

Address to Guns & Hoses Conference 2005

“Our Nation’s Health Care Crisis and Its Impact on Pension Funds”

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Thank you, ladies and gentlemen. I have been asked to speak with you today about the state of our nation’s health care system, about the reforms that will be necessary to address its problems, and about why it is so vital for all of you to become deeply involved in the national health care debate.

I am well aware that, as we meet today, the domestic policy issues that are getting the most attention in Washington are Social Security reform and the effort to recover from Hurricane Katrina – not health care reform.

So let me be very blunt: In our view, the crisis in health care is much larger, and much more destructive, than the developing fiscal imbalance in Social Security.

That doesn’t mean that we won’t ultimately have to address Social Security, too, but health care reform must take precedence.

All of us have great sympathy and empathy for the victims of Hurricane Katrina – those who perished, those who have lost loved ones, and those who have lost their homes and livelihoods.

But surely this calamity should remind us again of how crucial it is to make sure that all Americans, regardless of their finances, have health insurance – for emergencies and for ongoing care.

Every American – in New Orleans and in New York, in Biloxi and in Peoria and here in Las Vegas -- deserves that security in this, our homeland.

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 organization or set of organizations, no matter how large or shrewd, to overcome.

All of us who interact with the health care system – and especially purchasers of health coverage and those responsible for safeguarding pensions -- 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 currently being considered by the administration or Congress.

The measures most often discussed in Washington as steps forward – medical savings accounts, association health plans, and modest tax credits for non-group insurance – are simply not powerful enough to cope with the problems we face.

You and your colleagues live with these issues – grapple with them – every day. And given your financial responsibilities, you tend to be pragmatists – concerned about what really works and about how to get things done.

Our Coalition believes that it is time for America to be unabashedly pragmatic about health care.

The reality is that all of you – all of us -- are swimming against very powerful tides. The measures that private purchasers can deploy against these forces are insufficient.

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 national crisis in health care is going to require major policy changes at the national level.

We hope that even as you press ahead to do what you can now to protect and advance the interests of your beneficiaries, you will also become increasingly active in advocating national, system-wide reforms

that would produce better and more affordable health care for them and for all Americans.

Our presentation today is in four parts, First, I will speak about the dimensions of the crisis in health care and about its connections to other major economic issues and challenges. This discussion will include new findings from the Census Bureau and the Kaiser Family Foundation.

Second, I will present our Coalition's recommendations for reform.

Third, I will summarize projections that we have developed of the costs and savings associated with those recommendations.

Finally, I will offer some closing thoughts about why and how all of you should become increasingly engaged in advancing a national debate about the choices before us.

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

The Coalition is a non-profit organization of organizations, working together for system-wide health care reform.

Our membership consists of more than ninety 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, General Electric, 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.

Our membership includes a number of the 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.

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 are not a special interest – we speak for a broad cross-section of America.

We are advocates for 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. Former Wisconsin Governor – and former Health and Human Services Secretary – Tommy Thompson has just joined our board of directors.

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 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. 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 we collectively spent last year.

Cumulatively, health insurance premiums have leaped up 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.

The average annual premium for family coverage this year is nearly \$11,000 – up from about \$7,000 in 2000.

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.

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

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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 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 with much lower health care costs.

These cost increases also adversely affect the funds that you manage, advise, and direct -- and the employees and retirees whose interests you are entrusted to protect.

Clearly, funds 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 to maintain coverage at current levels for current employees and retirees – and more difficult as well to be

able 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 retirees. These steps leave increasing numbers of early retirees, especially, in very difficult straits – without health coverage, or with reduced coverage, during a stage of life in which health care costs are typically high. When coverage is reduced or eliminated, out-of-pocket costs for retirees soar.

And as out-of-pocket health care costs – for all retirees – rise, these increases offset, or more than offset, gains in pension benefits. Escalating health care costs reduce the standard of living for retirees – even though their pension benefits may be growing at rates in excess of inflation.

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. 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.

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. 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 investments.

A few words, just for perspective, about Social Security: According to the Congressional Budget Office, if that program isn't adjusted by Congress, in 2052 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.

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 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 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. 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 in your packets. 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 help to embolden political leaders to act.

Our Coalition's recommendations fall into five categories:

A. Coverage of All Americans

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.

We identify 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 (such as the State Children's Health Insurance Program)
- Creation of new targeted public programs
- Establishment of a universal publicly financed program.

Any one of these or a combination of mechanisms can work, but to assure that everyone gets coverage, participation must be required and subsidies must be provided for those who are less affluent.

B. Cost Management

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.

C. Improved Quality and Safety

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.

The Coalition recommends that public and private efforts to improve quality and better manage costs 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 improving quality and safety.

D. More Equitable Funding

Fourth, our members call for steps to make the financing of health care more equitable and to reduce cost-shifting. We identify mechanisms that could be used to fund the upfront program costs of reform.

E. Administrative Simplification

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.

III. Costs and Savings

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.

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.

IV. The Case for Engagement

In conclusion, let me offer a few thoughts and suggestions for you to consider.

Pension and health and welfare funds, and those who manage them, have special responsibilities in our society – and special opportunities to advance the national dialogue about health care reform.

The funds represented here today are important to the well-being of those whom you benefit directly and important to the economy.

Collectively, and individually, you 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. You, and your funds, can help to educate policymakers, other funds, employers, and your members and enrollees 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. Again, you and the funds that you lead can help to explain that linkage.

All of you should be enormously proud of the work that you do. But I hope that you will resolve to play a 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 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 and educate to this effort.

And, frankly, we hope that more of you will also earmark financial resources for this purpose.

Pension funds, and health and welfare funds, spend a lot of money on consultants and technical assistance to maximize returns and benefits. These expenditures are accepted as appropriate.

But the stark reality is that much of that good work can be frustrated and confounded and undercut by surging costs in an unreformed health care system.

We hope that you will devote more of your time, attention, and financial resources to the battle for system-wide health care reform.

The stakes are enormous, for our society and for the people you help. Let them know – and let policymakers know – that you are unsatisfied with the status quo, that you believe that a better health care system is both possible and essential.

The achievement of system-wide health care reform will take determination, application, and collaboration. Our Coalition intends to work in a non-partisan fashion with Congress, the administration, and the public to build understanding and support for comprehensive reform. And we will continue to reach out to others who share our commitments.

Together, we can, and we must, make a difference – now and for generations to come.