KPBS Presents

CONTROLLING HEALTH CARE COSTS IN CALIFORNIA

A By the People Community Dialogue

ISSUE

What is the best way to control skyrocketing costs in assuring quality health care for California citizens?

BACKGROUND

The cost of heath care in California continues to rise, more than doubling in each of the past two decades.[1] Under current laws, the average California family will spend $2,788 in 2006 for health insurance premiums and health services.[2] That works out to an estimated $42.8 billion on health care for California families in just one year. These figures leave many to fear that unless something changes, Californians will be unable to afford the medical care they need.

Reasons for rising health care costs vary widely. They include the costs to research and develop new drugs and state-of-the-art medical procedures. They also encompass the large number of uninsured and under-insured whose medical expenses are passed on to consumers. The cost of malpractice insurance for physicians is passed along, too. The list goes on.

To assure access to care and mitigate expenses as much as possible, the non-elderly population relies heavily on employment for health insurance coverage. But California, like the rest of the country, is seeing a decline in employer-based health coverage as costs rise. While a majority of Californians are still insured through their jobs or those of relatives, those numbers are declining, specifically among dependents. Pushed by a dramatic 79.1 percent increase in the cost of job-based family coverage for the average worker, enrollment of dependents dropped 4 percentage points for children and 2 percentage points for adults from 2001 to 2003.[3]

The vast majority of uninsured Californians – three out of four – are working adults and their families. They become uninsured as a direct result of the lack of affordable health insurance when employer-based coverage is not available, or because they are ineligible or cannot afford the employee share of the cost of employer-sponsored coverage. It is estimated that the number of Californians who will lack health insurance will grow by 20 percent over the next five years.

One in five Californians – 6.6 million – have no health insurance; more people than the entire population of Massachusetts. Only a small percentage of them, primarily children, are eligible for public health care programs, such as Medi-Cal and Healthy Families. Often, bills go

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[1] Average health care spending per capita in California rose from $1,120 to $3,369 between 1980 and 1998 according to the Centers for Medicare and Medicaid Services, Office of the Actuary as cited by the California Healthcare Foundation

[2] *The Health Care for All Californians Act: Cost and Economic Impacts Analysis.* Prepared for: Health Care for All Education Fund by John F. Sheils and Randall A. Haught of the Lewan Group, January 19, 2005

[3] *The State of Health Insurance in California: Findings from the 2003 California Health Interview Survey* , E. Richard Brown, Shana Alex Lavarreda, Thomas Rice, Jennifer R. Kincheloe, Melissa S. Gatchell)

unpaid. Hospital emergency rooms feel the impact as a growing segment of their services go to treat the uninsured and under-insured. In fact, current estimates place direct spending by and for the state's uninsured at $9.8 billion this year alone.[4]

If costs continue to rise, many more Californians will face serious financial challenges in meeting their healthcare needs. How can the rising cost of healthcare and health insurance be controlled? There are a number of options being proposed in California that could help solve the healthcare crisis. One option is a state-funded single-payer – also known as universal – plan. Another is a consumer-directed, personal healthcare saving account. A third option is going with the current system of a mix of employer-based plans, private plans and public support to the uninsured.

APPROACH #1
Single Payer or Universal Healthcare Plan
Under this proposal, the state would create a tax system to fund a program under which all Californians would have access to health care. The government-run program could, among other things, eliminate private insurance and replace other government-sponsored programs, such as Medicare and Medi-Cal.

The Debate
Some believe the creation of a new government insurer would guarantee better care for the uninsured and underinsured while reducing health care costs through more effective state regulation. They also say a single-payer plan would help businesses by eliminating employee-related insurance costs.

Critics say government involvement would simply add another level of bureaucracy to health care administration and question how government regulation could effectively contain costs. They also question the leveling of any new taxes to fund the system.

APPROACH #2
Consumer Directed or Personal Account Plan
These plans, historically, have been more familiar to employees of small businesses or to the self-employed. They generally feature large deductibles and require workers to pay many smaller or repeating medical expenses, such as yearly checkups or allergy shots, out of their own pockets. These plans come with an account funded by the employee and/or employer with pre-tax money to help pay the out-of-pocket expenses.

