

Why Is a Public Insurance Plan an Important Part of Health Reform?

As Congress continues its work on health reform, one of the options it is considering is creating a public health insurance plan that would compete with private insurance plans. Why? A high-quality, affordable public plan will keep health care costs down. It would also add a solid option to the health insurance marketplace, providing a meaningful choice of plans for those who need coverage and giving Americans a place to go when they can't find or afford private insurance.

A public plan would compete with private insurance plans and would help make health care affordable for families and small businesses: It would function without the high administrative costs of for-profit insurers, and it would have the power to negotiate bulk discounts and bargain with providers, forcing private insurers to deliver better, cheaper service if they want to stay competitive.

The Problem: High Health Care Costs

In our current system, health insurance premiums go up year after year after year. As premiums climb higher, private insurance becomes less and less affordable for working Americans.

- Between 1999 and 2008, average job-based family health insurance premiums more than doubled, growing from \$5,791 to \$12,680 (an increase of 119 percent).¹

Many insurance companies spend a substantial portion of the dollars they collect in premiums on marketing, administration, and profits—not on health care. Some insurance companies continue to earn billions of dollars in profits, even in this recession.

- For the five top-earning insurance companies in 2008, average profits were \$1.56 billion.²
- These insurance companies reported spending an average of more than 18 percent of their revenues on marketing, administration, and profits.
- In 2008, executives of these companies were compensated millions of dollars in salaries, stock options, and fringe benefits. That year, CEO compensation for these companies ranged from \$3 million to \$24 million.³

How Would a Public Plan Help Solve This Problem?

A high-quality, affordable public plan would lower health care costs because private insurers would have to compete with each other and with the public plan, driving costs down. There are four ways a public plan would help make the health insurance market more competitive.

1. A public plan would not need to turn a profit.
 - A public plan would report to the President, Congress, and voters. Its job would be to deliver quality health care and to keep a lid on costs—not to earn profits for shareholders.
2. A public plan would have lower administrative costs, and it would not spend the money it collects in health care premiums on million-dollar salaries for top executives.
 - Studies show that Medicare, a public plan, has overhead (administrative) costs of between 2 and 6 percent.⁴ This is significantly less than the overhead costs of large private insurers: As noted on page 1, the top five insurers reported having average overhead costs of more than 18 percent of their revenues.
3. Without the need to turn a profit or pay million-dollar salaries, a public plan could devote the vast majority of its revenues to patient care.
 - Although a few states regulate the amount of income that insurers must spend on medical care, many states do not. And even in states that do have such regulations, insurers sometimes spend as little as 60 percent of the premium dollars they collect on health care.⁵
4. Large public plans can use their purchasing power to negotiate lower prices for medical care, including prescription drugs and payments to health care providers.
 - The Department of Veterans Affairs (VA) negotiates with pharmaceutical companies to get the lowest prices it can on behalf of American veterans. Studies show that the VA negotiations result in significantly lower prices on many frequently prescribed drugs.⁶
 - A public plan would pay health care providers for quality of care, not quantity. The public plan will create innovative pilot projects that reward health care professionals for providing high-quality care, including more primary and preventive care; for reducing disparities in health and health care; and for reaching other national health goals.

Public Plans Can Be Run Well and Can Get the Job Done

Medicare is a 44-year-old public plan that is highly popular among the seniors and people with disabilities who rely on it.

- A recent study found that, compared to people with job-based health insurance, people enrolled in Medicare were more satisfied with their health coverage, reported having fewer negative experiences, and more often said that they received excellent or very good care.⁷

Endnotes

¹ Gary Claxton, et al., *Employer Health Benefits 2008 Annual Survey* (Menlo Park, CA: Kaiser Family Foundation and Health Research and Educational Trust, 2008).

² Families USA calculations of mean revenue and profits are from data reported in *Fortune Magazine's* annual Fortune 500 listing for Health Care, Insurance, and Managed Care Industries, 2009, issued on May 5, 2009, available online at <http://money.cnn.com/magazines/fortune/fortune500/2009/industries/223/index.html>. The five insurers with the most revenue were UnitedHealth Group, WellPoint, Aetna, Humana, and Cigna.

³ Analysis of Securities and Exchange Commission form DEF14A filings for each company, 2009.

⁴ Congressional Budget Office, *Designing a Premium Support System for Medicare* (Washington: CBO, 2006): 12; Merrill Matthews, *Medicare's Hidden Administrative Costs* (Alexandria, VA: Council for Affordable Health Insurance, 2006).

⁵ *Medical Loss Ratios: Evidence from the States* (Washington: Families USA, June 2008), available online at <http://www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf>.

⁶ Marc Steinberg and Kim Bailey, *No Bargain: Medicare Drug Plans Deliver High Prices* (Washington: Families USA, January 2007).

⁷ Karen Davis, et al., "Meeting Enrollees' Needs: How Do Medicare and Employer Coverage Stack Up?" *Health Affairs* web exclusive (May 12, 2009), available online at <http://content.healthaffairs.org/cgi/content/short/hlthaff.28.4.w521v1>.



1201 New York Avenue NW, Suite 1100 ■ Washington, DC 20005

Phone: 202-628-3030 ■ E-mail: info@familiesusa.org

www.familiesusa.org