

# Public Option

## Would the public option dream change the reality of American health policy?



### Price setting versus capitalism

The public option has come in and out of favor as a way to increase insurance coverage in the United States for more than a decade. The idea has been 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 plans are tailored after Medicare in some way. These plans, in whatever form they take though, 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 wouldn't be a major disruption to the current private insurance market, so is politically feasible.
- If done at the state level, would appeal to those who want less federal control over healthcare.
- It would increase competition, therefore lowering costs

#### **The public option isn't the answer some believe it would be for the system**

- The proposal couldn't survive the battle by providers and insurance plans.
- It wouldn't be the answer for universal coverage, 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 2007<sup>1</sup> 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 in favor of passing the Affordable Care Act but has been renewed by most of the Democrats during the current election cycle.

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<sup>1</sup> <http://www.sharedprosperity.org/bp180.html>

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 plans currently be floated are voluntary buy-ins and fall under two buckets. First is a newly created government-run option that would be sold with private plans on the state insurance exchanges. Second would allow people to buy into Medicare or Medicaid with 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 to:

- All marketplace participants,
- Marketplace beneficiaries between the ages of 50 and 64,
- Small employers who want to take part,
- People with coverage through an employer who, instead, opt for the public option (this may be particularly attractive to low-income workers who would be eligible for some kind of 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.<sup>2</sup>

### **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 was 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 than Bernie Sanders' and Elizabeth Warren' s Medicare-for-all options.

The public option would also create little disruption to the current healthcare market and maintain consumer choice. Employer-based insurance – which accounts for about 56% of the market – would remain stable, as would the public payers – Medicare and Medicaid – covering

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<sup>2</sup> <https://www.kff.org/health-reform/issue-brief/10-key-questions-on-public-option-proposals/>

respectively 19% and 17% of Americans.<sup>3</sup> The plans would likely be a government-run product offered alongside the 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 has created Cascade Care, its plan 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.<sup>4</sup>

The public option is also expected to boost competition in 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 like their plans: about 85%. The insurance is taken by most doctors, and individuals receive relatively expansive coverage at a lower cost than private plans.<sup>5</sup>

Jacob Hacker, a professor at the University of California, created 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.”<sup>6</sup>

### **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 at this point. 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.

An economic analysis of the public option from 2009 reported that 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 all businesses were allowed to opt into these plans, The Lewin Group forecasted another \$40 billion in savings as they dropped their private insurance plans.

*Though nearly all insurers and provider organizations oppose the public option, the American College of Physicians endorsed it this past spring. 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 system.*

The report attributes the lower cost to the government’s lower administrative costs and mass. It has been estimated that Medicare spends as much as seven times less on administration than

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<sup>3</sup> <https://www.census.gov/library/publications/2018/demo/p60-264.html>

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<https://www.npr.org/sections/health-shots/2019/05/16/723843559/will-washington-states-new-public-option-plan-reduce-health-care-costs>

<sup>5</sup> <https://hbr.org/2019/10/the-case-for-the-public-option-over-medicare-for-all>

<sup>6</sup> <https://www.healthaffairs.org/doi/10.1377/hpb20090619.755576/full/>

private payers.<sup>7</sup> A public plan would not be beholden to investors as private plans are, meaning their need for excess returns would be lower.<sup>8</sup>

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If enough people sign onto a public option, the plan will 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.<sup>11</sup> This is what legislators are hoping to see in Washington state, where they have capped provider reimbursements in the public option at 160% of Medicare rates<sup>12</sup> (private insurers pay an average of 241% of Medicare rates – the highest being 400% of these rates<sup>13</sup>).

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.<sup>14</sup> This bears out the estimates in Washington state, where experts estimate premiums will be 5% to 10% lower for those choosing a public plan.<sup>15</sup>

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

Two of the main goals of much of healthcare reform today are to increase coverage – making it universal, if possible – and lower 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.

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<sup>7</sup> <https://hbr.org/2019/10/the-case-for-the-public-option-over-medicare-for-all>

<sup>8</sup> <https://www.healthaffairs.org/doi/10.1377/hpb20090619.755576/full/>

