

**Address to the International Foundation of Employee Benefit Plans  
51<sup>st</sup> Annual Employee Benefits Conference**

**“Transforming the Health Care System”**

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Thank you. I'm pleased to have this opportunity to speak with you about “Transforming our Health Care System”.

To help frame our discussion this morning, I want to advance three propositions.

The first is that our country faces a huge, and deepening, health care crisis that puts at risk the physical well-being and the financial well-being of all Americans.

The second is that this crisis, and its primary components, can be effectively addressed by – and only by – system-wide health care reform.

And the third is that, as health and pension fund trustees, all of you – and each of you – should be actively and energetically engaged in the effort to secure system-wide reform, because, in the absence of reform, the good work that you do to advance the interests of your employees and beneficiaries will continue to be undermined.

The views I will share with you are those of the National Coalition on Health Care; the nation's largest and most broadly representative alliance working for system-wide health care reform.

Our membership consists of more than eighty of the nation's largest companies, unions, patient advocacy and consumer groups, associations of health care providers, health and pension funds, insurers, and all the nation's major religious denominations. This enables us to speak out on the serious ethical issues which exist in our troubled health care system.

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 National Council of Churches, UnitedHealth Group, and the Salvation Army.

Our membership includes the nation's largest individual health and pension funds, such as the California Public Employees Retirement System, the California State Teachers' Retirement System, the New York State Common Retirement System, the New York State Teachers' Retirement System, and the State Teachers Retirement System of Ohio.

In addition, the International Foundation for Employee Benefit Plans, the National Conference of Public Employee Retirement Systems, the National Coordinating Committee for Multi-Employer Plans, and the National Council on Teacher Retirement are all active members of our Coalition.

There are hundreds of billions of dollars of health care purchasing power -- and trillions of dollars of ownership of corporate assets -- represented around our table.

Collectively, the Coalition's member organizations represent – as employees, members, volunteers, or congregants – more than 150 million Americans.

As such, the Coalition speaks for a broad cross-section of America. We are a voice not for any special interest, but for the national interest in a more inclusive, more efficient, and safer health care system.

And we are 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.

## I. The Crisis in Health Care

As I mentioned earlier, the first proposition I want to develop here today is that our nation faces a crisis in health care of unprecedented magnitude.

There are three huge and interconnected problems in our 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, dangerous and wasteful care.

Let's deal first with costs.

The costs of health care are surging at extraordinary rates. The Centers for Medicare and Medicaid Services recently projected that national health care spending will exceed \$2.7 trillion in 2010, nearly a trillion dollars more than was spent last year.

Health insurance premiums have leaped up an astonishing 73 percent in just the past five years – this during a period in which overall inflation has averaged two and a half percent a year and wages have risen an average of 3.6 percent a year. Premium costs have risen five times faster than inflation and four times faster than wages.

The average annual premium for family coverage this year is nearly \$11,000 – up from about \$7,000 in 2000, with projections that they soon will rise to more than \$14,000 yearly.

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

According to this year's survey of employers by the Kaiser Family Foundation and the Health Research Educational Trust, 86 percent of the firms not offering health coverage to employees cited high premiums as a reason.

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 this year – and that figure does not include increases in deductibles and other charges. Out-of-pocket costs

will continue to grow rapidly as employers, out of necessity, shift more costs to their employees and retirees.

It is no coincidence that the numbers of Americans without health coverage have been climbing.

What's more, the escalation of health care costs is no longer only a health care issue. Costs have grown so large that for the first time in our history, they have now created a gigantic national economic problem. As these costs rise, they slow the rate of economic growth – a linkage that our Coalition has been warning about for years and one that President Bush and his Council of Economic Advisors finally recently affirmed.

By cutting into corporate operating margins, surging health care costs reduce the capacity of firms to grow by investing in research, plant and equipment.

These same 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 – a point I'll return to later in these remarks.

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 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.

The bottom line: All four of the domestic issues that the public is most worried about – 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 the most recent official figures from the U.S. Census Bureau, the number of uninsured Americans rose to 45.8 million in 2004. That total represented a jump of more than 4.6 million in just three years.

And as health insurance premiums continue to rise, so too will the incidence of uninsurance. Our Coalition projects that the number of Americans without health insurance will exceed 51 million in 2006 -- an addition of more than 10 million since 2001.

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.

A recent Commonwealth Fund survey found that uninsured adults were at least three times more likely than insured adults to report that they had not seen a primary care physician or a specialist, or that they had gone without a needed medical test or treatment, because of cost.

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. Health care costs are now the leading cause of bankruptcy.

Uninsurance also reduces productivity. To the extent that your funds have investments in firms that no longer provide health coverage for all or most of their employees, know this: On average, uninsured workers are less healthy, less functional, and, as a consequence, less productive.

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The third major problem in our health care system is an epidemic of sub-standard and dangerous 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.

As a result, literally hundreds of thousands of Americans die prematurely each year because of sub-standard care and millions more are harmed. It is estimated that unnecessary accidents, errors, and poor quality of care 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.

Ladies and gentlemen, this system is “broken” and the fact that you continue to pay for a “broken” system, instead of fixing it, is a major part of the problem. In this respect, you and your payment policies have become part of the problem, and as such a barrier to change.

## II. System-wide Health Care Reform

All of this adds up to a real crisis, but not an intractable one – which brings me to the second proposition I want to put in front of you: that the health care crisis can be addressed effectively, that we can build a more inclusive, more efficient, and safer health care system.

Let’s be clear about two preliminary points. First, we are swimming against powerful tides. The measures that employers or employee benefit plans or health funds can deploy against these forces are insufficient. Health care costs for even the largest and most savvy purchasers continue to climb at double-digit rates. If giants, such as CalPERS and General Motors, cannot control their health care costs, then it is unlikely that any of your plans acting individually can do so.

