

**Address to the Penjerdel Employee Benefits & Compensation
Association Health Care Symposium**

“The Health Care Crisis: Impact on Employers and Employees”

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Good evening ladies and gentlemen. It is a pleasure to be with you this evening to discuss an issue of concern to you and to all Americans. My invitation to speak this evening noted that as professionals dealing with benefits and compensation issues, you were concerned with rising health care costs, access to quality care and the growing number of uninsured. I can understand why and I suspect that many of you are more than concerned – you are alarmed -- about these issues and about their effect on your companies and employees, and on the pension and health and welfare funds which you manage or advise.

Your apprehensiveness is justified, for we are in very serious trouble. And unless our political leaders act quickly, our problems will become even more severe.

Frankly, the problems of our health care system have become so large, so serious, and so pervasive that they are beyond the ability of any one company or group of professionals, no matter how large or shrewd, to overcome.

All those who interact with the health care system and especially purchasers of health and pension coverage -- will need a new and far more comprehensive strategy. Inaction – business as usual -- is just not a viable option.

Nor are the piecemeal reform proposals, such as MSA's, AHP's or modest tax credits, currently being considered by the administration or Congress powerful enough to cope with the problems we face.

Given your responsibilities, you and your colleagues must live with these issues – grapple with them – every day.

I respect the efforts that so many businesses have made to constrain health care spending. But the reality is that all businesses – all of us -- are swimming against very powerful tides. The measures that private purchasers can deploy against these forces are simply not adequate to the task.

That is why health care costs for even the largest and most savvy purchasers continue to climb at double-digit rates, year after year after year.

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

My presentation today will explain why, and is in four parts. First, I will speak about the dimensions of the crisis and about its effect on American businesses and its connections to other major economic issues and challenges.

Second, I will summarize our Coalition’s recommendations for reform.

Third, I will briefly describe the costs and savings that our recommendations would generate for your companies and employees and our nation.

Finally, I will offer some closing thoughts about why and how business must become increasingly engaged in the task of achieving comprehensive health system reform.

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

Our Coalition is the nation’s largest and most broadly representative alliance working in a non-partisan fashion for comprehensive health system reform. There are hundreds of billions of dollars of health care purchasing power and trillions of dollars of corporate asset ownership represented at our table. Our ninety members include

major businesses, such as Verizon Lucent and insurers, as well as the nation's largest consumer, labor, provider, and religious groups. The nation's largest health and pension funds are also members of our Coalition including CalPERS, CalSTRS, the New York State Teachers' Retirement System, the National Coordinating Committee for Multi-Employer Plans and NCPERS. Our members collectively represent about 150 million Americans. Our Coalition is so broad and diverse that it is fair to say we are not a special interest group.

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 Bush, Carter, and Ford. Former Wisconsin Governor – and President Bush's former Health and Human Services Secretary – Tommy Thompson has just joined our board.

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.

So what are the problems we face?

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, dangerous and costly care.

Let's deal first with costs.

The costs of health care are surging at unprecedented rates. It is projected that in only five more years national health care spending will exceed \$2.7 trillion that is nearly a trillion dollars more than we collectively spent last year.

Over the past five years, health insurance premiums have increased more than four and half times faster than inflation and five times faster than wages. Our Coalition projects that soon, the average premium for family coverage will exceed \$14,500, that is more than double the average premium just four years ago.

It is no coincidence that the number of Americans without health coverage has been climbing rapidly.

President Bush's Council of Economic Advisers concluded recently that, rising health care costs are creating serious financial burdens for families and employers and increasing the number of uninsured.

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

In fact, analysts are predicting an "economic doomsday" for as health care 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 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".

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.

These cost increases also adversely affect the benefits that you manage – and the employees and retirees whose interests you are entrusted to protect.

Clearly, businesses that provide health insurance to retirees are experiencing major challenges. The costs of health insurance have risen more over the past five years than over any previous five-year period, and these increases are expected to continue, at double-digit rates, for the foreseeable future.

