

Address to the 2005 Spring Conference of the Council of Institutional Investors
“The Health Care Crisis, Necessary Reforms, and the Stakes for Pension and Health Funds and Their Enrollees”

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

Thank you and good afternoon, ladies and gentlemen. I have been asked to speak with you 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 imperative that the nation's pension and health funds become deeply involved in the national health care debate.

I know that health care is a topic of concern for this group. And I suspect that many of you are more than concerned – you are alarmed -- about the trajectory of health care and about its effect on your millions of beneficiaries and on the pension and health funds for which you have fiduciary responsibility.

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 organization, 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 views I will be sharing with you are those of the National Coalition on Health Care. Our Coalition is 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, General Electric, and Delphi; the AFL-CIO and the largest individual unions; and a number of the largest health and pension funds, such as the California Public Employees Retirement System, the New York State Common Retirement System, the New York State Teachers' Retirement System, the Public Employees Retirement System of Ohio, 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.

The Coalition also includes associations of health care providers, such as the American Academy of Family Physicians, the American Academy of Pediatrics, the American College of Physicians, and the Association of Academic Health Centers; organizations representing the nation's major religious faiths, such as the U.S. Conference of Catholic Bishops and the National Council of Churches of Christ; insurers, such as the UnitedHealth Group, Blue Shield of California, and the Principal Financial Group; and major consumer and patient groups, such as the AARP and the American Cancer Society.

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 Tommy Thompson has just joined our board of directors.

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, 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, which are objectives for reform, criteria by which alternative proposals can be assessed, and options for policymakers and the public to consider.

We hope that these specifications for reform will help to accelerate and frame a renewed debate about how to improve the American health care system. And we hope 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 later explain how your help could speed up 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 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 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 society 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:

- 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.

Over the past five years, health insurance 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 coincidence that the numbers of Americans without health coverage have been climbing.

And it's no wonder that surveys, by the Coalition and other organizations, 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 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. 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, G. Richard Wagoner, Jr., the chairman and CEO 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 funds that you manage and the retirees and current employees 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 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. These trends make it more difficult to maintain coverage at current levels for current retirees – and more difficult as well to be able to provide the same levels of coverage for future retirees.

It is not surprising that many firms and organizations have chosen to 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, particularly for chronic diseases, 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.

The people whose interests you are responsible for safeguarding – men and women who worked diligently for decades in the expectation of being able to enjoy comfortable retirements – are facing difficulties that they, and you, could not have anticipated.

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. Not just in the automobile industry, but across our economy – in industries as diverse as steel and telecommunications, in large firms and small – escalating health care costs are a disadvantage in global competition and a hidden tax on profits. 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.

Escalating health care costs are not just affecting the private sector; they are also producing severe long-term budgetary problems in the public sector. In recent weeks we've been hearing a lot about the long-term federal budget liabilities associated with Social Security. The Comptroller General of the United States, David M. Walker, has testified that if the Social Security program is not adjusted, it can be expected to generate over a 75-year period total liabilities – in excess of revenue -- of \$3.7 trillion. That is certainly a daunting number.

But the projection for federal health care programs is much more alarming. According to Mr. Walker, under current law and given projected demographic and cost trends, Medicare can be expected to produce liabilities over that same period of more than \$27 trillion – more than six times the liabilities of Social Security. 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 argue that the present trends in benefit cost escalation are unsustainable.

As this group knows well, escalating health care costs are putting enormous pressures on the budgets of state and local governments, making it increasingly difficult for them to maintain current levels of health care benefits. In many jurisdictions, these pressures are also straining the capacity of governments to muster adequate resources for other responsibilities, including education. This is a zero-sum game in which there are many losers; these circumstances, too, are unsustainable.

In sum, we have reached the point where the public's 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 robust economic growth or strong job creation.

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 million in 2003. That total represented a jump of 3.8

million in just two years – the largest two-year increase in the ranks of the uninsured since 1987.

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.

But even these numbers understate the real scope of the uninsurance problem. Nearly 82 million Americans – almost a third of the population below the age of 65 – spent a portion of either 2002 or 2003 without health coverage. And many of these folks were solidly in the broad middle class. Nearly half – about 38 million – lived in households with annual incomes of more than \$37,000.

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. Summarizing the significance of that study, Professor Elizabeth Warren of Harvard Law School writes:

Every 30 seconds in the United States someone files for bankruptcy in the aftermath of a serious health problem. Time is running out. A broken health care system is bankrupting families across the country.

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.

According to the HR Policy Association, which represents senior human resources officers at 200 of the nation's largest companies, the productivity losses due to lack of health insurance amount to between \$87 billion and \$126 billion a year.

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.

Again, 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 more than 45 million Americans with no health coverage – zero percent of benefits.

And if we don't change our health care system soon, by the middle of this century the number of uninsured will climb by literally tens of millions.

Social Security is said to be in crisis. But the health care crisis is far larger and in need of immediate attention.

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.

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?

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 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 not only unacceptable, it is 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 modest reforms currently being proposed by the administration and Congress, and the cost-shifting strategies being

pursued by some 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, our 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.

Our members believe that over time the health care system must be made more efficient by providing more and better information for patients, providers, and purchasers; by improving the quality and outcomes of care and reducing the amount of unnecessary and injurious care; and by modernizing and simplifying the administration of the system.

But we also believe that the urgent need for cost relief requires short-term constraints, even as these other steps are being implemented. These constraints should take two forms: 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 coverage defined by that package.

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.

An 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. The campaign to improve quality must be designed to improve accountability and to help payers, providers, and patients make better-informed choices.

The Coalition recommends that public and private efforts to improve quality should be coordinated by an independent national board, with members drawn equally from the public and private sectors. The board's responsibilities would include coordinating the development, by panels of leading health care professionals, of national practice guidelines.

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. Unless we improve the quality of care, 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.

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 we do and achieving health outcomes at least as good as ours or better. 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.

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.

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 our 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 – of hundreds of billions of dollars -- over time.

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

Pension and health 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 that belong to the Council of Institutional Investors are enormously important in the economy as a whole and, clearly, in the enhancement of retirement security for literally tens of millions of Americans.

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 a recognition of the linkage between escalating health care costs and the health of our

economy. You, and your funds, can help to educate policymakers, business leaders, 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 policymakers and your members and enrollees. Who could explain those impacts more authoritatively or with more credibility than the stewards of America's pension and health funds?

All of you should be enormously proud of the work that you do to help provide decent retirements for so many Americans. But I hope that you will recognize why it is necessary for you to play a larger role in advancing the prospects for system-wide health care reform.

The American health care system is flawed, and all of us know that. 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.

Some of the funds represented here today are already active in the fight for system-wide health care reform – indeed, some are active as members of the National Coalition on Health Care. We hope that more of you will bring your voices, your knowledge, your influence, and your capacities to communicate and educate to this effort.

The stakes are enormous, for our society and for the people you help -- those who are retired and those who hope to retire with dignity and security. Let them know – and let policymakers know – that the leaders of America's largest pension and health funds 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.