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How To Solve The Health Care Crisis

By Jack Sheinkman, President
Amalgamated Clothing and Textile Workers Union

Business and labor both know that health care costs are excessive and both see, admittedly from different perspectives, that the increasingly inequitable distribution of health care costs needs addressing.

Now many from both camps are beginning to think that if the Federal Government does not play a broader role in health care financing, the system will simply grow more inequitable and the economy will be swamped in health care costs.

The way out is becoming clear: Government must get into the act by setting firm annual national health care budgets and establishing the regulatory framework for controlling provider reimbursement. Then, it must use the tax system to distribute costs fairly across the economy.

The scope of this problem is enormous. Health care spending has reached 12 percent of the nation's gross national product and is rising, diverting resources from such things as education and research and development. Virtually every other industrialized nation budgets its health care with great success, and unless we do too, our attempts to compete globally will flounder.

Congress would establish a board, with representatives from business and labor, to oversee national health care financing. All citizens' basic health care needs would be financed through payroll taxes and general revenues, as is now the case with Medicare. By using a payroll tax, employers' obligations to their workers and retirees would continue. People with good benefits would not lose them, but uninsured and underinsured workers would gain coverage.

Then the board would set limits for health care spending, thereby controlling costs. The board might tie in any rise in spending to, say, the growth in the gross national product, the growth in taxable payrolls or any other reasonable measure of the economy.

This growth figure would be established in conjunction with a realistic actuarial assessment of overall health care needs. For example, as the baby-boom generation ages, health care costs will necessarily rise.

But what would give that budget meaning is this: The government would have the authority to regulate

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The Great Debate

Everyone agrees the national health care delivery system is in shambles; the union leader, the corporate CEO, the fund administrator and the patient in the emergency room. But they do not all agree on how to cure the ailing patient. Some dozen or more bills are now pending in the Senate and House with little hope that any will reach the floor in the near future. Any one of these bills, if enacted, would have a profound impact on all employee benefit funds. This is the time of the great debate and a striving for concensus on which program offers the best hope for reform. In this issue, we have asked several trade union leaders to present their point of view. —The Editors

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How To Cure The Health Care Crisis

By Karen Ignagni, Director
Employee Benefits Department
American Federation of Labor and Congress of Industrial Organizations

At long last, this nation has reached an important milestone in the century long debate over health care reform. The AFL-CIO has long been on record in calling for federal legislation to assure all Americans access to essential health care services at a price they can afford. Now, for the first time, we find ourselves in broad alliance with many of our traditional opponents on this issue. This phenomenon is not due to a surrendering of objectives or goals on the part of any particular group, but rather a recognition by all sides of the urgency of the crisis at hand and the immediate need for new initiatives.

Gone are the old hardened attitudes and political posturing. Organized labor, organized medicine and many in the business community are offering proposals to achieve the same three objectives: lower cost, expanded access and improved quality of care. This represents true progress toward resolution of these problems. The time is right, for Congress to take advantage of this growing consensus and to take the lead in fashioning a program of national health care reform that will achieve these important goals and stem this crisis.

The Challenge

During the early 1980s, national health care policy reflected the Reagan-era emphasis on deregulation and on competitive approaches to containing health care costs. Legislative reform initiatives were rejected in favor of private sector efforts designed to encourage individual companies and unions to use their purchasing clout to keep health costs down. Labor and management tried a number of strategies to cope with these costs, including hospital precertification, second surgical opinion programs, and broad utilization review to stabilize and, ultimately, reduce the proportion of total fringe benefit costs going to health care. But results were short lived and costs continued to climb. By the end of the 1980s, health care costs were rising at annual rates that were more than double the rate of increase in wages.

In the absence of a national solution, businesses of all sizes compete against one another for discounts from health care providers.

Also playing a substantial role in the rate of increase in purchaser costs are the surcharges placed on employer-based health plans to cover free riders — employers who refuse to do their fair share and provide coverage for their employees. Then there is the shortfall between what public programs pay for health services and the actual costs of that care that also is passed on to employment-based plans. Taken together, these factors account for a staggering 30% of the annual rate of increase in the cost of our plans.

