

**“The Health Care Crisis, the Prospects for Reform,
and CalSTRS”**

**Speech to the California State Teachers’ Retirement System
Health Benefits Task Force**

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It is good to be here with you for a consideration of the crisis in health care and what can and should be done about it.

We meet here today about a month after an election that has political leaders in both parties -- and in both the executive and legislative branches of our national government -- rethinking their priorities and agendas.

The members of the National Coalition on Health Care, including the California State Teachers’ Retirement System¹, have an opportunity now to make the case that health care should be a priority for the President and Congress and that health care reform should be at the top of the domestic agenda.

We expect that health care reform will be more of a focus in Washington going forward from here than it has been for many years.

Here in California, as you know, the prognosis is similar. Governor Schwarzenegger is expected to propose, in January, a package of reforms designed to improve access to care here in California. A lively debate -- and perhaps some significant legislative actions -- will follow.

My remarks will be in five parts:

First, I will describe and quantify the major elements of the health care crisis.

Second, I will summarize the recommendations of our Coalition -- your Coalition -
- for improving our nation’s health care system.

Third, I will say a few words about the costs and savings that would be generated by health care reform along the lines that we have set out.

¹ The California State Teachers’ Retirement System is the second largest public pension plan and the largest teachers’ retirement fund in the United States. CalSTRS had a total membership of approximately 775,917 and assets of \$153.2 billion as of October 2006. CalSTRS’ primary responsibility is to provide retirement related benefits and services to teachers in public schools from kindergarten through community college.

Fourth, I will discuss some of the steps that the Coalition will be taking to build the momentum for reform.

Fifth, I will offer some closing thoughts on how CalSTRS can help to advance the prospects for needed reforms.

My observations will reflect the views of the membership of the Coalition, which is the nation's largest non-partisan alliance of organizations working for system-wide health care reform.

Our Coalition consists of more than seventy of the nation's largest companies, unions and professional organizations; patient advocacy and consumer groups; associations of health care providers; health and pension funds; higher education councils; insurers; and religious denominations.

CalSTRS is an active, and very important, member of our Coalition, and I want you to know how much we appreciate your involvement and how much it means to our collective effort.

Many of the organizations in the Coalition are major forces in the American economy, in our society, and in the health care system -- for example, the AARP, the AFL-CIO, the American Cancer Society, General Electric, Ahold U.S.A., Duke Power, the Principal Financial Group, the California Public Employees Retirement System, the National Council of Churches, UnitedHealth Group, the Salvation Army -- and, of course, CalSTRS.

There are literally hundreds of billions of dollars of health care purchasing power, and trillions of dollars of corporate asset ownership, represented around our table.

Collectively, our member organizations represent -- as employees, members, volunteers, or congregants -- more than 150 million Americans.

Think about that: 150 million Americans -- almost exactly half of our nation's population.

The next time somebody tells you that there is not much support for system-wide reform; you can set the record straight.

I should also emphasize that the Coalition is rigorously non-partisan. Our Co-chairmen are former Republican Governor Robert D. Ray of Iowa and former Democratic Congressman Paul G. Rogers of Florida. Our Honorary Co-chairmen are former Presidents Bush, Carter, and Ford.

Why does our Coalition share such a sense of urgency about the need to reform health care? Because we believe that the problems in health care are

severe -- and because we know that in the absence of system-wide change, these problems will only deepen, hurting our nation and our people.

I. The Crisis in Health Care

The Coalition has focused on three massive and interrelated problems in the American health care system, any one of which would itself be cause for alarm.

- First, rapidly escalating costs;
- Second, a huge and growing number of Americans without any health coverage, and
- Third, an epidemic of sub-standard and dangerous care.

In 2010, health care spending in America will exceed \$2.7 trillion -- nearly a trillion dollars more than was spent two years ago.

In 2003 -- the most recent year for which cross-national comparative numbers are available -- the United States spent \$5,635 per person on health care, more than two-and-a-half times the per-person average for advanced industrialized countries.

Yet despite our much higher spending, 34 nations have higher life expectancies than the United States. Forty-one nations have lower infant mortality rates.

And our costs are growing rapidly.

In just the past six years, health insurance premiums have leaped 87 percent -- more than four times the cumulative increase over that same period in overall inflation and in earnings.

The average annual premium for family coverage this year is nearly \$11,500 -- up from about \$6,300 in 2000.

These enormous increases are making it much more difficult for employers to continue providing health coverage -- or to sustain the same levels of health coverage and financial contribution -- for employees and retirees.

They are also making it much more difficult for individuals and families to pay their shares of the cost of employer-sponsored coverage or to buy health insurance themselves.

As many of you know well, escalating health care costs can put great pressures and constraints on contract negotiations.

