Written by **Thomas R. Eddlem** on October 17, 2009

Obama Attacks Healthcare Studies

President Obama used his weekly radio address this weekend to attack two health insurance industry-funded studies that concluded the President's healthcare proposal pending in Congress would increase overall medical costs for individual policyholders by thousands of dollars per year.

President Obama noted that in the next few years, according to a study by the Business Roundtable, "The cost per person for health insurance will rise by almost $18,000. That's a huge amount of money. That's going to mean lower salaries and higher unemployment, lower profits and higher rolls of uninsured. It is no exaggeration to say, that unless we act, these costs will devastate the US economy."

President Obama then went on to blame the insurance industry for misleading the American people for political motives:

> The insurance industry is rolling out the big guns and breaking open their massive war chest — to marshal their forces for one last fight to save the status quo. They're filling the airwaves with deceptive and dishonest ads. They're flooding Capitol Hill with lobbyists and campaign contributions. And they're funding studies designed to mislead the American people....

They'll claim that premiums will go up under reform; but they know that the non-partisan Congressional Budget Office found that reforms will lower premiums in a new insurance exchange while offering consumer protections that will limit out-of-pocket costs and prevent discrimination based on pre-existing conditions. They'll claim that you'll have to pay more out of pocket; but they know that this is based on a study that willfully ignores whole sections of the bill, including tax credits and cost savings that will greatly benefit middle class families. Even the authors of one of these studies have now admitted publicly that the insurance companies actually asked them to do an incomplete job.

> It's smoke and mirrors. It's bogus. And it's all too familiar. Every time we get close to passing reform, the insurance companies produce these phony studies as a prescription and say, "Take one of these, and call us in a decade." Well, not this time.

But were the insurance industry studies "phony"? Did the Congressional Budget Office contradict the healthcare industry-funded studies? And did the industry studies deliberately distort the bill's impact on overall medical cost?

The answers to these questions, respectively, are "no," "no," and "possibly."

The studies were actually produced by independent organizations, not the health insurance industry itself. And no one has impeached the data the studies have produced. The controversy is about what meaning the studies have in the debate over the ever-changing legislation in the Senate would impact consumers compared to the status quo.

The PriceWaterhouseCoopers study concluded that the mandates in the bill would increase the cost of health insurance by $4,800 per family per year by 2019 over and above healthcare inflation expected under current law. But the PriceWaterhouseCoopers study examined only certain elements of the changing health care initiative, a fact the authors acknowledged. So the net effect of the Senate health care package is not necessarily an average increase of $4,800 per family. A PriceWaterhouseCoopers spokesman acknowledged to an Associated Press fact checker that healthcare exchanges would tend to bring the costs of healthcare down through more competition and "would offset some of the impacts we have estimated." A study by Oliver Wyman (funded by Blue Cross and Blue Shield) also openly acknowledged that it did not take the impact of healthcare exchanges into account:

> We have not explicitly modeled the impact of health insurance exchanges. However, Oliver Wyman issued a report in 2008 on this subject that found that exchanges were unlikely to reduce health insurance premiums for individuals and small employers.

That was a key objection Obama made to the studies, and its worth a deeper look into what the data means.

President Obama also claimed that the Congressional Budget Office "found that reforms will lower premiums in a new insurance exchange." And technically, Obama's statement is true. The Congressional Budget Office (CBO) did conclude that opening up competition to non-profit exchanges would have a tendency to lower premiums. The Oliver Wyman study noted that the "The Congressional Budget Office's analysis of the Senate Finance Committee proposal indicates that exchanges could reduce premiums by 4-5 percent in the individual health insurance market." But President Obama's words could also be considered misleading, as the CBO did not conclude the impact of healthcare exchanges would cause the overall legislation to lower premiums compared to the current law. To the contrary, the CBO concluded that because of the mandates and other parts of the healthcare plan, "premiums in the new insurance exchanges would tend to be higher than the average premiums in the current-law individual market — again with other factors held equal — because the new policies would have to cover preexisting medical conditions and could not deny coverage to people with high expected costs for health care." In other words, the CBO has concluded the same thing as the health insurance industry: Obama's plan would increase the health care costs of most Americans.

The Oliver Wyman study concluded of the Senate legislation that "average annual medical claims in the reformed individual market five years after reform are expected to be 50 percent higher compared to today, not including the impact of medical inflation. This would translate into premium increases of approximately $1,500 for single coverage for a year and $3,300 for family coverage in today's dollars for people purchasing new policies." The Oliver Wyman report also acknowledged that the bill's hundreds of billions of dollars in taxpayer "Subsidies will entirely or partially offset these premium increases for some individuals." These federal subsidies would eventually be paid for by taxpayers.

The Oliver Wyman report is particularly interesting because it examines the impact of healthcare mandates in Massachusetts, the closest practical example to predict the impact of the Senate legislation. The 2007 Massachusetts law mandates that all residents purchase healthcare insurance or face a fine on their income tax returns of up to $1,028 this year. The Massachusetts plan is to phase in the fine up to half the cost of the state-subsidized healthcare plan for those not following the mandate, which means that the state fine — which has already quintupled from the $219 level in 2007 — will eventually exceed $3,500 per year.

