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Solutions to Health Reform- What Should Have Been Done

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I don't make jokes. I just watch the government and report the facts.
Will Rogers

So, given that there are about 8.2 million people chronically uninsured out of a population of 307 million in the US, that's about 2.6% of the population. That figure comes from a Kaiser Family Foundation study of U.S. Census Bureau statistics. That's a far cry from the 45 million people commonly cited. The amount of uncompensated care given in the country has been estimated by Kaiser to be $43 Billion per year. The U.S. health care system is estimated to cost $2.3 trillion. Thus, uncompensated care is 1.87% of the total cost. As one person said, *"What Congress and Obama did by signing the health reform bill was the equivalent of dropping an atomic bomb on a pimple."*

The law that was enacted does absolutely nothing to stop the increase in health care costs and in fact will actually increase the cost of care.

What is the solution to the cost of health care? We may not have all the answers (some solutions that would work are listed below), but the Obama plan is not it. The Obama plan does not address the *cost of care,* but instead is an attempted reform of the insurance market for a very small group of people that don't have insurance and can't afford it (as opposed to the many people who can afford it and don't buy it). There are a few simple measures that could be taken that would reduce the cost of care dramatically and provide coverage for the chronically uninsured. The atomic bomb is not necessary.

The Associated Press (surprisingly) earlier this year (2010) reported that the average medical insurance company net profit is 2.2% (The profits of the top ten medical insurance providers.) This has been true for years, but this is the first time the average profit has been highly publicized. Not many businesses can survive on that thin a margin. On the S&S Benefits Consulting web site is a list of over 40 medical insurance companies that have gone out of business. They did not go out of business because medical insurance is so profitable. This law (if not changed) will most likely drive out the remaining companies and put medical insurance in the hands of the government (which, quite frankly, it appears the law was intended to do). With governmental control, rationing of care, (as is so unsuccessful in England and Canada and other socialized medicine countries) will take place, simply due to the cost.

It is ironic that the recommendation of the EU to Greece as part of the Greek financial crisis, is that Greece *privatize* their health system. Yet in the U.S., we are moving towards socialization.

One of the many excuses used to pass health reform was that people are locked in their jobs and cannot change jobs without losing coverage. In most cases, that is simply not true.

HIPAA (Health Insurance Portability and Accountability Act) changed that job lock scenario years ago. Under HIPAA, if an employee leaves one company that has insurance and goes to another company that has insurance, the person is covered for pre-existing conditions as long as they don't go without coverage for more than 63 days. Also, if someone has their own individual policy and then goes to work for a company that has insurance for employees, he also will be covered without pre-existing conditions as long as he doesn't go for 63 days without coverage.

To be fair, there is a circumstance where HIPAA does not apply. If someone leaves a company and starts their own business and has to buy individual insurance, the company that provides the individual insurance does not have to cover that person for pre-existing conditions and can also deny to cover the person. There is reasoning to this. Under group plans, the combination of healthy and unhealthy people alleviates some of the risk associated with taking on a person with pre-existing conditions.

However, with individual insurance policies, if companies were forced to offer insurance to those with pre-existing conditions, they would probably not be in business very long. For instance, if someone tries to obtain individual insurance and has diabetes and the insurance company has to take them, the cost for diabetes treatment averages about $13,000 a year. The insurance company has to make money to stay in business, so a company would need to charge more than $13,000. If the diabetic then needs amputation of a limb (which is fairly common) the cost goes up. And what about any other costs for other illnesses or injuries that person has or may have? Since individual insurance rates are filed with the state and are limited by states, insurance companies simply cannot charge enough to be able to afford the risks associated with many pre-existing conditions along with other illnesses or injuries that may materialize.

In Illinois, an uninsurable person, like the diabetic mentioned above, has an option. There is a plan called ICHIP (Illinois Comprehensive Insurance Plan) where people can buy coverage. You can go to the web site and view the prices (which are expensive), but at least people do have an option. http://www.chip.state.il.us/

Insurance reform: What Should Have Been Done

Assuming the government had really wanted to keep costs down and make insurance available to all legal citizens (as opposed to all residents), there are a very few simple steps that could have been taken.

Solutions-1

There are 34 States that already have insurance pools similar to the one in Illinois. If every state had this option, insurance coverage would be available for all people. In order

to keep the costs affordable, insurance companies could contribute to these plans (and in many states, including Illinois, they do). The Obama plan sets up insurance exchanges in the states in 2014, which is unnecessary and adds to federal and state beaurocracy (and thus cost and control). The plan was also to create a pool for the uninsured in the 90 days following March 23, 2010. Is it a surprise since we are dealing with the government, that the pools have not been created? Really, all they need to do is to help the states that don't have high risk pools to start them. All that is needed is a place for uninsurable people to buy insurance and to help them afford it. That can be handled by the states. Leave the current system in place for all other people.

Solutions-2

Allow insurance companies to sell insurance across state lines. Why? Because each state has its own mandated benefits which drive up the cost of insurance. For instance, in Illinois, insurance companies must pay for infertility treatment at a cost of $5,000 to $10,000 per treatment. Why does that need to be covered? Does every couple have the right to have children at other people's expense? If successful, that treatment usually comes with multiple premature births. The claims in these situations are usually for over $500,000.