And when actual increases are in excess of the levels planned for, as they often are, they can also put great stress on the finances of the entities providing coverage.

The rapid rates of increase in these costs also erode the living standards of those who receive retirement income, including those who receive such income from CalSTRS, and offset the gains in that income that this organization works so hard to achieve.

I want to share with you some startling numbers from an analysis by Richard Johnson and Rudolph Penner of the Urban Institute. Penner is a former director of the Congressional Budget Office.

Johnson and Penner projected increases in out-of-pocket health care costs and median after-tax income from all sources -- including Social Security, pensions, wages, and investments -- for older unmarried adults and for older married couples.

They estimated that in 2030 out-of-pocket health care costs will take up 30.3 percent of after-tax income for older unmarried adults, up from 17.3 percent in 2000.

And, incredibly, they calculated that in 2030 out-of-pocket health care costs will consume 35.1 percent -- 35.1 percent! -- of after-tax income for older married couples.

That's more than double the proportion -- of 16.0 percent -- consumed by out-of-pocket health care costs in 2000.

If as a society we fail to address the health care crisis effectively, the good work that this organization does for employees and retirees will be undermined by escalating health care costs.

Not a pretty picture. And not, as it turns out, a complete picture.

The reason is that the climb in health care costs is no longer only a health care issue. It has now created a gigantic, multi-faceted national economic problem.

As these costs rise, they slow the rate of economic growth. By cutting into corporate operating margins, they reduce the capacity of firms to grow by investing in research, plant, and equipment.

Surging health care costs also slow the rate of job growth by making it more expensive for employers to hire new employees.

They increase total compensation costs and constrain potential wage increases.

They drive up program expenditures and thereby create severe federal and state budget problems -- at a pace that the Congressional Budget Office, the General Accountability Office, and the Chairman of the Federal Reserve Board have all called "unsustainable."

For state governments in particular, they draw resources away from other priorities, such as education.

And they put American firms at a steep disadvantage in world markets, where they have to compete against companies in countries with much lower health care costs.

We have reached the point where America's top domestic concerns -- economic growth, jobs, retirement security, and health care -- are now bundled together. Economic growth, jobs, and retirement security cannot be assured unless health care costs are controlled.

The second facet of our health care crisis is a huge and growing number of Americans without any health insurance.

As President Bush's Council of Economic Advisers noted in a recent report, "Rising costs of health care and health insurance are creating financial burdens for families and employers and increasing the number of uninsured."

As a result, the number of uninsured Americans rose to 46.6 million in 2005 -- an increase of 6.8 million in just five years.

In California, nearly 7 million people had no health coverage last year.

Uninsurance exacts a grim toll on the health of the uninsured. Those without coverage receive less care, endure more pain and suffering, and are more likely to die prematurely.

And the uninsured must live each day in financial as well as physical jeopardy, knowing that if they are injured or contract a serious disease and if they are able to obtain care, they may have to liquidate their assets in order to pay for it.

The costs of providing uncompensated care to uninsured patients, in emergency rooms and other settings, are built into the charges for care of those with health coverage.

According to a study by Professor Kenneth Thorpe, a respected health care economist at Emory University, these surcharges add a large amount -- \$1,160 per year -- to the average cost of employer-sponsored family coverage in California.

The third major problem in our health care system is an epidemic of sub-standard care. There is a wide gulf -- what the Institute of Medicine has called a "quality chasm" -- between the care that patients should receive and the care that is actually delivered.

Hundreds of thousands of Americans die prematurely each year because of sub-standard care. Millions more are harmed.

Unnecessary accidents, errors, and poor quality are now the nation's third leading cause of death, just behind cancer and heart disease.

Health care quality is also an enormous cost issue. Some experts have estimated that we may be wasting more than \$600 billion a year because of sub-standard care.

The status quo in health care is not only unacceptable, it is unsustainable. The costs of continued inaction are enormous. What should we do?

II. A Path Forward: Specifications for Reform

Our Coalition has developed a set of answers to that question. After more than a year of study and deliberations -- with the NCCMP's active participation and endorsement -- we issued a major report that reflects a consensus among our members. It is the most ambitious and comprehensive health care reform proposal in the national debate today.

Our more detailed report is included in your information packets. For now, I just want to summarize our recommendations, which fall into five categories.

First, our members call for coverage of all Americans within two to three years after the passage of legislation. We recommend that Congress specify a core benefit package, which is outlined in the report. Employers would be able to provide, and individuals would be able to purchase, supplemental coverage beyond the core package.

The Coalition identifies a range of options for insuring all Americans, including:

- Employer mandates (supplemented with individual mandates as necessary);
- Expansion of existing public programs that cover subsets of the uninsured;

- Creation of new programs targeted at subsets of the uninsured, or
- Establishment of a universal publicly financed program.

