

Healthcare Reforms That Might Work

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Overview

- Bending which cost curve?
- The Big Numbers
- The Environment
- Some Ideas
- Other Ideas
- Even More Ideas
- One More Idea
- What We Know About the Bills

Bending the Cost Curve?

- The cost of medical care?
- The cost to taxpayers?
- The cost to insurance companies?
- The cost to businesses?
- The cost to consumers?

Bottom Line—Each problem set requires a different solution set. Much depends on the objectives one is trying to achieve when addressing healthcare reform. To date, a clear articulation of the reasons for undertaking the task of reforming healthcare has not been forthcoming.

The Big Numbers

- Annual expenditure on healthcare= \$2.5 Trillion
 - Healthcare 17% of Gross Domestic Product
 - Healthcare costs increase approximately 6% a year—more than three times the average rate of inflation for the past several years
 - Currently 85% of Americans covered by some form of healthcare insurance
 - Of the 45 million “uncovered”:
 - 12-14 million are in the country illegally
 - Up to 20 million can afford insurance but do not have it. Most of these people earn up to 400% of the Federal Poverty Level or are young people that do not think they need insurance
- **10-12 million truly cannot afford insurance and should be the focus of reform efforts****

More Big Numbers

- Depending on the report, only 5-10% of healthcare costs attributed to obesity
- Most expensive disorders:
 - Mental Health disorders--\$142 billion
 - Heart Disease--\$123 billion
 - Trauma--\$100 billion
 - Diabetes--\$36 billion
 - Upper GI treatments--\$33 billion
 - Total—approximately \$450 billion or 18% of total expenditure on healthcare in the country
- Medicaid spending \$269 billion
- Medicare spending \$303 billion
- Insurance Company profit margins: 2-3.5%
 - Large profit numbers based on volume of business

Healthcare Environment

- Entitlement attitude among providers, insurers and consumers
 - Third party payer system removes the incentives to save or protect individual health
 - Third party payer system builds an artificial barrier between providers and patients
- Non-market operations
 - Lack of competition among insurance providers
 - Limited insurance vendors allows to sell in each state
 - Lack of competition because insurance cannot be bought across state lines
 - Lack of competition among service providers
 - No pricing information available from providers
 - No direct payer information available to consumer/patients
- Regulatory Dichotomy
 - Regulate insurance industry
 - Raises barriers to entry
 - Drives out, rather than encourages, competitors
 - Remaining insurers are large, based on some 400 mergers over the past 15 years
- Pernicious Tort Liability
 - Forces defensive medicine
 - Incentivizes volume fee for services operations

Some Ideas for Cutting Healthcare Costs

- Market operations
 - Keys to success
 - Information (Pricing)
 - Pricing should be available for all insurance vendors and service providers
 - Removal or reduction of third party payer influence
 - Interstate competition
 - Medical savings accounts
 - Strengthen bond between provider and consumer
 - Reduce, rather than increase, influence of third parties in health care decisions and market operations

Some Ideas for Cutting Healthcare Costs (cont)

- Health Insurance Company competition
 - Numerous mergers, concentration of markets
 - State regulatory regimes
 - Cost uneven across state lines
 - Minimum coverage costs over \$8K in MA
 - Minimum coverage costs over \$2K in IA
 - 1300 insurance companies in the market, though large companies influence market share
 - Allow competition across state lines for basic insurance coverage or cafeteria plans
- Tax health care benefits as income and provide direct to employee
 - Eliminate tax credit
 - Pay benefit direct to employee
 - Allow employee personal responsibility to purchase insurance
- Remove Fee for Service Culture
 - Allow/require vendors to reveal prices
 - Individual consumers may seek individual providers based on price information
 - Create an atmosphere where holistic approaches to medicine are packaged and priced for competition
- Tort Reform
 - Reduces defensive medicine
 - Up to 25% of costs associated with reducing liability--\$500 billion a year?
 - Portion of taxes on health benefits goes to medical malpractice pool—Like disaster management pool

Other Ideas for Cutting Costs

- Means Tested Medicare
 - Those that can pay, should pay
 - Increasing the age for initial eligibility
 - Close the Medicare “donut holes”
- Care Management Processes
- Accountable Care Organizations
- Patient Centered Medical Homes
- Healthcare Information Technology
- Preventative care and chronic care programs
- Comparative Effectiveness Research Applications

More comprehensive explanations of these approaches can be found on the Internet.

Even More Ideas for Cutting Costs

- Increasing High School Graduation Rates
 - The healthcare cost of a drop-out is, depending on source, around \$1000 per year
 - 1.2 million drop outs a year
 - 40 year measuring period
 - \$50 billion a year in costs
- Reduce out of wedlock births
 - 30% of all births out of wedlock
 - 55% of Hispanic births and 70% of African-American births
 - Single mother social costs to taxpayers--\$110 billion a year
 - Over 27% of single mothers and their children live in poverty
- Reduce number of illegal immigrants in the country
 - Healthcare expenditures around \$1000 per immigrant per year
 - At least \$12 billion per year

One More Idea for Cutting Costs

- Feldstein Model
 - Market processes
 - Percentage deductible model
 - Each individual/household on the hook for a certain percentage of their annual adjusted gross income
 - A household making \$50K would be required to pay out of pocket \$5K deductible on a 10% model, etc.

What We Know About The Bills

- Virtually none of the ideas listed here are in the bill being considered for passage
 - Special interests, not the American people, benefiting from current versions of the bills
 - Trial lawyers
 - Unions
 - Drug companies
 - Large insurance companies
 - Legislation, and regulation, inhibits competition
 - Without knowing the numbers, it's hard to measure the effects of these initiatives
- **There are no analyses that can be found that addresses the outcomes, intended or otherwise, for this legislation**

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