

## America's Health Insurance Plans

### Memorandum

**TO:** Member Plan Presidents and CEOs

**FROM:** Karen Ignagni

**DATE:** October 11, 2009

**RE:** New PwC Report Finds that Senate Proposal Will Significantly Accelerate Health Care Cost Increases

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We are writing today to share a new report by PricewaterhouseCoopers (PwC) that examines the impact of the Senate reform proposal on the cost of coverage for both single and family policies in the individual, small group, large group, and self-funded insurance markets.

The report makes clear that several major provisions in the current legislative proposal will cause health care costs to increase far faster and higher than they would under the current system. The report finds that the proposal “will increase premiums above what they would increase under the current system for both individual and family coverage in all four market segments for every year from 2010-2019.”

For example, the analysis shows that the cost of the average family policy is approximately \$12,300 today and will rise to:

- \$15,500 in 2013 under current law and to \$17,200 if these provisions are implemented.
- \$18,400 in 2016 under current law and to \$21,300 if these provisions are implemented.
- \$21,900 in 2019 under current law and to \$25,900 if these provisions are implemented.

In fact, between 2010 and 2019 the cumulative increases in the cost of a typical family policy under this reform proposal will be approximately \$20,700 more than it would be under the current system.

Key drivers of rising costs analyzed in the report include:

- Market reform enacted in the absence of universal coverage will increase costs dramatically for many who are currently insured by creating a powerful incentive for people to wait until they are sick to purchase coverage. Since proposing health insurance reform in 2008, AHIP has provided data showing that market reform needs to be paired with an effective personal coverage requirement to ensure affordability and minimize disruption for those currently insured.

- As noted previously by the Congressional Budget Office, the new taxes on health insurance plans, medical device makers, and pharmaceutical manufacturers will result in increased costs for individuals, families, and employers. We are making the point that health care taxes will add to, rather than reduce, rising medical costs.
- Record reductions in Medicare spending will raise costs as providers shift even more costs to individuals, families, and employers with private coverage.
- Taxes on high-value health plans will raise the cost of employer-based coverage, particularly for companies with older workforces and those whose benefit plans have been secured through collective bargaining agreements.

On the subject of a government-run plan's impact on costs, PwC notes that: "Since government-sponsored programs have traditionally paid providers less than the private sector, as enrollment in a government-run plan increases, hospital revenue margins may decrease and consequently accelerate further cost shift. This would likely lead to increasing payment differentials between the public and private payers and the potential for further spiraling as private sector enrollees, facing continuously higher premiums leave the market."

As you know, as part of a plan to achieve universal coverage, AHIP's Board has committed to a complete overhaul of insurance market rules and new consumer protections to make pre-existing conditions a thing of the past and end rating based on health status or gender. The Board has proposed a massive administrative simplification initiative to slash paperwork, reduce medical errors, and enable providers to focus on patient care—an initiative that is included in the current legislation. We have also committed to funding a reinsurance mechanism to keep coverage affordable during the transition to new market rules, although the current legislation would make it impossible for this mechanism to offset the cost increases attributable to other provisions.

In our discussions with policymakers, we are recommending a series of solutions to create a more affordable and sustainable health care system, including:

- Putting the nation on a path to universal coverage, and ensuring that the linkage to universal coverage and market reform is restored;
- Taking a system-wide approach to bending the cost curve, instead of focusing on a subset of Medicare providers;
- Instituting evidence-based medical care and best practices nationwide;
- Reorienting the entire health care system to focus on prevention, wellness, and management of chronic conditions;
- Transforming health care administration;
- Enacting a 5:1 rating band to avoid rate shock for younger workers, and providing targeted financial assistance to older workers; and
- Enacting medical liability reform.

Attached is the full report from PwC. We will continue to work with policymakers in support of workable bipartisan reform.