

“Rising Costs, Low Quality in Health Care: The Necessity for Reform”

Testimony Submitted to

Senate Finance Committee

By

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Good morning, Chairman Baucus, Senator Grassley and distinguished members of the Committee. Thank you for the invitation to participate in this hearing and to offer our perspective, on behalf of working women and men, on the need for health reform. I would like to commend the committee for launching this series of hearings on health reform and laying the groundwork for a national debate on how best to secure affordable, high-quality health care for all Americans.

The AFL-CIO represents 10.5 million members, including 2 million members in Working America, our new community affiliate, and 56 national and international unions that have bargained for health benefits for more than fifty years. Our members are among the most fortunate: through bargaining, they have good benefits from their employers. Yet even the well-insured are struggling with health care costs hikes that are outpacing their wage increases and far too many working families just can't keep up.

Earlier this year, we launched an online survey that captured working families' concerns about health care. More than 26,000 people took the survey over just seven weeks. Most are insured and employed, most are college graduates, and more than half are union members. These are the people, it would seem, most likely to have positive experiences with America's health care system. Instead, their responses tell a sobering story about the breadth of the problems with health care in America.

Nearly all survey takers with insurance, 96 percent, say they are somewhat or very concerned about affording coverage in the next few years and almost two thirds who have employer provided coverage say their costs have gotten worse. More than half of survey takers say their health insurance does not cover all the care they need at a price they can afford and preventive care is uncovered or unaffordable for more than a third.

Almost 7,500 people posted their own stories of our health care system failures. One of those stories comes from Teresa in Vancouver, Washington. She said, "I have a job with a union contract. Every year, I get a raise that works out to be about \$12.00 per week. About the same time each year, I get a memo from my employer that my family's

health insurance premium has increased by roughly the same amount. I have not seen a real increase to my take-home pay in 12 years at my company. Meanwhile, our family's bills for EVERYTHING else have risen, too."

Others weren't even lucky enough to hold onto their coverage. Dorene in Veneta, Oregon, wrote, "I worked for a manufacturer for over 15 years. My wages stayed the same for over 6 years as I found myself paying more and more for health care. Co-pays went up, deductible went up, and the last year I worked there, I was paying a portion of the premium. In late 2006 the company sent my production job to Mexico and China and I was laid off. I could not afford COBRA premiums. I am 2 years away from Medicare and unemployed and on the Faith Based health care system: I pray I don't get sick. Oh yeah, I'm a cancer survivor and I haven't done the yearly checkup in 3 years."

These survey results and stories put a human face on the statistics that are perhaps numbingly familiar yet all too telling: health premium increases are regularly outpacing wage hikes and inflation. Since 2001, premiums for family coverage increased 78 percent while wages went up 19 percent and inflation increased 17 percent. Annual premium costs for family coverage have almost doubled between 2000 and 2007. And as the number of uninsured grows, so too does the cost-shifting that occurs in our fragmented system: more than \$900 of the average family premium covers treatment for the uninsured.

And it's not just premiums that are climbing. Workers' out of pocket costs are going up as well, more than doubling between 2001 and 2007. Some of these increases are the result of passing along a share of annual cost hikes to workers. Other increases are more concerted efforts to increase workers' exposure to costs through high-deductible health plans in the name of "consumer-directed health care." Yet we know that cost sharing can discourage appropriate as well as inappropriate care, especially among the poor and the sick. And as costs go up, coverage becomes unaffordable for more workers, with the ranks of the uninsured increasingly reaching beyond low-wage workers into middle-income families.

Year in and year out, health care costs are the toughest issue in bargaining, and workers regularly forego bigger wage hikes to fend off greater health care costs, demonstrating the value workers place on the security of health benefits they can count on to cover the care they need. But these trends are unsustainable and the status quo is unacceptable.

