

**Testimony to the Interim Committee on Economic Affairs of the
Montana State Legislature**

“Building a Better Health Care System”

**Henry E. Simmons, M.D., M.P.H., F.A.C.P.
President, National Coalition on Health Care**

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Thank you. Mr. Chairman and members of the Committee, it is good to be here with you this morning and to have an opportunity to speak with you about the health care challenges that this country and this state face. In light of the magnitude and impacts of those challenges, it is fitting that health care is an important agenda item for this committee and, more generally, for the state legislature.

My remarks here will reflect the views of the National Coalition on Health Care, the nation's largest non-partisan alliance of organizations working for system-wide health care reform. We are honored to have been invited to participate in this forum and public discussion.

The Coalition has a perspective and, as you will hear, an agenda that are national in scope. However, I want to emphasize at the outset how significant and heartening it is that so much is being done here and in a number of other states to advance the public's understanding of health care and to put in place initiatives to improve affordability, access, and quality.

My comments today will be in three parts. First, I will discuss the nature and extent of the health care crisis -- our conception of what is wrong and what needs to be fixed.

Second, I will describe the Coalition's recommendations for health care reform -- the steps our member organizations believe will be necessary to build a more inclusive, more affordable, and safer health care system.

Third, I will offer some observations on what can be done, and what is being done, in states to improve health care -- and on the reasons why we believe that national action will be needed

To begin with, a few words about the National Coalition on Health Care:

The membership of the Coalition consists of more than seventy of the nation's largest companies, unions, patient advocacy and consumer groups, associations of health care providers, health and pension funds, insurers, and religious denominations.

Many of these organizations are huge in their reach and their roles in the American economy, in our society, and in the health care system -- for example, the AARP, the AFL-CIO, the American Cancer Society, Verizon, the Principal Financial Group, the California Public Employees Retirement System, the International Foundation of Employee Benefit Plans, the National Council of Churches, UnitedHealth Group, and the Salvation Army.

There are hundreds of billions of dollars of health care purchasing power, and trillions of dollars of corporate asset ownership, represented around our table. Collectively, the Coalition's member organizations represent -- as employees, members, volunteers, or congregants -- more than 150 million Americans.

The Coalition is so broad, so diverse, and so big that it is fair to say that we do not represent any special interest. Instead, we represent the national interest in a better, more inclusive health care system.

Our 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 George H.W. Bush, Jimmy Carter, and Gerald R. Ford.

Why do our member organizations share such a sense of urgency about the need to reform health care? Because they believe that the problems in health care are severe -- and because they 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

We see three huge and interconnected 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 or with inadequate coverage, and
- third, an epidemic of sub-standard and dangerous care.

Let's deal first with costs.

The costs of health care are surging at extraordinary rates. National health care spending will exceed \$2.7 trillion in 2010, nearly a trillion dollars more than was spent in 2004.

Health insurance premiums have leaped an astonishing 73 percent in just the past five years.

The average annual premium for family coverage last year was nearly \$11,000 -- up from about \$6,300 in 2000.

These enormous increases in premiums are making it much more difficult for employers to continue providing health coverage for employees and retirees.

And rapid premium increases are also making it much more difficult for individuals and families to pay their shares of the cost of employer-sponsored coverage or to buy health insurance themselves.

On average, the employee share of family coverage premiums has jumped from \$1,620 in the year 2000 to \$2,713 last year -- and that figure does not include increases in deductibles and other charges.

It is no coincidence that the numbers of Americans without health coverage have been climbing -- a point that I'll return to shortly.

As President Bush's Council of Economic Advisers noted just last month in a report on the state of the economy, "Rising costs of health care and health insurance are creating financial burdens for families and employers and increasing the number of uninsured."

What I want to emphasize is that the escalation of health care costs is no longer only a health care issue; it has now become a gigantic national economic problem.

As these costs rise, they slow the rate of economic growth -- a point that President Bush himself recently made. 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 companies to add new workers.

They suppress wage increases for current workers by driving up total compensation costs.

They erode the ability of firms to fund current levels of pension and health benefits.

They reduce the living standards of retirees by siphoning off more and more of their incomes.

