Where Does The Insurance Industry Stand On Health Reform Today?

Health plans have begun to accept an inconvenient truth: that the system must be reformed.

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ABSTRACT: With another national health care debate on the horizon, many assume that health plans will present a major source of opposition to universal coverage and other reforms. But a closer look reveals signs of change. Some plans continue their reflexive opposition to increasing government’s role in health care; other plans have stepped forward to advocate meaningful reform. Experience in Massachusetts, California, Minnesota, and elsewhere suggests a clear lesson for policymakers. Sensible proposals and a genuine commitment to cooperation can not only neutralize opposition from a potentially powerful opponent, but can actually bring health plans on board to support coverage mandates, guaranteed issue, and other reforms. [Health Affairs 27, no. 3 (2008): 667–674; 10.1377/hlthaff.27.3.667]

With health care costs and the uninsured emerging as a top campaign issue, it is increasingly likely that the next president will propose major health reform. Will it be fiercely opposed by the insurance industry—as was the plan proposed by President Bill Clinton and First Lady Hillary Clinton? Or will new dynamics in the industry and the policy debate bring health plans on board as partners in a reform effort?

Insurers’ Opposition To Reform

Fourteen years ago, America seemed on the verge of universal health coverage. When President Clinton introduced the sweeping plan created by the First Lady’s health care task force, it was met with broad enthusiasm. Political opponents argued over the details but embraced the goal of universal coverage, as well as the basic principles of “managed competition” that underlay the Clinton plan. Two dozen Republican senators, including Minority Leader Bob Dole, sent a letter to the president declaring their support for many elements of the plan, including universal coverage.¹ The American Medical Association (AMA) and the U.S. Chamber
of Commerce supported the employer mandate.\(^2\) Success appeared likely.

Then a pair of actors sat down at a kitchen table. The “Harry and Louise” series of television ads aired by the Health Insurance Association of America (HIAA) played a pivotal role in the effort to block the Clinton plan. Highlighting the theme that “change is coming, and not for the better,” the ads switched people’s attention from what reform might accomplish to what it might endanger. It capitalized on people’s natural fear of change and the fact that while many people believe that the health care system needs repair, most are happy with their own coverage.\(^3\)

The advertising—and related insurance industry–sponsored tactics—worked. By the time the debate reached its conclusion in 1994, the ground had shifted so profoundly that Senator Dole voted against the compromise universal coverage package he had supported earlier.\(^4\) Major structural reform was dead.

**A Changing Landscape**

In the ensuing years, scars from that battle persuaded political leaders to abandon sweeping health care reform. The Clinton administration continued to pursue incremental steps to expand coverage, most notably by creating the State Children’s Health Insurance Program (SCHIP) for uninsured children in 1997.\(^5\) With the strong support of health plans (albeit motivated by the creation of a new market for insurers), President George W. Bush succeeded in creating Medicare Part D in 2003, giving seniors assistance in paying for prescription medications.\(^6\)

But even with these improvements, the overall picture continues to worsen. Between 2001 and 2005, the number of uninsured Americans increased by four million.\(^7\) The percentage of workers with employer-sponsored coverage, the backbone of the U.S. health care system, declined from 62.6 percent to 60.2 percent in this same period.\(^8\) Meanwhile, between 2002 and 2007, premium costs for those who did have coverage shot up by 78 percent, while overall inflation was only 17 percent and total health care spending rose from 15.3 percent of gross domestic product (GDP) to 16.2 percent—and is on course to reach 19.6 percent by 2016.\(^9\)

Confronted with these facts, health plans have begun to accept an inconvenient truth: that current health care spending trends cannot be sustained and that the system must be reformed. In a possible foreshadowing of the role they could play in a postelection reform drive, health plans have reacted positively to health coverage expansion efforts in a number of states. Most noteworthy, they have been at the forefront of reform efforts in Massachusetts and California—the most important attempts at universal coverage since the Clinton proposal.

**The Massachusetts example.** The biggest coverage expansion success story in recent years was the 2006 passage of Massachusetts’ universal coverage law. The plan is a model for bills introduced in California and other states, as well as proposals made by the leading Democratic candidates for president.

The Massachusetts model combines expanded public programs for low-income individuals, an individual mandate, and a small fee on employers that do not pro-
vide insurance to achieve coverage for everyone. The new law also creates a "Connector" from which individuals can buy coverage at group rates through a system similar to that used by the Federal Employees Health Benefits (FEHB) program. Individuals are not obliged to purchase coverage unless it is affordable.

