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# The End of Private Health Insurance

## When government 'competes,' guess who always wins?

Above every other health-care goal, Democrats this year want to institute a "public option" -- an insurance program financed by taxpayers, managed by government and open to everyone, much like Medicare. This new middle-class entitlement is the most important debate in Congress this year, because it really is the last stand for anything resembling private health insurance.

This public option will supposedly "compete" with private alternatives. As President Obama likes to put it, those who are happy with the insurance they have now can keep it - - and if they happen to prefer the government offering, well, gee whiz, that's the free market at work. The reality is far different. Not only will the new program become the default coverage for the uninsured, but Democrats intend to game the system to precipitate -- or if need be, coerce -- an exodus to government from private insurance. Soon enough, that will be the only "option" left.

A public program won't compete in a way that any normal business would recognize. As an entitlement, Congress's creation will enjoy potentially unlimited access to the Treasury, without incurring the risks or hedging against losses that private carriers do. As people gravitate to "free" or heavily subsidized care, the inevitably explosive costs will be covered in part with increased outlays to keep premiums artificially low or even offer extra benefits. Lacking such taxpayer cash, private insurance rates will escalate.

Much like Medicare, overall spending in the public option will be controlled over time by paying less for medical services, drugs and technology. With its monopsony purchasing power, below-market fees will be dictated on a take-it-or-leave-it basis -- an offer hospitals and physicians won't be able to refuse. Medicare's current reimbursement policies pay hospitals only 71% of private rates, and doctors 81%, according to the Lewin Group.

In a recent analysis, Lewin estimates that enrollment in the public option will reach 131 million people if it is open to everyone and pays Medicare rates. Fully *119 million* people will shift out of -- or lose -- private coverage. Everything depends on the payment levels that Congress adopts, as well as the size of the eligible pool. But even if a public option available to all takes the

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### Health Care Revolution

The impact on health insurance coverage amid competition from President Obama's "public option" proposal if open to all firms and individuals, in millions of individuals covered. The first column assumes public premiums set at 18% below private premiums, the right column assumes payments at 32% below, as in Medicare.

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Newly insured (previously uninsured)	+26.7 million	+28.2 million
Enrollment in public option	+77.5 million	+131.2 million
Reduction in private coverage	-67.5 million	-119.1 million

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Source: The Lewin Group, "The Cost and Coverage Impacts of a Public Plan: Alternative Design Options," April 2009

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highly improbable step of paying at some midpoint between private and Medicare rates, nearly 68 million people will still be crowded out of private insurance. The nearby table summarizes Lewin's eye-popping findings.

This public option would be the most radical change in the way American health care is financed -- and thus provided -- in at least 44 years, and maybe ever. About 170 million people currently have private insurance, which is already pressured by the price controls of Medicare and Medicaid. A significant share of government underpayments are simply transferred to the private sector, adding tens of billions of dollars every year to consumer health bills.

A 2006 study in the journal *Health Affairs* concludes that around 17 cents of every dollar in relative reductions in Medicare payments to private hospitals are shifted onto private patients -- and that such cost-shifting accounts for fully 12.3% of the total increase in private payer prices between 1997 and 2001.

This share would be far higher were government payment rates not limited to the elderly and the poor but imposed over the entire system. This will only hasten the flight to government. Meanwhile, employers small and large will have every incentive to dump their plans and transfer their workers to the public rolls. The result will inevitably be a cascade of failures or withdrawals from the market by commercial insurers, with the public option as the only option for the diaspora.

Congress will finish the job with regulatory changes. Under the aegis of a level playing field, all private plans will be forced to offer benefit packages similar to those in the public option. They will also be required to accept all comers, regardless of pre-existing conditions, and also be forced to offer similar rates to all enrollees, ending the ability to manage risk through underwriting. Any private plan will essentially become a public utility where government decides what products it must offer and how much it can charge.

Democrats couldn't be clearer on this point. House baron Pete Stark -- who thought *HillaryCare* was too moderate and has long favored Medicare for all -- said at a recent hearing that currently "We have no mechanism to directly push the private sector to do delivery system reform and address rising costs." But the public option, he added, would force private insurers to "modernize," which seems to be his term for industrial policy.

Under this model, the annual political warfare over Medicare payment policies would be imported to what is left of the private sector. Once government takes over the majority of U.S. health-care liabilities, it can either provide every service at huge and growing cost, or it can ration services. People who need an MRI or hip replacement or whatever will face waiting lines. Medical innovation will be at the mercy of the price controls hashed out in Washington.

Proponents of a public option point to the Federal Employees Health Benefits Program to dismiss such criticism, but that program is offered only to a discrete population. Mr. Obama's proposal would be open to everyone and necessitate a huge permanent increase in government spending as a share of the economy. Medicare and Medicaid alone account for 4% of GDP today and will rise to 9% by 2035, according to the Congressional Budget Office. CBO estimates that individual and corporate income tax

rates would have to rise by about 90% to finance the projected increase in spending through 2050 -- *without* the new middle-class entitlement.

Proponents will say we are exaggerating, but the consequences we describe are inevitable when government bulldozes into a market. Democrats want to sell their "public option" as a modest and affordable reform that won't affect anyone's private insurance. It isn't true. Republicans, especially those in the Senate who want to cut a deal on health care, should understand that a public option is the beginning of the end of private health insurance.

*The original copy of this article can be found on the Wall Street Journal Online website at the following URL: [http://online.wsj.com/article\\_email/SB123958544583612437-1MyQjAxMDI5MzE5MzUxODMIWj.html](http://online.wsj.com/article_email/SB123958544583612437-1MyQjAxMDI5MzE5MzUxODMIWj.html)*