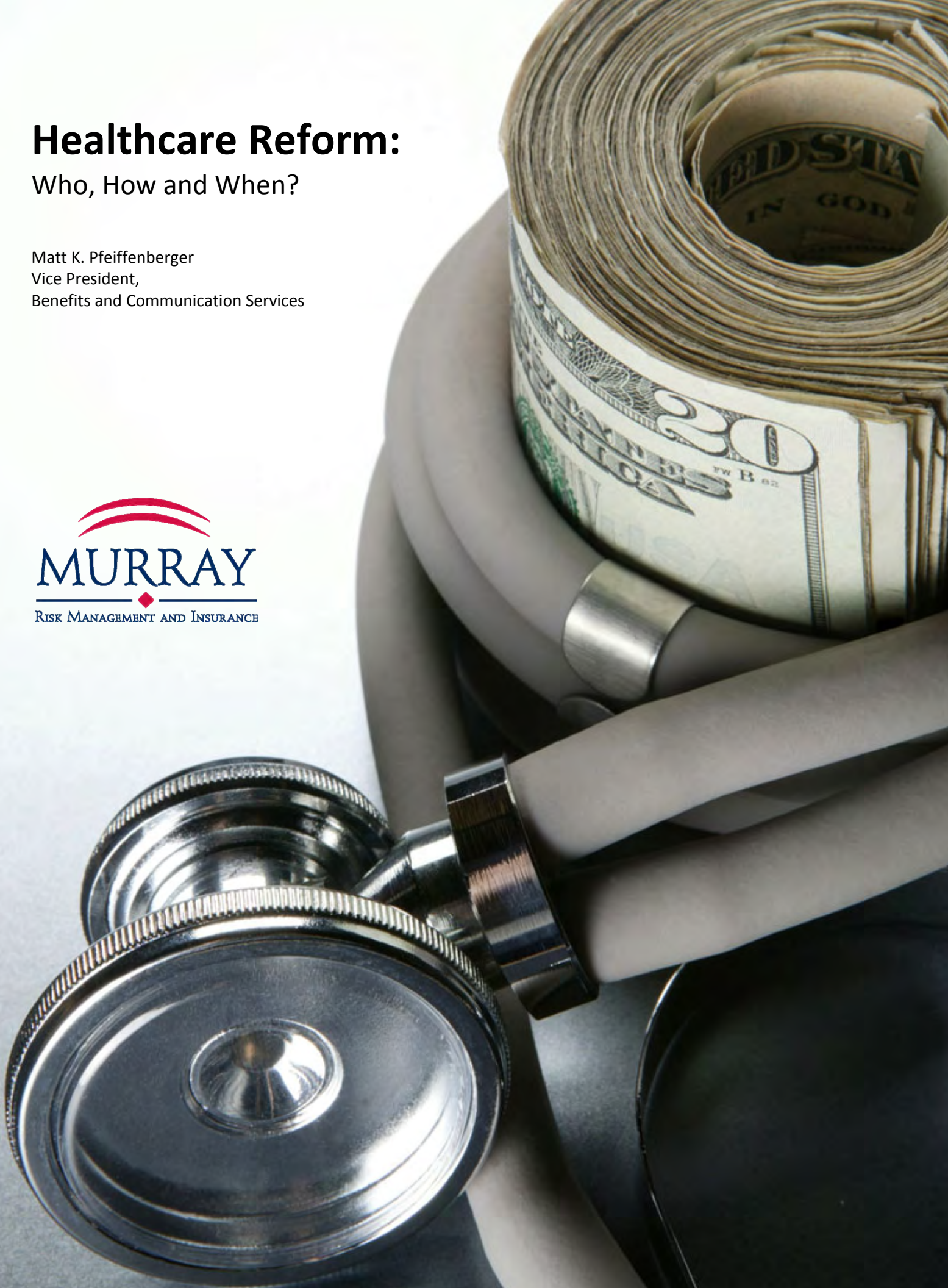


Healthcare Reform:

Who, How and When?

