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Chairman Ford, Congressman Goodling, Members of the Committee. Thank you for giving me the opportunity to discuss the Administration's health care reform plan.

In the past three weeks, President Clinton and the First Lady have each made historic appearances before Congress. They have described for you a visionary plan for providing all Americans with health care coverage. This plan is based on six principles: security, simplicity, savings, choice, quality, and responsibility.

Rather than repeat their descriptions of the principles and structure of the plan, I will focus on the urgent need for health care reform and the substantial benefits it will bring for workers, business, and the economy. I also will touch on the Department of Labor's role in implementing the plan.

The Cost of Doing Nothing

Even before the Administration's plan was unveiled, special interest groups, lobbyists, and sentries of the status quo were out in full force. Foremost among their dire predictions has been the complaint that we can't possibly afford to provide real health security for all Americans.

Mr. Chairman, Members of the Committee, if there is one point we must agree upon, it's that we can't afford not to reform this badly broken health care system. Exploding health care costs are choking our economic competitiveness and robbing American workers of the fruits of their labor. Fundamental change is needed to ensure our future prosperity and security.

Americans will spend over $900 billion on health care this year. Next year, this amount will rise to nearly a trillion dollars. Since 1980, the nation's health costs have nearly quadrupled, growing at 2-3 times the rate of inflation. Health care's share of the gross domestic product (GDP) has risen from 9% to 14% during this period. If medical costs continue growing at this pace, health expenditures will be over 18% of GDP by the year 2000 and will swallow up 40% of all the real per capita GDP growth we will achieve from 1993-96. No other advanced industrialized nation spends more than 10% of GDP on health care.

These soaring costs are a function, in part, of a bloated and inefficient administrative structure. Over $45 billion of health care expenditures went for administrative expenses in 1992. And no wonder. Doctors, nurses, and hospital administrators must contend with 1500 different claims forms, most of which must be filled out by hand and submitted to more than 1000 different health insurers. We have heard endless horror stories about physicians and nurses spending hundreds of hours each year on paperwork instead of patient care. And on top of all this, fraud and abuse may account for up to 10% of U.S. health care costs.

Every dollar our society unnecessarily spends on health care is a dollar we can't spend on education, training, infrastructure, environmental protection, and other important needs. For American families, every dollar unnecessarily spent on health care is a dollar that can't be spent on food, clothes, transportation, household goods, tuition, or other expenditures that improve the quality of life.

Business currently spends over $200 billion on health care. Real business spending on health care per employee has risen by 200% since 1970. For business, every dollar unnecessarily spent on health care is a dollar that cannot be invested in wages, capital improvements, marketing, workforce development, or R&D. Remarkably, business health care expenditures now nearly equal after-tax profits.

These exploding health care costs are putting American companies at a competitive disadvantage in the world marketplace. For instance, health care costs add $1100 to the cost of an American car — double the burden carried by Japanese imports. This disparity will continue to widen as heavy corporate obligations for retiree health care come due.

Health care costs are so high partly because responsible companies that do provide insurance are paying up to $25 billion for the uncompensated care currently being provided to the uninsured by hospitals, physicians, and other health care providers.

As the President said in his address last month, rising health care costs are a special nightmare for small business, an important source of entrepreneurship and job creation in this country. Health care premiums for small businesses are up to 35% higher than for large corporations. Even so, 62% of workers in businesses with less than 100 employees work in companies that provide health insurance. Small firms that provide insurance are at a competitive disadvantage with respect to both large firms and small businesses that do not provide coverage. To add insult to injury, the cost of premiums for small companies that do Insure is so high in part because they are subsidizing the health care costs of their competitors' uninsured employees.

Rising workers' compensation costs are further increasing the health care burden on American firms, both small and large. Between 1980 and 1985, workers' compensation medical costs grew more than 1.5 times faster than medical costs generally. They now account for more than $24 billion a year in health expenditures, or about 44% of total workers' compensation costs.

