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TWENTY-THIRD SENATE DISTRICT
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September 10th, 2008



The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol, 1st Floor
Sacramento, CA 95814

Re: Senate Bill 840 (Kuehl) – Request for Signature

Dear Governor Schwarzenegger:

Rather than write you a pro forma letter regarding SB 840, I am writing a longer than usual request in an effort to at least make certain you have all the facts in front of you as you consider this bill. I am writing to respectfully urge your signature on SB 840 because this legislation will bring a modern universal health care system to California, make health care predictably more affordable for California employers and families, and provide every Californian with a complete choice of their individual doctors and hospitals.

Although you vetoed similar legislation two years ago, I urge your careful reconsideration of this legislation and ask for an opportunity to answer any concerns or questions that you continue to have, in person. I have worked hard to return this legislation to your desk because I see that California's health care system is falling behind other industrial nations in making the systematic investments that are necessary to build a state of the art health care system as well as to contain long term health cost inflation which is bankrupting our state.

California desperately needs real healthcare reform that strikes directly at the heart of insurance costs that are growing 2-3 times faster than workers wages every year. A system where each of California's 36 million residents are segregated into dozens of different insurance plans according to whether they are young or old, sick or healthy, rich or poor, and where they live or work requires an unconscionable level of administrative complexity and constant actuarial risk analysis. It *conservatively* costs 30% of every dollar we spend on healthcare just to keep track of all the different populations and benefit groupings to which each person belongs.

Even more importantly, such a fragmented financing system is clearly unable to respond and adapt to the changing needs of a modern, state of the art, health care system. We have failed to make significant progress in the development of electronic infrastructure, data collection and monitoring, and we have not made necessary investments in preventive health, among many others. While I applaud your leadership on each of these issues, I ask you to ask yourself why

the health insurance industry, which controls our health care funds today, has failed to invest in such proven and effective methods for improving quality and containing cost, on their own.

The answer, in part, is that, under a fragmented health care financing system, such as we now have, no “payer” has any incentive to make systematic improvements, regardless of how beneficial they may be to the larger system. It is no accident that physician adoption rates for electronic medical records in the Netherlands are at 98%, while in the United States they linger at around 28%. As other nations make innovative advancements in quality and infrastructure, dramatically reducing preventable deaths and medical errors, and saving lives at the same time they contain costs, here in California, we are falling further and further behind as any semblance of a first world health care system slips through our fingers.

Our slow adoption of cost effective quality improvement technologies is a fatal system failure. Incremental steps may sometimes help in the short term, but each small step requires enormous political effort and yet, inevitably falls far short of producing the health care system of which California is capable, and, frankly, for which it is already paying. We must have the foresight to address the deeper systemic causes underlying the health care crisis.

Importantly, SB 840 does not envision a radical remodeling of our health care delivery system. It is barely a remodeling of the delivery system, at all. It simply calls for privately delivered health care funded by a single comprehensive health insurance plan that covers all residents of the state, allowing them to choose their own doctors and hospitals.

This simple policy change - bringing all residents into one “risk pool”, instead of partitioning residents by medical risk - addresses the deepest systemic reason for our failing health care system. Multiple risk pools mean that competition between insurers is based on having a primarily healthy risk pool relative to the premiums received. This means that sicker individuals will *always* be undesirable “customers” and our health care resources and capitol investments will not be devoted to effectively treating or serving those patients, but instead will be devoted to attracting and keeping healthy individuals who use less health care than they pay in premiums. For example, hospital infrastructure investments will always be inadequate in low income communities with high health care needs. All the incremental market reforms in the world can never hope to reverse this basic perverse incentive; market forces will inevitably drive insurers to find new and innovative ways to circumvent them. As a result, our political will and financial resources will continue to be worn out through countless futile exercises in partial reform.

As you know, the Lewin Group, an independent analysis group that focuses on healthcare costs, predicts that the universal health care system in SB 840 would save Californians \$20 billion in administrative overhead, high-cost emergency room visits and pharmaceutical costs, allowing the savings to be redirected into purchasing health care. California’s own Legislative Analyst found that Lewin’s assessments were reasonable and confirmed the billions of dollars in savings that are estimated under this reform, once it is in place.

The positive impact that SB 840 will have on California’s economy is inspiring. SB 840 provides immediate relief to California businesses most of which would save money in the first year of its implementation. Today, half of our small businesses no longer provide health benefits

because costs have risen so fast, and their competitors have already eliminated employee benefits. California needs health reform that will immediately reduce health insurance premiums for those businesses that have stuck it out. Such a policy will inevitably bring new business to the state, since health care costs in California would be significantly lower than in other states and more competitive with other industrial nations.

SB 840 will save money for public employers, including the state of California, who purchase health care benefits for current employees and retirees; for this reason, many school districts, city councils, and county boards of supervisors support this legislation. Additionally, state and local governments will see significant savings in the costs of their direct care programs according to the Lewin report as well as other sources.

The savings in health care costs for working families will also help stimulate the economy, by reducing that portion of a family's income that must be devoted to health care premiums. Additionally, electronic infrastructure investments, called for in the legislation, could easily spur a new era of economic growth in California's high-tech industry. Instead of investing our health care resources in dead-end administrative paper-pushing, our health care dollars could be used to create new and better paying high-tech jobs that drive economic growth throughout the state.

Overall, SB 840 will make our health care system more reliable and secure by stabilizing the growth in health spending and linking spending increases to state GDP and population growth, employment rates and other relevant demographic indicators. SB 840 will combine needed cost controls with medical practice standards that make use of the best available medical science, and place an emphasis on preventative and primary care to improve California's overall health in a way that also saves billions of dollars.

SB 840 will also improve healthcare delivery in California, by improving health planning efforts in rural and underserved areas, providing a wide range of covered benefits, and using evidence-based standards of care and professional monitoring of care quality.

Polls show that Californians support this concept of universal public health insurance combined with privately delivered care (embodied by SB 840), and that support is growing fast. Polls show that a majority of Republicans support universal health care, and that 59% of physicians support "government legislation to establish national health insurance", a 10% point increase in just 5 years.

Californians want and deserve the state-of-the-art, modern universal health care system that is envisioned in SB 840. California needs this bill, Californians support it, and I urge you to read the bill carefully and make history by signing this important legislation.

Sincerely,



Sheila James Kuehl
Senator, 23rd District