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Industry reacts to Medicare for All traction

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Health insurers and hospitals are starting to sweat.

Medicare for All and other proposals to give more Americans the choice to enroll in government-funded insurance programs have little chance of going anywhere under a Republican-controlled Senate and White House. Yet the insurance and hospital industries are taking seriously the threat to the status quo upon which they've built their businesses.

That the healthcare industry's most powerful lobbyists were quick to form the Partnership for America's Health Care Future to launch a preemptive strike against Medicare for All-style proposals is testament to their jitters and the fact that the momentum behind the concept is picking up. Once a fringe idea supported by the extreme left, Medicare for All is becoming part of the mainstream conversation with support from a smattering of the numerous 2020 Democratic presidential hopefuls.

Insurance company CEOs are now starting to speak out publicly against the proposals while advocating for private-sector innovation and cost-cutting. They are being forced to make the case for why they should exist because their centrality to the future healthcare system isn't guaranteed, and they know it.

Hospitals, meanwhile, argue that any cuts to their current reimbursement rates will force them to reduce services or worse: put them out of business. Economists, though, point out that the impact on hospitals won't be the same across the board and for some, won't be so extreme.

"The current structure can work for everyone, but to move … to a situation where you have 'Medicare payment for all' would put us in a position where the numbers just wouldn't work for us to provide the services that people expect," said Chip Kahn, CEO of the Federation of American Hospitals, a group that represents investor-owned hospitals.

While they've all been lumped together under the Medicare for All umbrella, there are at least a half-dozen proposals in Congress that would broaden the role of public programs in different ways but with the same goal of expanding coverage and putting a plug in the ever-rising cost of healthcare spending in the U.S. The impact on the insurance and hospital industries would vary depending on which plan, if any, went into effect. Some proposals also lack important details that make them difficult to assess.

But in some cases, the potential impact is clear. Medicare for All proposals like those of Sen. Bernie Sanders (I-Vt.) and Rep. Pramila Jayapal (D-Wash.) would completely restructure the healthcare system. Those proposals would largely eliminate private health insurance, including employer-sponsored insurance that now covers some 156 million people. Private insurance companies today also administer benefits for about a third of Medicare enrollees through Medicare Advantage plans and 75% of Medicaid beneficiaries.

Playing the odds

The proposals would move all these individuals to a universal health plan with a generous set of medical benefits. There would be no premiums or cost-sharing, except for prescription drugs. In theory, insurance companies would have little to no role, which is unusual among countries with single-payer systems.

But observers see little chance of that happening. The federal government, they say, does not have the infrastructure to coordinate care and pay claims, and it would take time and a lot of money to build it.

"Someone is going to have to contract with the doctors, oversee the quality of care, make sure people are getting paid, look for fraud, all those same functions, and the federal government is just not set up to do it," said Dr. Mario Molina, a physician and former CEO of Long Beach, Calif.-based Medicaid managed-care company Molina Healthcare. "The only practical way to do this is subcontracting to private industry."

The largest publicly traded health insurers in recent years have branched out into other businesses through acquisitions. UnitedHealth Group-the parent of the nation's largest insurer, UnitedHealthcare-for instance, has amassed an army of employed physicians in its OptumHealth unit. Insurers with a hand in care delivery, analytics or other services could potentially survive even if their insurance revenue evaporated.

More incremental approaches to expanding public insurance programs, such as Medicare buy-in or a public option, may have a better chance of gaining support and political traction. Those proposals could end up boosting insurers' membership in the lucrative and growing Medicare Advantage program, which most large insurers are investing in. Louisville, Ky.-based Humana would be the clear winner, investment analysts agree.

"If you had growth in Medicare eligibility with the ability to still choose Medicare Advantage plans, then companies that are already in Medicare Advantage would gain a lot of share, a lot of membership, and Humana has the highest portion of its business in Medicare Advantage," said David Windley, managing director at investment firm Jefferies.

Humana CEO Bruce Broussard told an audience at the Barclays Global Healthcare Conference in March that proposals expanding public health coverage represent a "great opportunity" for Humana and the industry to "expand the population that it's coordinating care with."

That's not the case for every insurer, and Broussard is taking heat for his refusal to fall in line with the rest of the insurance industry's stance. Because UnitedHealthcare has a large commercial and Medicare Advantage membership, "that's less purely beneficial for them because they would lose out of one pocket and gain in the other pocket," Windley explained, as commercially insured workers opted for Advantage plans over employer-sponsored insurance.

That possibility isn't lost on UnitedHealth Group leadership. CEO David Wichmann warned analysts in mid-April that Medicare for All proposals would "jeopardize the relationship people have with their doctors, destabilize the nation's health system and limit the ability of clinicians to practice medicine at their best."

Wichmann went on to say that universal coverage could be achieved through "existing public and private platforms."

