

Address to the Joint Labor Management Committee of the Retail Food Industry

“The Health Care Crisis, Necessary Reforms, and the Retail Food Industry”

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Thank you and good morning, ladies and gentlemen. I have been asked to speak with you about the problems in our nation's health care system, about the reforms that will be necessary to address those problems, and about why it is so important that more leaders in the retail food industry become increasingly engaged in working for these needed changes. As many of you know, I have been here before and it is good to see familiar faces. It is also good to see so many people in this room whom I have not spoken with previously. My message today, is not only that health care reform must be a priority for our nation, but that it must be a priority for your industry.

This is the fifth time in the past six years that I have been asked to deliver this same message, and sadly each time, the reaction has been the same and with the exception of Ahold, A&P, your labor members, and for a time, Safeway, the rest of this group went home and did virtually nothing – to really address the underlying problems in the health care system.

So here we are six years later during which time this industry has probably spent more than 20 billion dollars for health care and underwent the most devastating strike in your history. What else has changed?

Well – as promised – all the problems I alerted you to before are not only still with us – they have all grown far worse.

Fortunately, because of continuing work by our Coalition and others, a number of very important things have happened which I want to review with you.

But before doing so, I want to make a few observations. The leaders of this industry know well that rising health care costs are putting severe pressure on operating margins – and that they also put pressure on contract negotiations between management and labor. I hope it is now clear to you that the problems you face in our health care system will not be solved at the bargaining table, negotiation by

negotiation; they will be solved, and they must be solved, by policymakers in Washington.

As the facts I lay out will demonstrate, we, as a nation and you as an industry are in very serious trouble. And unless our political leaders act quickly, our health care crisis 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 organization, or industry, no matter how large or shrewd, to overcome.

All of us will need a new and far more comprehensive strategy. Inaction – business as usual -- is not a viable option. Nor are the reform proposals currently being considered by the administration or Congress or by many in corporate America, including the cost shifting strategies.

The views I will be sharing with you are those of the National Coalition on Health Care, which has grown dramatically since we last met. Our Coalition is now the nation's largest and most broadly representative non-partisan alliance working for system-wide health care reform.

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 95 members include major corporations, such as Verizon, Lucent, and Georgia-Pacific, the AFL-CIO and the largest individual unions; and a number of the nation's largest health and pension funds, such as the California Public Employees Retirement System, the New York State Common Retirement System, and the New York State Teachers' Retirement System.

Our Coalition also includes the nation's largest associations of health care providers, and all the nation's major religious organizations. We also have major health insurers and our nation's largest consumer and charitable groups, including AARP, the American Cancer Society, Catholic Charities and the Salvation Army.

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

Our Coalition has always been 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 Health and Human Services Secretary, Governor Tommy Thompson has just joined our board.

This past summer, after a year of study and deliberations, our Coalition issued a major report that reflects a consensus among our members. The fact that we were able to achieve such a consensus – not only among our business and labor members, but across the many diverse organizations that belong to our Coalition – is evidence that, with good will and careful discussion, agreement is in fact attainable.

In our report, entitled Building a Better Health Care System: Specifications for Reform, we analyze the problems in our health care system and how they affect Americans as patients, as employees, as purchasers of care, and as members of our economy. Then we set out what we call specifications – objectives for reform, criteria by which alternative proposals can be assessed, and options for policymakers and the public to consider.

We believe that these specifications for reform will help to accelerate and frame a renewed debate about how to improve the American health care system. And that -- because of the broad range of organizations that developed these ideas and are ready to work for their adoption – our specifications will help to embolden political leaders to act, and act soon. I will explain how your industry's help could speed that process.

I am well aware that, as we meet today, the domestic policy issue that is getting the most attention here in Washington is not health care – it's Social Security. So let me be very blunt: In our view, the top domestic priority for this nation should be – and must be -- health care.

The crisis in health care is far larger, and much more dangerous, than the developing fiscal imbalance in Social Security. That doesn't mean that we won't ultimately deal with Social Security, too, but health care must be job one.

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.

We see three huge and interconnected problems in the American health care system, any one of which would itself be cause for alarm:

- the first is, rapidly escalating costs
- second, a huge and growing number of Americans without any health coverage and
- third, an epidemic of sub-standard care.

Let's deal first with costs.

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

Over the past five years, health care premiums have increased more than four and half times faster than inflation. Our Coalition projects that by next year, the average premium for family coverage will be more than double the average premium in 2001.

These double-digit increases – year after year -- are making it much more difficult for businesses to continue providing health coverage for employees and retirees.

And they are 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.

