LABOR CENTER REPORTER

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Number 114
March 1984

A CALIFORNIA PROPOSAL FOR HEALTH CARE REFORM

by Bruce Poyer

"The health plans of American workers are under siege from skyrocketing costs," warns SEIU President John Sweeney, who is leading a ten state campaign (including California) for emergency legislation to stop runaway inflation of health care costs. One proposal has surfaced in this state which is bold enough to do the job. It was advanced by state Controller Ken Cory on January 27, at a Sacramento conference on pensions and health care costs of retirees, attended by 200 representatives of public sector labor-management groups in California.

The Controller's proposal is based on a successful cost-control precedent in the Medi-Cal program. Two years ago, the California legislature tackled Medi-Cal's inflation rate, which had been 18% in each of the preceding three years, by overriding the objections of health care providers and revolutionizing the program. In the next year, Medi-Cal was changed from a cost-plus reimbursement basis, which the state simply could not afford any longer, to a pre-paid, group practice program providing comprehensive coverage. Rates were fixed in negotiations, as a pre-condition to the awarding of Medi-Cal contracts. The health care providers didn't like the idea, but they scrambled to bid for the business. As a result, comprehensive services are now being delivered by Medi-Cal in every part of the state at rates which are controlled by the competitive bidding process for group coverage, and by the state legislature. These rates are much closer to actual costs of services, because they no longer reflect any cost-plus fee-for-service charges in the delivery of health care. (The same is not true of Medi-Cal's administrative procedures.)

The Cory Proposal—Controller Cory proposed to build on the successful precedent of the Medi-Cal delivery process by enacting three basic legislative changes. First, health care practitioners in the state could be paid for their services only in cash, or in prepaid contract rates negotiated between groups of practitioners and groups of health care customers. Second, provider groups would be required to offer to all consumer groups a basic level of comprehensive coverage at costs which do not exceed those for comparable Medi-Cal coverage. It is important to note that this proposal would not extend Medi-Cal coverage to anyone, and would not put active employees or retirees into the Medi-Cal program. Instead it would require a comprehensive level of health care service, at cost limits to be set by competitive bidding and by the legislature, to be provided in all group plans in California, including those covering employee groups in the state.

The third legislative change proposed by Cory is more basic still. Group practices in the state who bid for any group business (including Medi-Cal and the employee groups) would be required to negotiate on a community-rating basis. The costs of covering any group could no longer be negotiated on the basis of the experience of that group alone, but would have to be based on the shared costs of covering all groups in the community. Thus it would no longer be possible for provider groups to offer coverage, and for consumer groups to shop for it, at costs which discriminate against the high risk individuals in any group in the community—particularly, the aged and the disabled. These individuals could no longer be excluded from private plan coverage, and in effect, "dumped" on public programs like Medi-Cal or county general assistance. The "cost crisis" now developing in Medicare is a nationwide reflection of this problem. The community rating requirement of the Cory proposal would begin to tackle the problem through more equitable sharing of all health care costs in California's private plans.

Impact of the Cory Proposal—The most immediate impact would be on providers, who would have to organize themselves into group practices and bid for prepaid coverage on an "at risk" basis--i.e., the coverage and the service which is negotiated must be delivered at the prepaid contract price, as now required in Medi-Cal. Some major California providers like Kaiser organized on this basis long ago, and many similar groups have since formed as Health Maintenance Organizations (HMOs). Many other provider groups in the state are now organizing as Preferred Provider Organizations (PPOs). It is important to note that HMOs must meet national performance standards. No similar standards apply to the protection of consumers enrolled in the new PPOs.

The second major impact of the Cory proposal would be on the cost of negotiated, prepaid group coverage. Provider groups would be required to offer to all consumer groups a basic level of comprehensive coverage at costs (calculated on a community rating basis) which do not exceed those for comparable coverage in Medi-Cal. Labor-management groups would continue to negotiate health care "packages," but they would soon have their most basic coverage available to them, in whatever group or plan they chose to contract with, at per capita cost levels set finally by the state legislature in its annual appropriation for the Medi-Cal program. The negotiators of health care packages could also buy prepaid group plans containing more than the basic level of comprehensive coverage required by the state. However, they could use the health insurance carriers only to reimburse the cash payments made by employees or their dependents for any supplemental coverage which is not negotiated on a prepaid, group basis.

Thus the Cory proposal would seek to accomplish for the state what has already been accomplished in Medi-Cal—an end to the fee-for-service pricing system as it is supported and reinforced by the cost-plus administrative bureaucracies of the insurance carriers. Instead, California would have a truly "competitive model," based on bidding and negotiating for prepaid group practice coverage, at community rated cost levels which would be subject to the influence if not the final control of the state legislature.

All active employee groups in California would benefit enormously from the Controller's approach—particularly those who now carry the heavy financial burden of fee-for-service reimbursement under insured coverage. Group purchasers of prepaid coverage would benefit from reduction of inflationary pressure which comes from uncontrolled fee-for-service pricing. The proposal could easily be expanded to offer health care protection to unemployed workers who are actively seeking work. The health care benefits of welfare recipients, already enhanced in the reform of Medi-Cal, would be preserved against the further inroads of private sector inflation. The benefit levels of public programs would be protected, because the private sector plans would no longer be able (or even need) to exclude high risk individuals from their group coverage. Most importantly, the increasing burden of health care for an aging population could be distributed much more evenly throughout the entire population of California.

Can Necessary Legislation be Enacted in California?—If it gets to the legislative stage, there will be vigorous opposition to the Cory proposal. The providers, insurance carriers and many health plan administrators will be up in arms against any extension of the same ideas which made the reform of Medi-Cal delivery more cost efficient. Any proposal which seeks to control the major elements of health care cost inflations--the fee-for-service reimbursement system of the providers, and the cost-plus over-rides of the insurance carriers and the administrative bureaucracies—will inevitably provoke controversy, if not outright hostility.

What happens to such proposals will depend to a great extent on labor's reaction. Organized employee groups in California purchase health care in larger dollar amounts than any other single group in the state (including the Medi-Cal group, and including the Medicare group). But organized labor in California has no organized health care approach. With its fragmented programs largely controlled by the insurance carriers and administrators, labor is sadly disorganized for health care purposes. It has inadvertently been a major contributor to the inflation of everyone's health care costs, and has done little to help find and develop basic solutions.

SEIU's initiative and its leadership is sorely needed in this state, on this subject, at this time.

--Bruce Poyer