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CREATING A NEW GOVERNMENT HEALTH PLAN WILL SIGNIFICANTLY INCREASE THE COST SHIFT TO PRIVATE SECTOR PAYERS

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As part of broad health care reform, President Obama has proposed a new government health insurance plan to compete with the private insurance industry in a national health insurance exchange.[1] Although the President has not specified if the plan would be modeled on Medicare, during the 2008 campaign he said the plan would be open to only individuals, the self-employed, and small businesses.[2] Senate Finance Committee Chairman Max Baucus (D-MT) has also proposed a government health plan, but has not yet specified its payment levels or what groups would be eligible to enroll.

Our Finding

Creating a new government health insurance plan that uses Medicare provider reimbursement levels and is only open to individuals, the self-employed, and small businesses will shift an additional $43.0 billion per year in costs to private payers, an increase of 75.0 percent from the current cost shifting level of $57.3 billion that comes from Medicaid, Medicare, and the uncompensated care provided to the uninsured. Further, this higher level of cost shifting will be passed on to fewer private sector payers as small businesses move into in the new government plan. If all employers are allowed to participate in the government health plan, the additional cost shifting to private payers will be $124.5 billion per year – a dramatic increase that will likely drive even more employers who provide private health insurance into the government plan as their health insurance premiums rise, which could ultimately lead to the end of private, employer sponsored plans and create a defacto single payer system dominated by the government health plan.

[1] See: www.whitehouse.gov/agenda/health_care.
[2] John Sheils and Randy Haught, *The Cost and Coverage Impacts of a Public Plan: Alternative Design Options,* The Lewin Group, April 6, 2009.

Background

Since October 2008, several studies have described how a government health insurance plan would work and what implications it would have on employer provided plans, private health insurance providers, and the uninsured.[3] Most recently, the Lewin Group published a study estimating the cost and coverage impacts of a government health plan under a variety of assumptions.[4] It found that from 32.0 million to 119.1 million Americans who already have private sector health insurance would switch into a government health plan that uses Medicare payment levels, depending on who can participate in the government plan. This is largely due to the fact that a government plan would likely have lower costs than private plans if it paid providers using Medicare fee schedules, which are substantially lower than the fees paid to providers in private insurance plans.

Although the Lewin Group study estimated the cost and provider impacts associated with a new government health insurance plan, it did not estimate the changes in cost-shifting that would occur between Medicare, Medicaid, the uninsured, and private health insurance providers if such a plan were put in place. This Policy Memorandum was prepared at the request of HR Policy Association, which brings together the chief human resource officers of more than 260 of the largest corporations in the United States, to help its members evaluate the implications of proposed reforms within our nation's health care system. This memorandum estimates the additional cost shift that will occur to private payers if a new government health insurance plan were put in place that excludes large employers at $43.0 billion per year, or about $253 per beneficiary per year for those that remain enrolled in private health plans. If the government plan allows all employers to participate the cost shift would be $124.5 billion per year or about $1,502 per beneficiary per year for those that remain enrolled in private health plans.

The Evidence of Cost Shifting

During the past 20 years, documentation has accumulated in the health service research literature of hospital cost shifting to private payers due to uncompensated care for the uninsured and Medicare and Medicaid reimbursement levels that do not cover the cost of providing those services.[5]

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[3] See: Len M. Nichols and John M. Bertko, *A Modest Proposal for a Competing Public Health Plan,* New America Foundation, Health Policy Program, March 11, 2009; John Holahan and Linda Blumberg, *Can a Public Insurance Plan Increase Competition and Lower the Costs of Health Reform?*, Urban Institute, Health Policy Center, October 3, 2008; and Jacob S. Hacker, *The Case for Public Plan Choice in National Health Reform*, Institute for America's Future, December 12, 2008.

[4] John Sheils and Randy Haught, *The Cost and Coverage Impacts of a Public Plan*.

[5] Allen Dobson, Joan DaVanzo, Namrata Sen, *The Cost-Shift Payment 'Hydraulic': Foundation, History, And Implications,* Health Affairs, January/February 2006.

Empirical research strongly supports the conclusion that cost shifting does occur – especially for hospital services.[6] Further, according to the Congressional Budget Office, since the late 1990s, the consolidation of hospitals and pressure on private insurers to broaden their provider networks appear to have strengthened hospitals' bargaining position, raising the possibility that more cost shifting will occur than was observed in the 1990s.[7] Recent research has found that under managed care, physicians have less ability to set prices and shift costs.[8]

A 2006 study of 311 California hospitals found that for 2001 the total annual cost shift from Medicare and Medicaid to private payers was $210 million.[9] The state of Vermont estimates that in 2008, hospitals shifted $91.5 million in Medicare costs and $94.4 million in Medicaid costs to commercial insurance and self-payers.[10] A 2006 study of Washington state hospitals found that in 2004, hospitals in that state shifted $510 million in Medicare costs and $227 million in Medicaid costs to commercial insurance.[11] These state level studies strongly suggest that any government plan that has "administered" prices similar to Medicare or Medicaid, instead of market-determined prices, will result in additional and substantial cost shifting to private sector payers.

