



Business Roundtable

**Testimony to
the Senate Finance Committee,
Hearing on "Health Care Reform: An Economic Perspective"**

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Introduction

I am pleased to present testimony on the financial crisis in our society and its impact on access to health care services for all Americans. Today, I am presenting this testimony on behalf of the Business Roundtable, an association of chief executive officers of leading U.S. companies with \$4.5 trillion in annual revenues and almost 10 million employees. Member companies comprise nearly a third of the total value of the U.S. stock markets and represent over 40 percent of all corporate income taxes paid to the federal government. Collectively, Business Roundtable companies returned \$114 billion in dividends to shareholders and the economy in 2006. Business Roundtable appreciates your leadership, Chairman Baucus, Senator Grassley and other Senators on this Committee, in holding this important hearing to explore ways to improve our health care system so that all Americans can have access to affordable health care.

With nearly a quarter of a million employees, plus dependents and retirees, Verizon Communications provides health insurance coverage to approximately 900,000 Americans at a cost of about \$4 billion a year.

As the provider of health coverage to almost 35 million Americans, Business Roundtable companies play a significant role in helping American workers and their families obtain medical care. Business Roundtable CEOs consistently cite health care as their number-one cost pressure. Rampant cost increases in the medical system mean we're paying *more* for *less* value. Health care costs are inhibiting job creation and damaging our ability to compete in global markets. They are also imposing a major strain on the household incomes of many Americans. In these times of financial insecurity, maintaining jobs and retaining the health care benefits is an enormous strain

on both employees and employers. We believe health care reform should be addressed now as we work our way through these difficult financial times.

Today, *all* employers make difficult economic decisions about whether to offer health insurance and face enormous increases year after year. Add to this, two alarming facts:

First, one-sixth of our economy is spent on health care. In 2007, total national health expenditures were expected to rise 6.9 percent — two times the rate of inflation. Total spending was \$2.3 trillion in 2007, or \$7600 per person. Total health care spending represented 16 percent of the gross domestic product (GDP). U.S. health care spending is expected to increase at similar levels for the next decade reaching \$4.2 trillion in 2016, or 20 percent of GDP.¹

Second, over 177 million American get health insurance coverage through their employer, yet we are facing an unemployment rate at a 14-year high of 6.5 percent. It is estimated that a single percentage-point increase in unemployment could increase the number of uninsured by 1.1 million. This means more uninsured, more who will qualify for public programs, and continued increase in premiums due to a cost-shift to those Americans who have health insurance. It is critical that we focus on ways to improve efficiencies to reduce costs just as much as we focus on expanding access to health insurance coverage. If we fail to do so, we risk being able to maintain *current* levels of health insurance coverage and we may find expanding coverage to be unattainable.

¹ Poisal, J.A. et al, Health Spending Projections Through 2016. Health Affairs (21 February 2007).

During these economic difficulties, we must commit to retain what is good about our health care system, yet find ways to improve the value and the costs, and provide affordable health insurance options for Americans.

Thank you, Chairman Baucus, for providing us with your views on how to improve health care coverage for all Americans. Your paper, "Call to Action, Health Reform 2009," contains many of the same suggestions that we, as CEOs joined at Business Roundtable, will make today. Thank you, Senator Grassley, for your leadership on health care reform. The work you have done, with Chairman Baucus, over the years has shown an extraordinary commitment by both of you to work together and find practical solutions to improving Medicare. To all the members of the Senate Finance Committee, I look forward to talking to you about our suggestions on how to improve our health care delivery system so that more Americans have affordable health insurance coverage.

Financial Situation

First, let me discuss our financial situation. As leaders of many of the largest American companies, Business Roundtable members know personally that the ongoing turmoil in global capital markets is placing great stress on businesses throughout the American economy — both financial and non-financial companies — as well as on workers and consumers. For non-financial businesses, the reduced access to credit markets is constraining the ability of American businesses to stock inventories, purchase new equipment, meet payroll and pay vendors. Left unchecked, this breakdown in lending may lead to a deep and sustained recession both at home and abroad, with significant job losses. Significant job losses mean that many more

Americans may lose their health insurance benefits. I appreciate your leadership in understanding that our economy needs help and that all Americans are depending on your leadership in finding the right solutions to address this crisis.

