SPRING institute

THE SPRING GROUP

INFO REPORT ON PUBLIC OPTION

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1. Table of Contents

2. Executive Summary

The American healthcare system has for decades been exclusionary and inaccessible, as private plans charge exorbitant premiums that risk the lives of those unable to pay them. Millions of Americans remain uninsured, either unable to cover medical expenses or forced to pay burdensome fees out of their own pockets. Hospitals are forced to provide care for those unable to pay them back, resulting in devastating financial losses. At the same time, the lack of competition among private health insurers have allowed them to continue charging excessive prices without repercussions.

Fortunately, this problem is not without a solution. Under a public option health insurance plan, the United States government would directly offer and regulate a public health insurance plan, which would exist alongside private alternatives and allow those currently unable to afford healthcare to have an accessible option that keeps them safe.

This brief will evaluate the current issues in the American healthcare system and analyze the impacts of using a public option to solve them.

To accomplish this, it will begin by analyzing the performance of existing public option plans in many other countries as well as certain U.S. states. It will then point out the stakeholders in the implementation of a public option plan and how each of them stand to benefit from it. Finally, it will analyze the possible challenges and past criticisms of option implementation, explain how they can be overcome or why they are unlikely, before lastly, outlining recommendations for the most optimal plan possible.

This brief stands in favor of implementing a public option. We suggest comprehensive policy action to fund, implement, and regulate a public option plan that will be affordable, save money, and aid hospitals as a solution to America's current healthcare dilemmas.

3. Background

3.1 What is Public Option Healthcare?

- A public option health insurance plan is a plan that is run and regulated by the government, which is offered alongside existing private plans. Government control allows premiums to be controlled and made more affordable, while government leverage can be used to ensure the highest quality of care among providers.

3.2 Public Option Around the World

Germany

- Germany has the world's oldest healthcare system in the form of a universal multi-payer system that involves both government-guaranteed public healthcare as well as private healthcare plans accessible to those who can afford it. This structure has provided crucial care to those who struggle to afford it, while simultaneously making the price of private healthcare much cheaper than in America (Edwards and Dunn 2019).

Israel

- Israel also has a similar policy of guaranteed healthcare funded by the government that exists alongside paid for-profit plans (Greenberg 2009). As a result, Israel's healthcare consistently ranks among the most efficient in the world (6th in 2018) and has an average life expectancy of 82 years old (Jerusalem Post Staff 2018).

3.3 Public Option in the United States

Washington

- The state of Washington first enacted a public option law in 2019, under which the state contracted with private insurers to offer affordable plans (Monahan and O'Brien 2023). Despite a lack of access and high prices being roadblocks at first, the plan is moving with a positive trajectory. In 2021, the state expanded the plan to 6 more counties, lowered premiums by 5 percent, and passed policies mandating its usage in more hospitals (O'Brien 2021).
- Despite some success in ensuring lower prices, the Washington plan has struggled to offer meaningfully lower premiums as compared to alternatives. In addition, in

spite of Washington's requirement for hospitals to contract with public option insurers, the state has struggled to get non-hospital providers to cooperate (Monahan and O'Brien 2023).

Colorado

- The state of Colorado enacted a similar private partnership plan last winter under which all providers offering individual or small-employers plans would also be required to offer an affordable public option plan.
- Colorado estimates that their public option plan would be accessible to 87% of individual market enrollees given their premium reductions. The state is also a good model for requiring provider participation: plans that don't meet the premium reduction target will face a hearing to determine if it was a provider that prevented them from meeting these goals. The state insurance commissioner can then set a reimbursement rate and order the providers to join the state network (Monahan and O'Brien 2023).

4. Stakeholder Analysis

4.1 Patients

- Recently, record numbers of Americans have still been struggling to obtain healthcare despite attempts to increase its accessibility. In 2021, 8.3 percent of Americans, or 27.2 million people, lacked access to healthcare for the entire year (United States Census Bureau 2022). This inequality in healthcare is economically devastating for the uninsured. Around 43 million Americans have unpaid medical expenses that hurt their credit, with medical debt amounting to about half of all overdue debt on Americans' credit (Khazan 2019).
- Unfortunately, exorbitant expenses are turning citizens away from the healthcare they need. 38% of Americans in a 2022 Gallup poll responded that they or a family member chose to delay or even entirely skip medical treatment entirely. Perhaps most concerning is how crucial that skipped care could have been: 27% of respondents skipped care for serious conditions or illnesses (Cerullo 2023).