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Over the past three weeks, the political battle over healthcare reform has intensified in Washington. Cable television, talk radio and the print media provide non-stop information that can be conflicting and confusing. Healthcare reform and its potential impact on the current healthcare delivery system are important to Murray clients and their employees.

Given the far reaching implications of any pending reform legislation, Murray has been closely monitoring the direction of these developments and, in addition, determined that it was important that we have a presence in Washington to add our voice to the on-going debate. To this end, on July 14th and 15th, I had the opportunity to be in Washington and personally meet with our local Congressmen to discuss the need for reform and share concerns about the current bills being pushed through Congressional Committees. This position paper provides a synopsis of the pending reform bills, along with the events and changes in direction that healthcare reform has undergone in just the past couple of weeks. At the same time, it also makes an argument for healthcare reform and closes with a commentary on the entire saga as it has played out to this point. As a point of caution, since new Congressional developments and White House announcements seem to hit the media almost hourly, this position paper represents known developments and announcements as of the end of business on Tuesday, July 28th, 2009.

THE NEED FOR REFORM

Make no mistake, although our healthcare system delivers (for the most part) the best care and treatment that the world has to offer – there are flaws and inefficiencies that need to be addressed and corrected. These include:

- All Americans should have access to some level of insurance – given our place in the world, it is unacceptable that millions of our fellow citizens do not have insurance. We must find a way to expand access to all those who legitimately do not have health coverage.
- Our healthcare system is so vast and complex that it is easy to understand why it is also so inefficient. We need to streamline the way care is delivered, bring technology to bear to reduce waste and inefficiencies and find ways to treat people with better, more effective care and not just more care. Paying providers who produce bad health outcomes the same as providers who produce good outcomes is bad all the way around – this inequity must be changed.
- The cost of health insurance and the staggering rate of premium increases are having a dramatic effect on the companies and businesses that provide healthcare coverage to their employees. Employers with fewer than 100 employees and especially those with under 50 employees struggle annually to still provide employees with affordable, quality coverage and are often forced to ask employees to share in more of the true cost through higher deductibles and increasing payroll contributions. We must find solutions that help to slow the increasing cost of both care and insurance – without restricting access or reducing the quality of care - which is, of course, the several Trillion dollar challenge.
- Much of the debate today, centers on the concern of the growing role of the federal government in the economy and the skepticism about Washington’s ability to enact reform given the current fiscal crisis facing Medicare, Medicaid and Social Security.
- Although there has been medical professional liability tort reform in many states, the practice of defensive medicine continues to be one of the factors that impacts healthcare utilization and drives up cost. However, the issue of medical malpractice liability reform and reasonable damage awards are largely ignored in the pending legislation.

- An issue that is not being discussed much on the Hill or in the media – is the role of the U.S. consumer in the cost equation, the unprecedented use of the system by millions of Americans across the country and the aging of America which will only bring more and more people – in fact whole generations - to seek care and treatment well into their 80s and 90s. Today we all use our healthcare system at a rate not even thinkable as few as 30 years ago.
- Lastly, the quick collapse of “Hillary Healthcare” in the 1990’s was due in large part to the country’s fear around socialized healthcare and a strong belief that the market and healthcare industry (as well as consumers) would eventually drive a solution. The market solution, however, just hasn’t happened – thus inviting Washington to ride to the rescue and fix an increasingly expensive system. In a way, the healthcare and insurance industries’ inability to create solutions that slow the rate of increasing costs has opened the door for politicians to ride in on the white horse of reform.

TIME FLIES IN WASHINGTON

As of the week ending July 17th – two bills had been made public and the sponsors of these bills promised to meet President Obama’s mandate of getting legislation in front of Congress before their August recess.

The Tri-Committee Bill is actually a combination of 3 bills from 3 different House committees; the Energy & Commerce Committee, led by Henry Waxman, the House Ways and Means Committee led by Charlie Rangel, and the Education and Labor Committee led by George Miller. This bill was issued on July 14th with markups expected back by the middle of last week.

