

Concerns Regarding Healthcare Reform
Senator Dianne Feinstein
August 28, 2009*

Current Status of Healthcare Reform

There is currently no single healthcare reform proposal or plan. Three separate Committees in the House of Representatives have approved legislation, but the House has not adopted a bill.

The Senate Health, Education, Labor and Pensions (HELP) Committee has approved legislation which would expand healthcare coverage and improve public health, the healthcare workforce, and healthcare quality.

However, the Senate Finance Committee has jurisdiction over Medicare and Medicaid. The Finance Committee must determine how reform will be funded, and their bill may be merged with the Senate HELP Committee bill. The Finance Committee proposal will be integral to this debate.

It is my understanding that the Finance Committee will mark up a bill, at the earliest, in mid-September. If that is the case, I would anticipate a bill on the Senate floor in mid-October. It is very difficult to take a position when there is not a bill that is currently before the Senate.

In this case, since more than one-sixth of the American economy is affected, as well as the health care needs of over 300 million people, reform is a very complicated and difficult task. Because California is so large, and the bill is being written by small state Senators, I am doubly concerned that the final bill will not take into consideration California's needs, which vary considerably from smaller states.

I have received over 203,000 phone calls, letters and emails about healthcare reform -- and climbing. Your messages have been relayed to me. Additionally, several thousand Californians have visited our offices and met with staff, revealing their fears and concerns about cancelled policies, denied treatments, increasing premiums, and other problems with our health care system.

The message comes through loud and clear: most Californians would like several changes in our current system. But it is very difficult to accomplish this and reduce long-term healthcare costs.

California's Healthcare Situation

California has a very complex healthcare system, and we have much to gain from healthcare reform done correctly.

- Almost 30 million Californians have some type of health insurance coverage. ***Over 6.6 million Californians are uninsured, nearly 18.5 percent of the population, which is above the national average.***
- **Over 80 percent of Californians are covered by some form of insurance:**
 - 49.1 percent receive coverage through their employer.
 - 16 percent are enrolled in Medi-Cal.
 - 6.7 percent purchase individual policies.
 - 8.8 percent receive coverage through Medicare,
 - 0.8 percent are covered through other public programs.
- Californians at all income levels are more likely to be uninsured than the national average.
- ***Californians with insurance pay an average of \$1400*** on their health insurance premiums every year to help offset the cost of health care provided to the uninsured.
- ***2,190 Californians lose their health insurance every day*** for one reason or another.

California has a very large and complicated healthcare sector. Therefore, it is critical to fully understand the impact that healthcare reform will have on every part of our healthcare system.

California has:

- **822 Community Clinics and health centers**, which rely on federal, state, and local funding. They provide care for over 1 million uninsured patients every year in addition to those with insurance.

- **19 public hospitals**, which house 56 percent of the state’s trauma centers. These hospitals derive about 40 percent of their funding from federal Disproportionate Share Hospital (DSH) payments, and any reduction to these payments could have a significant impact on their ability to function.
- **36,699 licensed dentists, and over 125,000 physicians.**
- **33 teaching hospitals.** Many of these facilities teach medical students in public hospitals, like San Francisco General Hospital and Los Angeles County/ University of Southern California Medical Center. The University of California system trains half the state’s medical students and has a medical staff of 41,600. The state is also home to Stanford University, another world class medical center. Strong medical teaching programs, as well as medical research, is important to maintain.
- **Over 300 general acute care hospitals and 21 physician-owned hospitals.**
- **Over 100 biomedical research facilities.** California researchers consistently receive the largest share of National Institutes of Health biomedical research funding.

Let me give you some facts about the University of California, the 4th largest healthcare system in the state.

