

“The Health Care Crisis and the Prospects for Reform”

**Speech to the State Teachers’ Retirement Board of the
California State Teachers’ Retirement System***

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June 7, 2007

It is good to be here with you to speak about the crisis in health care and what can and should be done about it.

We meet here this afternoon during a week in which presidential candidates in both parties, in two separate debates, addressed health care issues at some length. It is clear that the presidential campaign is well underway – and that health care will be a central issue in that campaign.

The members of the National Coalition on Health Care, including the California State Teachers’ Retirement System, have an important opportunity now to make the case not only that health care should be at the top of the domestic agenda, but that the problems in health care, as extensive as they are, are soluble.

Already, there is more of a focus on health care on Capitol Hill than there has been for many years.

*The California State Teachers’ Retirement System is the second largest public pension plan and the largest teachers’ retirement fund in the United States. CalSTRS had a total membership of nearly 800,000 and assets of \$171.1 billion as of May 31, 2007. CalSTRS’ primary responsibility is to provide retirement related benefits and services to teachers in public schools from kindergarten through community college. The State Teachers’ Retirement Board has exclusive control over the investment and administration of the Teachers’ Retirement Fund.

And that's true here in California as well. As you know, of course, Governor Schwarzenegger has proposed a package of reforms designed to improve access to care, and his program, and alternatives that have been advanced, are being energetically debated. I will speak about issues at the federal level, but I can tell you that when the largest state in the union is so trained on health care, Washington pays attention.

My remarks this morning will be in four parts:

- First, I will describe and quantify the major elements of the health care crisis.**
- Second, I will summarize the recommendations of our Coalition – your Coalition – for improving our nation's health care system.**
- Third, I will summarize the costs and savings that would be generated by health care reform along the lines that we have set out.**
- Fourth, I will discuss how the National Coalition on Health Care and CalSTRS can help to build the momentum for reform.**

My observations will reflect the views of the membership of the Coalition.

Our Coalition is, by far, the nation's largest and broadest alliance of organizations working for system-wide health care reform.

Our membership includes about 75 of the nation's largest companies, unions and professional organizations; patient advocacy and consumer groups; associations of health care providers; health and pension funds; higher education councils; insurers; and religious denominations.

CalSTERS is an active, and very important, member of our Coalition, and I want you to know how much we appreciate your involvement and how much it means to our collective effort.

Many of the organizations in the Coalition are major forces in the American economy, in our society, and in the health care system -- for example, the AARP, the AFL-CIO, the American Cancer Society, the American Heart Association, General Electric, Ahold U.S.A., Duke

Power, the Principal Financial Group, the California Public Employees Retirement System, the National Council of Churches, UnitedHealth Group, the Salvation Army – and, of course, CalSTERS..

There are literally hundreds of billions of dollars of health care purchasing power, and trillions of dollars of corporate asset ownership, represented around our table.

Collectively, our member organizations represent -- as employees, members, volunteers, or congregants – more than 150 million Americans.

Think about that: 150 million Americans – almost exactly half of our nation’s population.

The next time somebody tells you that there is not much support for system-wide reform, you can set the record straight.

I should also emphasize that the Coalition is rigorously non-partisan. Our Co-chairmen are former Republican Governor Robert D. Ray of Iowa and former Democratic Congressman Paul G. Rogers of Florida. Our Honorary Co-chairmen are former Presidents Gorge H.W. and Jimmy Carter.

Why does our Coalition share such a sense of urgency about the need to reform health care? Because we believe that the problems in health care are severe -- and because we know that in the absence of system-wide change, these problems will only deepen, hurting our nation and our people.

I. The Crisis in Health Care

The Coalition has focused on three massive and interrelated problems in the American health care system, any one of which would itself be cause for alarm.

- **First, rapidly escalating costs;**
- **Second, a huge and growing number of Americans without any health coverage, and**
- **Third, an epidemic of sub-standard and dangerous care.**

In 2010, health care spending in America will exceed \$2.7 trillion – an increase of about a trillion dollars since 2004.

The United States spends much more on health care on any other nation. In fact, on a per-person basis, we spend more than two-and-a-half times the average for advanced industrialized countries.

Yet despite our much higher expenditures, 34 nations have higher life expectancies than the United States. Forty-one nations have lower infant mortality rates.

In a report issued just last month, researchers at the Commonwealth Fund offered this summary:

The U.S. health system is the most expensive in the world, but comparative analyses consistently show the United States underperforms other countries on most dimensions of performance.

