

M&A Assessment of President Obama's Health Care Speech to Congress

President Obama's speech to the Congress and the nation has created a tsunami of commentary. Every talking head in the country has had something to say about it and, for the most part, their reactions offer as few new ideas as did Mr. Obama's speech. There's one thing we should all agree on though – the outburst from South Carolina's Republican Representative, Joe Wilson, was unacceptable.

As we have for the past few weeks, we want to offer our view of this, the latest development in the continuing Health Care Reform debate. The statements in quotation marks are direct quotes from the president's speech.

"And every day, 14,000 Americans lose their coverage."

The inference is that insurance companies dropped them for financial reasons; this is not the case. It's mainly because from late 2008 to early 2009 many employees were losing their jobs and their employer-sponsored health insurance, unless they could afford to pay their COBRA premiums. We do not believe it is close to that number now.

"More and more Americans worry that if you move, lose your job, or change your job, you'll lose your health insurance too. More and more Americans pay their premiums, only to discover that their insurance company has dropped their coverage when they get sick, or won't pay the full cost of care. It happens every day."

We question the accuracy of this statement and also find it a little misleading. In our experience we have seen zero instances of insurance companies dropping covered persons simply because they were sick. Of course, there may be small, disreputable companies that engage in such practices, but we seriously question whether such occurrences are on the rise. The president quoted no studies or statistics to support this claim.

"One man from Illinois lost his coverage in the middle of chemotherapy because his insurer found that he hadn't reported gallstones that he didn't even know about. They delayed his treatment, and he died because of it. Another woman from Texas was about to get a double mastectomy when her insurance company canceled her policy because she forgot to declare a case of acne. By the time she had her

insurance reinstated, her breast cancer more than doubled in size. That is heartbreaking, it is wrong, and no one should be treated that way in the United States of America."

In his speech, the president made a reference to the "scare tactics" being used by some of his opponents. However, are these nightmare stories anything other than a scare tactic? We do not dispute that such injustices may occasionally happen (but again, we are aware of none) but can he guarantee us it could never happen in a system subject to more government control or influence?

"Finally, our health care system is placing an unsustainable burden on taxpayers."

How many really believe that any of the reform proposals presently under consideration would not result in substantial tax increases on some and increased government subsidies for others? Will this really relieve the overall taxpayer burden?

"These are the facts. Nobody disputes them"

Surely the president doesn't really believe this - *many* dispute his version of the underlying "facts".

"First, if you are among the hundreds of millions of Americans who already have health insurance through your job, Medicare, Medicaid, or the VA, nothing in this plan will require you or your employer to change the coverage or the doctor you have. Let me repeat this: nothing in our plan requires you to change what you have."

A provision in HR 3200 would impose an 8% payroll tax on employers who do not provide health plans for their employees. This money would be used to help fund tax credits or subsidies for the uninsured to buy insurance in the proposed national exchange. *Many* employers presently spend well over that percentage of payroll for their health plans. Why wouldn't they simply drop their plans in favor of paying the less expensive tax?

"What this plan will do is to make the insurance you have work better for you. Under this plan, it will be against the law for insurance companies to deny you coverage because of a pre-existing condition."

Actually, for over a decade there has been a law called HIPAA which outlaws pre-existing condition exclusions if you have not had a 63-day break in coverage from your prior employer's plan. There are also limits on how long such exclusions can "look back" and be imposed, so it is already, to a significant extent, against the law.

“Now, if you're one of the tens of millions of Americans who don't currently have health insurance, the second part of this plan will finally offer you quality, affordable choices. If you lose your job or change your job, you will be able to get coverage.”

Actually, for over 20 years COBRA has allowed employees to continue coverage for up to 36 months after it otherwise ends. Granted, many employees could not afford to pay their COBRA premium because they were unemployed during the eligibility period. (Under recent legislation, the government is subsidizing 65% of the premium for those who are involuntarily terminated after September 1, 2008 and no later than December 31, 2009).

“...businesses will be required to either offer their workers health care, or chip in to help cover the cost of their workers.”