Nationwide, a recent Milliman study found that in 2004 hospitals shifted $34.8 billion in Medicare costs and $16.2 billion in Medicaid costs to commercial payers, or a total of $51.0 billion per year.[12] This amounts to a cost shift of $926 per person covered by Medicare and $429 per person covered by Medicaid.[13]

Cost shifting also occurs when the cost of uncompensated care for the uninsured is passed on to private health insurance providers. In 2008, Americans uninsured for any part of the year received approximately $57.4 billion in uncompensated care – $35.0

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[6] Jason S. Lee, Robert A. Berenson, Rick Mayes, and Anne K. Gauthier, *Medicare Payment Policy: Does Cost Shifting Matter?* Health Affairs, Web Exclusives, October 8, 2003.

[7] Congressional Budget Office, *Key Issues in Analyzing Major Health Insurance Proposals,* December 2008, pg. 116.

[8] Paul Ginsburg, *Can Hospitals and Physicians Shift the Effects of Cuts In Medicare Reimbursement to Private Payers?* Health Affairs, Web Exclusives, October 8, 2003. Further, estimates of uncompensated care provided by doctors are considerably smaller than hospitals, amounting to $3.0 billion, so the costs of providing such care do not appear to have a substantial effect on private payment rates for physicians. See Congressional Budget Office, *Key Issues in Analyzing Major Health Insurance Proposals,* pg. 114.

[9] Jack Zwansiger and Anil Bamezai, *Evidence of Cost Shifting in California Hospitals,* Health Affairs, January/February 2006.

[10] Michael Davis, *2008 Vermont Cost Shift Analysis,* Department of Banking, Insurance, Securities, and Health Care Administration, State of Vermont, March 14, 2008.

[11] Will Fox and John Pickering, *Payment Level Comparison Between Public Programs and Commercial Health Plans for Washington State Hospitals and Physicians,* Premera, May 2006.

[12] Will Fox and John Pickering, *Hospital & Physician Cost Shift, Payment Level Comparison of Medicare, Medicaid, and Commercial Payers,* Milliman, December 2008.

[13] Applied Economic Strategies estimate using data from the March 2008 Annual Social and Economic Supplement to the Current Population Survey for the number of Medicare and Medicaid beneficiaries.

billion from hospitals.[14] In 2008, hospitals received $28.7 billion in funding from Medicare, Medicaid, and state and local governments that offset all but $6.3 billion of their uncompensated care costs that was likely shifted to other payers.[15] This amounts to a cost shift of $138 per uninsured person.[16]

The total existing cost shift for hospital services for Medicare, Medicaid, and the uninsured without the creation of a new government plan is $57.3 billion per year (see Table 1).

Table 1: The Annual Cost Shift for Hospital Services

Type of Coverage	Annual Cost Shift for Hospital Services (Billions)	Per Capita Cost Shift
Private Coverage	$0.0	$0
Medicare	$34.8	$926
Medicaid	$16.2	$429
Uninsured	$6.3	$138
Total Cost Shift	$57.3	$473

Sources: Milliman study, Hadley et. al., and AES estimates.

Note: Latest available data. Not inflating the Medicare and Medicaid estimates, which are for 2004, likely underestimates the cost shift for these programs.

The Coverage Shift That Will Occur With A Government Health Plan

The Lewin Group recently estimated the cost and coverage impacts for two variations of a government health insurance plan.[17] Specifically, Lewin assumed a new government health insurance plan would:

- Be modeled on Medicare and reimburse using Medicare payment levels;
- Be available to individuals and the self-employed;
- Provide benefits that are the same as the BlueCross/Blue Shield Standard Option offered to federal workers under the federal employees health benefit plan (FEHBP).

[14] Jack Hadley, John Holahan, Teresa Coughlin, and Dawn Miller, *Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs,* Health Affairs, Web Exclusive, August 25, 2008.
[15] *Id.*
[16] Applied Economic Strategies estimate using data from the March 2008 Annual Social and Economic Supplement to the Current Population Survey for the number of uninsured.
[17] John Sheils and Randy Haught, *The Cost and Coverage Impacts of a Public Plan*.

The two variations for who would be eligible for coverage under a government plan that Lewin analyzed were:[18]

1. The government plan would *only be open to small firms and individuals, large employers would be excluded;* or
2. The government plan would allow *all* employers to purchase coverage for their workers through the new government plan.[19]

Based on these assumptions and the two coverage variations, the Lewin study estimated that private health insurance coverage would fall by 32.0 million if large employers were excluded from participating in the government plan and 119.1 million persons if all employers were allowed to participate in the government plan. Enrollment in the government plan would be 42.9 million (individual/small employer option) or 131.2 million persons (all employer option) as presented in Table 2 below.