American workers spend $55 billion a year on premiums and out-of- pocket costs. In addition, the excessive cost of health insurance translates into lost wages or reductions in other forms of compensation. It is estimated that the average worker today would be earning $1000 more per year if the cost of health insurance had not outpaced wages over the past.15 years. If the cost of health insurance continues at the current pace, by the year 2000, workers may lose another $650 in annual wages. The Brookings Institute has estimated that rising health care costs have consumed 58% of workers' potential wage increases since 1980, and, unchecked, would soon consume 100%.

Skyrocketing health care costs are only part of the problem for American workers. Of the 37 million uninsured in this country, almost 85% are workers and their families. Millions more American workers are, as the President said, just a pink slip away from losing their insurance. The tragedy of job loss is compounded by loss of health insurance. Surveys show that up to 30% of workers are locked into their current jobs because they fear their new employer may not offer insurance, or because someone in their family has a preexisting condition that would not be covered if they switched jobs.

Concerns about health insurance also contribute to “welfare lock.” Studies show that a substantial number of non-working welfare recipients would be more likely to work if they could be assured of continuous health care coverage.

Among part-time workers, only 28% of those who work in large firms, and 6% of those who work in small firms, participate in health care plans at least partially supported by employers. Temporary workers have an even harder time qualifying for medical benefits.

The Remedy: The Clinton Plan

In the absence of reform, health care costs will continue to strangle public investment, business competitiveness, job creation, and wage growth. President Clinton's health care reform plan offers the bold medicine necessary to release this chokehold. For instance:

- Enabling health plans to compete on the basis of price and quality will increase efficiency and lower costs.
- Universal coverage will significantly limit the shifting of uncompensated care costs to employers and insured individuals, and will stabilize premiums.
- The use of a single form, the computerization of the claims process, and other innovations will reduce administrative waste.
- Limiting the growth of premiums will be a fall-back mechanism to control the rate of increase in health care costs.

Benefits to Large Firms. Under the Administration's reform plan, no firm that participates in a regional alliance will pay more than 7.9% of its total payroll for health insurance. This cap will lower costs for most large corporations, making it easier for them to hire future workers, give wage increases to existing workers, and invest in training, capital, equipment, and R&D. They can also lower prices to increase competitiveness. Firms with older workforces will benefit from community rating and a reduction in the cost of fulfilling their obligations to early retirees. These effects will provide a much needed shot in the arm for manufacturing firms, which have borne more than their fair share of the nation's uncompensated health care costs.

Benefits to Small Business. The small businesses that are currently providing health insurance have a special stake in reform. While it is true that small businesses that now fail to insure their workers will pay more under the new system (since they pay nothing now), small businesses currently providing insurance will be much better off. Here are some of the ways:

- The pooling of small businesses into alliances that are able to offer a community-rated premium will let small firms realize the same administrative efficiencies and cost advantages that large firms already enjoy.

- Firms with less than 50 workers and low wages will be eligible for discounts. Many small firms will pay as little as 3.5% of total payroll on health insurance.

- The Clinton plan will eliminate the free-rider problem and level the competitive playing field between businesses that currently provide insurance and those that don't. Firms will compete on the basis of the quality of their products and services, not on the ability to avoid health care costs.

- Small businesses are likely to experience less turnover once they are able to provide workers with good health insurance.

- Administrative costs for small business should decline significantly. Small firms currently pay as much as 40% of their health insurance expenditures on administrative activities. The President's plan will shift most of these administrative burdens to alliances, whose size and efficiency will lower overall administrative costs.

- The security offered by the assurance of comprehensive, affordable coverage — as well as the full deductibility of premiums for the self-employed — will free individuals to leave their jobs.to form or join new businesses.

These reforms will allow small businesses to better compete with large firms and will enhance their ability to generate jobs and pay higher wages.

Both large and small firms will benefit from the partial integration of workers' compensation medical costs into the new system. Under the President's plan, workers who are injured on the job will receive care through their regular health plan, and the doctor they have chosen. Employers will continue to buy separate insurance through workers' compensation insurance carriers on an experienced-rated basis. Regional alliances will set fee schedules for workers' compensation cases.