These trends make it more difficult for companies to maintain coverage for current employees and retirees – and more difficult as well to be able to provide the same levels of health and pension coverage in the future.

So, it is not surprising that many employers have cut back – or cut out entirely – health and pensions benefits for retirees.

And as out-of-pocket health care costs rise, these increases erode the adequacy of pension benefits. So, escalating health care costs reduce the standard of living for your retirees.

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, as I have already noted, the rapid rates of increase in these costs erode the living standards for those who receive retirement income from your funds – by offsetting, or more than offsetting, increases in that income.

Second, 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.

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. These concerns cannot be addressed unless health care costs are contained and that is why you, as health and pension fund trustees must now work as never before for health system reform. Without reform the viability of your companies and your health and pension funds are at risk.

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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, the number of uninsured Americans rose to nearly 46 million in 2004. That total represented a jump of 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 by next year -- an addition of more than 10 million since 2001. You know that as the number of uninsured grows, more costs are shifted to your health care funds to pay for the care of the uninsured.

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.

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.

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 – which is to say, the value of your pension fund investments.

As you know, until recently the Administration has claimed that Social Security is the nation's top domestic problem and priority.

In light of that and for perspective, I want to say a few words about this view. According to the Congressional Budget Office, if Social Security isn't adjusted by Congress, then 45 years from now, it will be able to pay only about 80 percent of promised benefits to its enrollees.

By contrast, we have right now nearly 46 million Americans with no health coverage – zero percent of benefits and that number grows by two million each year.

Social Security is said to be in crisis. But the health care crisis is far larger and in need of immediate attention. In fact, the adequacy of Social Security and pension benefits cannot be assured unless we control health care costs.

The third major problem in our health care system is an epidemic of sub-standard care. Sadly, 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, and many of your employees and beneficiaries, die prematurely each year because of sub-standard care. Millions more are harmed. It is estimated that unnecessary accidents, errors, and poor quality of care are now the nation's third leading cause of death, just behind cancer and heart disease. Poor quality is also an enormous cost issue since it is estimated to result in between 300 to 500 billion dollars of waste each year.

So these are the problems we face. It is clear that the status quo in health care is not only unacceptable, it is also unsustainable, and the costs of continued inaction are enormous. So what must we do?

The members of our Coalition have developed a set of answers to that question, which we call specifications for reform. It is the most ambitious and comprehensive proposal in the national debate. We hope that because of the broad and growing support that our

specifications have attracted they will encourage our political leaders to act. Before I summarize our recommendations, let me make two observations.

First, our members believe that reform must happen quickly. The circumstances of American health care are increasingly dire. The need for fundamental changes is urgent. A real economic doomsday faces us.

Second, reform must be systematic. The American health care system is elaborately interconnected. 50 years of incrementalism has failed and the piecemeal reforms currently being proposed by the Administration and congress are not commensurate with the scope of the problems we face and will not solve our problems. The system problems we face in health care require a systematic solution. Our Coalition's specifications were designed to be systematic. They are meant to work together, as a balanced, mutually reinforcing package.

Our recommendation's fall under five headings.

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 for insuring all Americans, including:

- Employer mandates (supplemented with individual mandates as necessary);
- Expansion of existing public programs, such as SCHIP that covers 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 options imply a, government run system, and any one of these could work, but to assure that everybody gets coverage participation must be required and subsidies must be provided for those who are less affluent.

Second, we propose 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 system-wide effort to improve the quality and safety of health care.

The Coalition recommends that public and private efforts to improve quality and better manage costs 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 and to reduce cost-shifting, which will be a huge

help to businesses who now provide coverage. We identify mechanisms that could be used to fund the upfront program costs of reform.

Lastly, we recommend steps to simplify the administration of health care. The reforms we propose would dramatically streamline the system, reduce the cost of administration, and enable health care markets to function more effectively.

Our Coalition believes that all of these goals need to be pursued — that as a society we cannot address one effectively unless we address all of them concurrently. For example, without universal coverage, we can assure neither equity nor quality. Unless we improve the quality of care, we cannot contain costs. In addition, without universal coverage, we can neither make the system less complex, stop cost-shifting, control costs, achieve a level playing field of equitable financing, or create a truly competitive market-based system.

