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POLICY NOTE

2013 Washington Policy Center Health Care Conference

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Washington Policy Center hosted its eleventh annual health care conference on June 27, 2013 at the SeaTac Hilton with an attendance of over 300 people. The event included three expert panels as well as a special keynote address delivered by Avik Roy, a health care contributor to *Forbes Magazine* and former health care advisor to 2012 presidential candidate Mitt Romney.

The conference opened with a panel discussion of the 2013 legislative session, moderated by *The Everett Herald*'s Jerry Cornfield. The second panel centered on the two biggest health care developments of recent years: Washington state's Medicaid expansion and the ongoing development of a functioning state health care exchange. Finally, the last panel presented several free-market reforms that would make health care more accessible and affordable in an age when further government rules and regulations are making coverage exceedingly difficult to find and afford.

The conference culminated at a formal lunch with a provocative and forward thinking keynote address from Avik Roy entitled "The Conservative Case for Universal Coverage." The following is a summary of the day's events.

Panel 1: 2012-2013 Legislative Review
Moderated by Jerry Cornfield, political writer at *The Everett Herald*

Panelists

- Leonard Sorrin, Vice-President of Congressional and Legislative Affairs, Premera Blue Cross
- Rep. Laurie Jinkins, member of the House Health Care Committee, Washington State House of Representative (D-Pierce County)
- Dr. Bob Crittenden, health care advisor to the office of the Governor

Jerry Cornfield began by talking about Olympia's "precedent setting year" opining that the failure of lawmakers to arrive at agreement on a budget deal could shut down state government for the first time. (By the end of the conference, attendees received word that a budget "deal" was headed to the governor's desk, an encouraging sign that the worst had been averted.) Mr. Cornfield quickly transitioned to the topic at hand, asking each panel participant to describe the most important health care developments over the last legislative session.

Dr. Bob Crittenden set the stage by discussing the difficulties inherent in Medicaid expansion and in designing the state's newly mandated health care exchange. He emphasized the agreement in Olympia concerning the twin mandates handed down by the federal government through the Patient Protection and Affordable Care Act (ACA). He said every lawmaker wants both programs

to work and desires that they operate transparently. Crittenden explained that the problem Washington state consumers currently face is the inability to shop and compare different insurance policies to make choices that best suit their individual needs. In his opinion, the market is currently too opaque, disjointed, and complicated. He went on to say he is hopeful about the exchange and the assistance it will provide consumers in making "apples to apples" comparisons and that, "prices won't change, but benefits will get better." He ended his optimistic opening stating that even 18th century free market economist "Adam Smith would be happy with this."

Rep. Laurie Jinkins agreed with Crittenden that "this is the first year in probably a decade in which health care is agreed upon on so many areas." She promised the audience that the Medicaid expansion would "bring in" $200 million from the federal government. Because every budget writer makes slightly different assumptions about how quickly new people will enroll in Medicaid, there is some disagreement over the numbers. Nevertheless, a refreshing practical approach has kept the process moving forward. "A practical approach" according to Rep. Jinkins, "avoids many of the more partisan disagreements."

Leonard Sorrin was grateful, along with the rest of the panel, that the usual dysfunction that characterizes politics generally, and Olympia specifically, was absent from health care policy, at least in the most recent legislative session. However, from his own experience in the private sector, he worries that Medicaid will face further financial uncertainty and unsustainability, especially in the wake of its expansion. Sorrin ended his opening remarks by urging conference participants to hold the independent health care exchange board accountable for the design and operation of the exchange beginning on the day it opens for enrollment on October 1, 2013.

Expanding the discussion, **Jerry Cornfield** inquired about any bills introduced during the legislative session meant to make Washington state more "doctor friendly." This goal is particularly relevant as Medicaid broadens its eligibility requirements and the exchange offers subsidized health insurance to individuals who will demand further attention from a limited number of physicians.

Each of the panelists agreed lawmakers should think about expanding the supply of health care services in order to accommodate the coming increase in demand. Leonard Sorrin cited several bills introduced by Senate Health Care Committee Chair Senator Randi Becker related to protecting the rights of health care and health insurance providers to do business free of government imposed moral and fiscal restraints.

Panel 2: An Update on Washington's Medicaid Expansion and Health Care Exchange
Moderated by Dr. Roger Stark, Health Care Policy Analyst at Washington Policy Center

Panelists

- Steve Appel, Board Member, Washington Health Benefit Exchange
- Mary Anne Lindeblad, Director, Health Care Authority

Dr. Roger Stark briefly introduced both panel speakers, thanking them for bringing their expertise on two of the most crucial health care developments of the past year.

