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## The Beginning of the End of Private Health Insurance

### How Obama's public health insurance option will quickly evolve into the only option

*Ronald Bailey* | June 9, 2009

In his weekly radio address on Saturday, President Barack Obama declared that "it's time to deliver" on health care reform. In a **letter** to Sen. Edward Kennedy (D-Mass.) and Sen. Max Baucus (D-Mont.), President Obama wrote, "I strongly believe that Americans should have the choice of a public health insurance option operating alongside private plans. This will give them a better range of choices, make the health care market more competitive, and keep insurance companies honest." This week Sen. Kennedy released a draft of his proposed "**American Health Choices**

**Act**" which includes one such optional public health insurance plan. The administration's goal is to report that bill out of the relevant Senate committees by the end of this month.

Earlier this week, Republican lawmakers sent a letter of their own, **strongly warning** the president that "Washington-run programs undermine market-based competition through their ability to impose price controls and shift costs to other purchasers. Forcing free market plans to compete with these government-run programs would create an unlevel playing field and inevitably doom true competition."

Sadly, we are already well on our way to a wholly government-run health insurance system. After fall, about **47 percent** of all health care expenses today are paid for by federal, state, and local governments, e.g., Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP). Establishing a public insurance scheme would dramatically increase the percentage of health care that is paid for by the federal government.

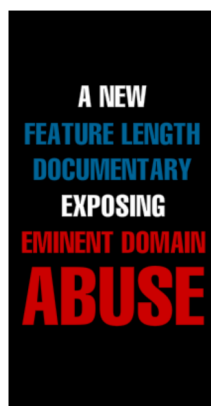
In April, the Lewin Group, a health care consultancy, issued **an analysis** of how the public health insurance option plan might affect the provision of private health insurance. Currently about 170 million Americans are covered by private health insurance plans, mostly through their employers.

The Lewin Group crunched the numbers through their health care model and found that premiums for the public option plan would be 30 to 40 percent lower than private plans. Sounds great, right? But these lower premiums are essentially achieved by imposing price controls. The Lewin Group assumed that the public option plan will pay doctors and hospitals at the same rates they currently receive from Medicare. And Medicare reimbursements already run 71 percent and 81 percent below what private health plans pay hospitals and doctors, respectively.

First, the somewhat good news. Lower public option premiums and an increase in Medicaid coverage would attract 28 million of the 48 million Americans who currently are not covered by health insurance. Now the bad news. The lower premiums would encourage employers to drop private health insurance and put their employees into the public plan. Overall, the Lewin Group estimates that if Medicare reimbursement rates are imposed, the number of Americans with private health insurance would decline by almost 120 million, leaving only 50 million Americans in the private insurance market.

Defenders of the public option quickly point out that Kennedy's American Health Choices Act promises to pay health care providers 10 percent more than Medicare. But as the Cato Institute's Michael Tanner **noted** at Cato@Liberty, "When Medicare began, proponents promised it would reimburse at the same rate as insurance. That promise didn't last long." In fact, in his letter to Kennedy and Baucus, Obama explicitly endorsed the idea of setting mandatory physician and





hospital reimbursement rates through the Medicare Payment Advisory Commission. In other words, the payments would no longer be merely advisory.

The Lewin Group looked at another scenario similar to the Kennedy proposal, where the public option plan reimbursements to doctors and hospitals were set at the midpoint between Medicare and private plans. In that scenario, the number of Americans covered by private insurance would only drop by 67 million, instead of 120 million. Today, the number of Americans covered by Medicaid is 51 million, with another 45 million covered by Medicare, and 5 million covered by SCHIP. In addition, the Lewin Group estimates that an additional 10 million more would be covered by Medicaid under the Kennedy proposal. So the grand total of Americans likely to be initially covered by government health insurance once the public option is launched would come to 177 million out of 306 million, leaving 103 million privately insured and 20 million still uninsured.

The best result of creating a parallel public insurance scheme is that the United States would end up with an explicit two-tier medical system in which privately insured Americans have better access to better medical care. Such two-tier health care systems already exist in countries with national health care schemes such as the **United Kingdom** and **Germany**. In the United Kingdom, more and more Britons are opting for **private health insurance** instead of remaining with that country's National Health Service. Privately insured Americans would get higher quality health care, but because the market for medical innovation would be smaller, everybody will get worse care than they would otherwise have received had most health care not been nationalized.

The worst case scenario is that the public option plan would eventually absorb what remains of the private health care system. This could happen as the political constituency for private health care and insurance shrinks while more and more Americans become covered by government insurance. In addition, it will be hard for politicians to resist forcing wealthier patients to join the government plan as a way to make up for eventual shortfalls in revenues.

The Republican letter to President Obama presciently warns that a government insurance option will create a fatal dynamic, the end result of which "would be a federal government takeover of our healthcare system, taking decisions out of the hands of doctors and patients and placing them in the hands of a Washington bureaucracy." Once the vast majority of Americans are covered under various government "insurance" plans, the push to go all the way toward universal coverage will be almost irresistible.

**Ronald Bailey** is Reason magazine's science correspondent. His book **Liberation Biology: The Scientific and Moral Case for the Biotech Revolution** is now available from Prometheus Books.

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