



Do We Need a Public Option?

Discussion Questions

1. Would a public option be a politically feasible solution to the current market?
2. Has it been shown that it would reduce costs and if so, for whom and how?
3. Would it really be effective in reducing the number of uninsured in the United States?
4. How would it potentially impact employer-sponsored insurance?
5. What major changes would have to occur to make the public option reach its full potential (i.e. lowered provider reimbursements, high enrollment, etc.)?
6. Who are the major proponents and opponents of the public option?

Key Takeaways

The public option has come in and out of favor as an opportunity for increasing insurance coverage in the United States for more than a decade. The idea was revived this past year as many of the Democratic presidential candidates' answer for lowering system costs and expanding coverage. There are several proposals detailing who should be covered and how, but most loosely model Medicare. These plans, in whatever form they take, aren't universally accepted as the answer to the nation's healthcare woes. Detractors argue they aren't politically feasible and would neither lower costs nor expand coverage.

The Debate

A public option will reduce the number of uninsured and lower healthcare costs

- A public option could increase consumer choice.
- It would complement rather than replace the current private insurance market.
- If done at the state level, it wouldn't arouse concerns about federal control over healthcare.
- It would increase competition, therefore lowering costs.
- It would give the government more influence over prices, also reducing costs.

The public option would add bureaucracy and disrupt the current system

- The public option would increase government control.

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- It would have an unfair advantage over private plans in its leverage with providers.
- It wouldn't lower costs, since the government doesn't negotiate as aggressively as the private sector.
- The proposal couldn't survive the battle waged by providers and insurance plans.
- It wouldn't be the answer for universal coverage, since some Americans would remain uninsured.
- There is no proof it would lower costs for patients or tamp down costs in the system.

A handful of possibilities

The idea of the public option health insurance plan was introduced in 2007¹ as a political compromise that would retain employer health insurance, while providing an additional option to Americans under the age of 65. It was killed during the passing of the Affordable Care Act but has been renewed by most of the Democrats during the current election cycle.

There have been several iterations of the public option, but generally, the goal is to create a government insurance plan – like Medicare or Medicaid – for people under the age of 65. The attractiveness of the public option is it provides more choice (no one is required to take part) and it leaves the current employer-based insurance market intact.

The proposals floated by presidential candidates vary slightly and differ somewhat from plans that Congressional leaders have proposed. Most of the current plans include voluntary buy-ins and fall under two buckets. One is a newly created, government-run option that would be sold with private plans on the state insurance exchanges. The other would allow people to buy into Medicare or Medicaid by paying monthly premiums.

Who would be covered?

There is also the outstanding question of who would be eligible for the public option plans. The Kaiser Family Foundation noted that various plans may cover different groups of people. The various plans include coverage for one or more of the following populations:

- All marketplace participants,
- Marketplace beneficiaries between the ages of 50 and 64,
- Small employers who want to take part,
- Employees who select the public option instead of employer coverage (this may be particularly attractive to low-income workers who would be eligible for a subsidy or want coverage for dependents),
- Medicare and Medicaid recipients – some programs allow people on these plans to enroll in the public option; some replace these programs with the public option; some would automatically enroll low-income people in states that haven't expanded Medicaid onto the public option.²

Side A: Moving toward universal coverage and lowering costs

As nearly all politicians found leading up to the passage of the Affordable Care Act, changing the U.S. healthcare system in any significant way is a near impossibility. Private insurance has a

stronghold on the market and eliminating it altogether to create a single payer government plan is not politically feasible.

This is one reason the public option has rejoined the conversation during this presidential election. Democrats choosing a more moderate path (Joe Biden, Amy Klobuchar and Pete Buttigieg) have endorsed various versions of public options. These, they say, are more palatable to the general public and more likely to pass Congressional muster than Bernie Sanders' and Elizabeth Warren's Medicare-for-all options.

The public option, some argue, would create less disruption to the current healthcare market and maintain consumer choice. Employer-based insurance – which accounts for about 56% of the market – would remain viable, as would the public payers – Medicare and Medicaid – covering respectively 19% and 17% of Americans.³ The public option plans would likely be a government-run product offered alongside private plans on the state health exchanges.

