

Technical Points of Clarification on The Lewin Group's Analysis of the American Affordable Health Choices Act of 2009

This document addresses several technical questions regarding the estimates in the recent Lewin Group report, "Analysis of the July 15 draft of The American Affordable Health Choices Act of 2009" prepared for The Heritage Foundation.¹

In our paper, we estimate that the public plan will provide insurance products that are less costly than private insurance. This is achieved by paying providers up to 32 percent less for services than private insurers must pay (assuming Medicare reimbursement levels plus five percent), and by eliminating the allowance for profits and insurance agent and broker and agent commissions found in private health plan premiums. As a consequence, we estimate that many employers and consumers would experience savings.

For example, we show that the public plan would reduce family premiums resulting in average annual savings of \$2,148 for families and \$1,104 for individuals. Consequently, we project that many employers and individuals would shift to the exchange and the public plan to take advantage of these savings. We estimate that a total of 103.4 million people would enroll in the public plan when it is opened to all individuals and employers.

A key difference between the Lewin and CBO estimates is that we assume that the newly established "Commissioner" would exercise his or her authority to extend eligibility for the exchange to all employers in the third year of the program, while the CBO does not.

There are six points raised in the Stark critique that we respond to here.

1. *Enrollment: The CBO predicts 12 million people in the public plan compared with the Lewin estimate of 103.4 million people.*

Response:

As explained above, we estimate that the public plan will save more than CBO assumed. The CBO also assumes that eligibility for the public plan is never extended beyond firms with fewer than 20 workers, while we assume the Commissioner would exercise his/her authority to extend eligibility to all employers so that all can take advantage of the projected premium savings.

¹ Communication of July 20, 2009 from Congressman Pete Stark, Chairman of the House Ways and Means Health Subcommittee, on the Lewin Group's analysis of H.R. 3200.

2. *The CBO estimates an increase in employer-sponsored insurance of 2.0 million people while we estimate that 88 million workers and dependents enroll in the public plan.*

Response:

In *Figure 4* of our paper, we show that the number of people with coverage sponsored by employers increases by 1.4 million people. The difference is that we estimate that about 88 million people would be in firms that decide to purchase coverage for their workers in the exchange and then elect the public plan option.

3. *Lewin assumes that providers would participate in the public plan regardless of what it pays.*

Response:

We assume that provider participation in the public plan would be similar to participation under Medicare, where the same payment levels are used (In fact payments in the public plan for physicians will often be Medicare plus five percent). We also assumed that providers would not be subject to the same utilization management controls that are used by private plans. The cost of the resulting increase utilization of health services in the public plan is reflected in our public plan premiums and discussed in *Appendix A* of our paper.

4. *Lewin estimates that premium savings in the public plan will be lower than CBO assumes, because private insurers will step up their cost containment efforts.*

Response:

The assumption that private insurers could close the premium gap with enhanced cost containment is unrealistic in the context of how insurers control costs.

- a. Insurer bargaining leverage is diminished under the program. Insurers typically negotiate “volume” discounts with providers. Thus the more people a plan covers the more bargaining leverage it has in obtaining these discounts. Because millions of people move to the public plan, private plan enrollment drops, thus diminishing private insurer bargaining leverage.
- b. Consolidations across hospitals and physician groups have eliminated provider competition in some areas, thus reducing the plan’s ability to leverage discounts. For example, a plan has little leverage in negotiating discounts if there are no other hospital systems in the area.

- c. The effectiveness of provider networks is diminished by the program. Key to the effectiveness of networks is the plan's ability to channel patients to the providers who are participating in the plan's cost containment efforts. However, provider network formation is experienced by patients as restrictions on access. Increased reliance on these approaches would further alienate patients resulting in a greater shift to the public plan.
 - d. Intensification of insurer utilization management practices would also further alienate patients and providers.
5. *Experience with FEHBP and other programs show that price is not the only factor in choosing a health plan.*

Response:

This is basically true, although in the FEHBP experience, the coverage provided differs across each plan offered. There are differences in co-insurance, covered services and network availability etc. This differs from the exchange model where people pick among competing plans with virtually the same co-pays and coverage. This will increase the relative importance of price and quality indicators in selecting a plan.

Also, as discussed in *Appendix A* of our paper, we do account for differences in price response by age and health status, which controls for some of these issues raised by the critique. For example, we account for the fact that when faced with a lower cost coverage option, older and sicker individuals are less likely to change coverage than are younger and healthier people.

6. *Lewin assumes that the Commissioner exercises his/her option to extend public plan eligibility to all employers.*

Response:

At this time, the only thing in the House bill that results in savings for workers is the public plan. If the Commissioner does not extend eligibility to all, most people would see no cost containment. In our next study, we show the impacts with and without extending eligibility to firms with over 20 workers.