

Testimony of

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Good Morning Mr. Chairman and members of the Committee

My name is Stuart Altman. I am the Dean and Sol C. Chaikin Professor of National Health Policy at The Heller School for Social Policy and Management at Brandeis University. I appreciate being invited to testify before you this morning on the critically important subject of the need for national reform to develop a system to provide comprehensive health insurance protection for all Americans.

This subject has been central to my professional activities for the past 36 years. I have had the privilege of working on this issue both as a federal government official---Deputy Assistant Secretary for Health Planning and Evaluation for The Department of Health, Education and Welfare, 1971-1976 and Chair of The Prospective Payment Assessment Commission, 1983-1994 --- and for various State governments. I also worked on the healthcare transition team for President-elect Clinton and helped design the health reform plan for Senator Kerry in his bid for the U.S. Presidency. Unfortunately, as you well know, the U.S. has not found the right approach to solve this problem and the number of uninsured keeps growing.

Clearly, the 47 million Americans with no health insurance bear the greatest burden of not having such protection, but the negative implications of this situation go far beyond these individuals and their families. Lack of a true universal health system for the US has serious negative implications for many businesses both in the domestic and international markets. It creates financial problems for those health providers that provide care to large numbers of the uninsured, it raises the cost of private health insurance premiums, and it distorts the labor market decisions of many workers. I will focus most of my testimony this morning on a discussion of these problems.

Before discussing the wider negative implications of the lack of a universal health insurance system, I must admit that for me and the many others who have tried over the years to remedy this situation it has been frustrating to recognize that our lack of success is inconsistent with the views of the American people. In survey after survey, the vast majority of Americans believe we should have a national system to protect all of us against the high cost of health care. Yet we can't seem to make it happen.

As I have watched and participated in the many attempts to pass universal health insurance I have reluctantly developed what I now call Altman's Law, to explain why the US has not developed such a system. Altman's law can be summarized as follows:

*“Almost every American and advocacy group supports some form of Universal Health Insurance-- But if it's not their preferred version, their second best alternative is to maintain the status quo.”*

I truly hope that the work of this Committee can help repeal Altman's law.

I know that this hearing is not designed to discuss the technical details of how to create a universal health insurance system, but permit me to make two general observations.

1. There are many ways to protect all Americans against the costs of expensive healthcare and each brings with it certain advantages and disadvantages or “winners” and “losers.” I strongly believe that we substantially improve the probability of legislating a comprehensive health reform system if we build on the current financing system as much as possible. To do otherwise generates significant opposition from groups that are key players in the existing system. Because they have a lot to lose, they form

alliances with other “loser” groups to derail such legislative initiatives.

2. Much as I support the need to both protect all Americans and to reduce the growth of healthcare costs, I think it would be a big mistake to combine both in the same legislative reform plan. Each component requires changes from the current system that will be opposed by some if not many influential groups. It is also unlikely that combining the two will generate enough new support to counter the combined negative forces that will oppose the coverage and cost control legislation. Since I believe it is both easier and more important to provide comprehensive coverage I would start with solving that problem.

The new Massachusetts health reform plan adopted both approaches by focusing its first effort on developing a universal coverage system for the state and then asking a commission to recommend changes to lower costs and improve quality. Similar approaches are being discussed in several other states including California where Governor Schwarzenegger has proposed a plan that has many of the same components as the one legislated in Massachusetts. States are the true laboratories for change and permit different approaches to be tested. While I believe, in the end, we need a federal reform system, we should encourage more states to develop their own approaches and, where possible, receive substantive and financial help from the federal government.

In order to build a reform plan on our current healthcare financing system, we must rely heavily on the employer-based private insurance system. With the cost of a family health insurance policy exceeding \$12,000 in parts of the country, we must do something to lower premiums if we are going to ask employers and employees to share the cost of expanded coverage and help them

compete in international markets. My suggestion to accomplish this is to have the federal government help underwrite the cost of care for the most expensive patients through a governmental re-insurance system. For example, the federal government could reimburse a private carrier for 75% of the expenses for all patients whose costs exceed \$100,000. If you wish to limit the federal expense of the plan it could be limited to firms that have a low wage labor force or those for which health insurance premiums exceed a certain percentage of revenues. By enacting such a re-insurance system, we would be asking all of us to share in the financial burden of caring for the very sick, not just a small subgroup of the population that happens to work for the same firm. This would be especially helpful for small and medium sized companies.

Under this approach the government could also require that as a condition of participating in such a plan, a private insurer must demonstrate that they operate an effective “high cost case management system” (HCCMS ). When used correctly HCCMS have been shown to both improve the care provided to the neediest ill patients and lower the overall cost of care. Given that about 70% of the cost of care is for the sickest 10% of the patient population, focusing on this group could have a substantial impact on overall healthcare spending.

