RELEASE IN PART B5,B6

From: Neera Tanden <ntanden[redacted] B6
Sent: Saturday, September 5, 2009 5:09 PM
To: H
Subject: option

Hillary,

[redacted] B5

Obviously, there's some blowback to this plan, but wanted to give you the context of where we've been. Again, everyone is hyper paranoid and crazy so all of this is between us. The leaks over the last few days have made everyone even crazier.

[redacted] B5

Below is a somewhat negative story on them in the Times from a few months ago, but it will give you a flavor of the idea. [redacted] B5

[redacted]

There are few people who could sell even this version to the left. I know it may be annoying to save their bacon, but your voice on less than a public plan could uniquely help this situation. At least, that's my editorial comment.

Let me know if this is along the lines you were thinking - and sorry it took me a bit longer than I had hoped.

Neera

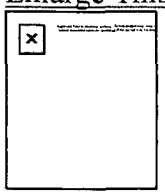
News Analysis

State Coverage Model No Help for Uneasy Insurance Industry

By KEVIN SACK
Published: June 6, 2009

In reasserting his support last week for a new government health plan for the uninsured, President Obama stoked the fears of private insurers that they would not be able to compete with a Medicare-like option and might gradually be priced out of existence.

Skip to next paragraph
Enlarge This Image



Doug Mills/The New York Times

With health care officials behind him, President Obama delivered remarks on changing the health care system in May.

Related

Taking the Hill (June 7, 2009)

Obama to Forge a Greater Role on Health Care (June 7, 2009)

The Obama administration has sought to reassure the industry, with its substantial lobbying might, by pointing to the three dozen states that offer their employees a choice between government-backed insurance options and a menu of commercial policies.

But health policy experts are deeply divided about whether the state employee plans bear any meaningful resemblance to the public plan options being considered in Washington. And that divide reinforces how little can really be known about how a government plan may fare in competition with private carriers, and whether it may eventually evolve into the country's lone health insurer.

Although state governments bear the ultimate financial risk for their self-insured employee plans, most are administered by major commercial insurers that are given broad authority to negotiate payment rates with doctors and hospitals. In addition, the state plans typically have not used their purchasing clout to control costs, link pay to medical performance or drive other quality improvements.

A 2002 study by two policy research groups concluded that state employee plans have been no more effective at controlling costs than private insurers. In some states, the plans have become a major financial headache, most notably in North Carolina, where the governor just signed a $675 million two-year bailout for the state's employee health insurance plan.

"Even the best of them are pretty far short of what most of us who advocate public plan choice want," said Jacob S. Hacker, a political scientist at the University of California, Berkeley, who is considered one of the intellectual forces behind the public plan option.

The very point of a federal public plan, as Mr. Obama explained in a letter to Senate leaders, would be to take advantage of an enormous risk pool and efficiencies of scale "to make the health care market more competitive and keep insurance companies honest." But in projecting how such competition might actually affect the market, the devil is clearly in the details of who Congress would make eligible for coverage, what benefits would be granted and, perhaps most important, how much providers would be paid.

The public plan concept has excited intense opposition from Republicans, insurers and big business. Stuart Butler, a domestic policy expert at the conservative Heritage Foundation, calls it "a nuclear minefield on the road to universal coverage."

But the White House and Democratic leaders in Congress continue to insist that it is vital to their broader goals of covering all Americans and slowing the growth of costs. Their focus now is on finding a compromise that will maintain a level playing field by requiring, for instance, that a public plan be self-sustaining rather than reliant on tax dollars and that it maintain reserves like a private insurer.

Insurance industry lobbyists are skeptical that the government can fairly referee a contest between its own insurance plan and private offerings. In an era of serial federal bailouts, they ask, would the government really let its own insurance plan fail?

But the administration's leading voices on health policy say the coexistence of public and private options within state employee benefit programs demonstrates that it can be done.

State employee health plans cover more than three million workers, from park rangers to university professors, and some also offer coverage to municipal governments and authorities. A bill on its way to Gov. M. Jodi Rell of Connecticut would make that state the first to open its plan to small employers as well. Ms. Rell, a Republican, vetoed a similar bill last year.

In most cases, the state's self-insured, or public, option is a preferred provider organization that competes against private health maintenance organizations. A 2008 survey by Mercer, the health benefits consulting firm, found that 61 percent of the members of state employee health plans were enrolled in P.P.O.'s, but that private H.M.O.'s managed to maintain a third of the market.

A notable exception is the largest state plan, the California Public Employees Retirement System, where more than two-thirds of members choose a private insurance option.

"It has not destroyed the market," Kathleen Sebelius, the secretary of health and human services, said at her Senate confirmation hearing in April. "It has not tilted the playing field. But that's all about the way the rules are set."

Len Nichols, the director of health policy at the New America Foundation and the co-author of a proposal to level the field through governance and pricing regulations, said that state employee health plans are "proof of concept" that governments can maintain fair competition. "They do not unleash this impulse to take over the world," Mr. Nichols said. "I don't see this leviathan behavior."

But critics argue that with low administrative costs and no need to produce profits, a public plan will start with an unfair pricing advantage. They say that if a public plan is allowed to pay doctors and hospitals at levels comparable to Medicare's, which are substantially below commercial insurance rates, it could set premiums so low it would quickly consume the market.

Although the numbers are disputed by public plan advocates, the Lewin Group, a health care consulting firm, recently projected that a plan paying Medicare rates would prompt 119 million of the 172 million people who are privately insured to switch policies (while also providing coverage to 28 million of the 46 million uninsured).

"No one has ever put up a plan to compete that exploited the bargaining leverage that you have with Medicare," said John F. Sheils, a senior vice president at Lewin, which is owned by UnitedHealth Group, a major insurer. "It's never been done, and if it's never been done there's not much you can conclude from looking at these state plans."

Mr. Sheils estimated that only 12 million people with private coverage would migrate to a public plan if Congress provided protections for insurers, along principles suggested by Senator Charles E. Schumer, Democrat of New York. Seeking to broker a deal that might attract Republican support, Mr. Schumer is promoting many of Mr. Nichols's proposals, including that a public plan be subject to the same regulations as private plans and that it pay providers at higher levels than Medicare.

The question, at a time of deep concern over health costs, is whether that proposal would compromise away the full potential of a public plan to suppress provider payments and control the growth of premiums.