The Congressional Budget Office said on Thursday when the House Democrats put out their health care reform plan with a public option in it that the public plan would end up charging higher premiums than the average premiums charged by the commercial health insurance companies. Now, why would we want to do that?"

CBO's statement is important for several reasons:

- **The reasoning behind CBO's statement undermines the Democrats' main arguments for their version of health care reform.** CBO said, "The public plan would have lower administrative costs than those private plans but would probably engage in less management of utilization by its enrollees…."[i] CBO's short statement has enormous significance because it demonstrates that the Democrats' plan would deliver lower-value health care, not higher-value care as they promised. A number of expenses lumped in by Democrats as wasteful "administrative costs" are actually investments in health that government programs like Medicare underfund.[ii] These include disease management programs and research to determine which interventions actually work,[iii] as well as prevention of the kinds of fraud that cost Medicare $60 billion per year.[iv] These are the reforms that Democrats say they support, but that CBO said would not be offered in a government plan.

- **CBO shows that private plans are actually more efficient and deliver higher-value health care than the government**. When health economists talk about high-value, low-cost health insurance plans, there are two that are never mentioned: Medicare and Medicaid. Commentators as diverse as the CBO and the Dartmouth Atlas have determined that the payment system set up by the government in Medicare discourages efficient and effective care. The providers that researchers cite as models for reform—like the Mayo Clinic, Intermountain, Kaiser, and Geisinger—are all private. CBO's score emphasizes that private plans are more effective at delivering higher-value care.

- **CBO's statement adds to a growing list of at least 10[v] independent studies showing that the Democrats' plan will make health insurance more expensive or make overall health spending go up.** The government plan was the Democrats' signature issue that they said would make health insurance more affordable. Now not only do we have CBO, the Joint Committee on Taxation, the HHS Office of the Actuary, the National Association of Insurance Commissioners, the Lewin Group, and five independent studies by actuaries saying that the Democrats' overall reform plan will make insurance premiums go up or increase health spending, but CBO also said that the Democrats' signature policy item would make health care more expensive not less.

The question remains: Why would Democrats insist on including a policy that would make health insurance MORE expensive?

November 3, 2009

[i] Note that CBO also says that the government plan would attract a less healthy population, but that this "adverse selection" effect would be limited by new risk adjustment provisions.

[ii] Democrats may argue that "utilization management" is denial of care. However, according to the AMA's "2008 National Health Insurance Report Card," Medicare had the highest percentage of and largest number of denied medical claims. Medicare denied 10 times the number of medical claims of any private insurer.

[iii] As Obama adviser Ezekiel Emanuel wrote, "The idea that we could wring billions of dollars in savings [from cutting administrative costs] is seductive, but it wouldn't really accomplish that much. For one thing, some administrative costs are not only necessary but beneficial. Following heart-attack or cancer patients to see which interventions work best is an administrative cost, but it's also invaluable if you want to improve care." Ezekiel Emanuel and Shannon Brownlee, *Washington Post*, "5 Myths on Our Sick Health Care System," November 23, 2008.

[iv] 60 Minutes, "The $60 Billion Fraud," October 25, 2009.

[v] JCT Memorandum on the high cost plans excise tax, September 29, 2009 ("The imposition of the excise tax on insurers can be expected to lead health insurance providers and consumers to take measures to minimize their burden from the tax. As insurers pass along the cost to the consumer by increasing price, the cost of employer provided insurance will increase."); CBO Director Elmendorf testified to the Finance Committee that insurance fees "would raise insurance premiums by roughly the amount of the money collected." Finance Committee, U.S. Senate, Hearing on September 22, 2009. Additionally, CBO wrote that because of increased regulations, "premiums in the new insurance exchanges would tend to be higher than the average premiums in the current-law individual market..." CBO letter to Senator Max Baucus, September 22, 2009; National Association of Insurance Commissioners, Letter to Senator Harry Reid, October 27, 2009 ("[W]e warn that implementing such a reform without an effective individual mandate, coupled with sufficient subsidies, will lead to severe adverse selection that could increase premiums."); CMS Office of the Actuary Memorandum, October 21, 2009; Lewin Group, "Long-Term Cost of the America's Healthy Future Act of 2009; As Passed by the Senate Finance Committee," October 30, 2009. Oliver Wyman Analysis, October 14, 2009 (Oliver Wyman also released a separate age rating analysis on September 28, 2009); PriceWaterhouseCoopers Report, October 2009; HayGroup Analysis, October 5, 2009; Milliman Analysis, July 13, 2009; WellPoint Analysis of 14 States, October 22, 2009.