Quality, Affordable Health Care for All
Business-Led Group Urges Comprehensive Reform, End to Employer Insurance System

Washington, DC – October 15, 2007 – Health care costs threaten future U.S. economic growth. Today’s employer-based system is faltering and should be replaced by an insurance system driven by cost-conscious consumer choice. Those are the central findings of *Quality, Affordable Health Care for All: Moving Beyond the Employer-Based Health-Insurance System*, released today by the business-led Committee for Economic Development (CED).

“Employer insurance is failing because of rapid cost increases and the inability to provide high-value care. CED’s report explains that quality, affordable universal coverage is neither achievable nor sustainable unless we transform the delivery model. Health delivery systems need an independent but transparent regulatory process to achieve productivity and innovation. The CED plan is not Medicare for all, and it is not markets for all,” said Dr. Jerome Grossman, Senior Fellow, John F. Kennedy School of Government and Director of the Harvard/Kennedy School Health Care Delivery Policy Program. Dr. Grossman is a CED Trustee and co-chair of the CED Health-Care Subcommittee that produced the report after two years of research and discussion by CED’s Trustees and health care experts.

“There are successful models for consumer choice of insurance plans, including the federal employees plan,” said Robert Chess, Chairman Nektar Therapeutics. Mr. Chess is also a CED Trustee and co-chair of the CED Health-Care Subcommittee. “The CED proposal builds on the best of those ideas and adds some new ones to achieve affordable, sustainable, quality coverage for all Americans.”

Key Findings of *Quality, Affordable Health Care for All*:

- **The U.S. employer-based health insurance system is failing.** The cost of insurance is rising unsustainably – faster than wages. More employers are dropping or curtailing coverage than expanding coverage. U.S. businesses’ insurance costs make them less competitive globally and depress cash wages. The quality of care is unacceptably low. Authoritative studies document numerous prescription and treatment errors that cause unnecessary suffering, illness, injury and cost. Patients get only an estimated 55 percent of necessary and appropriate care. And access to care is deteriorating: 47 million Americans lack health insurance, and that number is rising.

- **The root causes of these problems lie deep within the structure of our health-care system.** No one currently has an incentive to seek, or provide, quality, cost-efficient health care; our employer-based health insurance system lacks meaningful competition. Without controlling costs, we will never achieve affordable universal coverage.

Employees usually have no choice. Insurers demand all of an employer’s business – to reduce per-employee overhead costs and avoid enrolling only the sickest workers. So employees have no choice of a plan (if they are offered health care at all). But employees, understandably, want to choose their doctors. Thus, to satisfy both employees and insurers, employers can offer only one plan that provides access to most doctors. The only way to reimburse any doctor an employee might choose is on a fee-for-service basis – a system with the worst incentives to drive up costs: the more services, the more fees.

Recommendations

- **The nation must replace employer-provided health insurance.** Past employer efforts to provide affordable, quality health benefits have failed. The market is flawed, leaving those most in need
without coverage and driving costs ever higher. A government-run, command-and-control system will not succeed; and devolving complex medical decisions from doctors to patients will not yield affordable care either. Instead, we must restructure the health-insurance market (and through it the health-delivery system) so that all Americans can afford and obtain quality coverage when the incentives for employers, employees, and providers all encourage quality, affordable care.

- **Individuals**, not **employers**, must have choices among insurance options that meet their needs; no one should be forced into any one plan. People should be able to keep their coverage when they change employers. And importantly, people should be able to realize the savings – dollar for dollar – if they choose a less-costly plan, using clear information on quality and cost. This new competition would drive providers to minimize costs **and** improve quality.

The nation can establish such a market for quality, affordable universal health care through two key steps:

- **First**, the federal government should establish independent regional “exchanges” as points of entry for people to choose among competing private health-care plans. This system improves on the Federal Employees Health Benefits Plan, which also covers members of Congress. Everyone would be guaranteed any one of a range of private insurance plans. The plans could not charge more based on age or preexisting conditions (unlike the current individual insurance market). System standards would ensure quality and comprehensive coverage and protect consumers through standardized “fine print.” Plan comparisons and an annual open season would help people to change plans – introducing competition into the health marketplace. Each exchange would “risk-adjust” premium revenue to insurers – paying more to insurers that cover more people with expensive conditions – to give insurers a greater incentive to cover, rather than shun, sick people. The exchanges would be supervised by a “Health Fed,” modeled on the independence and structure of the Federal Reserve.

- **Next**, every household would receive a fixed-dollar credit sufficient to purchase the low-priced quality health plan in its region. Every individual, therefore, could buy quality health insurance at **no out-of-pocket cost**. Anyone could purchase a more-expensive plan by paying only the extra cost. People could keep the kind of health insurance and doctor that they now have and prefer. Such fixed-dollar contributions have been successful for employees of Hewlett Packard, Wells Fargo, the University of California, Stanford University, and the states of Washington, Wisconsin, and California. The fixed-dollar credit would be financed by eliminating the current tax exclusion for employer-paid insurance, and by broadly based tax revenues, for example a payroll, value-added, or environmental tax. Every individual would in effect contribute toward the health-insurance program, so every individual would be entitled to insurance – without costly “mandates” or means-testing.

With every individual assured of quality coverage, and able to save by choosing a low-priced plan, insurers and providers would then have a new incentive to offer quality, affordable care that people – not their employers – want. There would be competition in the health marketplace, driven by fair rules to reward quality and cost-effectiveness, rather than denying care and selecting risks. Rules-based competition has driven progress in every other industry in our economy and around the world, and competition has the greatest promise to move health care from its current path of unsustainable cost growth, mediocre quality, deteriorating health, and declining coverage.

“This approach provides the working-age population and their dependents with quality, affordable health coverage. Expanded coverage minus cost control is unaffordable. Cost control absent a health-care market with effective competition is unacceptable. We hope that this plan will stimulate constructive debate and ultimately lead to a market-based system that focuses on the standards for effective competition where both government and the private sector can play their most productive roles,” said Charles Kolb, CED President.

*Quality, Affordable Health Care for All* is available at [www.ced.org](http://www.ced.org) CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.