Mary Anne Lindeblad prefaced her presentation by discussing the opportunities we have as a state under the Affordable Care Act. She reviewed the role that Medicaid plays in Washington state today and the greater role it will

assume under its expansion. Today, we have different Medicaid programs that provide for low-income individuals at every age level. Currently, about one million individuals get their health care coverage through one of these programs, with over 800,000 people enrolled in a government subsidized private health insurance plan. Ms. Lindeblad highlighted this cooperation between private insurance companies and Medicaid assuring the audience that this positive dynamic would be maintained under the coming program's streamline and expansion.

The Medicaid expansion takes effect through a new and broader methodology for determining eligibility. The Affordable Care Act extends Medicaid assistance to a new group of all adults earning up to 138 percent of the federal poverty level (FPL). This translates to an individual with an annual income of $16,000 and or a family of three with an income of $27,000 per year. In Washington state, the Health Care Authority projects that about 43,000 newly-eligible adults will enroll in the program in the next year and over 250,000 will enroll over the next three years.

The goals of this expansion include (1) streamlining administrative processes, (2) taking advantage of new federal money (specifically the federal government's promise to pay 100 percent of the cost of new enrollees for the first three years), (3) maximizing use of technology to create a consumer-friendly application, enrollment, and renewal process, and (4) maximizing the continuity of coverage as people transfer between Medicaid and other subsidized insurance programs to be offered on the new exchange.

The Affordable Care Act changes Medicaid from an entitlement serving families and single women to include adults without children. Benefits for all new enrollees will include ambulatory services, emergency services, hospitalization, maternity and newborn care, mental health and substance disorder services and prescription drugs. Altogether, the new Medicaid expansion offers very comprehensive coverage to a previously unsubsidized Washington population. Ms. Lindeblad closed on an upbeat note, arguing that our state has a unique and exciting opportunity to insure people who have not received good health care for most or all of their adult lives.

Steve Appel began with a short personal biography, asking the audience "What in the world is a dirt farmer doing sitting on the health care exchange board?" "That's a good question," he joked. Mr. Appel vouched for the integrity of an "excellent" board composed of "a very diverse but workable group." While most of the board's eight members have spent most of their lives in government or in the health care sector, Mr. Appel has been able to provide invaluable input from his extensive private sector experience. He is a farmer and small businessman.

Mr. Appel believes everything is on track. "I have no concern when it comes to our house that we will be ready by October 1, 2013." He is more concerned about the federal government's delays and last minute changing of the requirements that is passes down to states. "They dictate those requirements late and then expect the states to be ready when the deadline comes."

Next, Mr. Appel offered the audience a brief synopsis of the health care exchange beginning with the farming-inspired metaphor of a complicated and complex piece of machinery. He voiced his concern with the unclear private/part-public nature of the exchange. He wondered whether a fully private or public system would be preferable because the rules of operation would be more clearly delineated. The exchange will handle over $1 billion in audited transactions and employ around 60 full-time state workers at a call center in Spokane, with 20 other part-time workers to cover peak hours of enrollment, if needed. Until now, the federal government has fully funded the planning of the exchange and will cover the initial operating costs from October 1, 2013 until the end of the year. Beginning in 2014, the exchange must become self-sustaining, charging health

care exchange participants $50 to $60 million a year in order to cover annual operating costs.

Dr. Stark fielded several questions from the audience about the evolving role of private insurance agents and brokers inside of the new government-run system. There seemed to be a disconnect between the assurances that the panelists offered the agents in the room and the literature that the Health Care Authority and the Health Benefit Exchange Board had so far published. The Board's approach seemed to shut out agents and brokers from the process of connecting an individual to an appropriate health insurance plan.

During the question and answer session, both panelists agreed that a troublesome part of the Medicaid expansion and health care exchange is their reliance on the honor system when it comes to income reporting and receiving government subsidies. Technically, an adult on Medicaid is required to report when his or her income rises above 138 percent of FPL, so that he or she can transfer to a slightly costlier, though still subsidized plan, on the health care exchange. While benefits of the exchange apply to individuals up to 400 percent of FPL, the likelihood that beneficiaries will voluntarily report increases in their income or even be aware that they should, is extremely low. As their income moves toward or even beyond the 400 percent bound, their benefits will fall based on a sliding scale. The fact that there will be little, if any, incentive for voluntary income reporting and no requirement for auditing spells immense trouble for programs which will rely on the honor system to operate efficiently.