Many businesses that provide health care coverage are finding themselves at a severe competitive disadvantage in the international market as well as the national market. Other countries are paying less for their health care systems and the price of their goods reflects this differential. In 1989, the U.S. spent 40 percent more than Canada, 85 percent more than France, 91 percent more than Germany and an astounding 127 percent more than Japan.

Higher costs have affected access to services. Nearly 20 percent of the population had no health coverage for all or part of 1987. Three-fourths were workers and their families, and the numbers continue to grow. Last year, 33.4 million people had no health care protection. Another 50 million were inadequately insured.

In short, the current crisis demands immediate action and the labor movement is united in its pursuit of fundamental restructuring of the system.

Solve The Retiree Crisis

The issue of retiree health care has become one of the most difficult at the bargaining table. The new accounting regulations put forth by the Financial Accounting Standards Board (FASB) that go into effect in 1993 would require companies — for the first time — to list on their balance sheets estimates of liabilities for providing health care benefits to current and future retirees. The new regulations have caused a number of employers to cut back coverage for future retirees or eliminate protection altogether. Such actions have already seriously increased the number of retirees without coverage and the problem is growing.

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U.S. Health Care Data Bank

- Over 13 percent of Americans, over 30 million people, are uninsured. An additional 50 million do not have adequate coverage. 82 percent of the uninsured are employed persons and their dependents.
- Families are spending more of their budgets on health care; out-of-pocket spending has risen 157 percent from 1980 to 1990.
- National health care spending grew from $230 million in 1980 to $606 billion in 1990.
- Only about 38 percent of those under the federal poverty level now qualify for Medicaid coverage. That is down from 76 percent in the late 1970's.
- Economists estimate that for each 10 percent increase in health insurance premiums, workers lose one (1) percent in wages.
- Medicare now covers only 40 percent of the health care costs of the elderly who must cover the remaining 60 percent themselves.
- In 1988, the private sector paid 59.9 percent of the total national health expenditures; the federal government paid 27.2 percent, and state and local governments paid 12.9 percent.
- In 1989, the U.S. spent 40 percent more per person for health care than Canada; we outspent Sweden by 73 percent, Germany by 91 percent and Japan by 127 percent.
- Expenditures for U.S. health care represent 12 percent of the Gross National Product (GNP); a larger share than any nation in the world.
- The health cost share of GNP doubled from the 6 percent of 1965.
- There are 1,500 health insurance companies in our country competing in the health care field.
- During the 1980's, the cost of group health care coverage from private carriers increased 400 percent.
- Health care costs continue to rise at a rate of 15 to 20 percent annually.
- The U.S. stands 22nd among the world's nations in infant mortality.
- Among the more than 30 million uninsured in this country, 12 million are children.
- According to the American Medical Association, 25 percent of hospital days, 25 percent of procedures and 40 percent of medication are unneccessary.
- About 5 million women of childbearing age have no maternity coverage.
- New York's Empire Blue Cross and Blue Shield is seeking approval for hikes in premiums which would raise the cost of comprehensive care policies to $11,000 a year for individuals and more than $8,000 a year for members of some small groups.
- There are 1.4 million people in the New York City Metropolitan area without health insurance.

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We believe that the most effective way of responding to this crisis is to make the age of eligibility for Medicare more consistent with the average retirement age. Specifically, we propose reducing Medicare to age 60. This would spread the costs of retiree health care over the entire population and no longer disproportionately penalize employers who have attempted to protect their retirees against the high cost of getting sick.

They are the ones who are losing access to a health care system that purports to be the best in the world.

The AFL-CIO is prepared to consider each and every proposal that purports to address the three issues of cost, access and quality.

We acknowledge, with great appreciation, the contribution made by Keara Connolly of Amalgamated Life Insurance Company, in the preparation of this special issue on national health policy.

The Editors

Health Care Reform at a Critical Stage

By John J. Sweeney, President
Service Employees International Union, AFL-CIO

We're at a critical stage in the debate over health care reform. Everyone agrees on the goals of universal access, cost control and quality improvement. But big differences remain over how to reach them.