And our costs are growing rapidly.

According to the most recent survey of employer-sponsored health coverage by the Kaiser Family Foundation, In just six years (from 2000 to 2006) health insurance premiums leaped 87 percent -- more than four times the cumulative increase over that same period in overall inflation and in earnings.

The average annual premium for family coverage last year was nearly \$11,500 -- up from about \$6,300 in 2000.

And the direct costs to employees who have coverage are already much higher than most people recognize. Next week, at our Coalition membership meeting in Washington, a speaker from Milliman, a leading actuarial consulting firm, will present the findings from a brand-new study of health care costs. According to that study, the average employee covered by an employer-sponsored plan will incur costs this year of \$5,591 -- including \$3,171 in payroll deductions and \$2,420 in cost-sharing.

These enormous costs are making it much more difficult for employers to continue providing health coverage -- or to sustain the same levels of health coverage and financial contribution -- for employees and retirees.

And they are making it much more difficult for individuals and families to pay their shares of costs under employer-sponsored plans or to buy health insurance themselves.

As many of you know well, escalating health care costs can put great pressures and constraints on contract negotiations.

And when actual increases are in excess of the levels planned for, as they often are, they can also put great stress on the finances of the entities providing coverage.

The rapid rates of increase in these costs also erode the living standards of those who receive retirement income, including those who receive such income from CalSTRS, and offset the gains in that income that this organization works so hard to achieve.

I want to share with you some startling numbers from an analysis by Richard Johnson and Rudolph Penner of the Urban Institute. Penner is a former director of the Congressional Budget Office.

Johnson and Penner projected increases in out-of-pocket health care costs and median after-tax income from all sources – including Social Security, pensions, wages, and investments -- for older unmarried adults and for older married couples.

They estimated that in 2030 out-of-pocket health care costs will take up 30.3 percent of after-tax income for older unmarried adults, up from 17.3 percent in 2000.

And, incredibly, they calculated that in 2030 out-of-pocket health care costs will consume 35.1 percent – 35.1 percent! -- of after-tax income for older married couples.

That's more than double the proportion – of 16.0 percent – consumed by out-of-pocket health care costs in 2000.

If as a society we fail to address the health care crisis effectively, the good work that this organization does for employees and retirees will be undermined by escalating health care costs.

Not a pretty picture. And not, as it turns out, a complete picture.

The reason is that the climb in health care costs is no longer only a health care issue. It has now created a gigantic, multi-faceted national economic problem.

As these costs rise, they slow the rate of economic growth. By cutting into corporate operating margins, they reduce the capacity of firms to grow by investing in research, plant, and equipment.

Surging health care costs also slow the rate of job growth by making it more expensive for employers to hire new employees.

They increase total compensation costs and constrain potential wage increases.

They drive up program expenditures and thereby create severe federal and state budget problems -- at a pace that the Congressional Budget Office, the Government Accountability Office, and the Chairman of the Federal Reserve Board have all called “unsustainable.”

For state governments in particular, they draw resources away from other priorities, such as education.

And they put American firms at a steep disadvantage in world markets, where they have to compete against companies in countries with much lower health care costs.

We have reached the point where America’s top domestic concerns -- economic growth, jobs, retirement security, and health care -- are now bundled together. Economic growth, jobs, and retirement security cannot be assured unless health care costs are tamed.

The second facet of our health care crisis is a huge and growing number of Americans without any health insurance.

As President Bush’s Council of Economic Advisers noted in a recent report, “Rising costs of health care and health insurance are creating financial burdens for families and employers and increasing the number of uninsured.”

As a result, the number of uninsured Americans rose to about 45 million in 2005 -- an increase of nearly 7 million in just five years.

In California, about 7 million people had no health coverage last year.

Uninsurance exacts a grim toll on the health of the uninsured. Those without coverage receive less care, endure more pain and suffering, and are more likely to die prematurely.

And the uninsured must live each day in financial as well as physical jeopardy, knowing that if they are injured or contract a serious disease and if they are able to obtain care, they may have to liquidate their assets in order to pay for it.

The costs of providing uncompensated care to uninsured patients, in emergency rooms and other settings, are built into the charges for care of those with health coverage.

According to a study by Professor Kenneth Thorpe, a respected health care economist at Emory University, these surcharges add a large amount -- \$1,160 per year -- to the average cost of employer-sponsored family coverage in California.