In fact, those who originally advanced the competition hypothesis warned us that a market could not work in the absence of mandatory universal coverage, and government oversight. Universal coverage, in our view, is not a luxury. It is instead a necessity, without which our problems are not solvable.

To those who continue to advance the myth that health care costs cannot be contained, or that you can't contain costs without hurting quality, we say this. Every major developed nation has achieved universal coverage while spending one-half to two-thirds as much per capita as do we and achieving health outcomes at least as good as or better than ours. America does not need more money for health care. We need a better system.

So these are the reforms we believe will be necessary. Our Coalition's specifications constitute the most comprehensive, ambitious, and toughest reform measures that have been advanced in the national debate.

As such, we recognize that there will be opposition and resistance, as there always is to any major health care reform proposal, but we

believe that reform will ultimately take place. Why? There are three reasons:

First, the severe problems within our health care system are going to grow even worse. As the adverse effects on the vitality of our economy and on the health and well-being of our citizens become more intense and evident, we anticipate increasing voter pressure on political leaders to adopt reforms that are commensurate with the nature and scope of the problems we face.

Second, there are signs that support for more ambitious reforms is growing. Indeed, the existence and rapid growth of our Coalition are signs of this. Public opinion surveys document rising levels of worry about the trajectory of the health care system and increasing recognition that big reforms, not small adjustments, will be needed.

And third — and this is crucial — it is now clear that the problems of our health care system can in fact be solved. Our specifications map out a workable path to solution.

So what will adoption of the reforms we propose do for corporate payers and our country?

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 and CBO scoring, 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 exceed \$125 billion, 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.

In any of the Coalition’s first three scenarios, employers providing health insurance today would collectively save about \$848 billion during the ten-year period analyzed here. Their cumulative savings under the fourth scenario would amount to about \$595 billion.

Families with private health insurance now would also save substantial sums in a reformed system – about \$309 billion collectively over ten years in Scenarios 1, 2, or 3 and about \$195 billion in Scenario 4.

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.

It would simplify the system. And most importantly, reform of the health care system 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.

This concludes my formal presentation. I want to end by offering a few thoughts and suggestions for you in the business world to consider.

As employers and providers of health and pension benefits, America businesses and their managers have special responsibilities in our society and special opportunities to advance the cause of health care reform.

Collectively, and individually, businesses are a source of good and a force for good.

What has been largely missing from the national discussion of health care policy is recognition of the linkage between escalating health care costs and the health of our economy. Businesses can help educate policymakers and employees about that connection – and about why sound economic strategy has to include sensible health care reform.

What has also been missing is a full understanding of the impacts that rising health care costs have on the viability of pension funds and living standards of retirees, including your beneficiaries. Again, businesses can help to explain that linkage.

We hope that you in business will devote much more of your time, attention, and your financial resources to the battle for system-wide health care reform. Opponents of reform are spending hundreds of millions of dollars to subvert your and your beneficiaries best interests. That has to change if we are to win the battle.

Our Coalition intends to increase even further our efforts to alert key constituencies about the nature and magnitude of the problem we face and the adverse impact it has. We intend to work with Congress, the Administration, and the public and reach out to others of like mind to enlist their support.

American businesses have a unique opportunity, and I believe a fiduciary responsibility, to help bring about necessary reform. American businesses relate to millions of workers who could be educated and mobilized in this effort. You represent millions of

workers and thousands of employers who could be educated and mobilized in this effort. Businesses also have billions of dollars of economic leverage which can be used to drive and support reform. If business decides to bring its potential power to bear, along with others, reform will occur.

Health care is the nation's largest domestic problem, far larger than Social Security. As such, health care reform should be the centerpiece of America's domestic agenda. We are determined to do all we can – working with business and like-minded leaders and members of both political parties – to make sure that Americans receive high-quality and affordable health care. I think you will agree that is a cause worth fighting for and I hope you will each decide to join in this effort.