Chapter 6

SAVINGS

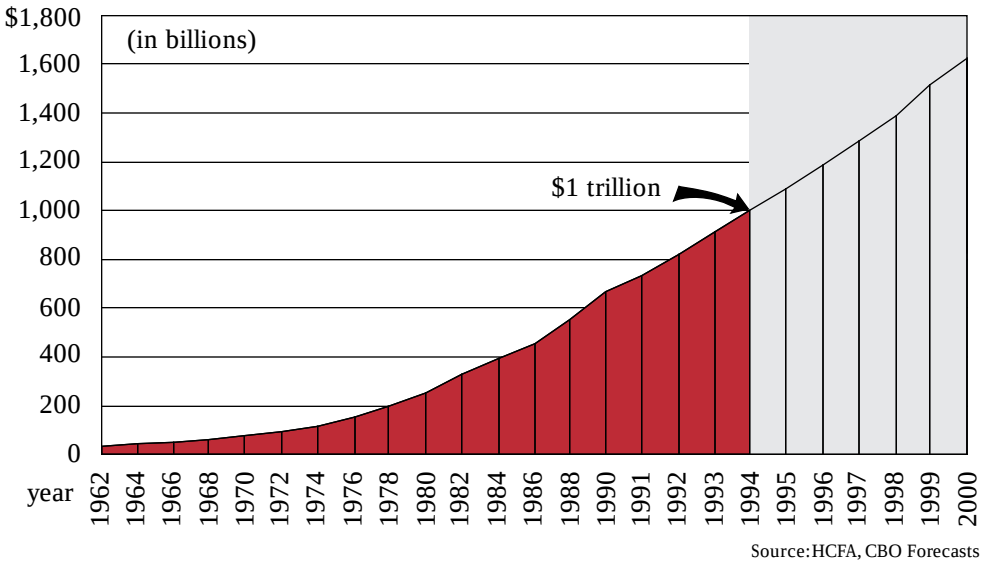
"…health care reform will be good for business. If we can stop runaway health care inflation, businesses like ours can use the dollars we save to increase capital spending and add jobs."

R. L. Crandall
Chairman and President
American Airlines

If we do nothing…

National Health Spending

The U.S. will have a $1 trillion health care bill next year



Source: HCFA, CBO Forecasts

The Health Security Act creates a new framework that will ensure all Americans secure, affordable coverage — and ensure that we spend our health care dollars wisely.

Serious health care initiatives must take aim at the waste, inefficiency, and fraud that bloat our health care system. But the key to achieving the savings that lie at the heart of health reform is to release the American spirit of competition.

Competition, after all, drives the price and quality of most products we buy. Think about a car — different companies build their automobiles, set their prices, and try to win our business. We shop around, kick the tires, make comparisons. Magazines like *Consumer Reports* help us judge what we can't see -- safety records and the satisfaction of those who've driven a particular model. Armed with information, we take our pick. We buy the car that best meets our needs for quality, performance, and price.

Health care has never worked that way. Consumers often haven't had any bargaining power, they haven't had good choices, and they haven't had good information to make comparisons. Bringing competition to health care will give consumers the same buying clout in health care they've always had in other arenas. The Health Security Act will improve quality and control costs.

Bringing about savings also requires action on several fronts. Savings requires changing incentives. Savings requires streamlining and simplifying regulations and requirements. And it requires taking aggressive steps to stamp out health care fraud, which drains $80 billion each year from real health needs.

INCREASING COMPETITION

The Health Security Act controls rising costs primarily through the power of a competitive market — empowering consumers to make choices and giving health plans the incentive to compete for their business. Reform will change incentives so that health plans compete on the basis of quality, service and cost — not on screening out sick patients. Physicians, hospitals and other health professionals will be given opportunities to shape a health care system that works for patients.

CONTROLLING PRESCRIPTION DRUG PRICES

In the 1980's, the prices of prescription drug prices rose at quadruple the general rate of inflation. In recent years, several attempts have been made to control drug costs -- often involving the use of buying clout to bring down prices.

For example, HMOs and managed care groups are successfully using their bargaining power to negotiate substantial discounts from drug companies. Because they often control the brand of drugs prescribed by doctors, health plans have the power to drive down prices.

Under reform, with the addition of prescription drug coverage, Medicare will become the world's largest purchaser of drugs. And the Medicare program will use its negotiating power to get discounts from the pharmaceutical companies. In addition, with competing health plans trying to become more efficient, more and more buyers will use the same successful negotiating techniques.

Consumers will take their pick among health plans, based on what they have to offer. Which doctors are members of the plan? Are the offices and hospitals convenient? How much do they charge? Since all plans will offer the same comprehensive benefits, people will be

better able to compare than they are today. Consumers will reap the savings from enrolling in health plans that deliver high-quality care most efficiently — and, therefore, charge lower premiums.

Better incentives for health plans will give consumers better value. In the current system, doctors and hospitals get paid extra for each service they perform, necessary or unnecessary. Under reform, health plans and providers make money by keeping their patients healthy — not doing more tests, but giving better care.