The idea is a popular one, with states already working on public options at the local level. Washington created Cascade Care, anticipated to be available to residents beginning in 2021. The Colorado legislature has asked state agencies to create a proposed plan as well. A small number of other states have also been investigating the viability of the public option.⁴

The public option is also expected to boost competition on the private market, potentially lowering costs. If the plans are as popular as traditional Medicare, the uptake could be high. A vast majority of Medicare beneficiaries report satisfaction with their plans: about 85%. Medicare is accepted by most doctors, and individuals receive relatively comprehensive coverage that costs less than private insurance.⁵

Jacob Hacker, a professor at the University of California, is known for creating the public option. His estimate was these plans would increase competition in the private market, showing commercial insurers, “how to provide good coverage at a reasonable cost with transparency and stability.”⁶

Though nearly all insurers and provider organizations oppose the public option, the American College of Physicians endorsed it this past spring.⁷ According to the organization, the public option is one way to potentially reach universal coverage that would achieve administrative savings without being too disruptive to the current system⁸

Cost savings

Because a public option has yet to be put in place in the United States, most of what is known about them is conjecture. Much of the research performed, unsurprisingly, focuses on cost – what the plans might cost beneficiaries and the government and how it would impact provider fees.

According to an economic analysis of the public option from 2009, the Urban Institute has estimated potential savings of \$47 billion annually to the government and \$79 billion overall should this kind of plan be implemented at the national level. If businesses could opt into these

plans, The Lewin Group forecasted another \$40 billion in savings as they dropped their private plans.

The report attributes the lower cost in part, to a public option's low administrative costs. It has been estimated that Medicare spends as much as seven times less on administration than private payers.⁵ A public plan would not be beholden to investors as private plans are, meaning their need for excess returns would be lower.⁶

If enough people sign onto a public option, the plan would also be able to negotiate lower reimbursement rates with providers, lowering premiums for its beneficiaries. Over time, private plans would feel the squeeze and be forced to lower premiums as well.⁹ This is what legislators are hoping to see in Washington state, where they capped provider reimbursements in their public option at 160% of Medicare rates⁴ (private insurers pay an average of 241% of Medicare rates – on the high end that number is 400% of the rates¹⁰).

The Congressional Budget Office (CBO) estimated costs of a public plan would be lower, but not to the extent of the other research. It said in 2013 that the government would save \$158 billion over a decade with a public plan. And, that premiums would be 7% to 8% lower than the private plans on the market.¹¹ This bears out the estimates in Washington state, where experts estimate premiums will be 5% to 10% lower for those choosing the public option.⁴

Side B: The public option would raise costs and harm the market

Two of the main goals of healthcare reform today are to increase coverage – making it universal, if possible – and lowering the costs throughout the system. Many experts argue that a public option would do neither of these things. Instead, it may only worsen these aspects.

A CBO report has found that a public option would not ensure all Americans have insurance coverage. The organization estimated that about six million people would sign up, leaving millions still uninsured.¹²

While some argue that efficiencies could be seen on the administrative side, like those in the Medicare program, others think this kind of plan would only add to the complications of an already dense health insurance system. If a new public option is created, it would require the government to go through the process of determining which benefits would be covered, payment rates to providers and fair premiums.¹¹ If the rollout would be anything like that of the Affordable Care Act, history shows it would be challenging.

It would face intense resistance

A major barrier to most health care policy changes tends to be politics. Nearly all the major players in the healthcare industry have lobbied strongly against any kind of public option. And that doesn't appear to be changing any time soon.

One criticism by the public option's opponents is that it would overtake the current market, supplanting private insurance and moving toward a single-payer system. In a recent article in the Wall Street Journal, Lanhee Chen from the Hoover Institute (with support from Partnership for



America's Health Future) estimated that about 123 million people could potentially be enrolled in a public option by 2025 if a plan were passed.¹³ The data is based on the Medicare for America Act of 2019, which would enroll people who are uninsured, on Marketplace plans, Medicare, Medicaid and state children's health insurance. Businesses could provide their current insurance or switch their employees to Medicare for America.