Although the Lewin study estimated the coverage changes that would occur with the adoption of a government plan in a national health insurance exchange, it did not estimate the net increase in cost-shifting that would occur between a new government plan that utilizes Medicare payment levels and private sector payers.

Table 2: Government Plan Enrollment and Reduction in Private Coverage Under a Government Plan Using Medicare Reimbursement Levels

		Large Employers are Excluded from the Government Health Plan		All Employers are Included in the Government Health Plan	
Type of Coverage	**Current Coverage (Millions of people)**	**Change in Coverage Level ***	**New Coverage Level**	**Change in Coverage Level ***	**New Coverage Level**
Private Coverage	202.0	-32.0	170.0	-119.1	82.9
New Government Plan	0.0	42.9	42.9	131.2	131.2
Medicare	37.6	0.0	37.6	0.0	37.6
Medicaid	37.8	16.5	54.3	16.1	53.9
Uninsured	45.7	-27.4	18.3	-28.0	17.7

* The Lewin Group, The Cost and Coverage Impacts of a Public Plan, April 6, 2009.

Current Coverage estimates by AES using data from Census Bureau, March 2008 AESE.

[18] The Lewin study also analyzed different payment levels.

[19] For this variation employers chose to either maintain their current private health plan, drop their private coverage and enroll all of their employees in the new government health plan or enroll in a lower cost Health Maintenance Organization.

A New Government Plan Will Lead to a Significant Increase in Cost-Shifting To Private Payers

Creating a new government health plan that utilizes Medicare payment rates will significantly increase the cost shift to the private sector payers that can not, or do not participate in the government plan. Utilizing the Lewin Group estimates of the changes in coverage that will occur under a government health plan and the Milliman cost shift estimates presented above yields the net change in the cost shifts from government sector health plans to private sector payers that are likely to occur with the implementation of a new government health plan.

Specifically, creation of a government health plan will reduce the number of uninsured by 27.4 million to 28.0 million (see Table 2). This will reduce the current cost shift associated with the uncompensated care that is provided to the uninsured by $3.8 billion to $3.9 billion per year depending on whether or not large employers are offered the option to enroll their employees in the new government plan (see Table 3 below). However, the use of Medicare payment rates by the new government health plan will *increase* the cost shift to private sector payers by $39.7 billion or $121.5 billion per year (see Table 3 below). If large employers are excluded from participating in the government plan, the already large cost shift that is associated with the Medicare program – $34.8 billion per year – will increase by $43.0 billion because of the new government health plan.

If large employers are allowed to participate in the new government plan, the added cost shift increases to $124.5 billion. Further, the larger cost shift will be spread over even fewer private sector payers as businesses of all sizes enroll in the government health plan. Moreover, a cost shift of this size would likely drive more and more employers who provide private health insurance into the government plan as their health insurance premiums rise, which could ultimately lead to the end of private, employer sponsored plans and create a defacto single payer system dominated by the government health plan.

Table 3: CREATING A NEW GOVERNMENT HEALTH PLAN WILL SIGNIFICANTLY INCREASE THE COST SHIFT TO PRIVATE SECTOR PAYERS

Type of Coverage	Per Capita Cost Shift	Cost Shift from the Change in Coverage if Large Employers are Excluded from the Government Health Plan (Billions)	Cost Shift From the Change in Coverage if All Employers are Included in the Government Health Plan (Billions)
Private Coverage	$0	$0.0	$0.0
New Government Plan	$926	$39.7	$121.5
Medicare	$926	$0.0	$0.0
Medicaid	$429	$7.1	$6.9
Uninsured	$138	-$3.8	-$3.9
Net Change in the Cost Shift		$43.0	$124.5
Current Cost Shift		$57.3	$57.3
Total Cost Shift with a Government Health Plan		$100.3	$181.8

Estimates by AES using data from Table 1 and Table 2.

Conclusion: A New Government Plan Would Significantly Increase Costs for Private Health Plans and Erode Employer-Based Coverage

Creating a new government health insurance plan that uses Medicare provider reimbursement levels and is only open to individuals, the self-employed, and small businesses will shift an additional $43.0 billion per year in costs to private payers, and increase the current amount of cost shifting from $57.3 billion to $100.3 billion per year, or 75.0 percent. If all employers are allowed to participate in the government health plan, the additional cost shifting to private payers will be $124.5 billion per year. Further, either of these larger cost shifts will be spread over even fewer private sector payers as businesses of all sizes enroll in the government health plan. Moreover, cost shifts of these magnitudes would likely drive more and more employers who provide private health insurance into the government plan as their health insurance premiums rise, and ultimately lead to a defacto single payer system dominated by the government health plan.