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Caps hurt health system

By Michael J. Widmer | March 17, 2010

WHETHER REAL or manufactured, Beacon Hill is struggling with the 2010 version of the health care crisis. The focus this time is on the escalating costs of health insurance for small businesses.

To be sure, there are many stories of small businesses being hit with huge increases of 30, 40, or even 50 percent. Yet the latest data from the state's Division of Health Care Finance and Policy concludes that premium increases for small groups have been only slightly higher (5.8 percent) than for midsize (4.8 percent) and large groups (5.4 percent).

Regardless, the governor has taken drastic, and troubling, action to address this problem — proposing regulations to cap insurance premiums for small businesses and proposing legislation to cap rates for hospitals and other providers.

If his Division of Insurance actually goes ahead with the proposal to cap premiums effective April 1, it will create a gaping, self-inflicted wound in the state's health care system that will take years to heal, with the likelihood of permanent damage to the state's top industry.

Putting aside the questionable legality of the Division's actions, such a precipitous step will create havoc in the health insurance marketplace, undoubtedly harming many of the small businesses that the action is intended to help and potentially pitting insurers, providers, employers, and consumers against each other.

Thousands of small businesses are scheduled to have their previously determined insurance rates go into effect April 1. If those are denied, what then?

And what will be the impact on insurers who can't control their costs because they are locked into long-term contracts with providers? Health plans are already facing difficult financial times. If it weren't so serious, one could appreciate the irony that the same state agency (Division of Insurance) charged with ensuring the solvency of health plans is being directed to implement a policy that could seriously undermine those plans' financial stability.

A further irony is the fact that the state proposes to cap private insurance premiums at the same time it underpays hospitals and other providers for the costs of public Medicaid services, forcing providers and insurers to make up for the underfunding by charging more for private payers.

Needless to say, many of the disputes produced by a cap on premiums will inevitably end up in court, causing further confusion and uncertainty. And in this ongoing turmoil we are likely to see a fracturing of the remarkable coalition of stakeholders that joined together to produce the state's landmark health-reform law.

To top it off, we will likely undercut the state's economy at the worst possible time. Health care is the state's number one industry, the largest employer of Massachusetts residents, and one of the only sectors to add jobs during this global recession.

Capping the rates of insurers and providers is a public policy failure that does not address the systemic problems of medical inflation. Price controls have never worked to change the underlying trends in prices; they simply delay the inevitable while creating all manner of distortions and contortions in the health care system.

So what is the alternative?

The Legislature seems intent on passing a bill this year to help small businesses, viewing it as a preliminary step to more comprehensive solutions that will take time to implement. Some of the constructive proposals that the governor and others have supported include the following:

- Establish an annual open enrollment period for the small group and individual markets to help prevent individuals from opting in to insurance plans only when they expect to need medical care.
- Require health insurers to offer plans for small business with a limited network of doctors and hospitals at a significantly lower cost.
- Place a moratorium on the enactment of new mandated benefits.

There are many other ideas that can move us in the right direction while longer-term systemic changes are developed and implemented.

Controlling health care costs is a hugely complicated undertaking. In our collective frustration with the complexity of the challenge, let's not take actions that will only make the problem worse. Arbitrary price controls have a superficial appeal, but the economic and other consequences could be far-reaching and permanent.

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