

LAO Confirms Single Payer Reduces Health Care Spending, Contains Annual Growth by State Senator Sheila Kuehl

This is my fifth essay for 2008. I interrupt my presentations on the current budget crisis to report on a confidential analysis of SB 840, my legislation creating a single payer health insurance system, requested by anonymous members of the Assembly [the requesters' names are not revealed, as a matter of course, by the Legislative Analyst's Office (LAO)] and conducted, in the middle of their budget analyses, by the California Legislative Analyst's Office.

My first 2008 essay was an update on the 2007 "year of health reform". The second set out some background information on actions taken by the legislature to re-balance the 2007-2008 budget, given shrinking revenues. The third reviewed the Governor's budget as he presented it in January of this year. This essay will analyze the LAO review of a single payer system for California.

Visit my website at www.sen.ca.gov/kuehl to read my previous essays. For those of you who received this essay by forwarding, it is written by California State Senator Sheila Kuehl. If you wish to subscribe to receive these essays on a continuing basis, (no charge), please send an e-mail to Sheila.Kuehl@sen.ca.gov, titled *subscribe*. If you receive it directly and wish you didn't, send an e-mail to the same address, but title it *unsubscribe*.

Why the Legislative Analyst Looked at SB 840

The LAO, in addition to their yearly on-going analysis of state spending and the budget, receives requests from members of the Legislature to look at the fiscal impacts on the state of various legislative measures. You may recall that during the discussion of the omnibus health measure put forward by the Governor and then-Speaker Fabian Nunez, Senate President pro-tem Don Perata asked the Legislative Analyst's Office to report on the potential impact of the bill on State finances. In so doing, the LAO took into account a proposed funding initiative the Governor had submitted for the next ballot go-round which, if adopted by the people, would have set out a plan to fund the measure to be put on the ballot later in the year.

The LAO's report was presented to the Senate Health Committee and the programmatic bill did not pass the Committee. The funding mechanism was not in front of the Committee and did not go on the ballot.

Following the defeat of that bill, three members asked the LAO to analyze SB 840, not only for its impact on State spending (which was found to be favorable), but also for the larger issues raised in funding the new program.

The new LAO report did not actually analyze SB 840

Although the LAO's report clearly showed the kinds of savings a single payer plan would provide for the State, workers, employers and private individuals, it was not an assessment of SB 840.

SB 840, now awaiting a hearing in the Assembly Appropriations Committee, does not contain details concerning taxes, premiums, expenses or other financial matters, but rather constructs a Blue Ribbon Panel, made up of statewide officers, to research and propose the actual funding mechanism and put it out for a vote of the people, along with the entire health insurance plan.

This is made necessary by the fact that any change to state revenues that increases revenues (even though all premiums for single payer would take the place of all premiums, co-pays and deductibles now paid by those who are insured) must garner a 2/3 vote in both houses. No Republican will vote for SB 840 and so, the bill with the current Blue Ribbon Panel in it, needs only a majority vote to go to the Governor's desk.

What the LAO found

The LAO study confirmed that a single payer health care system saves money and lowers the rate at which health care costs grow each year. This has always been the main argument for single payer ' the total monies devoted to health care spending in California in any given year are more than enough to guarantee comprehensive universal health care to all Californians.

Generally, the LAO report agreed with the findings of the Lewin Group study of 2006 with regard to the impact of single payer on the growth in health care spending and found that Lewin's projections for the legislation's impact on health care spending were reasonable. Like Lewin, the LAO analysis identified substantial savings on administrative costs, bulk purchasing of drugs and durable medical equipment, and confirmed that it would lower the rate at which costs grow every year.

Lewin Group Report of January, 2005

Early in 2005, at the request of several independent health advocacy groups, the Lewin Group, a non-partisan independent national group of analysts specializing in health care costs, took a year-long look at SB 921, my single payer bill introduced in the 2003-2004 session.

They reported, in March, 2004, that the bill, when enacted, would save more than 29 billion dollars in current costs which could be used toward covering the uninsured in California and reducing total health spending in California by 8 billion dollars in the first year alone.

The plan was proposed to cover every Californian with a comprehensive insurance policy with no limitation on choice of doctors or other healthcare professionals.

This year, LAO took Lewin numbers and inflated them forward

The members asking questions of the LAO did not ask her to estimate the amount by which SB 840 would lower health care spending in the year it was enacted, they only asked her to estimate whether the funding system, modeled to fund the bill in 2006, would fund it in 2011, following 5 years of rampant health care inflation. Unsurprisingly, the LAO found that a funding model set up for health care spending in 2006 would not be enough, as is, in 2011 (in addition to adding in a large reserve in the first year, rather than phasing it in). In fact, the deficit projected by the LAO can largely be looked at as the cost to the state created by the Governor's veto of SB 840 in 2006.

Failing implementation that year, costs have ballooned, and, because the state is an employer, as well as the safety net for so many residents, those costs have fed into the current unprecedented budget crisis.

In fact, many of our budget problems are linked to our failure to address the ruinous growth in health care spending over the last decade. California buys a lot of health care – we pay for it directly through social programs and we also purchase a great deal of insurance as employers.

If health care costs grow 2-3 times faster than wages, and the taxes which pay for that health care are a function of wages, then it's pretty easy to understand that we are standing in a hole and proceeding to dig ourselves deeper each year.

Need for Single Payer greater than ever

The main lesson of the Analyst's report is that the people and employers of California are continuing to pay escalating healthcare costs while wages and payrolls are flatlining. Those costs are a drain on our already shaky economic outlook.

SB 840 will bring stabilization to the healthcare crisis and, since the Blue Ribbon Panel will have flexibility to adjust the details of premium proposals, single payer is still our best answer.