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September 2, 2003

John Burton
Senate pro Tem
California State Senate

RE: SB 2 -- VIA FAX

Dear Senator Burton,

We commend you for your efforts to provide more working families with health care coverage. However, more must be done in the legislation to address skyrocketing health care costs because the key to increasing access to care is to make the health care system affordable for all consumers.

Under the proposed "pay or play" plan, employers with 20 or more employees must either provide health care benefits directly to workers or pay a fee for the worker to receive care from a state run health insurance purchasing pool. Dependents of workers receive care if the employer employs more than 200.

This approach has the potential of significantly increasing access to health care in that over 80% of California's uninsured are working families. However, Hawaii's 30-year experience with a similarly constructed "pay or play" system has shown that without cost controls, the solvency and stability of the health care system is threatened:

- After 3 consecutive years of 10-28% premium increases, the Chamber of Commerce of Hawaii asked the state legislature and the governor to provide independent oversight of rates in 2002.
- During that same year, health care premiums had increased 250 times faster than medical inflation.
- The Hawaii legislature approved, and the Governor signed, legislation allowing a regulator to deny unfair premium increases.

For consumers, rising costs equate to decreased access. The more care costs, the less care is available. The fundamental public policy issue is the lack of control over costs whether it concerns prescription drugs, monthly insurance premiums, hospital charges, or physician rates.

By requiring every player in the health care system – hospitals, insurers and medical groups – to abide by appropriate efficiency standards, more Californians can have access to care. Controlling costs through appropriate regulatory oversight is the only way to assure that those with care will be able to afford their share of co-pays, deductibles, and co-insurance fees.

We recommend that SB 2 be amended to address the following goals:

1. Universal Access

The proposed employer mandate would only cover those who are employed (along with eligible dependents) not the millions of self-employed, unemployed, and pre-Medicare retirees without health care coverage. The benefit of covering all Californians is that the more participants there are in the purchasing pool, the cheaper it is for each because the risk is spread more widely. Leaving no patient behind is critical to achieve maximum cost efficiency.

A new State health plan and purchasing pool should provide care for all who do not have access to benefit plans provided by employers. The new state health care plan created by the 2-million member California Public Employees Retirement System is more efficient than traditional HMOs because it organizes hospital and physician networks that bypass insurers and can buy prescription drugs at bulk discounts. All Californians should have access to this purchasing pool.

Currently, SB 2 would create a new health insurance purchasing pool to be overseen by the Managed Risk Medical Insurance Board (MRMIB). MRMIB is far less efficient than the CALPERs network because it relies on managed care companies to deliver care that spend up to 30% of every premium dollar on overhead, salaries, advertising, and profit.

2. Affordability

There is no equitable way to cover the uninsured without the government ensuring reasonable costs in the system for insurance premiums, doctors fees, hospital services and prescription drugs. No government body is currently charged with watching and holding down overall costs of California's health care system and weeding out waste and inefficiency. In 26 states, health insurers must ask for approval from state regulators for premium increases. This standard is applied in California for auto insurance, but it does not exist for health care.

3. Stability

Hospital rates are regulated in Maryland as a result of the legislation passed in 1971. That law created the Health Services Cost review Commission (HSCRC) as an independent agency with seven members appointed by the governor. The HSCRC was given broad authority to set hospital rates for all payers. Since 1977, Maryland hospitals' average cost per admission has declined from 25 percent above the national average to 8 percent below the national average. Such a model could serve as a basis for all-payer rate setting for California's health care system.

Universal health care requires universal sacrifice. Your challenge will be to make sure that all stakeholders give up something in order to create a plan that is better for everyone.

I look forward to answering any questions you or your staff may have.

Sincerely,

Jerry Flanagan
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