

The Choice of a Public Plan
Q&A
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What is public plan choice?

In many proposals for reform, those without secure workplace health insurance would buy subsidized coverage through a new national insurance “exchange,” a purchasing pool that would provide people without coverage with the same sorts of options that individuals who work for large employers that insure their employees have. Public plan choice means that a public insurance plan roughly modeled after Medicare would be one choice for these individuals and families without employer-sponsored coverage. They would also have a choice of private health plans that compete with the public plan to provide quality, affordable health care.

How would the public plan be structured?

The public plan would be administered directly by the federal government and would pay private physicians, hospitals, and other providers to deliver care—in a way similar to the Medicare program. It would include coverage of all essential medical services, including preventive, maternity and mental health care, as well as disease management and care coordination as appropriate. Premiums, co-pays, and deductibles would be affordable.

Do leading political figures endorse the choice of a public plan?

Yes. The national health insurance reform proposals of leading political figures, including President-Elect Obama and Senate Finance Committee Chair Max Baucus, promote a system that includes the choice of a public insurance option.

Why should the national exchange include a public plan option? Isn't it just as effective to regulate private plans within the national exchange?

The public plan option is essential to drive meaningful competition, rein in costs, and drive value in the health care marketplace by setting a high benchmark with which private plans have to compete. It also provides a safety net for people with substantial health needs, who generally value the stability of public insurance. Regulating private insurance cannot achieve these goals.

Why is it important to let people choose among private health plans and a public plan?

Successful health care reform effort requires cost-controls over the long run, more effective ways of delivering quality care, and a guarantee of affordability. Letting people choose a private or a public plan ensures competition. To compete, private insurers will have to match the cost-controls and quality-improvements of the public plan, and this will benefit consumers.

Do Americans support the choice of a public plan?

Yes. Americans want the right to choose the best health insurance plan for their needs. According to opinion polling, most Americans want to see public and private insurance competing side-by-side so they can choose what is best for themselves and their families.



How will the public plan control costs?

The public plan will control costs immediately through administrative efficiencies* and simplification, through bargaining leverage for prescription drug and other prices, and by pioneering new payment methods. It will control costs over time by restraining the *rate* of increase of costs over time.

Medicare data show that in the last decade (1997-2006), private insurance spending per enrollee grew nearly one and a half times faster than Medicare spending. The Lewin Group estimated that by exercising cost controls, a health care system that covers 97% of the uninsured and includes the choice of a public plan would result in \$1 trillion in national savings over ten years.

*Medicare's administrative costs (2%) are well below the administrative costs of private insurance.

How will the public plan improve quality?

The public plan has greater incentives to invest in quality improvement than private insurers. Because it will take all comers, the public plan has strong incentives to conduct comparative effectiveness research and develop innovations in treatment and care coordination for chronic conditions. The public plan's data will be transparent, so lessons learned and quality improvements will be disseminated to the private sector. A public plan also guarantees stability of enrollment and provider participation, which increases continuity of care and access to preventive care.

How will the public plan invest in preventive care?

The public plan would have strong incentives to invest in prevention efforts aimed, for example, at smoking and obesity, because investing in prevention will help the public plan control costs.

Would a public plan reduce access to providers?

Quite the opposite. The public plan would ensure access to any provider willing to accept it, nationwide. Virtually all hospitals and 97 percent of physicians accept Medicare, including new patients, and access to physicians is similar for Medicare beneficiaries and privately insured people.

Why isn't insurance market reform sufficient to guarantee cost controls and quality improvements?

Private plans are profit driven and have a strong incentive to select healthier enrollees. Regulations and risk-adjustment payment policies can address only some of these shortcomings. A competing public plan creates an institutional mechanism to control costs over the long run, sets a benchmark for private plans, and enables delivery system and payment reforms.

How can we ensure a level playing field?

A level playing field requires that (1) both the public and private plans offer a good, comparable package of benefits; (2) private plans are regulated to ensure that they accept all comers, guarantee renewability of coverage, offer similar rates to all enrollees, and do not limit coverage for preexisting conditions; (3) adequate monitoring is in place to ensure that selective marketing or disenrollment does not occur; and (4) payments to the plans are "risk adjusted" so that plans that enroll a large number of the highest-cost patients that account for most national health spending are not disadvantaged.

How is the public plan different from the "essential benefits plan" that private health insurers support?

The private insurance industry proposes to create a portable health plan for individuals and small businesses that would not be subject to state regulation. This plan would not compete with private plans, but rather, allow private plans to group specific lines of business together outside of a competitive framework—an approach that promises neither cost control nor quality improvements. By contrast, giving Americans the choice of a public plan allows us all to realize the benefits of both public and private plans: flexibility *and* stability, market accountability *and* democratic accountability, and inclusive social protection *and* private innovation.