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Increase number of insurance providers

By Mitch Goldman and Howard Wizig
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President Barack Obama wants to improve choice and competition in health insurance. Both the bill that passed the House in November and the one currently under consideration in the Senate include a public option to accomplish this. The Senate Finance Committee proposed, as an alternative, a government-sponsored cooperative. We don't believe that either of these proposals is the best solution, and neither of them has generated bipartisan support.



Mitch Goldman

There is a better alternative that would result in many more competitors and choices. It is based on a highly successful aspect of a very different federal program, the Health Maintenance Organization Act of 1973. Regardless of whether history views the growth of HMOs as good or bad, it is indisputable that the HMO Act was responsible for their growth. Passed by a Congress controlled by Democrats and signed into law by a Republican president, Richard Nixon, the 1973 law provided \$375 million in startup financing, loans and loan guarantees for HMOs and other new models of health insurance. Within five years, these startup health insurers were successfully challenging conventional insurers. As a result, virtually every type of health insurance was transformed. Consumer enrollment in traditional indemnity insurance plans plummeted from 89% of the marketplace in 1984 to just 0.4% in 2008.



Howard Wizig

And what became of those startups funded by the HMO Act? While a number of them failed, a group of stronger players thrived. Some successful HMOs were ultimately bought by insurers, such as Aetna's acquisition of U.S. Healthcare, which was originally funded by the federal government as a not-for-profit startup. Other successful HMOs wound up growing and eventually buying old-line insurance companies, such as UnitedHealth Group's purchase of the former Metropolitan Life Insurance Co. and Travelers Insurance Co. businesses.

Likewise, instead of a single government-run public option or government funded "co-op" in a given market, we propose that Congress provide seed money to create a multitude of health insurers. This diverse approach is less risky as it does not put "all its eggs in one basket." What if the single public

option available in a given geographic market does not work, or is primarily focused on only limited parts of their geographic territory?

This public funding would be available to both for-profit and not-for-profit startups. The plan would not limit the number of startups in any geographic market or require that they focus on a specified territory. Our approach would result in more innovation in health plan design and more effective competition than would a single public option and would be acceptable to both political parties. It would also eliminate the insurance industry's objection that a government-funded public option might not compete on a level playing field.

Everyone agrees that there is a need for more competition and greater choice. Limited access to capital and industry consolidation are the fundamental reasons that there are limited choices. As a result, in the past decade, virtually no new health insurers have been formed (either HMOs or other insurers), other than specialty programs focused on Medicaid or Medicare. The only new insurers to emerge since 1973 were a few "consumer-driven" plans, each since acquired or out of business. New competitors result in more choices, greater innovation, better service and lower premiums. New ideas come not from entrenched players but from new players, and are then adopted or acquired by the established players.

This new program would overcome the single biggest barrier to starting a new health plan, access to capital. To encourage new health insurance plans, Washington must make capital available to new insurers through grants, loans, equity investments or guarantees. Entrepreneurs will then rush into every geographic market worth pursuing. They will compete to develop products to meet the needs of their customers. Our solution would result in more competitors per market than would a public option or cooperative.

Each of these new insurance plans will be widely available on a level playing field. Some of the new plans might focus on niche markets such as insuring persons with chronic care, those located in a rural area or an approach focused on special populations.

When compared with a single public option or cooperative, this approach is less risky, provides more consumer choice, encourages innovation and provides incentives for the true creative spirit of America. We believe that government should encourage competition, but it is a bad idea for government to *be* the competition. In the spirit of bipartisanship, we believe that this concept should appeal to both sides of the political aisle.

Therefore, we respectfully submit our proposal as a "new idea" to which we hope the president and Congress will be receptive. Let's send in the entrepreneurs!

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