

H.202 – CREATING A SINGLE PAYER AND UNIFIED HEALTH CARE SYSTEM
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Good afternoon Mr. Chairman and members of the Committee.

I am John O’Kane, Manager of Government Programs for IBM in Vermont. Today I am addressing IBM perspectives and concerns with H.202.

There are two subject areas I would like to address.

First, IBM’s specific concerns with the legislation, which I covered in a letter to Chairman Larson and will speak to today. I request that these concerns be included in H.202 as issues which the Vermont Health Reform Board should accommodate in their plans.

Secondly, I ask the Committee, the legislature, and the Administration to begin a realistic dialogue with Vermonters about the very broad scope of health care reform so they can be prepared to accept the changes which must occur. The first step needs to be health care transformation through a complete reengineering of the delivery and incentives system with added emphasis on prevention and wellness. The second is reformation of the payment system, the role of private employers, and methods of financing.

IBM’s proposed changes and additions to H.202

First and most importantly is the **explicit recognition in the Reform Board’s proposals that companies have a right to offer and manage health care programs for their employees under the federal Employee Retirement Income Security Act (“ERISA”)**. Employer provided health care benefits are a critical cornerstone to our health care system and employees highly value these benefits. I know the Committee has heard from several employer groups about ERISA and recent public statements from the Administration suggest they have no question about the permanence of this employer right. IBM agrees that there needs to be change to the system to make it more affordable but such change should not erode the part of the system that is working. Making the ERISA plan recognition explicit in H.202 may resolve employer concerns on this point.

ERISA and its federal framework allow employers to offer valuable benefits that employees expect, regardless of where they live. It is essential for employers who want to provide a uniform set of benefits to their employees, retirees and families without being subject to the conflicting patchwork of mandates, restrictions and costly rules that vary from state to state. In addition, ERISA allows employers two important advantages: providing all employees the same

benefits and minimizing the employer's administrative costs in order to keep these benefits for employees (and the employer) as affordable as possible.

Furthermore, the **planning process should include mechanisms so that employers who sponsor ERISA health plans can participate in the design and operation of transformed health care delivery and administrative systems.** The ERISA framework has made it possible for employers to adopt and consistently apply leading edge innovative practices to improve their employees' wellness, address chronic diseases, reward high performing health care providers, and implement strategies that directly translated into better health care for employees and families. Best practices in health care have been driven by employers who sponsor health coverage and therefore could assist in the Vermont transformation. Having these employers participate in the transformation of the system allows the benefits of standardization, economies, and efficiencies for processes, which are not central to benefit design or health care delivery. All participants will benefit from these common processes.

Second is **the imperative that health care reform controls costs without shifting costs to employers.** The current health financing system is awash in provisions which shift true costs of care. Private sector for-profit companies operate in highly competitive, global markets where the lack of cost competitiveness can mean extinction. And IBM is in the very competitive technology sector and cannot absorb additional costs to benefits and stay competitive with our overseas competitors. I urge you to listen to the concerns being raised by Vermont employers large and small about the potential business risks presented by an unfavorable design of a reformed health care system. The cost of all health care services should be fully funded by the system without resort to cost shifting.

Finally, we request that **the Reform Board's proposals exclude application of taxes to companies sponsoring ERISA plans to coerce them into abandoning these advantageous national benefit programs and requiring them to join a state sponsored program.** H.202 puts off discussion of exactly how the health care reform will be financed but all the discussion to date and testimony from Dr. Hsiao has been for a payroll tax for employees and employers. We have seen no detail from Dr. Hsiao on how he determined that costs will be lower under his proposal, however, experience shows that a tax of this sort would result in higher costs as well as benefit creep over time.

Informing the public about the scope of health care reform

Public debate and media coverage has for the most part revolved around the report prepared by Dr. William Hsiao. Dr. Hsiao foresees substantial savings opportunities through streamlining health care administration.

Whether these savings in administration are larger or smaller than Dr. Hsiao projects and whether they can be achieved so quickly, the point is that these seemingly large administrative savings are dwarfed by the explosive historical cost increases in the delivery of health care services.

If the delivery of health care is not radically changed, even the savings cited by Dr. Hsiao would provide but a year's respite in the unaffordable march toward ever higher health care expenditures. Delivery reform should be first on the state's agenda as there are options which could lower costs very quickly. Vermonters should have the following questions about health care reform and **the planning process must answer these questions:**

1. **What** health care services will be available to me? Will leading edge technological advances in health care be available? What is required of the patient to access treatment? Are there access restrictions based on compliance with medical directions, patient history, or other factors?
2. **Who** will provide the services? What will be their training and qualifications? Will specialty skills be available for particular medical procedures? What choice do I have for primary care providers or specialty providers? What is the accessibility to the provider I seek?
3. **Where** will the patient have to go to access care? Can the patient seek care in other states and be covered? Will Vermont be able to support the existence of an in-state medical research tertiary care hospital? What is the planned mix and location of provider offices, clinics, regional hospitals, advanced care, and long term care facilities?
4. **When** will the individual be able to access care? Will access be prompt? What is the process for determining priorities for treatment? What are expected waiting periods for both primary and advanced care?
5. **How** much will the individual have to pay for treatment? What premiums will be required? What other taxes will the individual have to contribute? What is the likely loss in employment compensation or other benefits if employers must pay for increased costs?
6. **For providers**, are the terms and conditions of the plan acceptable to establish or maintain a medical practice in Vermont?

Is the planning process in H.202 robust and capable enough to answer all of these questions and produce a health care system which is better than what we have?

Summary

There are a few specific additions IBM requests to H.202. Please make clear that Vermont will not try to undercut the necessary ERISA exemptions so that employers offering health insurance will be able to continue doing so. Companies that sponsor ERISA health plans should be able to join in the transformation of health care delivery as that will benefit all participants.

Please direct planning efforts to be conscious of the fact that companies can exist and provide jobs only if they can maintain competitive costs. Adding significant taxes to companies that are providing health care benefits will not make Vermont employers more competitive in today's or tomorrow's global economy. Bringing health care costs down will. IBM strongly endorses the need for delivery transformation, and believes that only through reform of health care delivery can any sustainable progress be attained in controlling cost escalation and improving health care outcomes.

Finally, we must be always conscious of the immensity of the task of redesigning not only the administration and financing of health care, but the even more daunting task of transforming all aspects of the delivery of care while improving the quality of care.

IBM believes we have experience in both administrative reforms and transformation of health care delivery. We are eager to work with Vermont as together we seek what may be a nationally leading example of a better health care future.

Thank you.