HR POLICY ASSOCIATION
The Association of Chief Human Resource Officers

AMERICAN HEALTH POLICY INSTITUTE

July 15, 2021

Dear Sen. Murray and Rep. Pallone:

The HR Policy Association and the American Health Policy Institute submit the following comments for your consideration regarding your May 26, 2021 request for information on design considerations for legislation to develop a public health insurance option. As Congress develops public option legislation, or for that matter any coverage expansion bill, it is important for Congress to consider the potential unintended consequences that could negatively impact employer-sponsored health benefits, and the 183 million Americans enrolled in employment-based coverage.

The HR Policy Association is the leading organization representing chief human resource officers of over 390 of the largest employers in the United States. Collectively, their companies provide health care coverage to over 20 million employees and dependents in the United States. The American Health Policy Institute, a part of HR Policy Association, examines the challenges employers face in providing health care to their employees and recommends policy solutions to promote affordable, high-quality, employer-based health care. The Institute serves to provide thought leadership grounded in the practical experience of America's largest employers.

Large employers work hard to provide innovative, high value health care benefits at the lowest possible cost. According to recent NBER economic report, the annual social value of employer sponsored insurance (ESI) is about $1.5 trillion beyond what policyholders, their employers, and taxpayers pay for it.[1] Some of the benefits of ESI include, reduced adverse risk selection, the ability of obtaining substantial discounts and rebates for employees and their dependents, and the division of labor employed in shopping for health providers.[2] ESI also encourages work, eases government spending by providing health coverage, and is a mechanism for employers to act on their incentives for a healthy and productive workforce.[3]

A wide variety of public option proposals have been introduced with varying impacts on employer plans. For example, a public option available to all employees at their choice could create a serious adverse selection problem for employer plans resulting in substantially higher costs for the employees that choose to remain in the employer's plan. On the other hand, a public option that is only available to employees that do not have an offer of affordable coverage would have less of an adverse selection problem but could result in substantial cost-shifting depending on the level of reimbursement rates in the public option.

[1] Casey B. Mulligan, "The Value of Employer-Sponsored Health Insurance," NBER Working Paper No. 28590, March 2021.

[2] Ibid.

[3] Ibid.

Potential Adverse Selection Issues With A Public Option

Enacting a public option that enables employees to opt-into a public option could lead to adverse selection against employer plans. Specifically, the demographics of those likely to leave employer coverage presents an adverse selection problem for employer plans.[4]

Several factors influence individual health coverage choices including premium amounts, deductibles and overall cost-sharing, and provider networks. In general, less healthy individuals care more about access to their favorite providers and the size of their deductibles (which they anticipate meeting), while healthy individuals, who do not anticipate high medical expenses, focus more on premium costs.[5] If employees are allowed to opt-out of their employer plan and into a public option, some healthy "young invincible" employees might decide to switch into a low or zero-premium public option. This rational economic choice may make sense for young and healthy individuals, but it would raise the premiums paid by the relatively less-healthy higher-cost employees that choose to remain in employer plans. As the cost of employer coverage rises, more healthy employees could shift to the public option, further driving up the cost of employer coverage.

As Congress considers enacting a public option, it should maintain the "firewall" between employer coverage and the public option. The public option should only be available for employees working less than 30 hours per week that do not have an offer of affordable coverage.

A Public Option Could Increase Costs for Employer Plans

The affordability of a public option will depend on the level of provider reimbursement rates the program pays. Increasing the number of Americans covered by programs whose reimbursement rates are below commercial rates will encourage providers to increase future commercial rates to make up for the lost revenue. A recent RAND report found employers and private insurers pay 247 percent of what Medicare pays for the same hospital services at the same facilities.[6] Moreover, the cost difference has increased over time.[7] According to RAND, lower reimbursement rates for a larger number of Americans "would require hospital managers to find ways to increase revenues or reduce costs to maintain current margins and service operations."[8] Demanding higher reimbursement rates from employer plans is certainly one way to do that. While very large employers with concentrations of employees in specific locations have some ability to influence prices, the vast majority of employer plans do not.

As Congress considers enacting a public option or increasing access to Medicare or Medicaid, it should carefully consider the impact these policies might have on the prices employers and employees pay for health care.

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[4] Chris Jacobs, "How Joe Biden Would Make the Health Care System Unravel," Juniper Research Group, September, 2020.

[5] Ibid.

[6] Christopher M. Whaley, et. al., "Nationwide Evaluation of Health Care Prices Paid by Private Health Plans," RAND Corporation, 2020.

[7] Ibid. The relative price difference has increased from 224% in 2016 to 247% in 2018.

[8] Ibid. While health economists offer two explanations for why employer plans pay higher prices (cost shifting and leverage), from an employer's perspective these competing explanations are largely abstract.

Other Concerns That Should Be Considered Regarding A Public Option

- What requirements and incentives will there be for providers to improve quality?
- With increased government control of health care spending and a diminished role for private payers, what impact will that have on innovation and the improvement of health care delivery and performance?
- How will changes in provider payment rates affect the timely access to care?
- Are there any potential labor-relation issues with providers over reimbursement rates?

We welcome any opportunity to provide further input on ways to expand coverage without negatively impacting employer-sponsored health benefits and look forward to speaking with you regarding our comments.

Sincerely,

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