

Washington state's tax-subsidized public option is designed as a step toward imposing socialized single-payer health care

By Dr. Roger Stark, Policy Analyst, Center for Health Care

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Key Findings

1. The Washington State Legislature passed a public option bill this past session. This is the first such program in the nation and may serve as a policy template for other left-leaning states or for the federal government.
2. In the broadest sense, a public option is any government, taxpayer-funded health insurance plan that public officials use to compete with private plans. More specifically, the current terminology refers to a government plan that is available in the health insurance exchanges which were created in the Affordable Care Act (ACA).
3. The ACA exchanges are currently in a financial death spiral because of adverse selection.
4. The Washington state public option is very robust in that the premium supports are more generous than the ACA and government officials have more oversight control.
5. The appointed members of the exchange board, along with the insurance commissioner, can decide whether to ban private coverage and allow only the public option in the exchange starting in 2025.
6. The state insurance commissioner will decide what treatments and procedures are included in the public option and whether or not doctors are providing "quality care."
7. Although a public option is ostensibly designed for people who already use the exchange to find coverage, it is likely that individuals outside the exchange, those in the group market and those in the employer market, will find the public option attractive, simply to get the taxpayer-subsidy support.
8. A public option not only lets state officials compete against their own citizens and businesses, it is an incremental move toward a broader government-controlled, single-payer health care delivery system.

Introduction

Activists on the political left continue to push the U.S. health care delivery system toward a single-payer, government-controlled plan. Many Americans are now debating whether the government should impose a complete nationalized program, or adopt an incremental approach toward socialized medicine. Alternatives such as a Medicare or Medicaid buy-in, lowering the age of eligibility for Medicare, increasing the income threshold for enrollment in Medicaid, and ultimately imposing "Medicare for All" are now being actively discussed.¹

Creating a "public option" is another incremental move toward a single-payer health care system. The Washington State Legislature passed a public option bill this past session.² This is the first such program in the nation and may serve as a policy template for other left-leaning states or for the federal government. This Policy Note describes what a public option is, provides a historic perspective of the plan, and examines the potential ramifications of these new programs for the people of both Washington state and the nation.

Background

In the broadest sense, a public option is any government health insurance plan that public officials use to compete with private plans. More specifically, the current terminology refers to a government plan that is available in the health insurance exchanges which were created in the Affordable Care Act (ACA), also known as Obamacare. Conceptually, a public option is a tax-funded, single-payer plan that competes against private insurance.

The political left was unsuccessful in passing major health care reform legislation in the early 1990s, however enthusiasm for incremental moves toward socialized health care persisted. One of the most organized proposals came from officials in California in the early 2000s.³ This

1 "The Future of Health Care in the United States," by Roger Stark, MD, Policy Brief, Washington Policy Center, May 2, 2019, at <https://www.washingtonpolicy.org/publications/detail/the-future-of-health-care-in-the-united-states>.

2 "HB 1523, Increasing the availability of quality, affordable health coverage in the individual market," Washington state legislature, January 23, 2019, at <https://app.leg.wa.gov/billssummary?BillNumber=1523&Year=2019&initiative=>, and companion bill SB 5526, at <https://app.leg.wa.gov/billssummary?BillNumber=1523&Year=2019&initiative=>.

3 "The Origins and Demise of the Public Option," by Helen Halpin and Peter Harbage, *Health Affairs*, June, 2010, at <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2010.0363>.

comprehensive plan included a public option funded through a California state-based exchange.

The nation became aware of the term during the debate over health care reform in 2009. Along with moderate Democrats, Congressional Republicans uniformly opposed the public option. Members of the U.S. House included a public option in their reform bill. The U.S. Senate, however, did not. With the interim January 2010 election of Republican Scott Brown in Massachusetts, Democrats lost their supermajority in the Senate and were therefore unable to pass a compromise conference committee bill against united Republican opposition. Consequently, the Democrats in the House basically passed the Senate-approved bill, which then became the Affordable Care Act (or Obamacare) without a public option.

The Obamacare exchanges are currently in a financial death spiral because of adverse selection. Young and healthy people have opted to not buy heavily-regulated and expensive insurance which leaves older, sicker individuals in the exchanges. Adding a public option would prop up the exchanges, while moving closer to a complete single-payer system. Consequently, over the past few years, the idea has been resurrected both nationally and on a state-basis in politically left-leaning states like Washington.

The public option in Washington state

The recently-passed legislation is designed to establish a public option in the Washington state exchange starting in 2021, which will compete against private health insurance plans sold in the individual market. These government plans will reduce deductibles, offer more services before deductibles kick in, cap out-of-pocket health care expenses at 10 percent of income, maximize subsidies, and limit premium increases. Taxpayer premium subsidies will assist anyone who earns up to 500 percent of the federal poverty level – which in 2019 is \$127,000 for a family of four. In contrast, customers who want to buy their own private health coverage will receive no subsidies.

The state insurance commissioner will decide what treatments and procedures are included in the public option and whether or not doctors are providing “quality care.” Payments to providers, which are based on Medicare rates, cannot exceed 160 percent of aggregate Medicare payments for similar services for any given year and will be reviewed by the commissioner in 2023.⁴

The ultimate goal or consequence of the legislation is specifically delineated: “The exchange, in consultation with the office of the insurance commissioner, shall analyze the impact to exchange consumers of offering only standard plans (public option plans) beginning in 2025 and submit a report to the appropriate committees of the legislature by December 1, 2023.”⁵

4 “Washington State Leads the Way to a Single-payer Health Care System,” by Roger Stark, MD, blog, Washington Policy Center, May 13, 2019, at <https://www.washingtonpolicy.org/publications/detail/washington-state-leads-the-way-to-a-single-payer-health-care-system>.