The Senate Bill is called the Senate HELP Bill – as it comes out of the Senate’s Health Education Labor, and Pensions Committee. The markups on this bill were presented on July 14th. In addition, a third bill is currently in the works from the Senate Finance Committee. President Obama praised the efforts of all who had worked hard on this legislation. He also called for bi-partisan support, and continued to push for a pre-recess vote.

On July 15th, I met with Congressman Joe Pitts and Congressman Jim Gerlach in their offices on Capitol Hill. Along with a small group of colleagues, I discussed the bills with both Congressmen and shared with them the concerns we had as an insurance agency that works directly with local businesses and their employees. Both Congressmen shared our concerns about the pending bills: the effectiveness of the proposed legislation, the cost of the program to taxpayers and businesses, as well as expanding role of the federal government.

Next, on July 16th, the Congressional Budget Office released its own findings that slowed the momentum of the bills and dealt a significant blow to the whole process of reform. In a nutshell, the CBO said that the bills will not slow the increasing cost of healthcare and that they did not see the fundamental changes that would be needed to stop costs from increasing. The CBO estimated that the effort would add close to \$240 billion to the deficit over 10 years.

On the heels of the CBO report, a number of freshman Democrats, as well as the “Blue Dog Coalition” said they could not support the bills in their current form citing concerns on the cost of the program and its effect on the deficit. The “Blue Dog Coalition” is a group of 52 moderate and conservative Democrats who are generally fiscally conservative when it comes to any legislation that would eventually seep back to their districts and add to the tax burdens of their constituents.

Then, 6 Senate leaders sent a letter urging that Congress resist the pressure of the timelines imposed by President Obama and asked everyone to slow down so that the most effective and best bill possible could be presented. The Senate leaders included Ben Nelson, Mary Landrieu, Ron Weydon, Joe Lieberman, Susan Collins, and Olympia Snow.

And then again, 22 additional Democrats – mostly freshman on the Hill, wrote House Speaker Nancy Pelosi to share their concerns about the House plan to raise taxes on individuals and small business to help pay for the reform.

In a quick reaction to what appears to be a fall out of support for both the House and Senate Bills from within his own party – President Obama held a prime-time news conference **last Wednesday** evening (his 4th since taking office) where he appealed to the public to support the bills and to push through reform legislation this year.

THE BILLS – JUST THE HIGHLIGHTS

Both bills call for some very reasonable reform that most Americans and many people on both sides of the political aisle could agree with:

- Bar insurance exclusions for pre-existing conditions
- Provide insurance coverage on a guaranteed issue basis
- Provide that an individual's insurance would be renewable
- Eliminate co-pays for preventive care
- Expand wellness and prevention coverage
- Expand Medicaid eligibility significantly

Other areas in the bills that are creating the furor currently circling Capitol Hill include:

- Creation of a public healthcare plan that would make coverage available to individuals and to businesses
- A public plan run by the federal government that would provide coverage at a cost that would bring (force) competition to bear on the commercial insurance markets
- An alternative solution that would create a national insurance exchange providing the option of purchasing individual coverage at group rates through the commercial insurance markets
- Creation of a tax on individuals who fail to obtain health insurance (2%)
- Create tax / penalty for those companies that do not provide coverage today (8% of payroll)
- Expand the role and oversight of the federal government

In addition to these contentious areas, many in Congress worry about the long-term cost of any new federal program and the potential tax impact to all Americans. Many in the House and Senate are hearing loud and clear from their constituents about not adding more debt on to the backs of future generations of Americans and not spending more tax money that we just don't have to spend. Much of the public outcry about a federal solution comes on the heels of growing public resentment about the TARP (\$700 billion to financial institutions) and "Stimulus" monies (\$787 billion) that have yet to help Main Street America.

THE BIGGER PICTURE

At Murray, we believe that reform is sorely needed - but for any reform to be effective, it must be well-developed and must address the financial and logistical challenges that our healthcare system presents. However, we are talking about reforming perhaps the single most complex part of the U.S. economy. Any reform of a system that is as far reaching and complex as healthcare will necessarily take a bit more time than a couple of weeks or months to fix. Getting it right will take time.