Enactment of the plan was widely hailed as a victory for bipartisan cooperation. The state's Republican governor and Democratic legislative leadership worked hand-in-hand to craft and win passage of the bill, obtaining support from many business leaders as well as from labor and consumer advocates.10

One of the key players in the plan's creation was the Blue Cross Blue Shield of Massachusetts Foundation. In November 2004 the group commissioned a report analyzing various coverage expansion approaches. That report, "Roadmap to Coverage," was cited as the catalyst that jumpstarted the reform process.11 In the months following the report's publication, the foundation continued to play an important role, hosting public forums and providing policy analysis as administration and legislative officials weighed policy options. By the time Gov. Mitt Romney introduced his plan in the summer of 2005, there had already been a robust debate, which proved invaluable in bringing together the coalition that secured the plan's passage early in 2006.12

As the plan moved toward final passage, columnist Wayne Woodlief wrote in the Boston Herald: "This hopeful moment would not be near if not for two catalystizing forces—a constitutional amendment headed to next year's ballot to make health care a right for all Bay Staters, and the Blue Cross Blue Shield Foundation's dramatic 'Roadmap to Coverage'."13

The California example. In 2007 California came close to enacting a similarly ambitious proposal. Gov. Arnold Schwarzenegger (R) and Democratic legislative leaders all made health reform a top priority, and their coverage expansion plans had much in common. In many ways, the governor's proposal mirrored the Massachusetts plan. But unlike in Massachusetts, labor unions and the business community remained far apart on key issues, and that caused the effort to fall short.

Based on a shared-responsibility model championed by the New America Foundation, the governor's plan asked employers, physicians, hospitals, health plans, and individuals all to give up something to get everyone covered.14 New fees would be assessed on both doctors and hospitals. Employers would be required to "play or pay," with at least 4 percent of their payroll spent to provide coverage for their employees or to fund a state purchasing pool through which their workers could get coverage (the upper limit was later raised to 6.5 percent). Health plans would be required to cover all applicants regardless of medical history and to spend a minimum of eighty-five cents per premium dollar on medical costs. Public programs would be expanded, and everyone would be required to have coverage, with subsidies available for individuals and families up to 250 percent of the federal poverty level (later raised to 400 percent).15

It was a politically risky proposal, and, like the Clinton plan, most of the reac-
tion was wary but favorable. In the weeks following the governor's announcement, the proposal appeared to have momentum. Despite the sea change the proposal would have forced in the way health plans do business, several plans immediately mobilized to support the governor and legislative leadership in their efforts to expand coverage. Blue Shield of California, Health Net, and Kaiser Permanente joined with labor unions, the California Medical Association, AARP, and others in a coalition to build momentum for reform. Organized around the principle that universal coverage is a goal worth making concessions to achieve, the coalition mounted a lobbying and media campaign to make the case for reform.\textsuperscript{16}

Insurers were willing not only to provide general support for reform, but also to support the specific element that most threatened their business: the requirement that insurers take all comers and not base rates on health status. Although the proposal contradicts basic and long-standing principles of the health insurance business, six of California's seven largest health plans worked with policymakers to flesh out a workable proposal in this area. Aetna, Blue Shield of California, CIGNA, Health Net, Kaiser Permanente, and UnitedHealthcare met repeatedly with staff for the governor and legislature on provisions to minimize the market disruption in connection with these underwriting and rating reforms. Many of these ideas were incorporated into the proposal embraced by the governor.\textsuperscript{17}

For both Kaiser Permanente and Blue Shield of California (of which I am chairman, president, and CEO), our involvement in the reform process was a continuation of years-long advocacy for universal coverage that included the development of our own coverage expansion plans. In 2002 Blue Shield proposed achieving universal coverage through public program expansions and mandates on individuals and employers. Promoted as “universal coverage, universal responsibility,” the plan had a lot in common with the Massachusetts and California shared-responsibility proposals.\textsuperscript{18} In 2006 Kaiser Permanente chairman and CEO George Halvorson issued a detailed proposal that also included individual and employer mandates, along with a requirement for fees on physicians and hospitals to help fund coverage expansion, a concept later adopted by Governor Schwarzenegger.\textsuperscript{19}

Ultimately, the California reform effort fell short. Governor Schwarzenegger called a special session of the Legislature and reached a compromise with Assembly Speaker Fabian Núñez. It passed the Assembly but was defeated in the Senate Health Committee, with opponents citing a substantial state budget shortfall as their biggest concern. Blue Cross of California, several labor unions, single-payer advocates, small-business groups, and the tobacco industry all joined in an odd-bedfellows coalition to lobby against the bill. They created enough doubt about the complex measure to seal its fate.

**Insurers’ Preference For Incremental Reform**

Although support for coverage expansion is widespread within the health insurance industry, most insurers are not yet ready to back proposals that include
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major market reform or mandates of the sort pursued in Massachusetts and California. The Blue Cross and Blue Shield Association (BCBSA) and America’s Health Insurance Plans (AHIP, the successor organization to HIAA) have both proposed coverage expansion plans, but not mandates on individuals or employers.\(^2^0\) They prefer tax credits, public-program expansions, and voluntary measures.\(^2^1\) Nonetheless, given the associations’ large and varied memberships, achieving consensus on the need for government action to address the problem is a major development. Moreover, both AHIP and the BCBSA participate in a coalition with such groups as Families USA, the U.S. Chamber of Commerce, and the AMA, which reached agreement on a similar mix of nonmandatory approaches to coverage expansion.\(^2^2\)