In an effort to reduce their costs, now larger corporations that in the past have picked up a large share of their employees' insurance costs are also moving toward this type of plan. According to a 2004 survey, more than a quarter of large employers thought they would offer a consumer directed health plan by 2006.[5]The survey showed that employers could save hundreds

[4] University of California, Los Angeles Center for Health Policy Research (from 2001 California Health interview Survey and federal surveys)

[5] Mercer Human Resources Consulting, February 10, 2005, mercerhr.com

of dollars per worker on health care expenses by offering such plans and could generate high worker satisfaction by doing so.

The Debate

Some say large corporations in particular significantly reduce their costs with these plans and that medical costs in general are held down because the plans are designed to alter the behavior of consumers. They say high deductibles force workers to shop intelligently and look for more savings when they pay their out-of-pocket expenses. Still others believe that under the consumer directed plans, medical providers would be forced to provide more information that is consumer friendly to allow workers to make better choices about their own care.

Critics say high deductibles shift costs from companies to workers, effectively reducing their compensation and creating barriers to timely treatment and preventive services. They believe workers and families with higher out-of-pocket costs, particularly those who are earning low to moderate wages, are effectively denied care because they cannot afford their share of the cost. They say this leads to delays in receiving services, which results ultimately in higher costs for treating sicker patients. Some critics also believe the plans are ineffective at reducing healthcare costs because when workers need extensive or on-going care, they switch out of the plans, which also saddles employers with higher costs.

APPROACH #3

Current Mix of Employer-based, Private and Public Plans with Some Adjustments

Although insurance and medical costs continue to climb and millions of Californians are without adequate coverage, perhaps the current blend of medical care and insurance options could work with some realignment or restructuring. The current system is made up of a patchwork of options including individual coverage, employer-sponsored plans, Medicare for the elderly and public programs for people with low incomes. Improving, expanding or curtailing certain aspects among these options without completely dismantling the current system might provide the best solution.

As the system now exists, no one is compelled by the government to participate in any type of plan. Cost to taxpayers for public assistance, while growing, is generally at a manageable level. The privately insured have a standard of care they understand and can afford with a wide range of services available from surgical care to prescriptions and treatment for mental illness.

In some cases, the government is moving to cut costs. A California law capping non-economic awards in medical malpractice lawsuits has managed to cut defendants' payments by 30 percent to plaintiffs who win such lawsuits at trials.[6] A proposal passed by the U.S. House of Representatives in 2005 would cap jury awards for "pain and suffering" to plaintiffs in malpractice cases at $250,000. Such adjustments are intended to reduce healthcare costs by cutting the cost of malpractice insurance for doctors and pharmaceutical companies.

The Debate

Some say that although costs are creeping up in everything from malpractice insurance to medicine, cost containment is best left to the forces of the free market. They believe the

[6] Rand Corporation study, July 12, 2004

government can and does step in to effectively regulate high costs, as in the case of malpractice litigation. They also believe those who have access to insurance generally have access to high-quality care and that even those without insurance or even a job have access to levels of medical care unknown to much of the rest of the world. They argue that the responsibility for quality care, efficiency and cost reduction is dispersed among the government and its laws; private entities such as hospitals and businesses; as well as consumers and other market forces.

Critics say the free market allows costs to climb out of control at the expense of employers, insurers and even the insured, leaving the uninsured and under-insured with government-sponsored care for which few can qualify and that varies widely, if it is available at all. They believe government action in cases like malpractice legislation is misguided and often results in savings to corporations that aren't passed along to consumers. They also say the administrative bureaucracy associated with healthcare is unnecessarily complex and rife with errors resulting from inefficient oversight at all levels and a lack of ultimate responsibility outside the legal system.

DISCUSSION QUESTIONS

What should California do?

- Maintain the current mix of employer-based, private and public plans, but make improvements and adjustments?
- Encourage and facilitate consumer directed or personal account plans?
- Move toward a single-payer or universal healthcare plan?

Are there other approaches you can suggest not mentioned here?

With regard to these issues, how much responsibility should rest with federal government, local government, businesses and individuals?

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