**UC Campuses
with Medical Centers** Davis
Irvine
Los Angeles
San Diego
San Francisco

Facilities 5 Academic Medical Centers (composed of 8 Acute Care Hospitals and 2 Psychiatric Hospitals)
5 Physician Practice Plans
3,124 Licensed Beds
Fourth largest health care delivery system in California

Staff	4,900 Faculty Physicians 3,800 School of Medicine Residents 32,900 Hospital Staff including 10,000 Nurses
Services Provided Annually	142,000 Inpatient Discharges 3.7 million Outpatient Visits including 254,000 Emergency Room Visits Average Daily Census: 2,365
Sources of Patient Revenue	Commercial Plans 58.6% Medicare 23.6% Medi-Cal (Medicaid) 14.2% County Programs 2.2% No insurance, Self-pay 1.5%

**Approximately 60% of the University System's revenue comes from the 40% of patients with commercial insurance.

Total Operating Revenue (FY08)	Medical Centers \$4.9 billion Physician Practice Plans \$900 million Total \$5.8 billion
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As you can see, this is a \$5.8 billion delivery system in itself. The 40% of patients with insurance pay for 60% of the services rendered. This is because the System takes care of a large number of poor and uninsured people.

California has a large and complicated healthcare structure—so changes, especially federal cuts, made to any part of the healthcare system will impact the state, cities, counties, medical schools, and virtually every health care delivery system. So, healthcare reform must be carried out carefully to keep our state's healthcare system intact.

What I Support

I basically believe that reform should be incremental and should cover the following:

- **Allow people to keep their current healthcare coverage.** Millions of Americans have insurance that meets their needs. In all of the proposals that Congress is considering, those happy with their current plan will be able to keep it.
- **Stop certain practices of insurance companies.** Any bill should end discrimination based on preexisting conditions, stop insurance companies from dropping insurance when people become sick, and prevent the unreasonable denial of treatment. There must also be limits to out-of-pocket expenses to ensure that Americans are not driven into financial ruin by illness.
- **Control insurance premiums.** Insurance premiums have doubled over the last 9 years, 3 times faster than wages. Meanwhile, the profits of the nation's largest private insurance companies increased 428 percent from 2000 to 2008 (*Health Care for America NOW*). This is unacceptable. Insurance for healthcare is an urgent and universal need, but will not be sustainable and universal if the profit margin remains unconstrained.

In order to see that premiums are affordable, I believe that all non-direct healthcare costs (advertising, overhead, profits, and other administrative costs) should be limited and not exceed 10 percent. All premium rate adjustments should be subject to review and approval by a Health Insurance Rate Authority. Bottom line: your health insurance must remain affordable. Your premiums cannot be allowed to double again in the next nine years, as they have in the past nine.

Another way of stabilizing premium affordability is the public option. Depending how the competition is structured, this “option” could compel insurance companies to lower premiums to remain competitive. It remains a viable proposal. *The public option should be one of a variety of choices for people who want improved coverage, giving them an option between a private insurance plan and a public one.* The public option is simply that—an option. No one will be required to enroll in the public plan. Instead, it would offer consumers an additional choice as they select a health insurance policy. Instead of choosing between policies offered only by private insurance companies,

people could choose to buy a public insurance plan. Those that prefer to buy private insurance could still do so.

The purpose of creating a public plan is to increase competition so that premium costs can be controlled. It is very clear that in the current market, private insurance companies do not control the price of premiums. The public option will not replace anyone's private insurance coverage, but it could prevent future premium increases as private insurance companies lower their prices to compete with a public option. I am also open to considering a non-profit co-operative model, as long as it can accomplish the critical goal of controlling premium costs and spurring competition. Because insurance company profit taking has been so high, it will be very difficult to control premium costs without some non-profit option.

- **Save and improve Medicare.** Medicare presents us with a looming and serious problem. In eight years, 2017, it will begin to run out of money. The cost of Medicare has more than doubled over the last decade, growing from \$210.4 billion in 1997 to \$431.2 billion in 2007. These rising costs are unsustainable, and they contribute to the burgeoning cost of entitlements.

According to the Congressional Budget Office, *56 percent of all dollars that the federal government is projected to spend in 2009 will be spent on entitlements* (Medicare, Medicaid, Social Security, Veterans' benefits). If you add interest on the debt, which will account for 5 percent of this year's federal spending, 61 percent of everything the government spends cannot be controlled. That is because if you qualify for an entitlement, you receive it, regardless of cost. And the interest on the debt must be paid, which further jeopardizes the financial future of the country as the debt grows. Any health reform bill must revise and reform Medicare to eliminate duplication and waste, and to prevent this continuing cost explosion. I cannot vote for a bill that will add a new entitlement, like a subsidy, that will grow over time.