With the exception of the Massachusetts and California proposals, the state-level reforms supported by health plans have been similarly incremental—failing to include mandates, without which universal coverage cannot be fully achieved. In Wisconsin and Indiana, Anthem, a WellPoint subsidiary, supported proposals to extend coverage to the uninsured by expanding public programs.\(^2^3\) The Indiana measure, which also included raising the state’s cigarette tax, was also supported by Aetna.\(^2^4\) In Tennessee, Anthem backed legislation that established a subsidized insurance product for employees of small businesses.\(^2^5\)

By contrast, coverage-expansion proposals offered by the governors of Pennsylvania and Illinois, both of which would mandate employer health care contributions, have drawn no support from insurers.\(^2^6\) And in California, WellPoint’s subsidiary, Blue Cross of California, was publicly critical of the reforms proposed there, particularly of the guaranteed-issue and medical loss ratio requirements.\(^2^7\)

**Prospects For Insurers’ Support Of Major Reform**

Looking ahead, the plan outlined by the likely Democratic presidential nominee, Sen. Barack Obama, is far more aggressive than what the industry trade associations have proposed or what most of their members have supported in the states. The proposal is similar to Governor Romney’s successful Massachusetts effort and Governor Schwarzenegger’s plan in California. Based upon the principle of shared responsibility, it includes an individual mandate for children, employer responsibility, expanded public programs, and market reforms.\(^2^8\) What are the prospects for insurers’ support of something like this?

Despite the general lack of insurer backing for such far-reaching reforms, these measures do have pockets of support in the industry. Two of the leading national carriers, Kaiser Permanente and Aetna, have endorsed individual-mandate proposals.\(^2^9\) Several BCBS plans, including Blue Shield of California and its counterpart in Minnesota, have been active in calling for a mandate as well.\(^3^0\) Ultimately, if
the new president puts forward a universal coverage proposal, his or her ability to attract health plan support—or at least to mute opposition and keep Harry and Louise out of the debate—will come down to the president’s approaching health plans with the following criteria in mind.

- **Respect the industry’s economics.** Health plans will be willing to support additional regulations on our business, but only if they maintain our economic viability. Preserving the delicate balance that allows plans to offer affordable coverage for all while making it truly accessible to all is a difficult task. But it is also a necessary one if we are to reform health care on the private-sector model that most Americans prefer.

- **Understand the competitive dynamic.** One of the basic goals of universal coverage should be to change the health coverage business from avoiding risk to balancing health risks and focusing primarily on quality, service, and cost-effective delivery. That transition requires an absolutely level playing field in terms of risk management. Seemingly minor provisions may bring disaster down the road if they provide openings for gamesmanship. During consideration of health reform in California, for example, health plans urged policymakers to go beyond a simple guaranteed-issue provision by specifying what levels of coverage must be offered. Failure to do so would have left an opening for plans to engage in back-door risk selection by only offering products that would be attractive to young and healthy populations.

- **Think through the transition.** Policymakers sometimes focus on two stages of the process—getting a bill passed and envisioning the desired end state—without paying enough attention to the one that connects them. No matter what shape reform takes, the transition to a new system will be disruptive. Some level of chaos is to be expected, but care should be taken to make the switch as smooth as possible for consumers. Nobody wants a repeat of the Medicare catastrophic coverage fiasco of 1988–1989, when a well-intentioned plan that began collecting premiums before it started to deliver services fell victim to the wrath of aggrieved senior citizens.

- **Rely on our expertise.** Ultimately, no one is able to provide better guidance on the details of how a particular program or transition plan will work than health plans. The deep understanding of human behavior in the insurance marketplace, actuarial expertise, and strategic insights of health plans are valuable assets to policy planners. Obviously, a certain level of trust is required to be sure that plans are providing advice that serves the public’s needs, not simply our own. A healthy dialogue can establish that trust and yield positive results.

- **Demand shared responsibility.** Many health plans are willing to have a share of “skin” in the reform game. We know that universal coverage will likely reduce our ability to manage risk through the underwriting process and may include requirements to spend a set percentage of revenue on medical care. So long as other sectors of the health care industry are taking their lumps as well, many plans may be willing to go along. But if we are targeted while others are ignored, it will be difficult to win our support.
Stop demonizing health plans. I know as well as anyone that our industry is not popular, but attacking us will not solve the problem or help achieve consensus for reform. The lion’s share of rising health care costs is not the result of health plans’ profits or inefficiency. Rather, the increasing prevalence of chronic disease, caused in large part by poor health habits and an aging population, plus the ever-expanding array of new treatments and drugs, are largely responsible for health care cost inflation.

Recent experience provides lessons not only for policy leaders but for health plans as well. If we want a seat at the table as our future is being shaped, we need to exhibit a willingness to embrace change and a commitment to look out for the public interest. If we start the debate in a defensive crouch, we might just end it flat on our backs. But if we extend a hand of cooperation, odds are good that it will be grasped.

NOTES
17. Blue Shield of California staff participated in these meetings.