In February 1991, the AFL-CIO reached concensus on a reform program. We examined many alternatives, from both here and abroad. In cost containment, the lesson is unmistakable. Despite great variation in culture and institutions, every other industrialized country has uniform reimbursement, a national health budget and capital controls. The results? In 1989 we spent 40 percent more per person than Canada. We outspent Sweden by 73 percent, Germany by 91 percent and Japan by 127 percent.

Health reform is moving quickly up the national agenda. Labor still supports the goal of pure social insurance. But, in the current political climate and because the need for reform is so urgent, it won't be a prerequisite for labor's support. And, we will look for allies wherever we can find them. As long as the goals of real cost containment, universal coverage and quality improvement are met, we have an open mind on the mechanics. AFL-CIO President Lane Kirkland says: "We're in a negotiating mode."

In the 1980's, labor and management learned a great deal about the realities of health care finance. Sadly, there are still many business leaders who still think they can go it alone. This belief, which is contrary to our frustrating experience with plan-by-plan cost containment, reflects a free market bias. Meanwhile, government cost shifting drains our coffers.

But attitudes are changing. And its not hard to see why. Health costs will hit $22,000 per employee by the year 2000. A recent survey reported that a majority of Fortune 500 CEOs agreed that we need some government intervention to control costs. The only question is the strength of the health care industry's lobbying effort: can they turn back meaningful cost containment one more time?

We're urging SEIU Fund Trustees, management as well as labor, to get involved in urging Congress to act on national reform. Without reform, the outlook of many Taft-Hartley Health Funds is uncertain.

The labor movement is steadfast in its call for universal cost containment. Only when every payor—government program, employer, private insurer or individual—pays the same price for service can we stop the cost shifting that's killing our employment-based system.

Universal access and universal cost containment go hand in hand. Unless all members of the purchasing community—consumers, unions, and management—tell this to Congress, we won't have either anytime soon.

ACTWU Proposals

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reimbursement to health care providers.

Health care providers — not business and not individuals — control costs under the present system. They are the ones who order all the diagnostic tests, schedule all the surgeries and buy all the technologies. No, we do not need socialized medicine. But if the government were to regulate reimbursement rates, that would force providers of health care to be more cost effective.

Government, mainly through Medicare and Medicaid, now controls about 40 percent of health care spending in this country. In Medicare, the precedent exists for government to regulate provider reimbursements. Indeed, Medicare's hospital payment system has been a huge success in containing acute care costs by reducing unnecessarily long hospital stays.

Critics claim that Medicare's existing reimbursement system simply shifts hospital costs from the government to private payors like employer and union plans because hospitals charge those plans higher rates to compensate for those that pay less.

But if the proposed cost-control systems were made into law, the loop would be closed: cost shifting would stop and cost containment would be achievable.

The tax system is the only way to distribute costs equitably. In the present system — or non system — some companies pay exhorbitant sums for health care while their competitors across town pay nothing

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OCAW Endorses Single-Payer National Health Program

By Anthony Mazzocchi, Sec.-Treas., Oil, Chemical & Atomic Workers Intl. Union

In March 1989, the Officers of the Oil, Chemical and Atomic Workers International Union (OCAW) met to discuss with members of the health care community the national health care crisis. Problems and potential solutions were discussed and after assessing possible solutions, OCAW endorsed the national health program advanced by Physicians for a National Health Program (PNHP) — a plan loosely based on the Canadian system. Thus began a collaboration which has helped to shape the debate on the health care crisis.

OCAW felt it important to endorse a specific remedy. Our members do not need to be convinced that there is crisis, they face it at the bargaining table and in their persoanl lives every day. Our members want a viable and workable solution. So OCAW set about bringing the issue to its rank and file. We produced a 54 page Information Manual; in conjunction with PNHP, we developed a 2 x 3 foot multicolor poster; and we have recently developed a handsome lapel pin. All have helped in the education of our members as well as in generating public debate. Our members have held local meetings and conferences; they have traveled to Canada to see first hand how that system works; they have written letters and lobbied their Congresspeople. They are convinced that the Canadian system's easy access to care, free choice of physicians and hospitals, public financing, and advanced technology and fairness make it desirable for the U.S.