For the record, on behalf of Business Roundtable, I wish to express our strong support for new bipartisan legislation to address the severe financial credit disruptions in order to restore stability to the credit markets and the U.S. economy, which will help American workers, families and companies recover from the current economic downturn.

We applaud the actions of the Congress, the Administration and the Federal Reserve to date, that are intended to restore confidence in the banking system and additional efforts within the G-7 and G-20 countries to deal with this problem on a coordinated basis. However, the problems facing the credit markets are unprecedented, and additional legislative actions are required to assist the economy.

Recent events have demonstrated the close interrelationship between employer-paid health and retirement benefits and the economy as a whole. That connection is made clear by the current pension funding dilemma. The steep and sudden market declines have created immediate and significant pension contribution mandates. Unless prompt action is taken to allow those unexpected pension contributions to be smoothed over time, employers will not be able to retain as many workers, invest in job training, maintain the same robust health plans, or pursue capital improvements that are critical to the economic recovery. We know that the Members of this Committee have been examining the pension funding issues and we urge you to act quickly.²

² See attachment, Business Roundtable letter, November 14, 2008, to Congressional leaders.

Business Roundtable also believes that for broader economic legislation to be truly successful it must address two fundamental concerns.

First, policies must address the problems of liquidity confronting U.S. companies in order for the U.S. economy to return to growth.

Second, to promote a more rapid recovery, the economic stimulus package has to accelerate job creation and speed the return to work of unemployed workers.

Business Roundtable has made recommendations for addressing these issues and we offer our assistance to work with you to closely evaluate these and other proposals that Congress may consider to resolve the current credit crisis and bring about a quick and robust economic recovery for American workers, families and companies.³

Health Care Reform — Business Roundtable's Principles

Today, I want to share with you our principles for improving the health care marketplace for all Americans.⁴ Our suggestions are offered as ideas — we, as Business Roundtable CEOs, are prepared to work with you to improve the health care system and these principles are intended to begin the dialogue to find the right balance between preserving what is the best in our health care system and finding ways to expand affordable coverage to more Americans.

In September, we released a document entitled "Health Care Reform in America: A Business Roundtable Plan." This contains our principles to improve our system. We all recognize that the American health care system is among the best in the world. When it comes to scientific advances, medical technology and the quality of our doctors,

³ See attachment, Business Roundtable letter, October 30, 2008, to Congressional Leadership, Senators McCain and Obama, Federal Reserve Chairman Bernanke, and President Bush.

⁴ See attachment, Business Roundtable, "Health Care Reform in America," September 2008.

health care providers and hospitals, the United States is “the gold standard.” From our perspective, the problem with the health care market in this country is that it doesn’t really function as a market — it leaves major consumer needs unmet, costs unchecked by competition, and basic practices untouched by the productivity revolution that has transformed every other sector of the economy.

Contrast that to the communications industry, for example, where we’ve seen technology and competition invigorate our business and ignite innovation. Information technology has revolutionized the interface between customers and providers. The norms of the electronic marketplace — personalization, control, price and quality transparency, and 24-by-7 availability — have become part of the customers’ expectations in just about every aspect of life — except in our health care system.

Business Roundtable’s plan improves our health care system and contains four pillars:

1. Creating greater consumer value and efficiency in the health care marketplace;
2. Providing more affordable health insurance options for all Americans;
3. Placing an obligation on all Americans to have health insurance coverage and encouraging all Americans to participate in prevention and chronic care programs; and
4. Offering assistance to uninsured, low-income families to meet their obligation.

Business Roundtable strongly urges that any plan adopted by Congress reinforce the existing employer-based system through which Americans currently receive health benefits. The federal ERISA statute that governs these plans gives employers the flexibility to design and finance plans that meet their employees’ needs — a system that has proven successful in making coverage widely available to workers. Tampering with

this law at this time could cause massive dislocations for those 132 million Americans who have workplace coverage.