It's no wonder that surveys, by our Coalition and others, find that Americans are worried sick about rising health care costs – not as an abstraction, but as an issue that affects them and their families, personally and profoundly.

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

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

Surging health care costs also slow the rate of job growth by making it more expensive for 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.

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.

In a recent speech, Richard Wagoner, the chairman of General Motors, said that health care costs add an average of \$1500 per vehicle to the price of GM cars and trucks. His conclusion: “The cost of health care in the U.S. is making American businesses extremely uncompetitive versus our global counterparts.” That’s a strong statement from the chairman of GM – and I can tell you that there are many other CEOs in our Coalition and elsewhere who feel the same way.

These cost increases also directly – and adversely – affect the health and pension funds that you manage and the retirees and current employees whose interests you are entrusted to protect.

Companies that provide health coverage to retirees are experiencing major challenges because the costs of health coverage have risen more over the past five years than any other five-year period for which we have data, and, as I have noted, these increases are expected to continue, at double-digit rates, for the foreseeable future.

In light of this, it is not surprising that many firms and organizations have been forced to cut back – or cut entirely – health coverage 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, particularly for chronic diseases, are typically high. When coverage is cut back 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.

The people whose interests you are collectively responsible for safeguarding men and women who worked diligently for decades – are facing difficulties that they, and you, could not have anticipated.

Escalating health care costs are not just affecting the private sector; they are also producing severe long-term budgetary problems in the public sector which in turn through the resultant tax increases effect your bottom lines.

The projection for budget short falls in federal health care programs is especially alarming. According to David Walker, the nation’s Comptroller General, given projected demographic and cost trends, Medicare can be expected to produce liabilities over the next 75 years of more than \$27 trillion – more than six times the liabilities of Social Security over the same time period. And that number doesn’t include the impacts of rising costs in Medicaid.

Douglas Holtz-Eakin, Director of the Congressional Budget Office, puts all of this in perspective: “The demand on the budget from Social Security will take place simultaneously with – but be eclipsed by – the demand generated by Medicare and Medicaid.” Dr. Holtz-Eakin and Mr. Walker both agree that the present trends in benefit cost escalation are unsustainable. Federal Reserve Chairman, Alan Greenspan also agrees and has warned that we face an economic meltdown if benefit costs are not controlled. Such an event would play havoc on your industry and your employees and members.

All this leads us to agree with the recent statement by House Majority Leader, Tom DeLay that, “There is no greater threat to America’s continued economic security than the current state of our health delivery system.” So I believe you can now see that we have reached the point where the public’s three main domestic concerns – the economy, jobs, and health care – are really one and the same issue. Unless the health care crisis is addressed, we cannot assure a health economic and job situation.

Largely due to rapidly rising costs we face the second facet of our health care crisis, which is a huge and growing number of Americans without any health coverage or with inadequate coverage.

According to the most recent official figures from the Census Bureau, the number of uninsured Americans rose to 45 million in 2003. Probably an equal number are uninsured.

As health insurance premiums continue to rise, so too will the incidence of uninsurance. Our Coalition projects that the number of uninsured Americans will reach 51.2 to 53.7 million by next year – an addition of more than 10 million since 2001.

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.

In fact, according to a new study conducted by researchers at Harvard, about one million personal bankruptcy filings each year are triggered by illness or medical bills.

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

The Institute of Medicine has estimated that total economic losses attributable to uninsurance amount to between \$65 billion and \$130 billion a year.

Companies, such as yours, that provide health coverage for their employees are being cost-shifted against by federal and state governments and by companies that do not provide coverage – and they are being put at a competitive disadvantage. In your industry and in others, we need a level playing field for all firms – one on which firms compete on their abilities to provide good products and services at good prices, not on their abilities to shift the costs of health coverage and health care onto other companies and onto federal and state budgets. A member of your industry is a classic case in point of cost shifting to you and others.

Then there is a third problem, our health care system suffers – and patients and your employees and members suffer – from 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.

A major new RAND study – based on careful review of the medical records of thousands of patients in twelve metropolitan areas – found that these patients received only 54.9 percent of recommended care.

Think about that. In what other industry would such a gigantic mismatch between ideal and actual practices be tolerated? Why is it permitted to continue in health care, where lives are at stake?

As our report indicates, literally hundreds of thousands of Americans die prematurely each year because of sub-standard care. Millions more are unnecessarily 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 – you included – may be wasting more than \$500 billion a year.

So these are the problems we face. It’s clear that the status quo in health care is unacceptable and unsustainable. The costs of continued inaction are enormous. So what must we do?