They generate contentious and destructive collective bargaining issues.

They drive up program expenditures and create severe federal and state budget problems -- at a pace that the Congressional Budget Office, the General Accountability Office, and the Chairman of the Federal Reserve Board have 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.

In sum, we have reached the point where the public's top domestic concerns -- economic growth, jobs, retirement security, and health care -- are now one and the same issue. The first three concerns cannot be addressed effectively unless health care costs are contained.

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

According to a new report from the Census Bureau, the number of uninsured Americans rose to 46.6 million in 2005 -- an increase of 6.8 million in just five years.

In Montana, 162,000 people had no health coverage last year -- more than 17 percent of the state's population.

But even these numbers understate the real scope of the uninsurance problem. Over the course of a two-year period, nearly a third of the population below the age of 65 spends at least a portion of time without health coverage.

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.

Uninsurance also reduces productivity. On average, uninsured workers are less healthy, less functional, and, as a consequence, less productive.

Companies that fail to provide health coverage for employees are being short-sighted. The false economy of uninsurance makes their workforces less productive and over time undercuts growth in their operating margins and appreciation in the prices of their stocks.

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.

Literally hundreds of thousands of Americans die prematurely each year because of sub-standard care. Millions more are harmed. It is estimated that unnecessary accidents, errors, and poor quality are the nation’s third leading cause of death, just behind cancer and heart disease.

Health care quality is also an enormous cost issue. According to Dr. Donald Berwick, president of the renowned Institute for Healthcare Improvement and a faculty member at Harvard Medical School, “[T]otal cost reductions of nearly 30 percent below current levels should be attainable while improving the overall quality of health care.” With annual health care spending now exceeding \$1.7 trillion, this estimate suggests that we may be wasting more than \$500 billion a year.

So these are the problems we face. It is clear that the status quo in health care is not only unacceptable, it is unsustainable. The costs of continued inaction are enormous. So what must 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 deliberation, we issued a major report that reflects a consensus among our members. It is the most ambitious and comprehensive proposal in the national debate.

Our Coalition’s recommendations 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 our report. Individuals and employers should 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.

None of these entail a government-run system and any one of these -- or a combination of these -- can work, but 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. These measures are designed to achieve two goals. The first -- to be accomplished in five years -- is to bring increases in the costs and premiums associated with the core benefit package into alignment with increases in per capita gross domestic product. The second is to increase the value for patients that would be generated by any given level of health care spending.

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 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 call for a major national effort to improve the quality and safety of health care. A key element of this effort would be the accelerated development of an integrated national information technology infrastructure for the health care system, and mechanisms to provide incentives and capital for the upfront investments necessary to build the infrastructure.

The Coalition recommends that public and private efforts to improve quality be coordinated by a new and independent national board, with members drawn equally from the public and private sectors. The board would also be responsible for coordinating the development of evidence-based national practice guidelines, which would help to reduce waste as well as improve quality and safety.

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. The reforms we propose -- including universal coverage, a standard benefit package, and the creation of a national information technology infrastructure -- would dramatically simplify the system, reduce the cost of administration, and enable health care markets to function more effectively.

Recently, the Coalition commissioned an independent assessment -- by a highly respected health care economist, Professor Kenneth Thorpe of Emory University -- of the costs and savings that would be associated with health care reform along the lines commended by our members. Using conservative assumptions, Professor Thorpe modeled the impacts of four scenarios consistent with the Coalition's specifications.

He found that 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.

In addition, as his projections indicate, employers large and small who provide coverage now -- and employees who receive it -- would save massive amounts of money compared to the costs they would incur in the absence of reform.

Of course, the benefits of reform go well beyond these direct dollar savings. System-wide health care reform, consistent with the specifications that our member organizations have developed, would insure that every American has health insurance.

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

And it would help to safeguard and advance economic growth and living standards.

Our members believe that the health care crisis is the central challenge facing America at home -- more important, more pervasive in its impacts, than any other domestic issue currently preoccupying our political leaders and policymakers.

The simple truth is this: We can afford health care reform. What we cannot afford is a continued failure to address the crisis in health care, which encumbers our entire economy and imperils both the safety and prosperity of all Americans.

