

EYE ON WASHINGTON

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healthcare reform: a work in progress

Once again a Democratic president has made passage of healthcare reform a major domestic priority for his administration.

The focus in Washington, as well as elsewhere, is on whether the Obama administration will be able to deliver on this election promise. Although it is far too early to know for sure, I think the odds are better than even that significant reform will be passed—significant at least in terms of providing for a major expansion in coverage.

What's Different from 1993-94?

It has been more than 15 years since healthcare reform last dominated Washington's attention. The obvious question is, How does today differ from the early 1990s?

There are at least two important differences.

Health care's problems have gotten notably worse, and there's little reason to believe they will improve without explicit policy interventions. The number of people with employer-sponsored insurance continues to erode. Although the expansions in public coverage—the introduction of the Children's Health Insurance Program (CHIP) in 1997 and its expansion in February, as well as the expansion of Medicaid benefits in the stimulus bill—have helped limit the growth in the number of uninsured, that number will not decline significantly without explicit changes. Meanwhile, healthcare spending has once again been rising at unsustainable rates. After a decade of unusually stable healthcare spending growth relative to the economy, healthcare spending today is growing at least two or more percentage points faster than the economy, and it now accounts for more than 16 percent of the GDP.

The Obama Administration has clearly learned from the mistakes of the Clinton Administration. Rather than sending detailed legislative language to a Congress that correctly regards the drafting of legislative language as the prerogative of the Congress, the president has focused on articulating principles of healthcare reform that are important to him and specifying a limited set of issues important to his administration. The president also has indicated a willingness to compromise or at least consider positions that are different from those advocated during the campaign—such as taxing employer-sponsored health insurance. This flexibility is likely to be the key to successful passage of legislation.

Major Challenges

To accomplish his objectives for healthcare reform, the president must overcome two significant challenges.

The president has pledged that any healthcare reform legislation will not add to the deficit. This pledge means that only those expansions that can be paid for can be included in the legislation—a condition that is proving to be more challenging than apparently some had anticipated.

Obama has laid out about \$900 billion in savings and/or additional revenue over 10 years. Of this amount, he proposes, \$500 billion to \$600 billion would come from savings in Medicare and Medicaid—in itself no easy political feat to accomplish. Then, another \$300 billion would come from capping deductions at the 28 percent level for people earning more than \$250,000—a proposal that the chairman of the Senate Finance Committee rejected shortly after it was released.

Even if the \$900 billion were achievable, there is still a potential shortage of \$300 billion to \$600 billion of additional revenue because most estimates of the 10-year cost of full coverage are in the range of \$1.2 billion to \$1.5 billion (with some estimates being as high as \$2 billion). The various congressional committees that are developing their own versions of healthcare reform are themselves struggling with the “sticker shock” associated with the cost of universal coverage. Their “surprise” at the costs of their preliminary plans is a mystery to those of us who have lived through past healthcare reform battles.

The president wants healthcare reform to include a public plan. The president, House Democrats, and some Democrats in the Senate are adamant about the need to include a plan that is administered by the U.S. government as one of the choices offered to individuals in the health insurance exchange. As is true for most parts of healthcare reform, little detail has been offered as to how the public plan would operate or what purpose it would fill.

In general, supporters of the public plan have described it as a way to increase competitive pressure on insurance companies and keep them “honest” and to ensure the availability of sufficient choice for individuals seeking new coverage. Some have also viewed the public plan as a way to lower the costs of healthcare reform by giving the public plan the power to set reimbursement rates at or near the rates used by Medicare.

The potential of a public plan to use near-Medicare reimbursement rates and its more general ability to use the power of government to establish and play by its own rules is what worries private insurance companies and those concerned that a public plan might become the dominant provider of insurance to the under-65 population.

Sen. Kent Conrad (D-N.D.) has suggested the use of a cooperative, akin to the co-ops used for electricity and other essential services, as a possible compromise. These co-ops would be not-for-profit, consumer-owned insurance

companies started with seed money from the federal government but, once established, subject to the insurance rules in place in their states.

Others, like Sen. Chuck Schumer (D-N.Y.), have suggested that public plans could be required to abide by the same rules that other insurance plans have to follow—e.g., in terms of reserves—and not use their power to set below-market reimbursement rates. To no surprise, there is some skepticism as to whether government would or could keep such a pledge.

Democrats have the numbers to impose their version of healthcare reform if they vote as a block, but some of the more conservative members in the House and Senate have been raising concerns either regarding the credibility of the financing or the increased power being given to the government. Still others, primarily in the Senate, believe achieving some nontrivial bipartisan support is important for the future sustainability of healthcare reform and are working hard at a potential compromise that would bring along more than just one or two Republican votes.

What Next?

Democrats hope to have bills ready for passage, or at least for serious consideration, by August, with votes in the fall. It remains to be seen whether they can meet that timetable.

It is disappointing, but not surprising, that most of the attention thus far has focused on expanding coverage and financing that expansion, while precious little attention has gone to reforming the delivery system, improving the quality of care provided, or finding ways to achieve sustainable spending. Perhaps like Massachusetts, the country will first need to expand coverage (assuming it can pay for the expansion) and only then take on the “hard part” of healthcare reform. ●

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