Our Coalition has developed a set of answers to that question, which we are calling specifications for reform. Before summarizing our recommendations, let me make three observations.

First, our members believe that reform must happen quickly. The need for fundamental changes is urgent. A real economic doomsday faces us.

Second, reform must be systemic. The American health care system is elaborately interconnected. Fifty years of incrementalism have failed. The piecemeal reforms currently being proposed by the administration and Congress and by many businesses are not commensurate with the scope of the problems we face and will not solve our problems.

And third, reform must be system-wide. Otherwise gains in some sectors or for some groups are likely to be offset by losses elsewhere.

The current debate about federal funding levels for Medicaid underscores the importance of a system-wide approach. Attempts to address cost issues in one segment of the overall system typically just transfer problems to other segments. When policymakers in Washington focus on how to limit or reduce federal financial exposure to the rising costs of health care programs, these efforts can be expected to shift costs to state and local governments and private payers.

Our Coalition's recommendations 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 workable 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 approaches imply a government-run system, and 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 approximate 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.

To help purchasers make comparisons, and to make prices more transparent, insurers should be required to set separate premiums for the core benefit package and then for any supplemental coverage they offer.

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 an 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. Our campaign to improve quality is designed to improve accountability, make prices transparent and to help payers, providers, and patients make better-informed choices.

The Coalition recommends that public and private efforts to set rates and to improve quality should be coordinated by an independent national board, with members drawn equally from the public and private sectors.

Fourth, the Coalition's specifications seek to make the financing of health care more equitable.

Our members call for measures to reduce or eliminate over time the inequitable and destructive practices of cost-shifting across categories of insurance programs and payers.

Our report identifies mechanisms that could be used, individually or in combination, to fund the upfront program costs of reform, including the costs of assuring coverage for all Americans.

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.

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. In the absence of quality, we cannot contain costs. In addition, without universal coverage we cannot make the system less complex, stop cost-shifting, control costs, achieve a level playing field of equitable financing, or even create a truly competitive market-based 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, business 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 growth of our Coalition are signs of this. Public opinion surveys document rising levels of apprehensiveness and 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 – the problems of our health care system can in fact be solved. If there's a will, there's a way. Our specifications map out a workable path to solution.

Workable and affordable. It is clear that the cost of action -- of the reforms necessary -- is far less than the cost of inaction. We will soon release an independent economic analysis of the Coalition's specifications that will establish that the upfront investment needed to achieve system-wide reforms, including coverage for all Americans, would be more than offset by huge savings over time.

I'd like to close with a few very direct words. As I mentioned earlier, we've been pleased to have an opportunity to present the Coalition's views to this group a number of times, and we've been especially glad that the UFCW and some of the major companies in this industry have been active participants in our work. But, to be candid, I've wondered why more companies in this industry haven't joined the fight for health care reform.

It's clear that for the retail food business – with narrow margins and fierce competition – that the sorts of health care reforms that I've been talking about would be enormously helpful. Firms that provide health coverage would save a great deal of money in a reformed

system – in part because you would no longer have to pay more to cover the costs of uncompensated care for the uninsured, in part because you would benefit from the cost management discipline built into our specifications. And you would have a level playing field in this industry when it comes to health care costs, as you should.

Doesn't it make sense to support policy changes that would lower your costs? Doesn't it make sense as well to compete on price and quality in your industry, not on stratagems designed to gain advantage by shifting health care costs around in an endless, unproductive shell game?

We hope that more of you will come to recognize that supporting health care reform isn't a luxury; it's good, pragmatic business strategy. We're not asking you to work for reform out of the goodness of your hearts, although there's nothing wrong with that. No, we're asking you to work for reform because it will help to improve margins and stock prices and deliver better, more affordable health care.

And we're asking you – against the backdrop of difficult negotiations and strikes and bad publicity and soaring health costs – to recognize, and then to act on the recognition, that there's a better path ahead, and that you can help lead the country in the right direction.

Collectively, the people in the retail food industry interact every week with virtually every household in America. You have the ability and the credibility to call for changes, to express impatience with politics as usual, to reject the excuses for inaction.

We hope that more of you will join us and lend your voices, your knowledge, your capacities to communicate and educate to this effort.

The achievement of system-wide health care reform will take determination and hard work. Our coalition intends to work in a non-partisan fashion with Congress, the administration, business, and the public to build understanding and support for comprehensive reform. And we will continue to reach out to others who share our commitments – to work together for the common good. At long last, I hope your industry will join us and throw your considerable weight and political leverage into the achievement of reforms which will benefit not only our nation, but your industry and your employees as well.