The ERISA Industry Committee
Health Policy Issue Brief

October 15, 2007

MAJOR COSTS ARE IMPOSED ON INDIVIDUALS, PROVIDERS AND EMPLOYERS BY STATE CONTROL OF THE HEALTH CARE SYSTEM

There are at least four major costs imposed on individuals, health care providers and employers by state-by-state control over our health care system. These costs are: increased regulatory burdens on individuals, providers and employers; inequitable distribution of financing burdens among payers; interference with the efficient operation of natural medical markets; and inhibited experimentation by the true innovators in the marketplace.

State-by-state governance of the health care system will significantly increase regulatory burdens imposed on individuals, providers and employers.

- Health care providers -- especially hospital systems, large HMOs, and insurance networks -- are increasing interstate in scope. State-by-state health care reform will significantly increase their regulatory burden, and associated costs, by requiring them to comply with multiple inconsistent sets of state rules compared to a single set of nationally uniform rules.

- Similarly, employers that do business in multiple states, or who employ workers who reside in different states, bear a significantly increased regulatory burden if they must comply with a patchwork quilt of state-by-state regulation rather than a single set of uniform rules.

- Since state-by-state regulation significantly increases overhead and compliance costs for both providers and employers, it will inevitably increase costs for individuals.

State-by-state financing of health care reform will result in inequitable distribution of financing burdens among payers.

- Under state-by-state reform there is no guarantee that each state will choose to finance health care costs in the same manner. The differences will cause substantial inequities in the financing burden borne by similarly-situated individuals.

- The inequities become particularly pronounced in communities that span state boundaries. For example, *if* Virginia chose an income tax, the District of Columbia chose a payroll tax, and Maryland chose a tax on hospital and physician services to finance their state-based systems, *then* a resident of suburban northern Virginia who worked in the District and went to Johns Hopkins in Maryland for a surgical procedure would pay all three taxes, but a resident of suburban Maryland who worked in suburban northern Virginia and went to Georgetown in the District of Columbia for the identical procedure would pay none of the three taxes.

- State-by-state reform will also engender disputes among states, as when Minnesota financed health reform with a 2% tax on health care services in 1993, and then sought to collect the tax on services provided to Minnesota residents by out-of-state providers.

- Gaps and overlaps in financing create expensive inefficiencies in the health care system.

Segmenting the health care system along state lines will interfere with the efficient operation of natural medical markets.

- For markets to work, competitors in the same market must be subject to the same rules.

- Natural medical markets are not limited by state boundaries. Many metropolitan areas are located on state boundaries. In addition, many residents of rural communities travel to neighboring states for health care services because they are closer than in-state alternatives. Further, some patients travel across country to be treated at academic medical institutions or other centers of excellence (such as the Mayo Clinic and the Cleveland Clinics).

- If each state imposes its own rules on its own segment of natural medical markets that span state lines, competitors will be subject to different rules and they will not be competing on a level playing field. As a result, competition will decrease, markets will be less efficient, and the cost of health care coverage will increase.

Fragmentation of the health care system will inhibit experimentation by the true innovators in the marketplace.

- Employers, insurers and health care providers interacting in local medical markets are the real "laboratories" for improving health care quality and cost-effectiveness -- not government (at either the federal or state level).

- The high overhead costs imposed on the health care system by 50 different sets of inconsistent and incompatible rules impedes creativity and innovation.

- In contrast, the administrative efficiency of nationally uniform standards that promote competition and efficiency frees valuable resources for other purposes. The more consistent, stable and predictable environment makes experimentation less risky.

- Less experimentation and innovation slows efforts to make health care delivery more efficient, undermining cost containment now and in the future.