As a practical matter, the resolution of our national crisis in health care is going to require major policy changes at the national level.

My second point is that, the measures most often cited in Washington these days as possible steps forward – medical savings accounts, consumer-driven health care, association health plans, and modest tax credits for non-group insurance – are simply too limited in their scope and too fragmentary to make much of a difference alone.

So what can be done? Our Coalition has developed a set of answers to that question. Last summer, after more than a year of study and deliberation, we issued a major report that reflects a consensus among our members. A copy of that report -- entitled Building a Better Health Care System: Specifications for Reform -- is available on the Coalition's website.

Our specifications constitute the most comprehensive, ambitious and toughest set of reform proposals in the national debate today. Because of that, we have been invited to present our specifications to many key groups, including the National Governors Association, the Council of Institutional Investors, the American Council of Higher Education Secretariats, and many others. We have also shared our specifications with more than 300 members of Congress who are responsible for health care legislation.

We hope that our recommendations will help to accelerate a renewed debate about how to improve the American health care system and that, because of the broad support that our specifications have already received; they will embolden political leaders to act.

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 enabling 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 that Congress could adopt 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.

Any one of these options or a combination of them -- 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; by improving the quality and outcomes of care; and by 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 system-wide 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 and to set rates be coordinated by an 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 most importantly, 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 recommended by our members. Using very 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 and health funds, such as yours, 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 harm to patients.

It would simplify the system.

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

We believe we have shown that our nation can afford health care reform. What we cannot afford is a continued failure to address the crisis in health care – a crisis that imperils the health and prosperity of all Americans.

### III. Employee Benefit Plans and Health Care Reform

The third proposition I want to discuss with you has implications for how, from this point forward, you allocate your professional energies and attention, and it is this: that all of you, for pragmatic reasons, should become energetically engaged in the effort to secure system-wide health care reform.

The health care cost explosion is hurting the plans that you manage, advise, and direct – and it is hurting the people whose interests you as fiduciaries are entrusted to protect.

As I pointed out earlier, health insurance premiums have shot up 73 percent in the past five years. Imagine the consequences – for your plans and beneficiaries, for our nation, and our people and our economy – if premiums surge another 73 percent between now and 2010.

Clearly, employee benefit plans that provide health insurance to employees and retirees are experiencing major challenges. Surging health care costs make it more difficult for you to meet existing obligations and to maintain coverage at current levels for current employees and retirees – and more difficult as well to provide the same levels of coverage for future employees and retirees.

It is not surprising that many employers have cut back – or cut out entirely – health insurance for employees and, especially, for retirees. According to a study by the Kaiser Family Foundation and Hewitt Associates, between 1988 and 2004 the proportion of large employers offering retiree health coverage declined precipitously, from 66 percent to 38 percent.

Those of you who manage pension funds and are not involved directly in financing health insurance may be wondering how health care costs affect your funds. There are two reasons for you to be concerned. First, the rapid rates of increase in these costs erode the living standards of those

who receive retirement income from your funds – and offset the gains in that income that you work so hard to achieve through investment yields on your pension funds.

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 median after-tax income from all sources – including Social Security, pensions, wages, and investments -- for older unmarried adults and for older married couples. They then looked at how much of that income would go to pay out-of-pocket health care costs.

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

And, incredibly, they calculated that in 2030 out-of-pocket health care costs will eat up 35.1 percent – 35.1 percent! -- of the income of older married couples. That's more than double the proportion – of 16.0 percent – in 2000.

That's one reason for pension funds trustees to be concerned. The second reason is that out-of-control health care spending erodes the profitability of companies in which you invest. For many companies, health care costs are the single largest category of uncontrollable costs. These costs reduce their operating margins, which is detrimental to their stock prices and your investments. There is no investment strategy you are likely to find that will yield enough income to enable your beneficiaries to keep up with their rising health care costs. Your best strategy is to fight hard for health care reform.

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

Health care reform, for you as health and pension fund fiduciaries, is not a side issue. It is central. It is absolutely essential.

In light of that, I hope that all of you will resolve to play a far larger role in advancing the prospects for system-wide health care reform.

The American health care system is flawed. It just is not acceptable that in this, the richest country in the world, so many of our fellow Americans go without health coverage – and suffer, physically and financially and emotionally, as a result. The rate at which health care costs are escalating is unsustainable. And the quality and efficiency of care need to be improved – to save lives and to save money.

You have the credibility – and the financial and political leverage -- to call for changes, to express impatience with politics as usual, to reject the excuses for inaction.

We hope that more of you will bring your voices, your knowledge, your influence, and your capacities to communicate, educate and advocate to this effort.

And, frankly, we hope that more of you will also earmark the financial resources necessary to win the reform battle. For opponents of reform are spending hundreds of millions of dollars to fight reforms which would protect your beneficiaries' interests, and they will spend even more as the debate intensifies. For your beneficiaries' sake you must now do the same.

Employee benefit plans collectively spend hundreds of millions of dollars each year on consultants and technical assistance to maximize returns and benefits. These expenditures are accepted as appropriate though I think you would have to admit your results too often are marginal.

Your investments of time and money in the battle for system-wide health care reform are every bit as appropriate – and even more necessary – to protect the fiscal integrity of your plans and the well-being of your beneficiaries.

The stakes are enormous, for our society and for the people you try to help. Let them know – and let policymakers know – that you are dissatisfied with the status quo, that you believe that a better health care system is both possible and essential. If you agree, we would welcome your involvement in the fight for health system reform.

Together, we can, and we must, make a difference – now and for future generations. Thank you.