Panel 3: Free Market Opportunities Within and Outside the Affordable Care Act
Moderated by Paul Guppy, Vice President of Research at the Washington Policy Center

Panelists

- Dr. Karen Summar, Health Care Advisor to the U.S. House Republican Conference
- Michael Cannon, Director of Health Policy Studies at the Cato Institute

Paul Guppy began by offering a brief legislative history of the Affordable Care Act. He argued that it is anything but a good piece of legislation and that a rushed and imperfect law generally has very bad consequences for the public. Guppy said, "People want to know, 'What are my options and what are my choices?'" Unfortunately, under the increased regulatory burden of the Affordable Care Act, those choices have dramatically narrowed.

Dr. Karen Summar opened with a joke that her experience in pediatrics, specializing in learning disabilities and behavior problems, uniquely prepared her for her current job working with politicians in Congress. While the moderator encouraged the panelists to present free market reform ideas both within and outside of the Affordable Care Act, Dr. Summar found it extremely difficult to highlight any free market opportunities within the ACA.

Her prior experience with TennCare served as an example of a government health care reform plan that had gone terribly wrong. Within a year of enactment, the Tennessee plan had drastically cut reimbursement rates to health care providers, while still incurring a massive deficit. As time passed, premiums for the poor sky rocketed, and the beneficiaries could no longer afford the government's "assistance." Dr. Summar sees many parallels between the Affordable Care Act and the failed attempt at reform that occurred in Tennessee. She worried that expanding Medicaid to include a broader segment of the population will do harm to the social safety net and will hurt the people who

need the most urgent care.

Dr. Summar said she believes people want to make their own choices and that they are in the best position to do so. Exciting free market innovations occurring outside of government involve new methods of empowering patients to choose their own doctors and pick when they want a consultation. These innovations include convenient drugstores and walk-in clinics that provide cost-effective and timely service for immediate health care needs. Other important developments include moves by employers to ensure the health and wellbeing of their workforce. For example, companies like Google encourage employee fitness as a way to save money on health care policy premiums.

As health care analysts, we need to think about what the things are that people want, she said. We should look past the Affordable Care Act to other policy debates involving the overregulation of medications and other potentially life-saving services. If we fail to look beyond the ACA, we may miss the truly important innovations in mobile medicine, health records technology, and consumer-centered care that require our immediate effort and attention, she concluded.

Michael Cannon began by articulating the importance and need for continued innovation. "Innovation is the name of the game. It is what makes health care affordable, effective, and available. We are here today because of innovation!" In planning health care reform, our primary goal should be to encourage and to stimulate new and better ways of doing things.

Today, the US leads the world in new medical treatments, diagnostic tools, and countless other medical innovations. Health insurance itself is a uniquely American market innovation. One hundred years ago, it did not exist. Eighty years ago, hospitalization became common and people began to pool their resources to pay for those who got sick. To counter the effect of adverse selection, insurance companies began to charge different rates for different risk levels, with the promise of guaranteed renewal once a customer signed on to a plan. This allowed the insurance company to stay afloat and gave insurance customers the peace of mind to know they could remain on their plan even after a future health crisis. Unfortunately, the Affordable Care Act threatens this delicate symbiosis by imposing and tightening price controls on premiums through community rating price controls and a guaranteed issue scheme. As a result, Cannon said, private insurance is likely to go out of business or dramatically reduce the options it offers its customers.

So what can we do about it? Mr. Cannon outlined free market policy proposals that could mitigate the effects of Obamacare and stem the rising tide of health care regulation. These included (1) liberalizing licensing rules, thus allowing physicians from other states to practice medicine in this state and (2) reforming medical malpractice liability, by empowering physicians and patients to agree on liability contracts before procedures and consultations take place.

Mr. Cannon wrapped up his presentation arguing that the Affordable Care Act is still subject to repeal. Nearly every component of the program, from the state health care exchanges to the employer mandate, is in danger of serious delay. So far, 34 states have refused to create a health care exchange. If they are able to avoid the accompanying taxes of Obamacare, the rest of the states that did establish an exchange will suffer the financial consequences. According to Mr. Cannon, the resulting price shock for health care consumers in these unfortunate states will likely cause Obamacare to crumble under its own weight.