The third major problem in our health care system is an epidemic of sub-standard care. There is a wide gulf -- what the Institute of Medicine has called a "quality chasm" -- between the care that patients should receive and the care that is actually delivered.

Hundreds of thousands of Americans die prematurely each year because of sub-standard care. Millions more are harmed.

Unnecessary accidents, errors, and poor quality are now the nation's third leading cause of death, just behind cancer and heart disease.

Health care quality is also an enormous cost issue. Some experts have estimated that we may be wasting more than \$600 billion a year because of sub-standard care.

The status quo in health care is not only unacceptable, it is unsustainable. The costs of continued inaction are enormous. What should we do?

II. A Path Forward: Specifications for Reform

Our Coalition has developed a set of answers to that question. After more than a year of study and deliberations, we issued a major report that reflects a consensus among our members. It is the most ambitious and comprehensive health care reform proposal in the national debate today.

Our more detailed report is included in your information packets. For now, I just want to summarize our recommendations, which fall into five categories.

First, our members call for coverage of all Americans within two to three years after the passage of legislation. We recommend that Congress specify a core benefit package, which is outlined in the report. Employers would be able to provide, and individuals would be able to purchase, supplemental coverage beyond the core package.

The Coalition identifies a range of options for insuring all Americans, including:

- Employer mandates (supplemented with individual mandates as necessary);
- Expansion of existing public programs that cover subsets of the uninsured;
- Creation of new programs targeted at subsets of the uninsured, or
- Establishment of a universal publicly financed program.

To assure that everyone gets coverage, participation must be mandatory, and subsidies must be provided for those who are less affluent.

Second, the Coalition proposes measures to assure much more effective cost management. Our members believe that over time, the health care system must be made far more efficient by providing more and better information for patients, providers, and purchasers;

improving the quality and outcomes of care; and building a national information technology infrastructure for health care.

But we also believe that the urgent need for cost relief requires short-term constraints, even as these other measures are being aggressively implemented. These constraints would include rates for reimbursing providers for care encompassed by the core benefit package and, only after those rates take effect, limits on increases in insurance premiums for the core benefit package.

Third, our members propose a major national effort to improve the quality and safety of health care. This effort would include the accelerated development of an information technology infrastructure for health care and national practice guidelines.

Fourth, our members call for steps to make the financing of health care more equitable, including the reduction over time of inequitable cost-shifting across categories of insurance programs and payers. Our report identifies mechanisms that could be used to fund the upfront program costs of reform.

Lastly, the Coalition recommends steps to simplify the administration of health care – which would save money and help to reduce the burdens, and the frustrations, of providers and patients.

III. Impacts of Reform

Our Coalition commissioned an independent assessment -- by Professor Kenneth Thorpe of Emory University, whom I mentioned earlier, of the costs and savings that would be associated with health care reform along the lines we have recommended. His report is also included in your materials.

Ken modeled the impacts of four scenarios consistent with our specifications, and the bottom line of his analysis is this: In all four scenarios, the cost of a reformed system would be less -- much less -- than the cost of continuing with the status quo.

In fact, the savings would be huge. By year 10, annual system-wide savings would range between \$125 billion and \$182 billion -- depending on the scenario pursued -- and the savings would grow year to year after that. In the first decade after implementation, system-wide savings could exceed one trillion dollars.

Ken also modeled the impacts of the Coalition's recommendations on employers who provide health coverage now. He found that such employers would save, depending on which scenario is pursued, between \$595 and \$848 billion in the first ten years of implementation.

How would this help CalSTRS, your members, schools, and students?

Here in California, as in the rest of the country, the costs of health coverage have increased since 2000 at average annual rates in excess of ten percent. Now think about what it would mean for California's teachers – and for the 1200 school districts in California that provide health coverage for teachers – if those average rates of increase dropped to less than 4 percent – and stayed there year after year.

For school districts, the savings would soon add up to serious money. These funds could be used in a variety of ways that could improve schools and help students – for example, to hire new teachers and reduce class sizes; to repair buildings, purchase computers, and expand libraries; to increase salaries for teachers and other employees; to provide additional financial assistance for teachers who want to further their own educations; to buy more textbooks; and simply to preserve precious funding for public education at a time of budgetary pressures.

And there is another advantage to take into account: the advantage, for school districts and teachers, of actually knowing what the rate of increase will be each year.

No longer will those who represent teachers have to guess and hope for the best, or go through protracted negotiations over what rate of increase to build into multi-year agreements.