This policy will ensure that the cost savings of health care reform are passed on to the workers' compensation system, while preserving the employer's incentive to maintain a safe and healthful workplace. It also will eliminate wasteful disputes over which provider will treat a work-related injury. And the fee schedule will prevent providers from charging exorbitant fees for worker's compensation cases.

Large and small businesses alike will benefit from the plan's increased — emphasis on preventive care. This will result in fewer lost work days and a healthier, more productive workforce.

Benefits for Workers. The reform plan will provide substantial benefits to workers. First, the guarantee of comprehensive coverage will eliminate job lock, welfare lock, and other limitations on the mobility of workers in and out of the workforce. As the President said, if you switch jobs or lose your job, you're covered. If you're laid off, you're covered. If you have a preexisting condition, you're covered. If you're on Medicaid and you get a job, you're covered. If you decide to retire early, you're covered. If you are a part-time or temporary worker, you're covered. If you leave your job to start a new business, you're covered.

Second, by putting the brakes on health care inflation, the President's plan will allow workers to pay lower premiums, earn a higher income, and enjoy a better standard of living.

Third, the President's plan will guarantee workers a choice of plans, both in the regional and corporate alliances. Only 29% of companies with fewer than 500 employees currently offer any choice of plans. Under the new system, workers, not employers, will choose the plan that suits them best. They will have at least three categories of choices in the reformed system: an HMO, a PPO (preferred provider organization), and a fee-for service plan. And, in all likelihood, there will be several plans to choose from in each of these categories.

Fourth, by requiring all employers to contribute to their employees' health care coverage, the plan also eliminates the incentive to hire people based on their health insurance status rather than their productivity and qualifications. And firms will no longer have an incentive to hire part-time and temporary workers simply to avoid paying health care benefits.

The Reform Plan Will Create New Jobs. Because the vast majority of large firms will pay less for health insurance, they will have more capital left over for wage increases, hiring new workers, and investment. Each of these results will stimulate the economy and increase employment. In addition, small businesses that already provide insurance will see lower costs under the reform plan. As a result, these firms also will be able to create more jobs and pay higher wages.

It is true that the cost of health care reform will put some pressure on low-wage jobs in firms that do not currently provide insurance. But this pressure will be greatly alleviated by the discounts provided by the President's plan. With discounts, firms in regional alliances will only spend between 15-34 cents an hour more for minimum-wage workers. The empirical evidence shows minimum wage changes of this magnitude have not had substantial effects on employment in the past. Indeed, an increase of this amount would not even bring the real value of the minimum wage up to its mid-1980s level.

Increased demand for health care resulting from universal coverage will likely lead to short-term increases in employment in the health care industry. Thousands more nurses, physician's assistants, home health aides, and other non-physician health providers will be required to directly or indirectly support the health care system during the first few years.

Any worker who loses his or her job during the health care reform transition period will be eligible for enhanced retraining and employment services through a comprehensive dislocated workers program which the Administration will be developing in coordination with many of you. In addition, the plan will contain a workforce development proposal to ensure an adequate supply and mix of health care workers in the new system. This program will also create new training and employment opportunities for workers in the health and insurance industries, offering them a chance to move to higher-wage, higher-skilled health care provider positions or to switch from one field to another.

In short, we cannot afford not.to reform 8ur current health care system. If we don't get costs under control and provide true health care security, many more jobs will be lost in the long-term as American businesses of all sizes are forced to spend an increasing share of their payroll on health care, eroding their competitive advantage in the world marketplace.

DOL Responsibilities under the Reform Plan

The majority of workers and their families will obtain health care coverage through regional alliances established by the states where they live. Some workers and their families will obtain coverage through corporate alliances established by employers, collectively-bargained multiemployer plans, and rural electric and telephone cooperatives with more than 5000 employees. Almost everyone who works will still get their coverage at the workplace, as most people do today.

