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How to Finance Health Care Reform Is the Wrong Focus

By: Steve Millard, President & Executive Director, Council of Smaller Enterprises (COSE)

Simply insuring more Americans is only going to make our situation worse unless we take our focus off of financing insurance and put it onto reducing the underlying cost of care.

For more than thirty-seven years, the Council of Smaller Enterprises (COSE) has been operating the country's largest fully insured health insurance purchasing pool for micro businesses in Northeast Ohio, run by the micro businesses themselves. We provide coverage for over 175,000 lives through more than 12,000 small employers. Our experience allows me to state unequivocally that we clearly understand what it takes to provide affordable, accessible, quality health care coverage to small businesses and their employees.

We offer over twenty different plan design choices, administer the program and sell it directly to small businesses with distribution costs that are 75% less than competing plans. We provide direct customer service to our members for enrollment and administration and we provide additional products like dental, vision, life and disability insurance as part of our healthcare package. We provide unique wellness programming and provide small employer grants and incentives to pursue those efforts. And, we talk to small employers every day about their plans and their challenges in this space. Sounds a lot like the "exchange" concept in health care reform, because those are the same functions we already provide.

We agree the status quo is not sustainable – but the solution is not to just insure more people. We absolutely must do something about the cost curve and it has to go beyond the current focus of putting more people onto benefit plans that will accelerate utilization and access to today's system of increasing cost.

Our research indicates that most small businesses overwhelmingly want to provide access to health care for their employees. In 1999, 56 percent of the employers with 3-10 employees offered health care coverage to their employees. In 2008 that number dropped to 49%, meaning it's more likely than not if you are an employee of a small business you don't have employer sponsored coverage. Currently, 77 percent of employers cite cost as the primary reason for not providing health insurance coverage to employees.

To best combat these costs, over the last 3-5 years we have utilized every technique available to minimize the premium increases for our members—but it's just not enough. We have modified benefit design, utilized new product options, and leveraged our insurance providers to reduce profits, increased fraud detection and better leveraged coordination of coverage and spousal coverage availability. For some employers, we have even helped

to shift their employees out of our plan to the individual market where costs are lower because of different regulatory rules and less robust coverage.

So far this summer, during our key renewal months, we have met with over 900 employers face-to-face. We've seen too many leave in tears. With the cost of medical inflation driving premiums up over 10 percent even for companies without claims or significant risk factors, we are at the breaking point.

And yet the debate in Washington about health care reform continues to focus primarily on financing insurance. Public plan, private plan, tax increases and credits, exchanges, Medicare expansion and Medicaid buy in, cost shifts. We need to stop talking about financing. With all pardon to a cliché – that is simply rearranging the deck chairs on the Titanic.

Our attention and our focus must be on how to reduce the cost of healthcare in the United States of America. We believe the most effective way of doing that is to make the cost of care the focus of the discussion. Since the 1950's we have disconnected the health care user from the cost of that user's care through employer based coverage or subsidized government paid care.

So how do we do begin to reduce cost?

1. **Real reform must include a basic benefit plan for all individuals.** And, of course, if you must buy insurance, insurers must offer it regardless of health conditions. The individual requirement to be in the system is key to creating a health care pool that can sustain the increased risks that guaranteed issue brings.
2. **Real reform must have a cost reduction and performance focus through the entire system.** Insurance itself is not the problem. Overhead, profit and administration at insurers has not grown over time beyond basic inflation. The cost of care is where the crippling increases have come from. We must focus on reducing the real cost of health care with tools like pay for performance, comparative effectiveness research, the elimination of "never events" and efficient decision making about system capacity.
3. **Real reform must connect the consumer and their behavior to cost.** We need to start by eliminating the tax-free nature of insurance benefits beyond the value of the "basic" plan. That will both reduce the consumers insulation to cost for insurance and reduce the type of bloated benefit plans that drive more cost. We need to create incentives and penalties that link consumer health and behavior decisions around exercise, lifestyle choices and treatment to the costs they create in the system.
4. **Real reform should not place the burden of the costs entirely on the employer, especially small employers.** Today's system disproportionately burdens small businesses with mandates and cost shifts to fund broad public policy goals. Adding an additional penalty tax for businesses with revenues in excess of \$250,000 increases the burden. The pass through nature of the business structures of small employers will convert this penalty to a tax on small business owners that are decidedly middle class.

In the end, when you fix cost, you will fix access. Putting the focus on coverage without connecting consumers to cost will seriously undermine any hope for success in the long term and accelerate the death spiral the current system has created.