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The following is a letter written to House of Representatives Health Subcommittee Chairwoman Anna Eshoo for the course *Health Policy & Management* in Fall of 2019. I was tasked with crafting an argument in support of a public option in the U.S. healthcare system from the perspective of a small business owner (“Penelope Lovington” and Penelope’s Gourmet Lobster Shack are both fictional). The letter discusses the proposal of a national public option, potential benefits of its enactment, likely resistance from political opponents, and alternatives to pursue if opposition is too great.

To: The Honorable Anna G. Eshoo
United States House of Representatives
Committee on Energy and Commerce, Subcommittee on Health
From: Penelope Lovington, Owner of Penelope’s Gourmet Lobster Shack
Re: Support for Public Option

Dear Madam Chairwoman Anna G. Eshoo,

My name is Penelope Lovington and I am the proud owner of Penelope’s Gourmet Lobster Shack, a Maine-inspired restaurant in Redwood City, California adored by our locals. I am writing to ask you, as my district’s Congressional Representative and the Chairwoman of the House Subc. on Health, for your support of a policy that would greatly benefit my small business and countless others across the district, state, and nation: a public option in the U.S. healthcare system. I am sure you are aware of the various proposals by both presidential candidates and state governments to establish a public option, which would serve as a government-directed, Medicare-like health insurance plan that leaves existing private plans and marketplaces intact. These proposals range in their scope of targeted beneficiaries; some would merely provide a residual option to the currently-uninsured, while former V.P. Joe Biden’s expands the scope to include all Americans who choose to enroll, including those with employer-sponsored or Marketplace insurance (Oberlander, p. 8-9). I am in wholehearted support of a public option like Biden’s that would offer a public option to small businesses and their employees.

At present, small businesses like mine have the option to purchase health insurance for their employees from private insurers through the Small Business Health Options Program, or SHOP. My business, however, doesn’t qualify for subsidies to alleviate the high capitation rates

that private insurers charge us through SHOP; instead, subsidies are offered only to businesses with less than 25 employees (“Small Business”). Yet these subsidies still contribute to the federal government’s spending approximately \$170 billion per year on the tax exclusion for employer-sponsored insurance, making it the largest tax expenditure and a huge loss in federal revenue (Lowry, p. 5). Combined with overall increasing healthcare costs, the insurance tax deductible disproportionately benefits higher-income employees and rapidly drives up costs of employer-sponsored insurance for the government and employers like me (Roffenbender, p. 2).

In effect, a new public option could instead offer *all* businesses with less than 50 employees with a robust, government-managed plan, made more affordable by negotiating lower reimbursement rates with hospitals and providers and by reducing administrative costs (Kaplan, p. 4). A public option would also effectively increase competition in SHOP and other marketplaces currently dominated by one or few private insurers, driving down these plans’ costs as well. Although federal spending would undoubtedly increase, tax revenue would also increase in two significant ways. By increasing access to employer-sponsored insurance, fewer employees between 133-400% of the FPL would purchase plans on the individual market, meaning less federal spending on Marketplace subsidies. In addition, a public option would allow me and other employers to spend less on insurance plans and instead pay higher wages to our employees, which would increase federal and state income tax revenue (Kaplan, p. 4).

Despite the strong support (65% of the public now favors a public option), this policy faces stark resistance from private insurers, who would face unwanted competition in the employer-sponsored insurance market, as well as many hospitals and providers, who would receive lower reimbursement rates from these plans (“Public Opinion,” Fig. 14). These opponents claim that a public option would disrupt insurance marketplaces and harm private insurance companies, thus potentially reducing jobs (Hoffman). They argue instead for policies

to remove the employer-sponsored insurance tax deductible and to promote consumer-directed healthcare plans (Roffenbender, p. 5; Blumenthal, p. 197). However, these plans, such as Health Savings Accounts, largely defeat the purpose of insurance by benefiting only those who can afford non-comprehensive, high-deductible coverage. Further, increased competition in marketplaces has been proven to improve quality, encourage innovation, and contain costs in health insurance marketplaces (“Competition”). Others may argue that lower reimbursement rates for providers will result in cost-shifting to private insurers, who will then raise premiums; however, an economic analysis by the Berkeley Center on Health, Economic & Family Security contends that there has been no empirical evidence for cost-shifting of healthcare services because of Medicare, which a public option would closely resemble (Kaplan, p. 7).

A public option would also engender benefits in the long term. By lowering the costs of small-employer-sponsored insurance, the program would both encourage more Americans to start new businesses and incentivize current employers to purchase insurance for their employees; in fact, I myself was compelled to open my restaurant only after I was confident I could provide my employees health insurance, a right that all hardworking Americans deserve. Further, by offering benefits comparable to those of larger corporations, small businesses like mine could attract more hardworking employees away from these corporations. Small businesses will prosper with more talent and personnel, ultimately increasing market competition across many industries — an effect particularly appealing to conservatives (Embry).

In addition, a public option can serve as a transitional step towards single-payer insurance, which is growing in popularity among many Democratic presidential candidates but faces resolute opposition among most conservatives. At present, it is advertised as a policy to build upon the ACA, which the majority of Americans still loyally support (Muñana, Figure 1). However, by expanding the government’s role in health insurance marketplaces, a public option

will pave the way for future reform that further increases quality and controls costs of healthcare. Many, including myself, believe that single-payer health insurance is the ultimate objective but recognize this transition will demand great time, energy, and intermediate policy action.

Considering the administrative and political barriers to creating and adopting a federal public option, certain states are exploring alternative policies. Connecticut's legislature has recently proposed a bill to create a state-administered public option specifically for small businesses; such a program would still prove advantageous for small businesses like myself (Hoffman). Washington state recently passed a bill allowing the state to contract with private insurers to offer lower-cost, tightly-regulated plans on the ACA Exchange by 2021; these plans are promoted as quasi-public options that seek to expand access to insurance while avoiding the fierce resistance of private insurers (Meyer, p. 3). The federal government could pursue alternative policies such as these in lieu of a national public option, which although promising may face debilitating opposition from private insurers, providers, and conservatives.

As a small business owner who recognizes the vital importance of health insurance, I truly want to provide health insurance to my 42 loyal and hardworking employees. However, the cost of these plans has simply become too high for me and my employees to afford, and I fear that without prompt action I will no longer be able to do so. A public option would increase competition and lower costs in small-employer marketplaces by offering government-run, low-cost plans. In the long run, a public option could increase cross-industry market competition and facilitate the transition to a single-payer system. As your constituent, I hope that you take these arguments into consideration and express your support of a federal public option.

Kindly,

Penelope Lovington (Kristina Smelser)

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