### **Negative Implications of Lack of Universal Healthcare Coverage**

Although 47 million Americans lack health insurance coverage at any moment in time, millions more lack such protection at some time during a year, or have inadequate insurance protection. When these individuals get sick, they often receive care in the emergency room, the most expensive place to get treated, or wait until they are very ill and require catastrophic intervention . What they lack is preventive and primary care. I am sure Dr. Mongan can give you numerous examples of patients that received extensive amounts of

health care in one of his hospitals and paid nothing or very little for the care. Fortunately, Massachusetts has a free care pool that helps healthcare institutions pay for such care. But the money to support this pool must come from somewhere. For the most part, the somewhere is the hospitals and health insurance plans who then raises their prices to employers and everyone else. In essence the U.S. has created a “hidden tax” that disproportionately falls on other patients and some of the insured. To the extent that health providers cannot shift these expenses to others, they must absorb them and try to lower their other expenses or reduce care to all their patients. If the care given to the uninsured were spread evenly among all health providers, it would not pose a serious problem. But, as we well know, a relatively small number of providers bear much of the burden, and it is just those providers that have the toughest time shifting the expenses to others. These so called “Safety-Net” providers are often the institutions that are the most strapped for funds to improve the quality and safety of the care they provide. But the burden goes beyond the traditional safety net institutions and has led to serious negative financial consequences for both not-for-profit and for-profit institutions throughout the country.

A related but equally serious negative consequence of our patchwork health insurance system is its effect on those employers that do provide comprehensive benefits to their workers and their families. Most of the large manufacturing companies in the U.S. have traditionally provided such benefits, and they now find themselves responsible not only for the health insurance costs of their workers but also for other dependents (many of whom work for other companies who limit the coverage they offer). In addition, some of these companies have made long-term commitments to their retired workers and provide benefits not covered by the normal Medicare program. Ironically, these are the employer-sponsors that are forced to pay the largest hidden tax to cover the expenses of the uninsured.

Because these companies have been in business for many years, their work force is older and their experience rated premiums are higher than a company that has recently entered their industry. This has had especially negative consequences for our more established companies in the auto, steel and airline industries (or for governments at the state and federal level). In the case of automakers, for example, the established U.S. companies must add several hundred dollars of costs onto each car in comparison to foreign owned companies that have recently begun to manufacture cars in this country.

The problem for our U.S. companies is even worse when they are required to compete in the global economy with companies from other countries. Not only is it a fact that we spend two to three times more for health care on a per capita basis in comparison to other industrialized countries, but given that we finance this care in such an uneven manner across the various sectors, our major manufacturing companies that provide comprehensive healthcare benefits are at a distinct cost disadvantage.

Finally we come to the negative consequences to individuals in their choice of who to work for and where to live. Because of the uneven nature by which firms provide comprehensive benefits, workers who are otherwise unhappy with their job may be forced to stay with an employer primarily because of fear of losing needed health insurance coverage. This is bad for the individual and reduces the ultimate productivity that flows from a flexible workforce. Similar problems occur in terms of choosing what geographic area to live in. It is well known that the backup healthcare protection provided by states varies substantially. It is also true that companies that operate in certain geographic areas traditionally provide better health benefits. Although choice of where to work or where companies choose to locate are individual decisions, incentives created by our patchwork non-system of

health insurance distort such decisions in ways that have negative personal and economic consequences.

### **Summary**

In summary, the need for national health reform becomes stronger every day. For the tens of millions of Americans with no or minimal health insurance coverage, the negative consequences are personal in terms of going without needed care, waiting too long to seek care, impairing their health status and incurring economic hardship because of large medical expenses. Whether they ultimately pay for their care or are forced into bankruptcy because of unpaid medical bills, the negative effects on individuals and their families are substantial.

In addition, there are serious negative consequences that affect many other components of our society. Those employers who do provide comprehensive benefits to their workers and families are forced to pay a hidden tax to cover much of the cost of care that is provided to the uninsured. This negatively affects their competitive position vis-à-vis other companies in this country that do not provide comparable benefits as well as with those competitors in international markets. Those institutions and healthcare professionals that provide uncompensated care to the uninsured and can't pass the cost on to others must forgo needed income and/or cut back on the care they provide other patients.

Providing needed reform will not be easy but failure to act will only make the problems worse. We must find the right combination of techniques that will ultimately provide all Americans with adequate healthcare coverage and reduce our spending rate to make universal health care affordable.

Thank you Mr. Chairman for the privilege of discussing this most important social and economic problem before your committee.