The fact is most businesses of any substantial size already offer employer-subsidized health coverage to their employees. As mentioned above, if those employers are given the option to pay into a government program at only an 8% of payroll rate, they may welcome the idea of terminating their existing program.

“There are also those who claim that our reform effort will insure illegal immigrants. This, too, is false – the reforms I'm proposing would not apply to those who are here illegally.”

According to the September, 2009 Center for Immigration Studies Report: *“Even though HR 3200 states that illegal immigrants are not eligible for the proposed taxpayer-funded affordable premium credits, there is nothing in the bill to enforce this. An amendment was defeated in committee that would have required the use of the Systematic Alien Verification for Entitlements (SAVE) program, used by almost all other means-tested programs of this kind...In its summary of the bill, the Congressional Research Service (CRS) states, “Under HR 3200, all legal permanent residents (LPRs), non-immigrants, and unauthorized aliens who meet the substantial presence test... would be required to obtain health insurance.”*

“In Alabama, almost 90 percent (of the health insurance market) is controlled by just one company. Without competition, the price of insurance goes up and the quality goes down.”

This was clearly a veiled reference to Blue Cross/Blue Shield of Alabama, which is very popular in Alabama because of the great discounts it negotiates for its participants and the superb job this organization does for its insured's.

“Despite all this, the insurance companies and their allies don't like this idea. They argue that these private companies can't fairly compete with the government. And they'd be right if taxpayers were subsidizing this public insurance option. But they won't be. I have insisted that like any private insurance company, the public insurance option would have to be self-sufficient and rely on the premiums it collects. But by avoiding some of the overhead that gets eaten up at private companies by profits, excessive administrative costs and executive salaries, it could provide a good deal for consumers. It would also keep pressure on private insurers to keep their policies affordable and treat their customers better, the same way public colleges and universities provide additional choice and competition to students without in any way inhibiting a vibrant system of private colleges and universities.”

This is a continuation of the vilification of the insurance industry. As to the claim that the public option would be self-sufficient, what happened to the OMB study that concluded that the proposals would add \$1 trillion to the deficit? And it would certainly be harder for insurance companies to compete if the government plan is tax-exempt and 35% excise taxes are imposed on “Cadillac plans” (such as would occur under the “Baucus Framework” under consideration in the Senate Finance Committee).

“The public option is only a means to that end – and we should remain open to other ideas that accomplish our ultimate goal.”

Is this correctly interpreted as an admonishment to the more liberal Democrats that they should back off their insistence on a public option if that is what it takes to get legislation?

“To my progressive friends, I would remind you that for decades, the driving idea behind reform has been to end insurance company abuses and make coverage affordable for those without it”.

Suggesting that all problems in the system stem from such “abuses” is another vilification of the insurance industry. It also ignores the fact that 33% of all American workers are actually covered under self-insured or self-funded plans. The employers with these plans have every incentive to deliver the best benefits for the fewest dollars and to hold administrative costs down. Moreover, they do not make a profit.

“Reducing the waste and inefficiency in Medicare and Medicaid will pay for most of this plan.”

If there is waste and inefficiency there, why not first take action to end it? Or by this does he mean the quality of the benefits should be lower?

“This reform will charge insurance companies a fee for their most expensive policies, which will encourage them to provide greater value for the money – an idea which has the support of Democratic and Republican experts.”

It seems to us it would also give them an incentive to provide less in benefits.

“Finally, many in this chamber – particularly on the Republican side of the aisle – have long insisted that reforming our medical malpractice laws can help bring down the cost of health care.”

We concur with the president that tort reform is an idea worth considering if it indeed can help lower the cost of care at the point of service.

“The plan will not add to our deficit.”

That remains to be seen. Clearly many are skeptical and the CBO report disagrees with this comment. Or, as Robert Burns wrote: “The best-laid plans o' mice an' men gang aft a-gley”.

M&A is very supportive of trying to reform our nation’s health care system but do not believe we should throw caution to the winds and applaud every idea that comes down the pike. We strongly urge all of our lawmakers to stop with the political posturing and get on with the business for which we sent them to Washington!

William E. Mahoney,
President