Use Local Government Leverage to Negotiate Lower Health Costs

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The cost of providing health care to employees is a major issue for public and private employers alike. There is currently much interest and the national and state levels in finding feasible methods of providing universal health care. However, the plans proposed are inherently complex and may not come into operation for some time. And even if a system of universal health care is developed, it is likely to be based in part on continued – if not expanded - employer coverage. The high cost of health care may not be resolved by providing universal coverage. Indeed, with more people accessing the system, costs could rise.

There are over 400,000 local employees in LA County, most of whom receive health insurance from their employment. (Cities, including LA, school districts, community college districts, vector control districts, water districts, MTA, and LA County itself are all providers of health insurance coverage.) There are only a few health insurers that sell health insurance in LA County: Blue Cross, Kaiser, PacificCare, etc. Yet, because of the balkanization of public health insurance provision - typically even within the various employers there are numerous separate collective bargaining units as well as units of nonunion managers and other - there is little leverage these govt. authorities have in negotiating health insurance rates with carriers.

If these governmental entities got together and negotiated rates collectively with the major carriers, they would get better deals than they do now. The improved negotiating position would not "solve" the general problem of rising health costs. But on the margin it would help. Right now, there really is no negotiation on health insurance premiums for many of these balkanized public units. Basically, the carriers simply announce what the cost is going to be.

Of course, inducing the levels of local government to work together - or even coordinating the units within each public entity - would be a challenge. Cooperation and coordination does not require, however, that there be one plan for all local government employees. Blue Cross, Kaiser, and the others offer menus of alternative plans and some governments are more generous than others. But there could be a negotiation for a basic plan and then the various local entities could modify the core plan at the margin with elements such as co-pays and deductibles.

Over time, if local governments were successful in obtaining better rates for the coverage they provide, other employers – nonprofit and for-profit – might be invited to join the pool. There is precedent for such a development. In New York City in the 1940s, the City fostered development of the Health Insurance Plan (HIP) for its own municipal employees. Eventually nonprofits and other private employers joined in as subscribers, producing one of the major early HMOs on the east coast. Perhaps the City of LA could produce a comparable innovation six decades later.