<sup>9</sup> <http://advocacyblog.acponline.org/>

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[https://www.modernhealthcare.com/politics-policy/acp-endorses-single-payer-public-option-plans?\\_ptid=%7Bjcx%7D4sIAAAAAAAAAAI2Ry07DMBBF\\_8XrWhrbcR7eVSHOCqrSBxVdThynNaRJmkdbQPw7SUVBIVjghSXPuWekGX8QtAIRpHmwdT3b7-cJGZASN2ZlZXHcEw4cKDDKHcok5YJyJzog6SR8CnA7qldysR-H8p0KFK7QqU6T2JEo0OWGaZ3GAfKYxT52jc2pNJU1uTbn1tGz40\\_vg\\_FyEayvaHOyum1skZ9jzAdZvvhgHAr4VVbGiiyBANXFqX76mtd-Vf-UP\\_I9bY4Ls2uzLax4WQ2iWDB5BzmrDe2WF8YUU3VmgFpvt9neq8ffTEaDIN7wT5ZSusLOZNH8nbLBsQjbsS7SavL4WDre2ZkwP9c4FMUEw4Z-sTi8LZ8O0mXP1ngbbsf8QFUMzrLhEjKE-moGKGWmHiO0qATJWBNOjibW2q4cbkTWclR9uP0GREMekFge854H5-AS\\_7IVAAAagAA&CSAuthResp=1%3A%3A667494%3A0%3A24%3Asuccess%3A85068C80C550F9C683CF5BFBF25740A3](https://www.modernhealthcare.com/politics-policy/acp-endorses-single-payer-public-option-plans?_ptid=%7Bjcx%7D4sIAAAAAAAAAAI2Ry07DMBBF_8XrWhrbcR7eVSHOCqrSBxVdThynNaRJmkdbQPw7SUVBIVjghSXPuWekGX8QtAIRpHmwdT3b7-cJGZASN2ZlZXHcEw4cKDDKHcok5YJyJzog6SR8CnA7qldysR-H8p0KFK7QqU6T2JEo0OWGaZ3GAfKYxT52jc2pNJU1uTbn1tGz40_vg_FyEayvaHOyum1skZ9jzAdZvvhgHAr4VVbGiiyBANXFqX76mtd-Vf-UP_I9bY4Ls2uzLax4WQ2iWDB5BzmrDe2WF8YUU3VmgFpvt9neq8ffTEaDIN7wT5ZSusLOZNH8nbLBsQjbsS7SavL4WDre2ZkwP9c4FMUEw4Z-sTi8LZ8O0mXP1ngbbsf8QFUMzrLhEjKE-moGKGWmHiO0qATJWBNOjibW2q4cbkTWclR9uP0GREMekFge854H5-AS_7IVAAAagAA&CSAuthResp=1%3A%3A667494%3A0%3A24%3Asuccess%3A85068C80C550F9C683CF5BFBF25740A3)

<sup>11</sup> [https://www.law.berkeley.edu/files/chefs/Public\\_Option\\_Economic\\_Analysis.pdf](https://www.law.berkeley.edu/files/chefs/Public_Option_Economic_Analysis.pdf)

<sup>12</sup>

<https://www.npr.org/sections/health-shots/2019/05/16/723843559/will-washington-states-new-public-option-plan-reduce-health-care-costs>

<sup>13</sup> <https://www.advisory.com/daily-briefing/2019/05/13/hospital-prices-rand>

<sup>14</sup>

<https://www.commonwealthfund.org/publications/journal-article/2018/nov/pros-cons-public-options-2020-democratic>

<sup>15</sup>

<https://www.npr.org/sections/health-shots/2019/05/16/723843559/will-washington-states-new-public-option-plan-reduce-health-care-costs>

A CBO report has found that a public option would not ensure that all Americans have insurance coverage. The organization estimated that about six million people would sign up, leaving millions still uninsured.<sup>16</sup>

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.<sup>17</sup> 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. And nearly all of the major players in the industry have lobbied strongly against any kind of public option. And that doesn't appear to be changing any time soon.

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 (as much as 240% less) that Medicare pays.<sup>18</sup> Some worry these lower rates would make providers would refuse to take part in the plan unless required to by the state or federal government.<sup>19</sup>

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 that 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, in essence, be competing with themselves if they take part in a public option.<sup>20</sup>

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.<sup>21</sup> And aside from the funds this group spends, healthcare organizations spent almost \$568 million in 2018 lobbying in Washington, D.C.<sup>22</sup>

### **Lowered costs are a myth**

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<sup>16</sup><https://www.wsj.com/articles/SB125694764832619997>

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<https://www.commonwealthfund.org/publications/journal-article/2018/nov/pros-cons-public-options-2020-democratic>

<sup>18</sup> <https://www.kff.org/health-reform/issue-brief/10-key-questions-on-public-option-proposals/>

<sup>19</sup> <https://www.healthaffairs.org/doi/10.1377/hpb20090619.755576/full/>

<sup>20</sup> <https://khn.org/news/what-would-a-public-insurance-option-look-like-in-california/>

<sup>21</sup> <https://americashealthcarefuture.org/about-us/>

<sup>22</sup>

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 legislation enough 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%.<sup>23</sup>

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.<sup>24</sup>

Research fellows from the Hoover Institute (with support from Partnership for America's Health Future) 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 fact that a public option usurps 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.<sup>25</sup>

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.<sup>26</sup>

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<sup>23</sup> <https://www.nytimes.com/2019/06/27/upshot/washington-state-weakened-public-option-.html>

<sup>24</sup> <https://www.wsj.com/articles/SB125694764832619997>

<sup>25</sup> <https://www.wsj.com/articles/the-myth-of-the-moderate-public-option-11579824695>

<sup>26</sup>

<https://www.beckershospitalreview.com/hospital-management-administration/single-payer-vs-public-option-comparing-cost-coverage.html>