Keynote Address: The Conservative Case for Universal Coverage

Introduction: Gubby Barlow, President and CEO, Premera Blue Cross

Speaker: Avik Roy, Senior Fellow at the Manhattan Institute, former Health Care Policy Advisor to 2012 presidential candidate Mitt Romney, Health Care Writer at *Forbes Magazine*

Clearly, in the wake of the 2012 election, some of our discussions have to change, Roy argued (https://www.washingtonpolicy.org/sites/default/files/201hcsb-roy.pdf). Rather than pushing for the replacement and repeal of Obamacare, conservatives need to make better and more relevant arguments for free-market reforms within the system that is already in place.

Avik Roy began his presentation with the provocative statement that it has been a mistake for conservatives to rally against every form of universal health insurance. The Left, on the other hand, has long fought for universal coverage, using the fact that every other developed country has achieved that goal, and most at less cost. Types of universal coverage vary from country to country. Countries like the United Kingdom have an extremely socialized system while countries like Singapore enjoy free-market facilitated universal coverage. For each country, the outcomes of their very diverse health systems are completely different.

If the Left's argument is overly simplistic, Roy said, then the Right's traditional argument is too complacent. While 80 to 90 percent of Americans were happy with their health coverage pre-Obamacare, there were and still are many free-market reforms that could reduce cost and regulation and thereby increase coverage. If conservatives care about limited government and fiscal responsibility, they should care that the U.S. government spends more per capita on health care than the governments in many socialist states. However, the countries that achieve some form of universal coverage at the very lowest cost are not the highly socialist systems but the market-oriented systems, countries like Switzerland and Singapore. If America were to transition toward the Singapore model, we could have the proverbial best of both worlds: universal coverage at a bargain rate.

The power of a system of health savings accounts (HSAs) and government mandated catastrophic coverage to bring down costs is extraordinary. As a percentage of private and public spending on health care of GDP, Singapore spends much less than does the American system. The only opposition to HSAs comes from those who believe that individuals are incapable of making their own health care decisions. This is a philosophical issue, and little public policy analysis can change this tightly held belief of a minority on the Left.

America spends more on health care than the rest of the world for a variety of reasons. The administrative expenses involved in operating our vast government health care bureaucracies are enormous drivers of cost for premium ratepayers. Also, the growing concentration of hospitals under only a handful of owners results in increased monopoly pricing for Americans who are hospitalized. In fact, studies show that hospitals operating in monopolistic markets charge up to 40 percent more than hospitals in competitive markets for the same procedures. Finally, Mr. Roy highlighted the Affordable Care Act's individual mandate as the prime driver of cost for the young and healthy who will now be forced to pay higher premiums to subsidize an older, less healthy and more costly population. "The Affordable Care Act requires that the healthy and uninsured under age 40 start paying 19 percent of their income for something they don't want or need."

As state health care exchanges open, prices will likely sky rocket, even in states like Washington that are already highly overregulated. Promises that the exchanges will actually lower costs or that increased subsidies will make it seem like they lower costs are based on hope rather than fact. Exchange participants will be responsible for the administrative expenses of the exchange. The state will be responsible for the cost of the mandated Medicaid expansion. During a sluggish economic recovery, these are costs that the state and consumers simply cannot afford.

Federally-imposed reform has not done what it promised. Rather than cut costs and increase coverage, it has cut coverage and increased costs. To solve this dilemma, Mr. Roy proposes combining the exchange idea with a Rep. Paul Ryan's (R-WI) type of reform, where every citizen, regardless of income, gets subsidized Medicaid coverage. We should learn from countries like Singapore and deregulate Obamacare exchanges to make them more compatible with HSAs and catastrophic insurance combinations. Even as conservatives argue for keeping the basic framework of the exchanges intact, they should fight for decreasing the growth in Obamacare subsidies, taxes, mandates, and regulations.

In conclusion, Roy said, all hope is not lost if we do not repeal and replace Obamacare. There is a better approach that allows us to do more in order to reform American health care, achieving basic universal coverage while keeping costs under control. Offering Americans every option in the world through their own health savings accounts while insuring them against the cost of a catastrophic illness, accident, or injury is the best way to preserve freedom and choice in the system we have now.

Austin Cooper is a Research Assistant with Washington Policy Center as part of WPC's Doug and Janet True Internship Program. WPC is a non-partisan, independent policy research organization in Washington state. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body. For more information, visit washingtonpolicy.org.