When it comes to health care reform, ERISA isn't broken and does not need fixing. What is broken is that there are 45 million Americans without insurance coverage — because their employers don't offer it, they don't elect it, they can't afford it, they don't enroll in programs where they are eligible, or they can't get it in the private marketplace. We must address this issue now. Let me provide more detail about our principles:

1. Creating Greater Consumer Value in the Health Care Marketplace

Today's health care system needs to use modern technology. Health care consumers find it difficult to obtain reliable information on the cost and effectiveness of care. Business Roundtable recommends several actions to empower consumers to take charge of their own health and use technology to make the system more efficient:

First, the most egregious flaw in the current health care delivery model is the woeful rate of adoption of information technology (IT). Health care has failed to capitalize on the productivity revolution that has transformed almost every other sector of the economy. A heavy dose of IT has been shown to improve efficiency by 25-percent over three years every time it's introduced and can and will demonstrate savings in health care.⁵ We believe the government should adopt uniform, interoperable health information technology standards so that all the systems can communicate with each other. This can be done through federal rulemaking or through

⁵ See attachment, Medco, A Prescription for National Healthcare Reform.

the government purchasing authority — so long as the Medicare program has the authority to require the use of health information technology systems.

Second, consumers need more transparency and wider distribution of information about the cost, quality and effectiveness of the health care services they purchase. This will make the market function better, create better health care consumers and improve the quality of medical care. We specifically support the dissemination of consumer information on the cost and quality of health care, comparison of the effectiveness of health care services and supplies, and the release of CMS data in an appropriate manner.

Third, the current Medicare reimbursement system pays for “activities,” not “outcomes.” The private marketplace generally does the same — we have tried to fix this through various partnerships and programs. To get meaningful change, all payers must be included in rewarding performance. We support changing payments by public and private payers, including Medicare, to reward the value of services provided, not the volume of the service.

2. Providing More Affordable Health Insurance Options for All Americans

Over 177 million Americans obtain health insurance coverage through their employers — almost 133 million through private employers. Almost all private employers offer plans that are governed under the federal Employee Retirement Income Security Act, or ERISA. This law establishes fiduciary requirements, administrative requirements, and procedures to resolve problems in the plans. We encourage the Senate Finance Committee to continue supporting this federal framework for those employers who offer their employees health care benefits.

However, for many Americans, who do not have access to employer-sponsored coverage, they must rely on the health insurance marketplace for their coverage. The structure of the market itself is state-by-state. This marketplace has become inflexible, is overly prescriptive, creates market segmentation, and is afflicted with dueling mandates, rules and regulations. In our vision, the current state-based system could be replaced by multi-state markets and there would be more people eligible for this new market. We believe that this expanded market should be covered by rules — state solvency requirements and consumer protections would apply. There should be greater consistency in applying other rules and rate setting and possible guaranteed issue requirements. Risk adjustments and reinsurance issues would need to be explored. We need a better marketplace for all Americans to get **affordable** and **portable** health insurance coverage. We have learned lessons about how to create good markets under the Medicare Modernization Act — and this Committee has an understanding of the right balance of rules between the federal, state and private marketplace. We would like to work with you on finding the right balance for individuals who do not have coverage through their employer.

3. Placing an Obligation on All Americans to Have Health Insurance Coverage

While many Americans do have health insurance coverage through their employer, millions of Americans do not have coverage at all. At Business Roundtable, we have been educated on who *are* those Americans who do not have health insurance coverage.⁶ Today, there are some 45 million Americans who do not have coverage.

⁶ See attachment, Aetna's "Covering the Uninsured: Who Are The Uninsured?"

- 4.7 million are college students;
- Just fewer than 10 million are non-citizens;
- About 11 million are currently eligible for public programs, such as Medicaid and SCHIP, but they have not enrolled; and
- More than 9 million have household incomes over \$75,000, yet they do not purchase or elect employer-sponsored coverage.

We believe a “one-size-fits-all” solution will not work because this group is far from monolithic. For many of these Americans, obtaining coverage isn’t so much financial, as it is structural. We need to have a competitive system that provides Americans with affordable options that are suitable for their families. However, we believe that all Americans should have health insurance coverage — as an obligation through auto-enrollment or some other mechanism.

We also support encouraging all Americans to participate in employer- and community-based prevention and chronic care programs.⁷ Many Business Roundtable employers offer prevention and chronic care programs to their employees and there are many worthwhile efforts in which Americans can participate. More needs to be done to educate and encourage participation.

4. Offering Health Coverage and Assistance to Low-Income, Uninsured Individuals and Families

For some low-income uninsured families, health care coverage is unaffordable. We believe that the government should provide financial assistance so that low-income individuals and families can purchase coverage from the private market. These targeted subsidies would be funded from the cost efficiencies in improving the health

⁷ See attachment, Business Roundtable “Doing Well through Wellness,” a 2006-07 Survey of Wellness Programs at Business Roundtable Member Companies.

care marketplace and by expanding the number of lives that are covered by the less fragmented health insurance marketplace. We want this assistance to be used either in the newly established health insurance marketplace or by paying the individual's portion of the premium if they are eligible for employer-sponsored health insurance coverage.