Healthcare providers have consistently called for keeping the system as it is today. Most medical associations (save the American College of Physicians) say that a Medicare-like public option would lower reimbursements to an unsustainable level. The higher rates paid by private plans help subsidize those lower rates that Medicare pays.² Some worry these lower rates would only result in providers refusing to take part in the plan unless required to by the government.⁶

Insurers are also no fans of the public option. More competition is generally not welcomed by any business. In an interview with Kaiser Health News, Gerald Kominski, director of the UCLA Center for Health Policy Research, said the industry worries it can't compete with a government plan paying providers Medicare rates. It would also be tricky for insurers who already have plans on the marketplace to be essentially competing with themselves if they take part in a public option.¹⁴

Providers, insurers and the pharmaceutical industry have teamed up on a national campaign against any kind of public plan, creating the Partnership for America's Health Future.¹⁵ And aside from the funds this group spends, healthcare organizations spent almost \$568 million in 2018 lobbying in Washington, D.C.

Lowered costs are a myth

It's already clear that the cost cutting that some expect from a public option may not come to fruition. In Washington state, providers lobbied against the plan so vociferously that legislators had to increase reimbursement rates higher than they initially wanted. The rates paid by the state health exchange are thought to be about 174% of Medicare rates; the public option is expected to pay about 160%.¹⁶

Others say there wouldn't be a large drop in premiums, either. In fact, some estimate that people on a public plan would be paying more every month than they do now for private plans on the exchanges.¹²

In Chen's article, he said the public option could add more than \$700 billion to the federal deficit over a 10-year period. This number is predicated on the public option usurping the U.S.'s existing insurance market as larger numbers of people (123 million) end up enrolled in the plan by 2025. The report's authors say that, by 2049, the public option could be the third most expensive government program, just short of Medicare and Social Security.

If income taxes were used to support the increased cost of a public option, the report's authors estimate that people in tax brackets up to 33% would see rates raised by about 6% by 2049. The higher tax brackets would see an increase above 47% by that same year.¹³

A 2019 study by the Urban Institute and Commonwealth Fund found that, while overall spending may decrease with a public option (by an estimated \$22.6 billion) in 2020, federal spending would increase by more than \$122 billion.¹⁷

Predicting the unknown

Thus far, there is only one example of what a public option might look like in this market. The Washington state plan has borne out the political challenges of building a public option that is able to reduce costs and increase coverage.

There are a handful of factors that would need to be put in place for a public option to be successful. First is design. If it is built like current private insurance, administrative overhead would likely be as high as private plans, something Medicare doesn't have to deal with because it doesn't administer the plans.

Marketing would be another challenge. Again, unlike Medicare, a public option would be competing with private plans and the government is notorious for giving short shrift to its healthcare marketing.

Public plans typically create a marketing budget through a fee based on a percentage of premiums. According to a paper produced by Covered California, the Centers for Medicare and Medicaid Services allotted a portion of its assessment fee – about \$47 million – to market exchange programs across 39 states in 2018. In the same year, Covered California set aside \$111 million for its marketing efforts.

Covered California noted, “investments in marketing and outreach attract a healthier risk pool, lower premiums and encourage health insurance companies to participate in the market with more certainty and potential returns.”¹⁸ Good marketing attracts more beneficiaries, which can lower the cost of premiums. Lower premiums induce healthy people to sign up and spread the risk pool among a healthier, more advantageous population for the insurer.

There is also the issue of negotiation and uptake among healthcare providers. To create better margins, the government would have to negotiate payments similar to Medicare rates with providers. There is no guarantee doctors and hospitals would accept reimbursements lower than private plans, opting out of participation. The government would almost need to require providers to take part (possibly threatening to lose Medicare contracts if they resist). In Washington state, provider groups lobbied hard enough that backers of the plan had to make it voluntary.

Conclusion

There is no way to know exactly what a public option plan would look like or how it would impact the market. Proponents hope it would increase access to insurance and healthcare services. Federal and state governments have the mass to negotiate much lower prices than private insurance currently does.

Opponents, on the other hand, challenge that many of the factors that would have to fall into place are feasible. They say the plans don't have enough political backing, that providers won't participate, and patients won't enroll.

Even if a public option were passed, the same political forces currently preventing the government from lowering rates and reimbursements to date could prove to create a neutered public option. And a watered-down version could hold little, if any, cost advantage for the market. It could end up being neither a big win for nor big threat to the current system.

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