Our members also know that anything short of a single-payer system is doomed to failure. The administrative wasted of the insurance industry must be eliminated.

OCAW's endorsement of the Canadian system has been echoed by the recently released Government Accounting Office study of Canada's national system. This report concluded that the U.S. government could extend health care to all its citizens and still save money by adopting Canada's national system.

The Canadian system has a higher approval rating than any other in the world. However, changing demographics have strained it and political events such as passage of the Free Trade Bill in Canada have contributed to increased pressure by Canadian employers to downgrade their health care to the U.S. level. Passage of a Canadian type health care plan in the U.S. would serve to improve benefits and care in both nations. We should strive for equalization at the highest level.

Amalgamated

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at all. What is the future of employment-based health care financing when competition will force companies to shift most — or all — of the costs to employees?

Asking individuals to finance their own health care violates the basic principles of pooling risk in insurance. It also violates our society's sense of decency. Health care costs shouldn't be foisted on the sick and the disenfranchised. They should be distributed rationally and fairly.

Medicare's precedent of payroll tax and general revenue financing is a good starting point for the discussion on tax financed health care for the nation. Luckily, so much egregious waste can be cut from the present health care system that little, if any, new spending will be needed. Instead, current private expenditures would be redirected through the tax system and be more equitably redistributed.

We have seen a flurry of health care reform initiatives in recent months.

The Democrats have weighed in with their "play or pay" scheme, under which employers would have to buy health insurance, providing benefits equal to those prescribed by the government or else pay a 7 percent payroll tax to finance public coverage. Others propose a Canadian-style system of government-financed and administered health care, which, according to the General Accounting Office, would save many billions of dollars in administrative costs — more than enough to extend coverage to the 37 million Americans who now have no health insurance. Still others hold out for some magical cure from marketplace competition.

But the politicians won't lead the government into health care financing. Real leadership must come from business and labor.

The Fund Reporter is a publication of the Consumer Commission on the Accreditation of Health Services.

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AFL-CIO Proposals For Change

In February the AFL-CIO Executive Council issued a statement setting out specific proposals for reform, without endorsing any one overall plan. Instead, our plan is to work with all who share our goals toward the development of legislation that can be enacted.

We have objectives:

Contain the Growth in Health Care Costs

To achieve this objective, we urge Congress to:

- Establish a uniform national cost containment program by extending the cost containment methodology used by Medicare to all payors, with reimbursement levels set through a negotiation process involving consumers, purchasers, government and providers under the auspices of a national commission.
- Put a system-wide cap on the rate of increase in total health care spending.
- Establish a capital budgeting system to encourage the efficient distribution of capital, which will minimize the unnecessary duplication of equipment and reduce the large numbers of empty beds still in the system.

Access to Medical Care for All Americans

To achieve this objective, we urge Congress to:

- Establish a core benefit package to which all Americans are entitled.
- Require all employers, including the federal government, to contribute fairly to the cost of care for workers and their families.
- Put an end to the patchwork quilt of federal and state health care programs and establish one federal program for those not in the workforce by using Medicare to cover all Americans not eligible for employment-based coverage, including the unemployed and those currently receiving protection through state Medicaid programs.

Reduce Waste, Red Tape and Paperwork

Recently, there has been a growing interest in reforming insurance practices in the small group market. While we support such long-overdue reforms, the AFL-CIO believes that far more needs to be done and that reforms should be developed by Congress — not the states — to assure uniformity across the country. Specifically, we believe regulation is warranted to:

- Put a stop to current insurance practices that keep individuals and employers out of the health system or force them to pay contributions that are disproportionately high. This would involve broad pooling of risk, minimum data requirements and standardized claims forms.
- Set minimum standards for entities offering so-called "managed care." This would eliminate much of the confusion in the marketplace and level the playing field for organized systems of care that meet federal requirements.
- Improve quality of care by developing practice guidelines for physicians and a national strategy to reform the current system of handling malpractice disputes.

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