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Mandate minus price controls may increase healthcare costs

With lawmakers reluctant to limit what insurers may charge, there's little to slow soaring premiums. Coupled with millions of new customers, that adds up to higher costs for taxpayers and consumers.

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Reporting from Washington

In the drive to bring health coverage to almost every American, lawmakers have largely rejected restrictions on how much insurers can charge, sparking fears that consumers will continue to face the skyrocketing premium increases of recent years.

The legislators' reluctance to control premium costs comes despite the fact that they intend to require virtually all Americans to get health insurance, an unprecedented mandate -- long sought by insurance companies -- that would mark the first time the federal government has compelled consumers to buy a single industry's product, effectively creating a captive market.

"We are about to force at least 30 million people into an insurance market where the sharks are circling," said California Lt. Gov. John Garamendi, a Democrat who served as the state's insurance commissioner for eight years. "Without effective protections, they will be eaten alive."

Soaring premiums coupled with millions of new customers forced to buy policies would likely mean higher costs for taxpayers to cover government subsidies for lower-income families and individuals.

They could also mean bigger bills for people who get benefits through work, as well as for their employers.

"I don't think there is any degree of confidence that our costs won't continue to go up," said Keith Ashmus, chairman of the National Small Business Assn.

If premiums continue to rise as quickly as they have over the last five years, the average annual cost of a family policy will exceed $24,000 in 10 years, up from $13,375 now, according to the nonprofit Henry J. Kaiser Family Foundation and the Health Research & Educational Trust.

"If the government is going to require people to buy an insurance policy, they have to guarantee it is affordable," said Jamie Court, president of Consumer Watchdog. "It is unconscionable not to."

Soaring premiums could eventually stir market forces, increasing competition and potentially restraining costs. But that would be a lengthy process, and potential competitors would face huge start-up costs.

Many experts believe an insurance mandate is vital to a healthcare overhaul. With everyone in the system, the nation's medical bill could be spread more broadly, alleviating pressure on those who have insurance to pay for those who don't.

All of the major healthcare bills would penalize people who do not get health insurance.

But Democrats have shied away from regulating premiums in the face of charges from business leaders and Republicans that controlling what insurers charge would be meddling too much in the private sector.

As a result, while states have long supervised what companies charge for mandated automobile and homeowners insurance, the idea has been largely banished from the healthcare debate.

"That would be a very substantial additional intervention in the marketplace," said Sen. Jeff Bingaman (D-N.M.), a member of a bipartisan group of lawmakers who worked with Senate Finance Committee Chairman Max Baucus (D-Mont.) on his healthcare bill. "I just don't think the support would be there for that kind of a change."

Nor are lawmakers seriously considering any proposals to regulate what doctors, hospitals, drug makers and other healthcare providers charge -- a strategy used by several European countries to control healthcare spending.

In those systems -- some of which, like the United States, feature a blend of private insurers and government programs -- the government sets prices that providers charge to everyone.

"That is just too tough a row to hoe in America," said Peter Lee, executive director of the Pacific Business Group on Health, an association of large employers in California, many of whom are nonetheless concerned about how much they are getting charged for medical care.

Senior House Democrats have proposed the most far-reaching government regulation of the insurance industry.

Their bill, which is still being debated, seeks to control insurance premiums in part by limiting how much companies can spend on nonmedical expenses such as marketing and dividends to shareholders.

The House bill also features a new government insurance program -- or "public option" -- that advocates believe could offer consumers a lower-priced alternative to private plans and, in turn, pressure insurers to rein in premiums.

The Baucus proposal, which addresses widespread industry and business opposition to a new government plan, would instead set up a series of nonprofit health insurance cooperatives.

These may not offer much relief to consumers, however. The nonpartisan Congressional Budget Office has concluded that the co-ops outlined by Baucus "seem unlikely to establish a significant market presence in many areas of the country."

That means that premium relief for consumers would depend on a series of indirect steps Baucus and other Democrats are pushing to nudge down medical costs and change the way insurers market their policies.

All of the major Democratic healthcare bills would prohibit insurance companies from denying coverage to people with preexisting medical conditions and from cutting off payments to sick beneficiaries.

The legislation would also force insurers into new regulated marketplaces -- or exchanges -- where millions of people who don't get coverage through work could buy insurance with the help of subsidies.

"We're going to provide the opportunity for all Americans to have health insurance," said Baucus, who on Tuesday began pushing his healthcare bill through the committee.

"There are millions of Americans today who have lousy health insurance: preexisting conditions, denial based on health status, no limit on out-of-pocket costs. . . . We're stopping all that," he said.

Baucus' bill would also offer incentives through Medicare to encourage hospitals and other providers to become more efficient, a step that healthcare experts say is crucial to slowing the overall growth of medical spending.

But even the insurance industry's leading representative in Washington acknowledged that those reforms may not slow the rising cost of premiums soon.

"You can't restrain premiums unless you restrain medical costs," said Karen Ignagni, president of America's Health Insurance Plans, on the industry's view of the problem. "So far, members of Congress have been allergic to that."

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