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A Public Option Can Be a Triple Win for U.S. Healthcare

Regina Herzlinger, Professor, Harvard Business School and Richard Boxer, Professor, UCLA School of Medicine

Abstract

Contact: Richard Boxer rboxer@mednet.ucla.edu

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A Public Option Will Help Achieve Efficiency, Quality, and Access to Healthcare

The United States needs to control healthcare costs and quality while reaching universal coverage. The strongest choice is a public option that allows people to choose between Medicare and private payers. But a public option needs sustainable financing mechanisms that allow fair competition with private insurers.

This article explains why universal care coverage is important and outlines principles that will allow a public option and private insurance firms to compete appropriately. In turn, sustainable competition will expand access and improve cost and quality. These arguments extend a recent article by Regina Herzlinger and Richard Boxer. [1]

Universal Coverage: Life or Death

Universal healthcare coverage is necessary in the United States. Americans without healthcare coverage commonly die, go bankrupt, or unnecessarily become disabled. Others stay in bad jobs because they offer insurance. Despite paying a higher proportion of GDP than any other nation and creating world-class medical resources, the U.S. has the highest rate of preventable deaths among developed nations. [2]

Universal coverage has a long history throughout the world, beginning in the 1880s in Germany and then expanding across Western and Eastern Europe, Latin America, Africa, Asia, and Canada. These universal coverage systems involve multiple combinations of public, nonprofit, and for-profit payers.

In the 1960s, the U.S. introduced publicly financed coverage for those over 65 through the Medicare program and partial coverage for the low-income population through Medicaid, but remained the only exception among developed countries in ensuring population-wide coverage. Finally, in 2010, Congress passed the Affordable Care Act (ACA)—not full coverage, but a significant reduction in the 45 million Americans who lack insurance.

The ACA has had real successes. From 2008 to 2016, the uninsured percentage of the population declined from 17 percent to 10 percent. [3] Medical expenses cause fewer financial shocks. [4] Early data suggest that the ACA is helping make Americans healthier and more secure. [5]

But the ACA also has problems. Many people have found that they unexpectedly needed to switch plans or doctors. For the 14.7 million insured through Medicaid, the Oregon Health Insurance Experiment reported improvements in mental health status, but no effect on health status. [6, 7] Many cannot afford coverage, as premiums on ACA exchanges rose by 26 percent. Many face high deductibles. [8] Because few insurers offer ACA policies, there is little pressure to reduce prices and out-of-pocket expenses, or to provide wide choices of providers. [9]

Americans are reasonably clear about what they need and want from healthcare reforms. They want lower premiums and out-of-pocket costs, from multiple competing insurers. They want coverage of pre-existing conditions, no lifetime caps, and for parents' policies to cover children to 26 years old. [10, 11] The best way to achieve these goals is a public option that would allow

Americans to select either private or public coverage from insurers that compete on an even playing field.

How a Public Option Will Be a Win for U.S. Healthcare

For the public option to improve healthcare affordability and provide better access to quality providers, in parallel with continued private insurance, the public component requires rates based on credible investment costs plus accurate cost accounting.

Medicare is hugely popular yet financially unsustainable. The program satisfies 85 percent of Medicare members. [12] But beneficiaries pay only a limited share of the costs as, on average, beneficiaries receive $310,000 more in benefits than they pay. [13] At last count, $37 trillion in expenses have been shifted to the future. [14] The Galen Institute calculates that the Medicare deficit is a third of the annual U.S. federal debt. [15]

Despite the financial challenges, Medicare's scale creates efficiencies. Medicare's administrative costs are up to seven times lower than private insurers. [16] The program's market power allows it to pay hospitals 40 percent less and providers 2 to 3.5 times less than private insurers for equivalent services. [17] Although some believe that providers simply shift Medicare and Medicaid's unpaid costs to private payers, the claim of cross-subsidization does not appear to hold. [18] Instead, Medicare's pressure appears to help cut one third of healthcare costs that experts often view as unnecessary. [19]

A public option can leverage Medicare's efficiencies. To be sustainable, though, it needs to avoid financing subsidies that have shifted Medicare costs into the future and created an uneven playing field for competition with private insurers.

To ensure sustainable competition among insurers, public-financing norms must match private insurers in three ways. First, a public option must be financed by current users—like private insurance, it needs to be pay-as-you-go. Second, public-option accounting needs to encompass all relevant expenses, such as liabilities for Medicare employees' post-retirement benefits. Third, just as private insurers must pay to build infrastructure, a public option must account for investments in Medicare's buildings, equipment, and workers. To make this work, a public option's financial statements needs to be audited in the same way as those of private insurers.

With a level playing field, a public option would create appropriate competitive pressures for private insurers to improve pricing, service, and quality. Insurers might offer lower-cost policies that bring people in high-cost locations to receive services in lower-cost, high-quality locations such as Utah. Or, like Ashley Furniture has done, they might send enrollees to lower-cost Mexico for orthopedic procedures, including sending an American surgeon who was well paid for her services. [20] To help private insurers gain efficiencies, new legislation should permit bundles of health, life, casualty, disability, and other products, as well as the ability to sell policies in multiple states. These expansions would enhance competition among payers—helping reduce costs, increase access to coverage, and improve care quality.

One viable approach would be for the United States to follow Germany, Switzerland, and the Netherlands, which achieve high-quality universal coverage while emphasizing non-government payers and spending far less than the U.S. on healthcare. [21, 22] These three countries are stronger fiscally than nations such as Canada and the United Kingdom that rely more heavily on single-payer health insurance systems. But such models, which typically give people vouchers to purchase private insurance policies, would be politically untenable in the U.S. because the proposals would eliminate highly popular Medicare.

Looking Forward: The Public Option

The public option is a reasonable alternative approach for the United States. It allows choice between Medicare and private insurers, while creating incentives to control costs and increase quality. To achieve the public option will require legislative and administrative discipline along with independent oversight that ensures the public option reaches these objectives appropriately.

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