It will be in the interest of each health plan to operate efficiently — providing the best quality care at an affordable price. If health plans operate inefficiently, they will lose money. If they start cutting corners, they'll lose patients — and the business that those patients bring. Competition is about finding the balance — providing high-quality care while controlling costs.

STRENGTHENING BUYING CLOUT

Increased buying clout can bring down costs. In today's health insurance market, for example, big companies can go to an insurance company and say, "Look, if you want the business of our 100,000 employees, you've got to give us a good deal." And they get a good deal — comprehensive benefits, high-quality care and affordable prices. But if you don't work for a large employer you're not in a position to bargain, so you're more likely to get high premiums, bare-bones coverage or nothing at all.

The Health Security Act will change that — putting consumers and small businesses in the driver's seat. It's based on the simple idea that bigger buyers get better deals. By bringing consumers and small businesses together in health alliances, the Health Security Act gives everybody else the same buying clout as the big companies.

Today, a major insurance carrier doesn't have to give any kind of deal to the Mom and Pop store in Peoria. But they will not be able to ignore 5000 Mom and Pop stores brought together in an alliance from Central Illinois. That alliance will have more complete information on the costs of health plans, quality of care, service and consumer satisfaction than any buyer in today's market. It will keep enrollment

CALPERS

A Model for Reform

The state employees in California are getting a good deal on insurance — using their buying clout to bring down prices and cut administrative costs.

Adopting a role similar to the one that health alliances will play under health reform, the California Public Employees Retirement System — usually referred to as CALPERS — negotiates with health plans on behalf of almost 900,000 state and local government employees and their families in California. And CALPERS offers its members a choice of 24 different plans. Prices for health plans vary, although all plans provide coverage for the same package of health benefits — just as all plans will offer the same comprehensive benefits package under the Health Security Act.

Because they buy approximately $1.3 billion of health care each year, CALPERS — like the alliances under the Health Security Act — is in a strong position to get a good deal from health plans. Along with holding premium increases well below national averages for the last two years, CALPERS has also succeeded in reducing administrative costs.

records and collect premiums for many people, not just a few, and do it more efficiently as a result. Everyone — not just employees of large companies — will be able to get access to high-quality care at an affordable price.

LOWERING ADMINISTRATIVE COSTS

The Health Security Act simplifies the business side of health care by cutting through the paper jungle generated by some 1,500 insurance companies, and stripping away conflicting regulations imposed by a variety of federal, state, local and private agencies.

Administrative costs take up 40 percent of every health care dollar spent by small firms and the self-employed, with only 60 percent going to buy care. Meanwhile, large purchasers pay only 5 to 7 percent for administrative overhead; 95 percent of their health dollars go to care, as they should. For all private health insurance, the cost of administration totalled $44 billion in 1991, an average of 16 percent of the benefits paid out.

"What the insurance industry burns up in commissions, marketing and claims processing costs is almost unspeakable. [President] Clinton would reduce those costs."

Professor Uwe Reinhardt
Health Economist, Princeton University

Similarly, eliminating some of the duplication among different kinds of insurance — folding the health benefits of auto insurance and workers compensation into one unified health insurance policy, for example — will produce savings. Today, doctors and hospitals often submit separate claims for payment to two or more insurers. Under the new system, everyone will have coverage, and most people will have one and only one source of insurance. Doctors and hospitals will no longer have to sort out conflicting coverage.

LIMITING PREMIUM INCREASES

The increased competition from health care reform will squeeze the waste and excess out of the health care industry that nearly every doctor, nurse, patient, consumer and insurance carrier knows exists.

In order to reinforce the the competitive power of the market, the Health Security Act also creates an enforceable, fail-safe limit on the growth of insurance premiums. This limit reinforces the new incentives that slow the rate of growth in costs and acts as an emergency brake to back up competition. It serves to build in some discipline and certainty so that businesses and families will know their health care costs will not suddenly spiral out of control. It also ensures that the federal government is serious about living within its means. Once American consumers and employers have reaped the gains from savings, the limits on premium growth will be reassessed, based on experience under reform.

REDUCING HEALTH CARE FRAUD

The Health Security Act makes health care fraud a specific crime. The Act takes aggressive steps to combat health care fraud, increase penalties for those who cheat the system and expand enforcement activities. It imposes new prohibitions against kickbacks and conflicts of interest, such as doctors who refer patients to laboratories in which they have a financial stake. And health care providers convicted of fraud and related crimes will be excluded from participation in health plans.

The Departments of Justice and Health and Human Services will lead the anti-fraud effort, organizing an All-Payer Health Care Fraud and Abuse Enforcement Program to coordinate federal, state and local law-enforcement activities. The effort will target practices such as overcharging for services, charging for medical care that was never delivered, giving kickbacks to doctors who refer their patients to certain clinics or pharmacies, and delivering unnecessary services. If providers file false claims against health plans, their assets can be seized and criminal penalties for health care fraud can be imposed. The revenues from seized assets will be funneled back to support anti-fraud efforts.