

May 11, 2017

The Honorable Ricardo Lara
Chair, Senate Appropriations Committee
State Capitol, Room 2206
Sacramento, CA 95814

Re: SB 562 (Lara/Atkins) – OPPOSE

Dear Senator Lara:

Kaiser Permanente is in opposition to your bill SB 562. While we share your goal of universal health care coverage for all Californians, this proposal is counterproductive and divisive at a time when all efforts should be directed at maintaining and expanding on the enormous gains in coverage made in recent years. We have numerous serious concerns with this measure.

SB 562 ends Kaiser Permanente as we know it.

SB 562 would fundamentally undermine our unique integrated health care delivery system. A model like ours that combines care and coverage would not be able to operate under the rigid system proposed in the bill. Our integrated model of health care financing and delivery is made possible through a carefully nurtured, unique partnership among three entities - our medical groups, our hospitals and our health plan. This collaboration, alignment, shared accountability and focus on prevention are the hallmarks of our system and are not easily replicable.

As the state's largest private employer, our 160,000 employees and physicians collaborate in the care and coverage of 8.5 million Californians. SB 562 would ban this world-renowned model of collaboration and create significant upheaval for the individuals, businesses and public employers who purchase coverage from us, as well as for our employees. Our goal is to continue to deliver our top-notch, convenient, team-based care in the communities we serve for decades to come. This will not be possible under SB 562.

Kaiser Permanente has a long history of providing affordable access to high-quality health care, from our earliest days caring for California's shipyard workers. For 70 years, we have focused on programs and investments aimed at improving community health and providing care and coverage for all.

We are proud to be a California-based company, with our national and regional headquarters in Oakland and regional offices in Pasadena. Dismantling one of our state's finest innovations – a successful model of care delivery that has proven itself for decades at home and across the country would be a sad repudiation of our common history.

SB 562 is fiscally irresponsible.

SB 562 falsely promises the impossible – total coverage of a vastly expanded set of health care and social services without any cost-sharing. While such a vision is undeniably attractive, the difficulty of delivering on this promise without significant new revenue cannot be overstated. Such a single payer plan would need to raise enough money to replace current insurance premiums, all cost sharing and

deductibles, as well as enough money to pay the cost of Medi-Cal, the cost of any additional uninsured people who would be enrolled, including those with expensive health conditions who may move to the state to take advantage of a system with no cost-sharing. It is also unclear whether any federal funding would be available. The level of payroll deductions, taxes and fees that would be necessary to finance such a system is mind-boggling.

In 2008, the last time the Legislature considered a single payer bill with clear financing, the non-partisan Legislative Analyst's Office estimated annual costs of \$210 billion in the first year of implementation, which would have grown in subsequent years to \$250 billion. The LAO analysis predicted a net shortfall of \$42 billion in the first full year of implementation, and \$46 billion in subsequent years. Presumably, those numbers have only increased over nine years, but we simply don't know because SB 562 does not explain how the program would be funded. This bill puts the cart before the horse. It is rather irresponsible to consider this legislation without a clear understanding of its financing mechanism and sustainability.

SB 562 eliminates competition, increases costs and involves the government in clinical decisions.

SB 562 would empower a government authority to determine premium costs, coverage levels, provider rates and create one-size-fits-all medical care. The concentrated authority of this commission to decide benefit design, care delivery, provider payment and cost-sharing is worrisome, especially as costs go up. All health care providers would be given new and unprecedented authority to collectively negotiate their rates, so the state payer will have few options at its disposal to control costs: raise premiums, cut benefits, raise taxes or create barriers to medical treatment – potentially even rationing care. There will be no checks and balances on this powerful health care bureaucracy run by an unelected board.

Kaiser Permanente prefers a managed competition approach to universal coverage with pluralistic financing, which has worked well in California. In this model, health plans play an important role in fostering competition, maintaining health, coordinating care, preventing disease and arranging for and providing high quality health services and coverage. Preserving patient choice and having coverage options to choose from leads to competition in the marketplace based on quality, access and affordability.

This bill reverts California to a primarily fee-for-service system, which will turn the clock back on decades of progress in perfecting the prepaid model of care in this state. A fee-for-service system is an inefficient, duplicative, fragmented approach where financial incentives are misaligned, which will increase costs and lower quality and patient satisfaction. California's health care marketplace is a shining example for other public and private payers across the country exploring payment reform and accountable care models, where high quality and positive outcomes are shared goals. Why would we want to go backwards to a broken system?

State approval would be needed to invest in future capital needs.

Under SB 562, providers will not be able to make capital expenditures without prior approval from the state payer after extensive hurdles are met. This will bog down the process and jeopardize the state's ability to meet the health care system's vast infrastructure demands, such as building new hospitals and investing in equipment, technology and electronic medical records. These require significant capital expenditures, as well as an understanding of and commitment to the needs of a local community and years of planning. Historically, the state has struggled to execute large infrastructure projects and fund them

within existing resources. When the money runs out, where will the state turn to finance these critical projects?

Californians may lose their current doctors.

SB 562 does not require all physicians to contract with the state payer. Given the high levels of uncertainty around this approach and the possibility for very low reimbursement rates, it is completely possible that some physicians who were part of traditional health plan networks will wait to participate in the new system, or choose to deliver care directly to patients in a “concierge” type practice, or even move out of state.

Health reform is working for California – let’s not gamble with our health care.

California’s implementation of the Affordable Care Act (ACA) is a success story we should all be proud of. Policymakers, regulators, health plans, providers, consumer groups and many others worked extremely hard for seven years to successfully implement the ACA in California. More than five million additional Californians have gained comprehensive and affordable coverage under the ACA.

Even if the ACA is changed at the federal level, our work in California produced a solid foundation to build upon. We can pivot and respond quickly as necessary to protect what we’ve already achieved and improve upon it. We need to move forward, not backward. There is more work to do, and more people to cover, but there is certainly no need to start from scratch with an unfunded experiment.

SB 562 would undo all of California’s health reform achievements and place significant risk on purchasers and our members during a lengthy, costly and complicated transition to a new government-managed health care entity. The disruption to the system as a whole could be devastating – we believe it is too risky a chance to take.

We need to stabilize our health care system so that people can count on it in the future. SB 562 will cause upheaval and division at a time when we need certainty, stability, unity and fortitude to respond to any federal changes and forge ahead. We need to build on our successes – not tear them down.

For these reasons, we will be urging a no vote on SB 562.

Sincerely,



Teresa Stark
Director, State Government Relations

cc: The Honorable Toni Atkins
Members, Senate Appropriations Committee
Brendan McCarthy, Senate Appropriations Committee
Anthony Archie, Senate Republican Caucus
Tim Conaghan, Senate Republican Caucus