



A Public Plan Option: Promoting Meaningful Choice, Higher Quality and Lower Costs

A public insurance option should be a central feature of any plan to expand coverage to the millions of uninsured Americans. If offered on a level playing field with private insurance plans through a health exchange, a public plan would enable families to choose from a wider array of health coverage options, create a broader platform for implementing quality initiatives and payment reforms and lower overall health care costs.

Meaningful choice in health care coverage

Americans want a variety of coverage options so they can choose the coverage that best suits their families. And widespread insurer practices such as denying coverage of pre-existing conditions have eroded the public trust in the private insurance industry. Congress could widen available insurance options and restore the public trust by developing a public plan option open to all Americans that, by design, puts public interest ahead of profits. According to a recent survey, almost three quarters of Americans prefer a choice of public or private plans, when compared to an all-public or all-private system.¹

A broader platform to implement quality initiatives

Existing public programs, such as the Veteran's Health Administration (VHA), Medicare and Medicaid, have been innovators and early-adopters of quality improvement methods and cost-saving payment reforms. For example, since the early 1990s, the VHA has been a leader in adopting an electronic medical record system and a quality improvement initiative emphasizing preventive care and chronic disease management.² Medicare has been the source of innovative payment methods such as transitioning from fee-for-service to prospective hospital payments, and has led the way on refusing to pay for "never" events.³ And North Carolina's Medicaid program helped to pioneer large-scale use of medical homes to better coordinate patient health care.⁴

A public plan could create an even broader platform to implement these types of innovative quality initiatives and payment reforms, putting competitive pressure on private insurers to adopt these measures and driving down overall health care costs.

Lower overall costs

Existing public plans spend less on marketing than private insurers, and they don't engage in costly underwriting practices or keep a portion of premiums as profits. As a result, they maintain lower administrative expenses than private plans. For example, the Congressional Budget Office has found that administration and profits account for 11 percent of operating costs for private plans participating in Medicare, but less than 2 percent of the traditional fee-for-service costs.⁵ A public plan option open to all Americans would not only reduce wasteful spending by minimizing its own administrative costs, but it would also increase the competitive pressure on private plans to lower their own administrative costs.

Additionally, if Congress granted the public plan authority to take advantage of Medicare's lower provider rates, the public plan could achieve even more significant savings. Medicare rates for physicians are 81 percent of private rates, and Medicare pays hospitals about three quarters of what private payers do.⁶ Despite these lower rates, evidence suggests that Medicare beneficiaries' access to physicians has not been jeopardized.⁷ Even if a public plan were to pay higher rates than Medicare (110 percent of the Medicare rate, for example), there would still be ample room to reduce prices and overall costs while paying providers adequately to ensure access to quality care.

¹ Lake Research Partners, "Voter support for a public health insurance plan." January 28, 2009.

<http://www.healthcareforamericanow.org/page/-/documents%20for%20download/Memo.HCAN.f3.012809.pdf>

² http://www.houston.va.gov/pressreleases/news_20021101a.asp

³ Berenson, Robert A. and Bryan E. Dowd, "Medicare Advantage Plans At A Crossroads—Yet Again." *Health Affairs* Web Exclusive, Volume 28, no. 1 (2009): w29–w40.

⁴ Hoffman, Renee, "Gov. Easley Announces Community Care Saves Taxpayers \$231 Million. Program Wins Top Harvard Government Innovations Award." State of North Carolina Office of the Governor. September 25, 2007.

<http://www.communitycarenc.com/PDFDocs/InnovPress.pdf>

⁵ Congressional Budget Office, "Designing a Premium Support System for Medicare." December 2006.

<http://www.cbo.gov/ftpdocs/76xx/doc7697/12-08-Medicare.pdf>

⁶ Medicare Payment Advisory Committee, "Report to Congress: Medicare Payment Policy." March 2008.

http://www.medpac.gov/documents/Mar08_EntireReport.pdf

⁷ AARP, "Access to Physicians Survey." February 2007.

http://assets.aarp.org/rgcenter/health/access_physicians.pdf.