Under the President's plan, the Department of Labor is responsible for assuring that contributions necessary to pay for health benefits are made by employers and employees, for protecting the rights of consumers and workers, and for overseeing the operation of the corporate alliances.

Assuring that All Employers Fulfill their Obligations

Workers will be guaranteed comprehensive benefits whether they work for an employer covered by a regional or a corporate alliance. We will enforce the requirement that employers and employees make appropriate contributions to both corporate and regional alliances. The orderly withholding, safekeeping, and payment of premiums will be covered by new statutory requirements.

Grievance Procedures

Workers who believe their claim for benefits has been unfairly denied will be entitled to a fair hearing through a claims dispute procedure to be used by corporate and regional alliance health plans. This system will assure consistency in interpretation. We intend to draw on our experience with the ERISA benefit claims procedure to help achieve these goals. Working with other agencies, we will help develop and monitor an alternative dispute resolution program and appeals procedure with uniform and meaningful remedies.

Corporate Alliances

DOL will oversee the operation of corporate alliances for compliance with federal requirements under the new health care system, including coverage rules, premium limits, and fiduciary obligations. Building on our experience with pension and employee welfare benefit plan reporting and disclosure under ERISA, we will establish requirements and monitoring procedures for corporate alliances in the following areas:

- information and notification that corporate alliances must make available to employees;
- financial reporting by corporate alliances and their self-funded health benefit plans;
- compliance with new federal administrative simplification measures, including national
- standards established for uniform claims forms, data reporting, and electronic billing;
- mergers, acquisitions and bankruptcies involving businesses with corporate alliances.

Corporate alliances that decide to offer self-funded plans would have to meet standards for corporate trust fund structure, reserve requirements, and grievance procedures. Self-funded plans would be certified only if they complied with federal standards for quality controls, provider contracting, and insurance arrangements.

Workers will no longer have to live in fear that their employer's self-funded health plans may fail for lack of funding, and cause them to lose benefits they thought were guaranteed. We will assure the financial solvency of self-funded plans offered through corporate alliances, protecting the benefits guaranteed workers and their dependents. A new national guaranty fund for self-funded health plans would provide additional assurance of stability.

DOL review procedures also will assure that workers are not overcharged by corporate alliances for their share of the cost of health care coverage.

Workers' Compensation

Workers will receive treatment for work-related injuries through their regular health plan. At the outset, employers will continue to purchase coverage for work-related injuries through workers' compensation insurance carriers on an experience-rated basis. Working with the Department of Health and Human Services, we will develop protocols for the treatment of work-related injuries. A commission will be established to examine the feasibility of full integration of the medical component of workers' compensation into the new health care system.

Workforce Development

The Administration's plan will contain a new program to provide for the development of a health care workforce sufficient to meet the needs of patients under the new system. A National Institute for Health Care Workforce Development (“the Institute”) will be created to monitor and issue recommendations to the National Health Board on the appropriate supply and mix of health care providers. These efforts would be coordinated with the activities of a National Skill Standards Board, which would be created under the Goals 2000 legislation that is currently awaiting floor action in both Houses of Congress. The Institute also will issue workforce development grants to hospitals, HMOs, labor organizations, and others.

The Institute will be jointly operated by DOL and HHS and will have a advisory board consisting of health care groups, labor organizations, and other professionals.

We also have proposed that supplemental funding be provided for a comprehensive worker adjustment-initiative, which the Administration is now developing, to assist states making the transition to the new system. In addition, we have proposed that accountable health plans and their member institutions be required to list employment openings in a health care jobs bank that would initially be located in local Employment Service offices, and would eventually be housed in One Stop Centers created under the worker adjustment initiative.

Conclusion

Even when change is in the best interest of all Americans, there is a natural fear of stepping beyond the status quo. I am convinced that many concerns about the President's plan have little to do with health care reform per se, and much to do with the pervasive anxieties arising from economic and social changes that are already affecting Americans. We cannot let these anxieties paralyze us and prevent necessary reforms. Our health and the health of our economy depends on our ability to provide health care security at an affordable price for all Americans.