That's substantially higher than the fines the Baucus version of the healthcare bill in the Senate would impose. The Baucus bill would impose a $200 annual fine for individuals who don't purchase coverage in 2014, and that fine would increase to $750 by 2017. The healthcare studies particularly analyzed the impact of "health policy jumping" within the mandate that prevents preexisting conditions from being excluded from new policies. Health policy analyst Robert Laszewski told the Associated Press the economic calculus being made by many people in Massachusetts, who buy policies only when they need health care. "Gee golly whiz. I could pay a $400 fine and get insurance when I need it, or pay $8,000 in premiums" per year, he told the AP.

The Oliver Wyman study noted that "in Massachusetts, there is evidence that individuals are selectively jumping in and out of the market when they need healthcare. Harvard Pilgrim Healthcare has written about their experiences with people gaming the system to access insurance only when needed." Specifically, Harvard-Pilgrim concluded:

> Between April of 2008 and March of 2009, about 40% of the people who purchased individual insurance from Harvard Pilgrim stayed covered by us for less than 5 months. Even more amazing, they incurred, on average, about $2,400 per person in monthly medical expenses — roughly 600% higher than what we would have expected.

The Oliver Wyman report concluded: "Lacking strong penalties, we expect similar types of behavior would occur in the reformed individual market — resulting in significantly higher premiums for those that are insured."

Associated Press "fact checker" Alan Fram claimed that this latter statement counts as part of a deceptive insurance industry political offensive. "The insurance industry uses facts selectively and mixes accurate assertions with misleading spin and an embrace of worst-case scenarios," Fram wrote. Fram particularly objected to "concluding that providers will pass the full cost of these changes to their customers ignores a basic assumption of the health overhaul effort.… If the overall legislation succeeds in doing that, there would be less incentive for providers to pass on those costs — and more incentives for them to compete by keeping prices low."

While Fram acknowledges that "t's an economic fact of life that businesses generally pass on the costs of taxes by raising prices," he objects to the limited insurance company-funded studies' conclusions that these taxes and mandates would eventually mean higher premium prices. But the studies did not conclude that all the costs would be directly imposed upon consumers, or that health care exchanges would not ameliorate the impact of the increases. But both the industry-funded studies and the non-partisan Congressional Budget Office (CBO) agree that the health care package would increase individual premiums on average. And the CBO has additionally concluded that the package requires a massive tax increase in order to not have the package increase the federal budget deficit. In this case, many citizens will be paying more for health care through their tax bills in addition to their insurance companies.

President Obama drew a dark picture of the current path of health care spending in his weekly radio address. "The cost per person for health insurance will rise by almost $18,000 [in the next decade]. That's a huge amount of money. That's going to mean lower salaries and higher unemployment, lower profits and higher rolls of uninsured. It is no exaggeration to say, that unless we act, these costs will devastate the US economy. This is the unsustainable path we're on, and it's the path the insurers want to keep us on." Nobody really objects to this statement. But if health care "reform" he's seeking would increase the cost of health care even more than the current path, even further into the darkness and national devastation, the nation would be better off to do nothing than to adopt his health care agenda.

The Oliver Wyman and PriceWaterhouseCoopers reports are no models of free enterprise, it must be stressed. The studies bemoan the lack of a high fine for those who fail to buy health insurance. "Strong mandates, beginning in year one, coupled with meaningful penalties, will help to ensure enrollment of young, healthy individuals to balance inflow of higher cost people," the Wyman study concludes. That's hardly a free market prescription for allowing consumers to choose whatever they want, and leaving them with the consequences of any bad decisions they make. If it sounds self-serving that a health care industry would fund studies that call for higher fines against those who don't become their paying customers, it's only because it is. But it doesn't impeach the fact that the studies provide valuable data on the impact of several aspects of President Obama's healthcare plan.

These studies demonstrate that while President Obama's general direction on healthcare is the wrong prescription, there are a few items worthy of adoption. There are many things the federal government could do to cut the costs of medical care without cutting the quality of care or interfering further in what little remains of the medical free market. Some of President Obama's plans to reform and eliminate the massive waste in the federal Medicare program would be one element of the plan that could help bring the federal deficit under control. Congress has periodically passed this kind of reform in the past without saddling the nation with expensive health care mandates that drive up the costs for everyone.

Reform of medical malpractice law would be another positive step. Because it is so easy to sue a physician and win an outlandish judgement, many physicians pay more than $100,000 per year in premiums for malpractice insurance, costs that are passed on to patients. Many physicians also order unnecessary tests for their patients in order to create a paper trail in order to prevent a lawsuit, a practice called "defensive medicine." The Congressional Budget Office estimates that even modest reform of medical malpractice law could save 0.5 percent of total medical costs in the country.

President Obama's offensive against the healthcare industry's studies should — and just may — lead more Americans to look more closely at the studies. And that's not a bad thing, provided that they don't take the industry-funded studies as politically sacrosanct mandates.