Medical Liability Reform

We also encourage Congress not to lose focus on medical liability reform. Chairman Baucus, we support S. 1481, the "Fair and Reliable Medicare Justice Act" that you have sponsored with Senator Enzi. We hope you will reintroduce this legislation next Congress. We believe Congress should authorize pilot projects to evaluate alternative ways to resolve medical liability claims and then enact measures that enhance the fair compensation of individuals who are actually harmed as a result of negligence by a provider of health care services.

In addition, we believe that evidence-based medicine that is developed through quality measures will make a difference. Dr. Rohack, the President-Elect of the American Medical Association, has said that the American Medical Association has already developed 261 clinical measures. The Business Roundtable believes that these types of measures should be followed and treated as a defense in medical liability actions. The AMA is working to ensure that evidence-based appropriate medical care is provided, health information technology will help this, and we need to get the right incentives in place to help physicians to have the resources to purchase HIT. Reducing the unwarranted variation in physician practice, building an evidence-based system, improving the "business model" of health care through investment in health information

technology, and moving toward reducing the impact of medical liability fears can do a lot to improve the cost and quality of health care.

Efforts to Reach Consensus and Real Examples to Achieve Reform

I want to highlight two important examples of how we can reach consensus on how to improve the health care system: one is through a “strange bedfellows” group of Washington-based organizations that are calling for reform. The other relates to efforts at Verizon, as part of our collective bargaining agreement, where we agreed with the Communication Workers of America (CWA) union and the International Brotherhood of Electrical Workers (IBEW) on specific health care principles for reform.

Divided We Fail

Let me start with Divided We Fail (DWF). Representing more than 53 million people, this organization includes Business Roundtable, AARP, the Service Employees International Union (SEIU) and the National Federation of Independent Business (NFIB). The group was launched almost two years ago to call on Congress to enact bipartisan health care reform and to improve the long-term financial security for all Americans. We have principles that we believe all Americans should have access to affordable health care; that wellness and prevention efforts should be priorities; and that a focus on long-term care is necessary.

On long-term financial security, we believe Social Security must be strengthened, there should be financial incentives to save, and we need to provide all Americans with the tool to help manage their finances. Divided We Fail provides constructive input on the changes that are needed on health care reform. Most Members of Congress have

joined in our pledge along with more than one million Americans. And, we have worked together in support of legislation.

Last year, we joined together to support passage of health information technology legislation. This year, it is our hope we can join together in support of positive reforms in our health care system.

Verizon, CWA, and IBEW National Health Care Reform Principles

As I stated earlier, Verizon, as part of our collective bargaining agreement, came to agreement with the CWA and IBEW on specific health care reform principles. Collectively, we are committed to working together to achieve meaningful health care reform that covers everyone; controls costs; shares the responsibility for coverage; and improves quality. We will work together to educate Verizon employees and the public about the health care crisis and options for solutions that meet our principles.

Conclusion

We want to work with you on finding solutions — and our plan is also to use the power of the market to drive down costs, drive up quality and improve access to health care for all Americans. Chairman Baucus, all ideas are good — you have captured some of the important issues we support. Some issues in your plan need to have further discussion about the costs and impact on the workforce. But, we want to work with you, and all Members of this Committee, to find realistic solutions to improve our current fragmented system. The challenge of reforming the health care system goes to the very heart of American competitiveness and innovation:

- When Americans are afraid to switch jobs or start their own business for fear of losing their health insurance;
- When American-made products carry a health-care premium that foreign-made goods do not;
- When Americans who currently have health insurance coverage must pay higher costs to subsidize those who do not have coverage;
- When America is not leading the world in technological innovation in health care delivery; and
- When year after year, we are spending more money and getting less value, then America's very place in the global economy and our ability to help those who are low-income are all at risk.

Our principles and ultimately your proposal must emerge from the uniquely American principles that drive our economy: competition, innovation, choice and a marketplace that serves everybody. We want to go to work with you to find solutions that are common sense and practical. Thank you for the opportunity to testify.

Attachments