Not only would the costs of health benefits be much lower than in the current unconstrained system, but the financial risks – of cost increases in excess of what was planned for – would be dramatically reduced.

And I probably don't have to point out – but I will anyway – that if and to the extent that CalSTRS takes on any additional

responsibilities in this arena, the advantages of being able to count on lower and more predictable increases in health care costs would be substantial.

In any case, we believe it is clear that health care reform, as recommended by our Coalition, would make eminently good financial sense for public authorities and for teachers here in California.

Of course, I need to emphasize as well that the benefits of reform go well beyond these financial savings. System-wide health care reform, consistent with the Coalition's specifications, would insure that every American has health insurance.

It would improve the quality of care and, by doing so, save many lives and reduce unnecessary injuries and harm to patients.

And it would help to safeguard and advance our nation's economic growth and living standards.

We can afford health care reform. What we cannot afford is a continued failure to address the crisis in health care, which imperils both the safety and prosperity of all Americans.

IV. Building the Momentum

We are at a critical juncture now – in terms of the state of the health care system, but also in terms of the state of political dialogue about it.

Americans are now more worried about their health care system, and more focused on the need for health care reform, that they have been since the early 1990s.

A recent survey by the Harvard School of Public Health and the Robert Wood Johnson Foundation found that 75 percent of Americans think that the health care system is in crisis or has major problems.

According to another poll – from ABC News, USA Today, and the Kaiser Family Foundation – 80 percent of Americans are dissatisfied with the cost of health care in this country, and 60 percent of insured Americans are worried about being able to afford health insurance costs over the next few years.

And a recent Kaiser tracking poll found that heading into the presidential election cycle, health care is the domestic issue that voters are most concerned about – and the one that they most want to hear about from presidential candidates.

In this context, the National Coalition on Health Care is in a unique position to advance the prospects for reform

- because of the reach and breadth of our membership,**
- because of our development and support of specific recommendations;**
- and because of our rigorous non-partisanship.**

And we are working hard to promote progress

- through meetings with presidential candidates, members of Congress, governors, and their staffs;**
- through an extensive communications campaign, including op-ed pieces, radio spots, statements, press releases, and briefings of, and interviews with, with journalists;**
- through extensive efforts to help organizations in the Coalition educate and inform their members, employees, congregants, and volunteers;**
- through policy studies and testimony;**
- and through presentations to major groups of decision-makers, including the leaders of potential new Coalition members, throughout the country and across the economy.**

I would be glad to describe these initiatives in more detail during our discussion here this afternoon.

I would like to close with a few thoughts with you about how CalSTRS could contribute to building understanding of the state of health care and enhancing the prospects for constructive change.

First, CalSTRS has the credibility and the influence to encourage public authorities and officeholders to support the reforms needed to assure a more inclusive, more efficient, and th care system – in California and for the nation as a whole.

In particular, we hope that you would urge the organizations that represent school boards, in California and nationally, to entry the fray – and that you would seek meetings with members of California’s congressional delegation to discuss their views, and yours, about what needs to be done to improve health care.

Second, CalSTRS could work through the CalSTRS website and in other ways -- and with research, background materials, and technical assistance from the staff of the Coalition -- to educate its own members about the health care crisis, about how it affects their interests, and about the benefits of system-wide reforms.

Third, CalSTRS could communicate its sense of urgency about the need for health care reform to the leaders of companies with which you have financial dealings, including not only firms that you contract with but also, selectively, firms in which CalSTRS has invested.

Fourth, CalSTRS could brief journalists in California on why and how national health care reform would help to free up resources for the betterment of public education and how it would help to promote the physical health, and financial health, of Californians.

In closing, I would say this: We know that the achievement of system-wide health care reform will not be easy. The issues are complicated, and the stakes are enormous.

And we know that those whose self interests are served by the present system – or who think that their interests are served -- will resist change.

But change is essential. Our health care system is in crisis, and that crisis is hurting our people, hindering our economy, and compromising our future.

The problems in health care are getting worse. We need as a nation to be realistic and pragmatic, to recognize that these problems will not be magically healed by market forces or small steps forward. We need bold, system-wide reform, and we need it as soon as possible.

This is a fight that is well worth waging.

It is a fight that we can win – with hard work and resources and collaboration and determination.

And it is a fight that we will win – for the well-being of our nation, your members and their families, and all Americans.

Thank you for the opportunity to speak here today. I look forward to your questions and comments – and to working with you and your colleagues to secure a better health care system.

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