NATIONAL CENTER FOR POLICY ANALYSIS

10 Steps to Free Our Health Care System

Brief Analysis No. 669 by John C. Goodman July 30, 2009

To confront America's health care crisis, we do not need more spending, more regulations or more bureaucracy. We do need to liberate every American, including every doctor and every patient, to use their intelligence, creativity and innovative abilities to make the changes needed to create access to low-cost, high-quality health care.

Here are 10 steps to achieve these goals.

Dallas Headquarters:
12770 Coit Road, Suite 800
Dallas, TX 75251
972.386.6272
Fax: 972.386.0924
www.ncpa.org

Washington Office:
601 Pennsylvania Avenue NW,
Suite 900, South Building
Washington, DC 20004
202.220.3082
Fax: 202.220.3096

NCPA
NATIONAL CENTER FOR POLICY ANALYSIS

1. Free the Doctor. Medicare pays for more than 7,000 specific tasks, and only for those tasks. Blue Cross, employer plans and most other insurers pay the same way. Notably absent from this list are such important items as talking to patients by telephone or e-mail, or teaching patients how to manage their own care or helping them become better consumers in the market for drugs. Further, as third-party payers suppress reimbursement fees, doctors find it increasingly difficult to spend any time on unbillable services. This is unfortunate, since it means that doctors cannot provide the type of low-cost, high-quality services that are normal in other professions.

To make matters worse, providers often face perverse incentives. When they lower costs and raise the quality of care, their income typically goes down, not up. For example, Geisinger Health System in central Pennsylvania gives heart patients a "warranty" on their surgeries. Patients who have to be readmitted because of complications pay nothing for the second admission. Whereas most hospitals make money on their mistakes, the warranty forces Geisinger's staff to provide higher quality care (to avoid readmissions) but lowers Geisinger's income from Medicare and other payers.

To change these perverse incentives, Medicare should be willing to pay for innovative improvements that save taxpayers money. And doctors and hospitals should be able to repackage and reprice their services (the way other professionals do), provided that the total cost to government does not increase and the quality of care does not decrease. This change in Medicare would almost certainly be followed by similar changes in the private sector.

2. Free the Patient. Many patients have difficulty seeing primary care physicians. All too often, they turn to hospital emergency rooms, where there are long waits and the cost of care is high. Part of the reason is that third-party payer (insurance) bureaucracies decide what services patients can obtain from doctors and what doctors will be paid. To correct this problem, patients should be able to purchase services not paid for by traditional health insurance, including telephone and e-mail consultations and patient education services. This can be done by allowing them to manage more of their own health care dollars in a completely flexible Health Savings Account.

10 Steps to Free Our Health Care System

3. Free the Employee. It is now illegal in almost every state for employers to purchase the type of insurance which employees most want and need: individually owned insurance that travels with the employee from job to job, as well as in and out of the labor market. We need to move in the opposite direction — making it as easy as possible for employees to obtain portable health insurance.

4. Free the Employer. Liberating employees would have the indirect effect of liberating employers as well. Employers have been put in the position of having to manage their employees' health care costs, even though many businesses lack the experience or expertise. Instead, employers could make a fixed-dollar contribution to each employee's health insurance each pay period. Like 401(k) accounts, the health plans would be owned by employees and travel with them as they move from job to job and in and out of the labor market.

5. Free the Workplace. If a new employee has coverage under her spouse's health plan, she doesn't need duplicate coverage. But the law does not allow her employer to pay higher wages instead. On the other hand, a part-time employee might be willing to accept lower wages in return for the opportunity to enroll in the employer's health plan. The law does not allow that either. The answer: Employers should be free to give employees the option to choose between benefits and wages, where appropriate.

6. Free the Uninsured. Most uninsured people do not have access to employer-provided health insurance, purchased with pretax dollars. If they obtain insurance at all, they must buy it with after-tax dollars, effectively doubling the after-tax price for middle-income families. The answer: People who must purchase their own insurance should receive the same tax relief as employees who obtain insurance through an employer.

7. Free the Kids. The recent expansion of the State Children's Health Insurance Plan (S-CHIP) to cover four million additional children will result in up to half losing private coverage, according to the Congressional Budget Office. However, under S-CHIP, children have access to fewer doctors and medical facilities than children in private plans.

These incentives should be reversed. S-CHIP money should be used to encourage parents to enroll their children in their employer's plan or another plan of the parents' choosing.

8. Free the Parents. Under the current system, a child could be enrolled in S-CHIP, a mother could be enrolled in Medicaid and a father could be enrolled in an employer's plan. However, medical outcomes are likely to be better with a single insurer. The answer: Medicaid and S-CHIP funds should be used to subsidize private health insurance, so that low-and moderate-income families are able to see the same doctors and enter the same facilities as other citizens.

9. Free the Chronically Ill. Under current regulations, insurers are not allowed to adjust premiums to reflect higher expected health care costs. This encourages insurers to seek the healthy and avoid the sick before enrollment. After enrollment, insurers have an incentive to over-provide care to the healthy and under-provide to the sick. These incentives need to be reversed. For example, in the Medicare Advantage program, the government pays higher premiums for seniors with more expensive health needs. This encourages insurance companies to create specialized plans — especially for chronic illnesses — that compete with each other.

Chronic patients also need to be able to manage more of their health care dollars directly. For example, "Cash and Counsel" programs in many states allow homebound, disabled Medicaid patients to hire and fire the vendors who provide them with services. Patient satisfaction in these programs is almost 100 percent.

10. Free the Early Retiree. Most baby boomers will retire early, before eligibility for Medicare. Two-thirds will not get health insurance from their former employer and even those who have been promised employer coverage may see those promises broken, since there is almost no prefunding of benefits. Under current law, an employer can include early retirees in its regular health plan, but cannot contribute to more economical, individually owned plans.

The answer: Employers should be able to contribute pretax dollars to the individually owned insurance of their retirees. Early retirees should be able to pay their share of premiums with pretax dollars. Both the employer and the employee should be able to save (pretax) in preparation for these events.

John C. Goodman is president and Kellye Wright Fellow at the National Center for Policy Analysis.