Like UnitedHealth Group, the Partnership for America's Health Care Future wants to preserve and build on the existing system. It warns against a "one-size-fits-all" approach and has launched a six-figure public education campaign, according to a spokesman. The partnership is backed by America's Health Insurance Plans, the American Medical Association, the Blue Cross and Blue Shield Association, the Federation of American Hospitals and a dozen other organizations; the partnership isn't lobbying yet, but the individual groups are lobbying separately for the cause.

The hospital federation's Kahn insisted that the healthcare system works for most people and the focus should be on fixing the system where it needs help. He suggested reinsurance to bring down costs in the ACA exchanges or expanding Medicaid in the 14 states that haven't done so. But he warned that expanding public programs under the proposals being discussed would lead hospitals to cut services and staff.

Some studies support those claims. Commercial insurance rates are generally much higher than Medicare and Medicaid rates, which don't fully cover the cost of caring for a patient. So hospitals say they subsidize people in those programs with the payments they get for commercially insured patients. Reducing commercial rates to the level of current Medicare rates would therefore decrease provider revenue and make it hard for them to operate, they argue.

A bleak outlook

A Stanford University study published in JAMA this month painted a bleak picture. It projected that applying the current Medicare fee schedule to all patients would lead to a 15.9% decline in revenue and a loss of $151 billion across the nation's more than 5,000 hospitals. Hospitals would be looking at average profit margins of negative 9% compared with current margins of 7%, unless they could become more efficient very quickly. The study predicted hospitals would resort to eliminating 1.5 million clinical and administrative jobs. That loss could make it harder for patients to get care.

"Not only would they make less money, but they would really have to restructure the way they deliver care, and that would mean a big disruption to the industry. On average across the industry, about 70% of costs are labor, so you are talking about a lot of people's jobs when you restructure costs," said Melinda Buntin, chair of the health policy department at Vanderbilt University School of Medicine, who was not affiliated with the study.

Still, researchers claimed hospitals could become efficient in other ways, such as negotiating better rates for services, negotiating stable staff salaries or forgoing plans to upgrade their facilities. The study notes that one reason costs exceed Medicare rates today is because hospital administrators invested in property, equipment and services that drove their costs higher and relied on rates from private payers to offset costs.

Policy experts and economists doubt, though, that any legislation with legs would immediately reduce payment to the current Medicare rates without a transition period, agreeing it would be politically dead on arrival because it would devastate some hospitals, particularly ones that are already struggling.

They also say that the impact of paying Medicare rates or some percentage of Medicare rates would differ by hospital. Some hospitals are efficient enough to operate on those rates, while others couldn't without significant changes. But the cost to provide care and how that compares to what Medicare pays can change, explained Ani Turner, an economist at Altarum.

"Hospitals today that are operating at 200% to 300% of Medicare rates … are able to invest in things that they might not choose to invest in if their revenue was lower," Turner said. "You would just expect that hospitals would begin making different kinds of decisions. Perhaps they are not going to build a whole new maternity tower, for example, or maybe they won't buy that second or third imaging machine."

Whether some of those changes required to operate on a leaner budget would lower the quality of care or harm patient health is unknown.

Hospitals would benefit in some ways. Expanding public coverage would reduce the number of uninsured patients showing up to the emergency room. And administrative costs should also decrease under a single-payer program.

Not all healthcare stakeholders resist expanding Medicare. The American College of Physicians, which represents 150,000 internal medicine doctors, has previously supported Medicare buy-in at age 55 and is now evaluating what approaches it will call for to cover all Americans while reducing costs. ACP Senior Vice President Robert Doherty noted in a blog post, however, that achieving universal coverage would be difficult without making publicly financed coverage available to everyone.

Meanwhile, the National Business Group on Health, which represents large employers that mostly self-fund employee health benefits, wants to preserve employer-sponsored insurance because its surveys show workers are satisfied. Steve Wojcik, the group's vice president of public policy, said current proposals to expand public coverage aim to control costs by cutting provider rates, which could impact access for patients. He stressed the importance of transforming care delivery to save costs.

Even so, healthcare affordability is an issue for everyone-the federal government, employers, workers and those who buy insurance on the individual market. While most people who buy insurance on the ACA exchanges are subsidized and insulated from rising premiums, millions of people who receive no federal financial assistance have trouble affording premiums and out-of-pocket costs.

Millions more who get health coverage from their employers also have trouble affording healthcare. A Kaiser Family Foundation study this month found that people with incomes below twice the federal poverty level spend an average 14% of family income on their employer-sponsored health premiums and medical care. Experts say that's part of what's fueling the Medicare for All discussion.

"People are afraid of high healthcare costs," Buntin said. "Even people who have insurance are experiencing high out-of-pocket costs and hearing stories about things like unaffordable drugs and surprise bills, and they just have this growing feeling that even if they are insured, they may not be able to get the healthcare they need."

THE TAKEAWAY

Once a fringe idea, Medicare for All is becoming part of the mainstream. The insurance and hospital industries are taking the threat to their businesses seriously.

---- Index References ----

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