None of these implies or necessitates a government run system and anyone of these - or a combination of these – can work, but to assure that everyone gets coverage, participation must be mandatory, and subsidies must be provided for those who are less affluent.

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Second, the Coalition proposes measures to assure much more effective cost management. Our members believe that over time, the health care system must be made far more efficient by providing more and better information for patients, providers, and purchasers; improving the quality and outcomes of care; and building a national information technology infrastructure for health care.

But we also believe that the urgent need for cost relief requires short-term constraints, even as these other measures are being implemented. These constraints would include rates for reimbursing providers for care encompassed by the core benefit package and, only after those rates take effect, limits on increases in insurance premiums for the core benefit package.

Third, our members propose a major national effort to improve the quality and safety of health care. This effort would include the accelerated development of an information technology infrastructure for health care and national practice guidelines.

Fourth, our members call for steps to make the financing of health care more equitable, including the reduction over time of inequitable cost-shifting across categories of insurance programs and payers. Our report identifies mechanisms that could be used to fund the upfront program costs of reform.

Lastly, the Coalition recommends steps to simplify the administration of health care – which would save money and help to reduce the burdens, and the frustrations, of providers and patients. Most importantly the changes we recommend would enable health care markets to function more effectively.

III. Impacts of Reform

Our Coalition commissioned an independent assessment -- by Professor Kenneth Thorpe of Emory University, whom I mentioned earlier, of the costs and savings that would be associated with health care reform along the lines we have recommended. His report is also included in your materials.

Ken modeled the impacts of four scenarios consistent with our specifications, and the bottom line of his analysis is this: In all four scenarios, the cost of a reformed system would be less -- much less -- than the cost of continuing with the status quo.

In fact, the savings would be huge. By year 10, annual system-wide savings would range between \$125 billion and \$182 billion -- depending on the scenario pursued -- and the savings would grow year to year after that. In the first decade after implementation, system-wide savings could exceed one trillion dollars.

Ken also modeled the impacts of the Coalition's recommendations on employers who provide health coverage now, and found such employers stand to save, depending on which scenario is pursued, between \$595 and \$848 billion in the first ten years of implementation.

But let me try, for a moment, to translate those aggregate projections in a way that you might find especially vivid and compelling.

Here in California, as in the rest of the country, the costs of health coverage have increased since 2000 at average annual rates in excess of ten percent. Now think about what it would mean for California's teachers -- and for the 1200 school districts in California that provide health coverage for teachers -- if those average rates of increase dropped to less than 4 percent -- and stayed there year after year.

For school districts, the savings would soon add up to serious money. These funds could be used in a variety of beneficial ways -- for example, to hire new teachers and reduce class sizes; to repair buildings, purchase computers, and expand libraries; to increase salaries for teachers and other employees; to provide additional financial assistance for teachers who want to further their own educations; to buy more textbooks; and simply to preserve precious funding for public education at a time of budgetary pressures.

And there is another advantage to take into account: the advantage, for school districts and teachers, of actually knowing what the rate of increase will be each year.

No longer will those who represent teachers have to guess and hope for the best, or go through protracted negotiations over what rate of increase to build into multi-year agreements.

Not only would the costs of health benefits be much lower than in the current unconstrained system, but the financial risks -- of cost increases in excess of what was planned for -- would be dramatically reduced.

And I probably don't have to point out -- but I will anyway -- that if and to the extent that CalSTRS takes on additional responsibilities in this arena, the advantages of being able to count on lower and more predictable increases in health care costs would be substantial.

In any case, we believe it is clear that health care reform, as recommended by our Coalition, would make eminently good financial sense for public authorities and for teachers here in California.

Of course, I need to emphasize as well that the benefits of reform go well beyond these financial savings. System-wide health care reform, consistent with the Coalition's specifications, would insure that every American has health insurance.

It would improve the quality of care and, by doing so, save many lives and reduce unnecessary injuries and harm to patients.

And it would help to safeguard and advance our nation's economic growth and living standards.

The bottom line is this; we can afford health care reform. What we cannot afford is a continued failure to address the crisis in health care, which imperils both the safety and prosperity of all Americans.

IV. Building the Momentum

Before I discuss some of the specific steps that the Coalition will be taking to build the momentum for reform, I want to make three comments about the current context for our work together.

First, we are at a critical juncture, because the public is now receptive to, and in fact eager for, information about our health care system and ideas for improving it.

Why? Because so many people are -- please excuse the expression -- worried sick. A new survey by the Harvard School of Public Health and the Robert Wood Johnson Foundation found that 75 percent of Americans think that the health care system is in crisis or has major problems.

According to another poll -- just released by ABC News, USA Today, and the Kaiser Family Foundation -- 80 percent of Americans are dissatisfied with the cost of health care in this country, and 60 percent of insured Americans are worried about being able to afford health insurance costs over the next few years.