One way of accomplishing Medicare reform is to create an Entitlement Commission to reform and control Medicare and Social Security. This Commission would retain independent actuaries to periodically and regularly review the system and periodically make recommendations to the Congress, which would vote them up or down.

- **Expand healthcare coverage.** With over 20 percent of Californians uninsured, healthcare reform must expand coverage to those who cannot currently afford it. Any expansion of coverage must be sustainable in the long-term, and be affordable without requiring adding costs to California and its counties, and without becoming another entitlement. This is difficult to do, and it remains to be seen how it will be accomplished.
- **Make prescription drugs more affordable for public hospitals and clinics.** Currently, hospitals like San Francisco General Hospital and Harbor/ UCLA, as well as Federally Qualified Community Health Centers, are able to purchase some prescription drugs at a discounted price. However, these discounts apply only for prescription drugs used in outpatient care. This discount program should be expanded to cover drugs used for inpatient hospital care, and other facilities, like mental health clinics. This would allow healthcare providers to give patients more affordable access to the prescription medications that they need.
- **Health reform should include tort reform.** I believe that medical malpractice reform must be included in health reform. Reforming medical malpractice in the correct manner can lower costs in the system, while still ensuring that injured parties are compensated fairly. The rapid escalation in health care spending is driven in part by defensive medicine. We can create incentives for doctors to provide efficient, high quality health care, but these efforts will not bear fruit if physicians feel compelled to order extra tests, images and procedures to protect themselves should there be a lawsuit.
- **Health reform should not address end of life care.** I feel strongly that anything relating to end of life care does not belong in the bill. These are private family matters that do not require legislation.

Healthcare Reform “Musts”

- **Healthcare reform must contain and lower costs long-term.** Any system that is created must be sustainable in both the short and long-term. I agree with President Obama that healthcare reform must not add to the federal deficit, and it must control the increase in healthcare spending in the long-term. It will do our Nation no good to expand coverage in the short-term, only to realize we cannot afford the policies we have adopted. So, the cost curve must not just go down for the initial period but be sustainable over time in the out years.
- **Healthcare reform must protect public hospitals, community clinics and county programs.** Public hospitals, community clinics, and other county programs contribute substantially to healthcare across California. The Finance Committee is considering large cuts in payments (called Disproportionate Share Hospital payments, or DSH). As a former mayor, major cuts to public hospitals are unacceptable to me.

These payments are vital to the survival of publicly owned hospitals like San Francisco General Hospital, UCLA/Harbor Medical Center and UC San Diego Medical Center to cover the costs of providing care for the uninsured and undocumented. Many counties, including Los Angeles County, Riverside and San Francisco, are concerned that these payments will be reduced as a cost saving mechanism in the bill, and result in additional County costs. In California, these cuts could be in the hundreds of millions of dollars.

- **Healthcare reform must not create new financial burdens for the state or counties.** California has been hard hit by the economic downturn and has sustained a systemic imbalance in its budget, which I anticipate will continue for the next year or so. Therefore, health reform must not add obligations that the state will be unable to pay.

If extending health care to the millions of currently uninsured is achieved by expanding Medicaid, the new cost to California would be approximately \$2.05 billion per year, if the new eligibility level is set at 133 percent of the Federal Poverty Level (\$14,404 per individual). Many California counties contribute to the cost of Medicaid, and they do not have extra funding to pay the cost for a program expansion. California still faces an ongoing financial emergency, so this becomes an important consideration. I could not support a bill that pushes additional costs on California state government or its counties.

- **Healthcare coverage must be truly affordable.** Healthcare reform must also meet the needs of those living in high cost states like California. If individuals are required to purchase coverage, this coverage must not require them to spend a high percentage of their income. For example, I am led to believe that the bill under discussion could consider any health insurance plan to be affordable if it costs less than 15 percent of a family's annual income. For a single parent of two children in California earning \$55,000 per year, this could mean spending as much as \$8,250 on health insurance premiums—with no additional help from the government. With the high cost of living in California, this could be very difficult for many families.

These concerns and others that develop must be addressed in the Finance Committee bill. I will amend and change this paper as I learn more about the actual bill likely to come before the Senate. I thank you for reading this. Be assured that I want practical health reform to pass, but believe that the package must control the escalating cost of health insurance, increase coverage for those who do not have it, and contain costs.

Thank you,

Dianne Feinstein