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**POLITICS**

# Dems Push Public Health Plan, But Would They Let One Fail?

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House Speaker Nancy Pelosi of Calif., center, flanked by House Ways and Means Committee Chairman Rep. Charles Rangel, D-N.Y., left, and House Education and Labor Committee Chairman Rep. George Miller, D-Calif., gestures during a news conference on health care reform, Friday, July 17, 2009, on Capitol Hill in Washington. Working day and night, House Democrats advanced major health care legislation through two committees on Friday and struggled to line up the votes necessary to prevail in a third. AP View Enlarged Image

Congressional Democrats claim a public health option would compete on a level playing field with private insurers. But what would the government do if such a plan became insolvent?

"The real test of a level playing field is that Congress would allow a public plan to fail," said Bob Moffitt, director of health policy studies at the conservative Heritage Foundation. "The public plan would have to be operating under the exact same rules as the private plans, which is highly unusual."

Sen. Chuck Schumer, D-N.Y., suggested that it could fail. "If you have a level playing field, it means that the public plan would get an infusion of federal money at the beginning, and then it has to compete on its own."

But if a public plan insures, say, 20 million people but suffers major losses, would the government really pull the plug and force millions of registered voters to scramble to find new coverage?

"In the end, the taxpayer is still at risk," Moffitt said. "With the experience of Congress with Fannie Mae (FNM) and Freddie Mac (FRE), financial institutions and auto companies, there is not a shred of evidence that Congress would allow a public plan to fail."

"There are certainly government programs that have been allowed to be discontinued because they haven't operated effectively," counters Jacob Hacker, a professor at Yale University and a proponent of a public plan.

In one paper, Hacker stated that a public plan would have "the full faith and credit of the federal government behind it," which critics have charged means that it would not be allowed to fail.

"What I meant was that the public plan would have the confidence in it that would be due to the fact that it would be run by the federal government," Hacker said. "I've made clear that I don't think that it should have access to general tax revenue."

Neither the bill working its way through the House nor the one that passed the Senate Health, Education, Labor and Pension committee last week explicitly guarantee that Congress will bail out the public plan, should it fail. The House version states that the public plan must become self-sufficient while the HELP panel bill states that it will be subject to a "federal solvency" standard.

Both bills require the public plan to have a "premium reserve fund." The House version must have enough cash to pay 90 days worth of claims while the HELP version must have an amount equal to the dollar value of incurred claims.

The cost of the stabilization fund would be built into public plan premiums.

"To make it fair, you need something similar in the public plan," said Len Nichols, director of the health policy program at the liberal New America Foundation. "That's what a premium stabilization fund is about."

Also, each bill keeps the authority over the public plan and the authority over regulation of the market separate. In the House bill, the regulatory agency — called an "exchange" — is run by a commissioner while Health and Human Services runs the public plan. In the HELP version, there are 50 state exchanges. The public plan is run by a nonprofit entity.

According to proponents of a public plan, these are essential features of a level playing field.

"The authority overseeing the marketplace and enforcing its rules should not have an incentive to favor the public plan," wrote Nichols.

Then again, the government did not explicitly back Fannie and Freddie. But the government last year took control of the mortgage finance giants last year, with taxpayer losses likely to top $100 billion and beyond.

"Everyone will believe that the government will bail out the public plan, and so the public plan will be able to set its premiums below its actual costs and undercut private plans," said Michael Cannon, director of health policy studies at the libertarian Cato Institute.

"Congress is going to be the one structuring these things," Cannon added. "It's a complete fantasy to think Congress will create these things and not meddle with them. It's hard enough to keep Congress from meddling with the private sector."

But Nichols cites state employee health benefits as an example of a level playing field. Private health insurance plans compete with public plans for the business of state employees in more than 30 states.

Hacker states that private firms have substantial advantages.

"Private plans already cover 170 million people. They have brand- name recognition, decades of experience and very deep pockets," he said.