5 “HB 1523, Increasing the availability of quality, affordable health coverage in the individual market,” Washington state legislature, January 23, 2019, at [https://app.leg.wa.gov/billsummary?BillNumber=1523&Year=2019&initiative=](https://app.leg.wa.gov/billsummary?BillNumber=1523&Year=2019&initiative=&and_companion_bill_SB_5526), and companion bill SB 5526, at <https://app.leg.wa.gov/billsummary?BillNumber=1523&Year=2019&initiative=>.

In other words, the appointed members of the exchange board, along with the insurance commissioner, can decide whether to ban private coverage and allow only the public option in the exchange starting in 2025. With subsidies up to 500 percent of the federal poverty level (FPL) the public option plan will look very attractive to many upper- and middle-income people. This tax-funded government program would devastate not only the individual market, but likely a substantial part of the group health insurance market in Washington state.

The funding mechanism to pay for all of this is not included in the bill. The fiscal note estimates only the administrative costs, but does not address the huge taxpayer subsidy cost. Either federal taxpayers will be responsible for these, or if national money is denied by federal officials, Washington state taxpayers will see a huge increase in their tax burden.

A stand-alone, comprehensive single-payer health care bill did not pass either house in Washington state this legislative session.⁶

The public option as a platform for a single-payer system

The Washington state public option is very robust in that the premium supports are more generous than the ACA and government officials have more oversight control. Other variations of a public option are possible, if not probable. For example, subsidies could be higher than 500 percent of the FPL, provider reimbursements could be less than what Medicare pays, the plans could contain more benefit mandates, and officials could have greater control over what medical treatments doctors are permitted to provide and who is allowed to receive them.

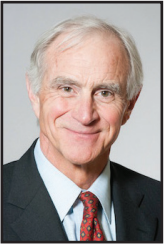
A public option has the potential of transitioning into a comprehensive, single-payer system in the individual market. If the public plans look attractive enough, because of the tax-funded subsidies, it would be a fairly short step to capturing the group and employer health insurance markets as well.

Policy analysis

There is no doubt about the ultimate goal of the Washington state legislation. The state insurance commissioner “shall analyze the impact to exchange consumers of offering **only** standard plans (public option plans) beginning in 2025.” This would eliminate the individual private market in the exchange and undoubtedly outside the exchange as well.

The effect on the group and employer insurance market would be unsettling at best. The proponents’ argument that a public option will increase competition in the exchange is completely disingenuous. Private companies can compete against each other under uniform rules set by the government, but no company can compete against tax-funded government officials once they decide to enter the market.

⁶ “HB 1877, Providing a pathway to establish a universal health care system for the residents of Washington state,” Washington state legislature, 2019, at <https://app.leg.wa.gov/billsummary?BillNumber=1877&Initiative=false&Year=2019>.



Dr. Roger Stark is the health care policy analyst at WPC and a retired physician. He is the author of two books including *The Patient-Centered Solution: Our Health Care Crisis, How It Happened, and How We Can Fix It*. He has also authored numerous in-depth studies on health care policy for WPC, including *Health care reform: lowering costs by putting patients in charge*. Over a 12-month period in 2013 and 2014, Dr. Stark testified before three different Congressional committees in Washington DC regarding the Affordable Care Act. He completed his general surgery residency in Seattle and his cardiothoracic residency at the University of Utah. After practicing in Tacoma he moved to Bellevue and was one of the co-founders of the open heart surgery program at Overlake Hospital. He has served on the hospital's governing board.

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As the country learned from Medicare, it is impossible to compete with the government. The government can use monopolistic practices funded by taxpayers and debt, while not needing to earn a profit. In addition, anti-trust laws do not apply to government officials, who can use the unlimited financing of the public treasury to drive their competition out of business.

There is now no major medical health insurance alternative for seniors except for Medicare. The public option, once up and running, would have the same effect on the individual and small group health insurance markets in Washington state. The public option is simply another mechanism for an incremental move to a total nationalized, single-payer health care system for Washington state and the country.

The premium subsidies in the public option plans will be much higher than those in the standard Obamacare exchange plans, placing a much higher tax burden on taxpayers. Federal taxpayers are currently paying premium supports in the exchange for people earning up to 400 percent of the federal poverty level.

The new Washington state law provides subsidies up to 500 percent of the FPL. The policy issue is who will pay the subsidies for those patients earning the additional 100 percent – state or federal taxpayers? Of course, federal taxpayers are state taxpayers, so ultimately the tax burden will fall on Washingtonians in any case.

Employers may even discontinue providing private health benefits for employees. As health insurance premiums that employers pay rise, employers may find that the public option is a reasonable alternative. Half of all Americans receive their health insurance from their employer, so a movement toward the public option would definitely increase the government reach and control over our health care system.

Conclusion

Currently, approximately ten percent of all Americans obtain their health insurance in the individual market, both inside and outside of the ACA exchanges. Although a public option is ostensibly designed for people who already use the exchange to find coverage, it is likely that individuals outside the exchange, those in the group market and those in the employer market, will find the public option attractive, simply to get the taxpayer-subsidy support.

It is clear, therefore, that a public option not only lets state officials compete against their own citizens, it is an incremental move toward a broader government-controlled, single-payer health care delivery system.