This reform effort is about a system that makes up close to 17% of our Gross Domestic Product. Between 160 and 180 million American's currently have healthcare provided or offered through their employer. While many are concerned about the rising cost of their insurance, both in the form of higher deductibles and higher payroll contributions, the vast majority of these Americans believe that their healthcare is either good or excellent.

So, in an effort to help provide coverage to the 47 million Americans without healthcare coverage (including those between jobs, graduating students, illegal immigrants, those who choose not to purchase coverage, etc), we must be careful not to impede a system that already provides excellent care and wonderful results for the vast majority of Americans; not to mention people who travel to this country to receive care that is not readily available in their part of the world.

In the end, we believe that a public or federally run plan will not operate on a level playing field with commercial insurance and the open market. A public plan might, at first, appeal to many individuals and many small businesses from a simple cost stand-point. Over time, however, as more and more people gravitate to such a program, we believe that the long-term costs for such a program would grow the federal deficit and require higher taxes for all Americans. You have to look no farther than at Medicare and Medicaid to understand how the "coming out of the woodwork" affect will quickly drive up the true cost of yet another federal program that may be unsustainable as the population continues to age.

While this writer believes that reform is sorely needed, it is doubtful that career politicians, many of whom did not even take the time to read the full Stimulus Bill before voting, are the right people to rush through healthcare reform. It is interesting to note that in the Senate Bill, Congress would actually be exempt from the public plan. Additionally, during his news conference, President Obama stated that this reform effort was not about him, because he had great health insurance – wouldn't we all like the reforms pushed by the President to be good enough to be used by the President and his family?

CLOSING OBSERVATIONS

Over **this past weekend**, Speaker Nancy Pelosi said she was confident that she could get a bill to the floor of the House before the end of this week (week of July 27th). She also proclaimed that she had enough votes for the legislation to pass – even though she may not have the support of many moderate and Blue Dog Democrats. In addition, many of the newer Democratic members of Congress (first and second term) come from fiscally conservative parts of the country and are skeptical about hastily voting for a bill before they get the chance to hear from their constituents over the August recess. And, according to a story in Monday’s Washington Post, the sheer complexity of the bill has called for some creative solutions. “Most troubling in the short term is how few in the caucus of 256 House Democrats understand the emerging 1,000-page bill. Leaders organized a five-hour seminar for Monday (July 27th) to brief lawmakers.” *(Washington Post Staff Writers, Shailagh Murray and Paul Kane, July 27, 2009)*

Additionally, there were many closed door sessions on Capitol Hill on Tuesday, July 28, (including a meeting of six key Senators), all of whom were convened in the hopes of driving a compromise. And while some members of Congress reported that some progress was made, they also stated that there was still much to be done. Still others, including members of the Blue Dog Coalition, indicated that they would not support any new or revised legislation until the Congressional Budget Office had a chance to again review that legislation's projected costs. In the end, Douglas Elmendorf, Director of the Congressional Budget Office will play a significant role in the final outcome of this reform debate.

Undeterred, however, the Democratic leadership is insistent on meeting the President’s pre-recess timeline even if it means putting through a contentious bill that will certainly face an even tougher fight in the Senate. The fate of whatever bill comes out of the House will most certainly rest with the U.S. Senate - and in particular - lay in the hands of about 14 moderate Democratic Senators who may not walk the party line.

We urge you to keep a close eye on all the activity surrounding healthcare reform that is percolating in Washington. Write and contact your House and Senate representatives to voice your opinion and share your concerns on this sweeping and urgent issue. At Murray, we truly do hope that meaningful and effective reform will come from all of this and that America can be proud of the improved quality and reach of our healthcare delivery and insurance systems.

Everyone, from those of us in the consulting field, to the insurance industry, healthcare providers, employers and individual employees and consumers, have a role to play in how the system is eventually reformed, changed and improved. At Murray, we are dedicated to being part of a solution that helps our clients provide their employees with quality healthcare coverage that does not impose economic hardship either to our client companies or to their employees and families.