4.2 Hospitals

- A lack of insurance harms hospitals in addition to patients. Hospitals are still required to serve uninsured patients who are often unable to compensate them for treatment, leading to severe monetary damage. Between 2000 and 2017, American hospitals have lost an estimated 576 billion dollars as a result of providing uncompensated care, largely given to uninsured patients (American Hospital Association 2017).
- As a result, many hospitals are currently at risk for failure, a problem especially present in rural areas, where there are often more uninsured patients in comparison to urban areas. More than 600, or 30% of all rural hospitals, are at risk of closure due to financial losses (Center for Healthcare Quality and Payment Reform 2023).

4.3 Private Insurers

- The lower premiums provided by a public option plan could also force private insurers to decrease their own prices in order to compete. The public option would offer lower premiums in comparison to other insurers, likely leading many consumers to switch to the public option and increasing competition with public plans (Congressional Budget Office 2021).

- In addition, a public option could decrease private premiums by putting pressure on hospitals to lower the prices they charge private insurers, which currently pay prices 30% higher than Medicare (UC Berkeley School of Law 2009).

5. Benefits of Public Option Healthcare

5.1 Increasing Healthcare Accessibility

The United States has long failed to provide affordable, accessible healthcare to the ones who need it the most, as the financially underprivileged have been locked out of getting necessary treatment due to their inability to afford a healthcare plan. A government-run public option would be the solution. Predictions from RAND Corporation simulations find that public option premiums could be between 11% to 27% lower than private premiums (Liu et al. 2020). States where a public option was already implemented are showing positive signs: 27,000 individuals enrolled in Washington's public option during 2023 open enrollment, representing 23% of all new enrollees (Monahan and O'Brien 2023).

5.2 Decreasing Private Costs

Private healthcare plans currently charge at exorbitant rates, in large part due to the lack of an affordable competitive alternative. The public option's introduction would provide this necessary competition. The Commonwealth Fund predicts that a public option in the state of California would garner $243 million in savings, with additional money saved from the increase in competition. Currently, 21 out of 26 metropolitan statistical areas in California lack market competition (Scheffler and Shortell 2023). By offering an alternative to private insurance with a considerable difference in cost, a public option would introduce the competition necessary to maintain a healthy medical care market.

5.3 Aiding Struggling Hospitals

A large portion of financial losses for hospitals stem from their history of providing uncompensated care to insured patients, which they are not paid for as they would be if they served a patient with a healthcare plan. That's why an increase in healthcare coverage is directly tied to hospitals saving money: when the uninsured rate in the United States fell 35 percent between 2013 and 2015, uncompensated care costs fell 30 percent as a portion of total hospital expenditures (Schubel and Broaddus 2018). A public option is the best move to lower this very rate and ensure hospitals have the resources to continue functioning and providing life-saving care.

5.4 Lowering Federal Spending

Currently, the United States federal government is taking on unnecessary costs as a result of the inaccessibility of healthcare. It pays billions of dollars a year to fund subsidies and tax credits aimed at lowering the price of private plans, which could be avoided by funding this affordable public option. Depending on the payment reduction to providers, a government-plan saved between 7 and 24 billion dollars in the RAND Corporation's estimates (Liu et al. 2020). These savings signal that even though investing in a public option will require a cost, the overall effect on the federal budget is positive.

6. Challenges Facing Public Option Healthcare

6.1 Low Participation Among Healthcare Providers

If healthcare providers are given the decision to participate in the public option, a large portion of providers will in all likelihood decline participation in fear of lower pay. Current public option plans that follow the "voluntary participation" schema are already facing this very problem. The Washington public option has seen extremely low participation among healthcare providers; Two years after its initial implementation in 2020, only 25 out of the state's 39 counties had public option plans available (Hawryluk 2022). This should not be a problem, however: ultimately, a public option plan should require hospital participation and negotiate lower prices: this was implemented in Washington after the initial lack of coverage, and the state has seen a tripling in the amount of enrollees in the public option, with hospitals and non-hospital providers soon increasing the amount of access public option enrollees have (Monahan and O'Brien 2023).