Americans are unhappy about the status quo, and they are ready for some answers.

Second, last month's congressional elections create some new opportunities to advance the prospects for health care reform. The Coalition is non-partisan, and we do not take sides in or about elections.

What is clear, though, is that in the aftermath of last month's results, political leaders in both parties -- in the White House and on Capitol Hill -- are rethinking and reformulating their agenda. In particular, they are looking for issues and initiatives that can be worked on across party lines. And that is where we, and health care reform, can come in.

Which leads to my third observation: The Coalition is in a unique position to advance the prospects for reform in the current context.

We can make the case -- and we will make the case -- to political leaders that there is already, in the form of the Coalition, broad support, across party lines and segments of the economy and society, for a specific set of tough measures to build a better health care system.

On this, the most important issue of domestic policy, both parties can work to advance the interests of the nation, knowing that they will have support and collaboration from a Coalition that already represents half the population.

Looking ahead, here are some of the specific steps we will be taking:

First, we will be meeting with key members of Congress and their staffs to make the substantive case for health care reform and to remind them that our Coalition -- which represents a cross-section of America -- stands ready to support measures along the lines of what our members have recommended.

Second, and very specifically, we will be meeting with the chairs and ranking minority members of congressional committees and subcommittees with health care responsibilities and urging them to convene hearings, early in the new Congress, about system-wide health care issues and options.

These would be much wider in scope, and much more ambitious in their consideration of alternative policies, than the hearings held in the congressional session now drawing to a close.

In our conversations on the Hill, we will be seeking opportunities to help plan -- and then to testify at -- the proposed new hearings.

Third, we will reach out to prospective presidential candidates and their advisors, to brief them about the health care crisis and potential remedies.

Fourth, we will be following up with governors -- including Governor Schwarzenegger and many others that we have already had constructive meetings with -- to urge them to advocate national reforms, to convene with the Coalition's help public forums to educate the public about these issues, and to help explain how potential system-wide reforms could help address and mitigate health care problems in their states.

Fifth, we will develop and customize materials for Coalition organizations to use in communicating to their members, employees, and congregants. We will continue to seek opportunities to brief journalists and help them with story ideas and background information, and we will issue a steady stream of press releases, Coalition statements, and opinion pieces.

And sixth, we will continue to analyze health care issues and proposals, including systemic and incremental bills and initiatives -- with a special emphasis in the near term on the effects of escalating health care costs and the impacts of our proposed reforms.

In fact, early next year we plan to issue a new study by Ken Thorpe that will compare the prospective impacts of our recommendations with those of the reforms that have been proposed to date by the Bush Administration, including incentives to expand enrollment in health savings accounts.

V. Engagement

In closing, let me offer a few thoughts and suggestions for the members of this Task Force to consider.

First, CalSTRS has the credibility and the influence to encourage public authorities and officeholders to support the reforms needed to assure a more inclusive, more efficient, and safer health care system -- in California and for the nation as a whole.

In particular, we hope that you would urge the organizations that represent school boards, in California and nationally, to entry the fray -- and that you would seek meetings with members of California's congressional delegation to discuss their views, and yours, about what needs to be done to improve health care.

Second, CalSTRS could work assiduously -- through the CalSTRS website and in other ways -- to educate its own members about the health care crisis, about how it affects their interests, and about the benefits of system-wide reforms.

On this, as on the other suggestions that I am advancing here, please know that the Coalition's staff stands ready to provide any background information or other technical assistance that would be helpful.

Third, CalSTRS could communicate its sense of urgency about the need for health care reform to the leaders of companies with which you have financial dealings, including not only firms that you contract with but also, selectively, firms in which CalSTRS has invested.

Fourth, CalSTRS could brief journalists in California on why and how national health care reform would help to free up resources for the betterment of public education and how it would help to promote the physical health, and financial health, of Californians.

Fifth, CalSTRS could work with other members of the Coalition to plan and implement a major media campaign, for which we are now assembling resources, to raise the visibility of health care as an issue and to inform the public and opinion leaders about problems in the health care system and about the recommendations for reform developed by our large alliance of major organizations.

In closing, I would say this: We know that the achievement of system-wide health care reform will not be easy. The issues are complicated, and the stakes are enormous.

And we know that those whose self interests are served by the present system -- or who think that their interests are served -- will resist change.

But change is essential. This is a fight that is well worth waging.

It is a fight that we can win -- with hard work and resources and collaboration and determination.

And it is a fight that we will win -- for the well-being of our nation, your members and their families, and all Americans.

Thank you for the opportunity to speak here today. I look forward to your questions and comments -- and to working with you and your colleagues to secure a better health care system.
