



**Testimony of Ted Doolittle
Office of the Healthcare Advocate
Before the Insurance and Real Estate Committee
Re SB 346
March 5, 2020**

Supplemental Testimony

Good morning, Senator Lesser, Representative Scanlon, Senator Kelly, Representative Pavalock-D'Amato, and members of the Insurance and Real Estate Committee. For the record, I am Ted Doolittle, Healthcare Advocate for the State of Connecticut. The Office of the Healthcare Advocate ("OHA") is an independent state agency with a consumer-focused mission: assuring consumers have access to medically necessary healthcare; educating consumers about their rights and responsibilities under health plans; assisting consumers in disputes with their health insurance carriers; and informing legislators and regulators regarding problems that consumers are facing in accessing care, and proposing solutions to those problems.

Thank you for this opportunity to provide testimony supplementing my earlier written and oral testimony.

This is fundamentally a health care cost control measure. We spend twice as much as our economic competitors on health care, and this is a major disadvantage and drag on American businesses as they attempt to compete internationally. Warren Buffett has said that "Medical costs are the tapeworm of American economic competitiveness." Over the course of almost 100 years, and especially in the last 30 years, the American health care system has compared to our economic competitors proved to be completely incapable of controlling costs. This is not serving Connecticut families and businesses well. Something needs to change.

This is not a personal attack on the people who run our insurance companies. Or our hospitals. Or our drug manufacturers. These are all good people, our neighbors and friends. And we should come together as a community, from all sectors, to work on the healthcare cost problem.

But it can't be denied that the healthcare system, as whole, has failed, particularly the commercial coverage sector. The public programs such as Medicare and Medicaid have been somewhat more successful in controlling cost growth. This is especially true in Connecticut, where our Medicaid program is has achieved one of the lowest rates of cost growth among Medicaid plans across the country. The providers say there is a "cost shift" where they have to charge more to commercial to subsidize the public systems, and they believe that the public programs do not cover the actual cost of care. But even if that is true, that leaves the question of why.

Why uniquely among our global economic competitors do our healthcare providers experience such high costs, and therefore need to overcharge their commercial clients to make up the difference?

A few other countries, notably the Netherlands and Israel, use private insurance companies to provide a lot of their coverage. But in no other country does the government fail to assist the private insurance companies in their cost control efforts. Why is this government support of industry needed? Multiple Nobel prizes in economics have been won by scholars who have proven that normal market forces do not apply in the healthcare system. Because of the intensely personal and important nature of healthcare, especially the most expensive healthcare, healthcare is different, and healthcare consumers all too often simply are not able to act like rational actors buying a car or a washing machine.

That's why there is a need for more government involvement in the health care sector than other sectors – the American experience of crazily rising healthcare costs over the past 30 years is proof that the insurance industry needs support in order to become effective at controlling cost. This bill follows international standards in placing the state government

nearer the cost negotiation alongside and really in support of the private carriers. If the public option plan were successful in getting better prices, this would empower the private carriers in their own separate negotiations with providers like hospitals and drug providers.

That's why I think this bill is slightly misnamed. Public Options should really be renamed the Public-Private Partnership Option. The bill does not provide for the creation of a large new public bureaucracy. It calls for the state to oversee private sector partners in offering a new plan. It allows the state to hire the best available private firms, probably one or more insurance companies, to administer all aspects of the program.

This is not a departure for the U.S. or Connecticut. This type of public-private partnership has been going on for 50 years.

As noted above, Medicare and Medicaid has a better record on cost growth than the commercial insurance sector.

Well, even though a lot of people in this room hate it when I say this, Medicare is not a big government program, it's not socialized medicine. It's a public-private partnership. There are only 6,200 federal employees who run Medicare and Medicaid. Those 6,200 employees spend \$1 trillion per year. That's \$160 million per federal employee. Think about what \$160 million in medical bills looks like. Can one person take in, check over, process and pay \$160 million in medical bills? Assuming the bills average \$200, that's 800,000 bills per year, 16,000/week, 400/hour. And that's just bill payment, without accounting for a call center for customer service, anti-fraud activities, actuarial work. The list of work needed to administer any health coverage system, public or private, goes on.

How does Medicare do this? Medicare quietly hires thousands of private companies, including all the major insurance companies, to do this work. There's no official count of all the private sector employees who run Medicare, but it's safe to say it takes hundreds of thousands of people to deliver the Medicare program. But only 6,200 of them are federal employees. And Medicare has a lower cost structure than commercial insurance.

Medicaid is similar. Out of about 56 Medicaid programs, only one is mostly run by government employees. States hire the insurance companies and others to run their Medicaid programs. In Connecticut, the HUSKY Medicaid program, like virtually all state Medicaid programs, retains private companies to administer many aspects of the program. And HUSKY has had great record of cost control, even compared to other state programs; in fact in recent years Connecticut has had almost the lowest rate of Medicaid cost control across the country.

Public-private partnerships works.

This is the same approach that is contemplated here. And although the public-private option being considered here is much lighter in terms of government involvement than either Medicare or Medicaid, it does share the common thread of a public actor being closer to the cost negotiations between the carrier and all types of health providers and manufacturers. And the state will work with the private sector to provide this public option. The program thus has the possibility of creating many new private sector jobs; and if the program succeeds and grows, these jobs will grow even further. A fair share, and maybe all, of this new business, will go to insurance carriers. Remember, any healthcare coverage system, be it Medicare, Medicaid, or the new public option, does not run itself.

Any system, public or private, must use pretty much the same amount of personnel, be it in call centers, actuarial services, program integrity or all of the many activities needed to run any healthcare coverage system, public or private. It is reasonable to assume that if jobs are lost in one segment of the insurance marketplace, because of the success of a new public option, those jobs will be essentially replaced with new public option jobs.

This plan will provide a new choice for Connecticut consumers and businesses, with the chance of new and improved cost control in the long term. If the program is able to operate at a lower cost, this will provide substantial support to the insurance plans in their negotiations with healthcare providers and manufacturers, and thus put downward pressure on healthcare provider costs. Conversely, if the public option cannot succeed in lowering costs, the commercial insurance plans will be able to continue without much impact. The potential payoff from this new program is high, and the risk is low, because if

the program does not in fact lower costs, it will simply fade away.

Thank you very much for your consideration of this testimony. If you have any questions concerning our position on this issue, please feel free to contact me at Ted.Doolittle@ct.gov.