6.2 Difficulty Achieving Significant Market Share

One of the most attractive features of a public option is its ability to lower premiums in the entire marketplace by pressuring the market with its comparatively lower rates (Fiedler 2020). This only works if the public option is able to gain a significant foothold into the market to create competitive pressure in the first place, which may be difficult. When a public option is identical to private plans except for premiums, this is easily achieved. Referring to our earlier analysis about requiring participation and price negotiation, it is clear that the lower price of a public option should be enough to attract new enrollees and adopt a commanding market share that affects premiums across the board.

6.3 High-Risk Patient Offload

Because the public option is designed to be open to all, it becomes possible for private insurers to use the public option as a "dumping ground" for high-risk individuals and families. Private insurers can cherry-pick healthier individuals and families via seemingly more favorable plans, which is effectively adverse selection against taxpayers and can also raise premiums for the public option in the long run (Kemp). This is generally not a concern for two reasons. Firstly, the competition created by a public option will decrease the ability of private plans to game the system as they lose business to the far more affordable public plans, and need to capture all the revenue available (Neuman et al. 2019). Secondly, because the public option is government-run, the creation of a plan would give the government the ability to better regulate the market, whether by controlling the price of premiums or directly intervening in the abusive practices conducted by private plans.

6.4 Costs

While estimates vary, some accounts suggest that the public option might fail to lead to federal savings or might even lead to soaring deficits and debts. Potential costs include subsidizing enrollee premiums and paying doctors close to what they receive from private insurers (Chen, Church, and Heil 2021). But ultimately, referring back to the estimates mentioned in the *Benefits* section, the current costs of subsidizing private healthcare as well as others stemming from healthcare inaccessibility's adverse effects are far more damaging to the budget, to the extent that spending money on a public option would actually cut cost rather than increase it.

7. Implications and Recommendations:

7.1 Increase Government Funding

- Government funding for public options can be obtained through budget allocations and legislative appropriations. Including public option in government budgets and legislation can lead to secure funding. At the federal level, grants, subsidies, and appropriations can be used in order to fund public option. These funds can be dispersed through other proposals as well.
- Additionally, state governments can allocate funds from their budget to support public option as well as tailoring funding to address specific regions. Local areas can raise local taxes and set up partnerships with private entities.

7.2 Require Hospital Participation

- One of the major concerns when it comes to public option healthcare is getting hospitals to participate in the program. One of the major ways Medicare was able to get hospitals to comply with their program is by having providers serve Medicare patients equally with private plan patients by mandating that healthcare providers serve patients enrolled in the public option if they wish to serve patients covered by private competitors of the public option (Understanding Medicare Advantage Plan 2022).
    - For instance, a provider that declines to participate in the public option for individual markets may be prohibited from participating in private Marketplace plans. This approach would effectively eliminate the primary advantage that providers gain by opting out of the public option, namely the ability to charge higher prices to private plans. This would be excluding emergency situations serving patients enrolled in the public option, provided that the public option's prices exceed the provider's marginal cost (Fiedler 2021).

7.3 Price Administratively

- In order to figure out pricing for public options, pricing administratively could help establish fair prices across the board. Numerous public option proposals suggest pricing through administrative means, which involves creating specific formulas for each service to determine prices. There would be adjustments based on incorporating geographic location and teaching status.

- Challenges with this implication would be attracting providers, specifically, those who receive higher compensation from private providers. This is why mandating public options in order to serve those with private plans.

7.4 Require Equal Treatment From Providers

- The Medicare program includes rules involving patient care and treating all patients the same, despite the plan. Institutional healthcare providers would be obligated to extend the same level of care to public option patients as they do to patients with private plans, mirroring the Medicare plan. This prevents providers from refusing public option patients while accepting those with private plans, mirroring how providers cannot refuse traditional Medicare patients while accepting those with Medicare Advantage plans.
- These regulations led to widespread participation in Medicare, and can be used in public option plans as well to ensure that everyone gets treated equally (Fiedler 2021).

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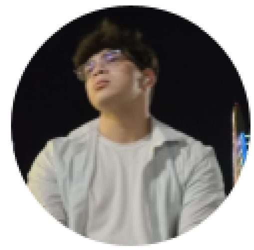

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