III. State Initiatives: Progress and Limitations

I was invited here today to provide a national perspective on problems in the health care system, but, as I mentioned, I do want to make some observations about what states can do, and are doing, to improve health care -- and on why we believe that national action will be needed.

There is in fact much that can be accomplished by and within states.

Some states have been able to increase access to care and reduce the number of uninsured people within their borders -- for example,

- by subsidizing the employee share of premiums for employer-sponsored coverage;
- by expanding eligibility for Medicaid and the State Children's Health Insurance Program;
- by creating state purchasing pools for small businesses or for high-risk individuals and families, and
- by increasing the number of community clinics and the range of services they provide.

States have also tried to moderate increases in health care costs for their citizens -- for example

- by launching state purchasing pools for bulk purchasing of prescription drugs;
- by requiring more transparent pricing, and the availability of more readily comparable pricing information, from health care providers, including hospitals and physicians, and
- again, by creating state purchasing pools for small businesses or for high-risk individuals and families.

States have worked to improve the safety and quality of care -- through such initiatives as

- reforming medical malpractice standards and providing financial assistance to categories of physicians with high malpractice insurance rates;
- creating state patient safety centers and requiring providers to report medical errors and adverse outcomes to them;
- providing purchasers and patients with more and better information about quality of care and patient outcomes

associated with specific providers and provider organizations,
and

- encouraging collaboration among providers and provider organizations to improve the consistency of care.

This is a sampling -- not an exhaustive listing -- of the kinds of steps that states have taken.

It is also, in effect, a sort of checklist -- a menu of possible initiatives that states, including Montana, can consider. And, as I hope is clear, there has been a flurry of activity.

However, despite all these efforts, the number of uninsured Americans continues to rise, costs are still surging, and hundreds of thousands of Americans die each year because of sub-standard care.

Let me suggest a few reasons why the sum of these state efforts has not stemmed or reversed these national tides:

First, viewed from a national perspective, the sheer magnitude of these tides has overwhelmed state initiatives -- as they have overwhelmed incremental changes by Congress.

The fact is that the problems in our health care system have been growing faster than the impacts of piecemeal strategies, at both the state and national levels, to address them. We need a systematic -- and system-wide -- program of comprehensive health care reform.

Second, states are facing severe resource constraints. Just about every state is grappling with mismatches between available revenues and the demands, and the needs, to which state governments are expected to respond.

Health care expenditures, including matching funds from the federal government, already account for about 22 percent of state budgets. It is difficult for states to find much more money for health care without reducing spending for other acute needs, such as education.

Third, there are legal impediments to effective state action. In particular, ERISA - - the Employee Retirement Income Security Act -- constrains the ability of states to require self-insured companies to conform to standards regarding the nature and extent of health coverage or to contribute funds to programs designed to reduce the number of uninsured.

Fourth, as a practical matter, many elements of health care reform involve problems or investments that naturally cross state lines. For instance, the forces that generate double-digit health increases in health care costs and premiums are national in scope. It makes sense to address them with national measures.

Similarly, many of the steps needed to improve the quality and efficiency of health care -- such as the development of practice guidelines or of standards for the use of information technology -- are best and most efficiently advanced on the national level, instead of having each state proceed on its own.

Fifth, competition among states complicates efforts to make progress within states.

Thus, for example, a state may be reluctant to place additional requirements on businesses for fear that some firms may decide as a consequence to relocate to other states.

In addition, a state may worry that if it offers more generous coverage for high-risk and high-cost population groups, citizens of other states may be inclined to move to that state to receive better benefits -- and thereby drive up the first state's budgetary obligations.

Progress can and should be made in individual states pending the passage of national health care reform legislation, but our Coalition believes that America needs national legislation to address our national health care crisis.

And we hope that even as you continue to work to make as much progress as possible to improve access, affordability, and quality of care for the people of Montana, you will also encourage and advance a broader discussion of what needs to be done nationally.

Thank you for inviting me to speak with you this morning about these crucial issues. I look forward to further dialogue.

At this point, I would be glad to respond to any questions.