Our employers are for the most part the good guys. Our unions work with them to make limited dollars stretch as far as possible to meet escalating health care costs. Yet they increasingly find themselves competing domestically and internationally with firms that don't bear the same cost pressures.

Globally, U.S. firms pay more as a percent of payroll and as an hourly cost than our major trading partners. Here at home, firms that provide good benefits to their workers and their families find themselves picking up costs for firms that either don't cover dependents or don't provide coverage at all. Even public employers that have typically provided good health benefits are struggling under growing cost pressures, especially as more states find their budgets hit by the economic downturn.

We regularly work with employers to tackle these problems. Value based purchasing and electronic prescribing are two policies that make sense and have the support of many in the business, labor and consumer worlds. We know we aren't getting consistently high quality for the money we spend. In fact, patients have a 50/50 chance of getting the right care at the right time and as many as 98,000 Americans die each year due to preventable medical errors. More than 1.5 million preventable adverse drug events occur annually in the U.S. About one third of all health care spending pays for poor quality. And disparities of care persist across our population based on race, ethnicity, language and gender. We can do better – and we can save money at a time when 47 million Americans are uninsured and tens of millions more worry about losing the coverage they have.

Measuring quality and publicly reporting the results have been shown to drive significant improvements in care. One such example is Pennsylvania's work on reporting hospital-acquired infections. With a broad cross section of public and private sector unions serving on the statewide council that oversees the reports, Pennsylvania's findings were dramatic. Research in Pennsylvania showed that individuals who acquire infections while in the hospital cost on average \$185,260 and remained in the hospital for an average of 20.6 days. Individuals who did not acquire such infections cost on average \$31,389 and stayed in the hospital an average of 4.5 days.

Going beyond reporting, we can realign the incentives in our payment system to ensure higher quality and more efficient care. But it is important that such a payment methodology reward both achievement of measures as well as improvement. We do not want a two-tiered system that leaves some providers – and their patients – behind.

It is crucial that we understand health reform as a process of transforming the way health care is structured and provided, not just a debate over who pays the bill. But reform must address cost and coverage as well. We need comprehensive reforms that will not only improve quality but lower costs and extend coverage for everyone. Last year, the AFL-CIO launched a campaign to mobilize our members to push for national reform that will guarantee affordable, high quality coverage for all Americans. As part of that campaign, we will educate our members on the false solutions that may find their way into a national debate and to inoculate them against the scare tactics that are sure to come from those who benefit most from the status quo. And we will measure various plans and proposals against our principles for reform.

Those principles build on group coverage and pooled risk rather than the flawed individual insurance market. Everyone should get health care as good as they have now or better, and everyone must share in the responsibility for financing that coverage – government, employers and individuals. Everyone should have a choice of health plans, including the right to keep their current coverage, or choose another private plan or public plan. And the government should act as a watchdog on costs, quality and fairness.

As we work toward lowering costs and covering everyone, we must be sure reforms do not undermine employer coverage, which is the backbone of our health care system and covers 160 million Americans. That is because employer-based coverage has significant advantages. It provides a natural pooling mechanism and has lower administrative costs when compared with coverage in the individual market: 10 percent of premiums for group coverage versus 25 to 40 percent for individual market coverage. And because there is no individual underwriting in employer plans, workers are not excluded from coverage due to age or health status and premiums are more in line with actual medical expenditures than they are in the individual market.

Furthermore, both employees and employers highly value employer-based coverage. Surveys show workers value health benefits more than any other non-wage benefit. Another survey asked workers in employer plans if they would prefer to continue receiving health benefits through their job or receive an increase in taxable income equal to the average premium instead. Three quarters said they would prefer to continue receiving employer sponsored health insurance.

Our principles for reform are consistent with those of many other stakeholders, but we recognize that there will be other approaches. Our members – and our employers – have an important role to play in the national debate to come and this committee will, of course, be at the center of that debate. We look forward to working with you to enact legislation that will guarantee affordable, high-quality health care for all Americans.