There are about 48 mandates in the state of Illinois, all of which add to the cost of insurance. In California, there are more. Think about it, fifty states with 50 different sets of mandates! Complying with each one of these mandates is expensive…(Insurance companies must program the administration and claims systems to account for each variation in benefits in every state where they do business). If insurance companies were allowed to sell across state lines, then states would compete for the insurance company business in order to collect the lucrative taxes they get from the companies. Insurance companies would incorporate and domicile in the states with the most favorable laws and the least mandates, just like other companies like to incorporate in Delaware due to the favorable treatment they receive in that state. Reductions in mandates are estimated to save over 30% of the cost of insurance! That, in and of itself, is a huge amount of savings. Further, the reduction in mandates would also reduce the cost for the pools of uninsurable people. If the 30% savings materializes, we would have saved the U.S. health system of $2.3 trillion, $690 Billion!

Solutions-3

Malpractice (tort) reform is necessary. A few years back, Illinois instituted malpractice reform and limited punitive damages to $250,000 for doctors and $500,000 for hospitals. This led to more doctors staying in Illinois (they had been leaving due to unfavorable laws and the high price of malpractice insurance). The Illinois Supreme Court recently ruled that the malpractice reform law was un-Constitutional. Is it not funny that malpractice reform is Constitutional in states like Texas and Indiana, but not in Illinois, but the reform has helped those states reduce the cost of care? Immediately, it was announced that the cost of malpractice insurance would go up by almost 18% in Illinois.

Depending on the specialty and location, doctors pay between $75,000 and $200,000 (or more) for malpractice insurance.

Malpractice reform is estimated to reduce doctor malpractice insurance costs nationally by $55 billion dollars over 10 years. That's less money the doctors have to charge. In addition, there are estimates that if laws were reformed, doctors would reduce the number of unnecessary tests and procedures that they do now just to protect against getting sued. Those unnecessary tests are estimated to cost the system between $200 Billion to $350 Billion annually. Using the conservative $200 billion for unnecessary tests and $5.5 billion annually for higher malpractice insurance costs, the savings to the system would amount to 8.9% of health care costs.

Solutions-4

Transparency in costs is needed. Over the years people have always searched out the best hospitals and doctors for their conditions. How do they know who is best? Even with today's internet, most people choose their doctor and hospital based on the recommendations of trusted friends and relatives, but they don't really know who is the best at what they do and where the costs are less. Hospital costs are 40% of the cost of medical care, yet their pricing is secretive. They negotiate with PPOs and HMOs for reduced prices in order to get patient volume. However, those contracts are secretive and they do not allow for medical claims to be audited for correctness.

Hospital PPO and HMO contracts are secretive because they don't want to let each PPO or HMO they negotiate with know what price the other organization is getting. A solution is to introduce transparency laws that would make each of the institutions post their pricing for various procedures and also post their quality ratings (how their outcomes for procedures are). Thus, patients could choose the best price and quality for their care and location, depending on how far they wish to travel. If someone does not believe that this would work, they are wrong. There is a growing business in what is known as medical tourism, where people get the same operation in another country for a quarter of the price that is charged here (also related to malpractice insurance laws in those countries). Why does heart by-pass surgery average $144,000 in the US and cost $25,000 in Costa Rica? How come the price of lasik eye surgery has been reduced from over $2,500 per eye to $500 an eye over the years? Transparency is a key.

Solutions-5

Immigration enforcement. Uncompensated care for illegal aliens drives up the cost for all those who are legally in this country. The costs are tremendous and no matter which way you slice it, we end up paying for it in taxes and insurance premiums. Kaiser data estimated costs for uncompensated care of illegals is 4.3 Billion dollars at a minimum, although other data suggests the number could be three times as high.

Solutions-6

Allow individuals to deduct the full cost of health insurance from their income the same way corporations do. Instead, the new law reduced the deduction for individuals!

Basically, with just some minor changes, the cost of health care in this country would easily be reduced by 40% from just the solutions listed above.

What the reform bill does- without getting too complicated

1) In 2014, the reform bill forces a rating system where the most expensive insurance plan can only be 3 times the cost of the least expensive insurance, while also forcing insurance companies to cover people with pre-existing conditions. That means the top rate has to be very high if the company is to survive. If the top rate is that high, then the rates for the most healthy people will go up substantially, and they won't buy insurance. The law forces all people to buy insurance or pay a fine (which I believe is unconstitutional). However, the fine is so small that most healthy people would rather pay the fine than buy insurance. Then if they do get sick or in an accident they will buy insurance since it must cover their condition. When they are healthy again, they will drop it. That is the equivalent of being able to buy homeowners insurance on your house while it is burning down. Does that make sense? This practice alone would force insurance companies out of business and hand the system over to the government….but it doesn't stop there..
2) They say that insurance companies cannot have a ratio of claims to premiums greater than 80% for individual plans and small group plans or 85% for large group plans. If the ratio is better than that, they must return the premiums to the policyholders. This essentially makes insurance companies non-profits with no reason to do business. They can't survive and market themselves, pay brokers who assist employers and employees with insurance, pay their administrative expenses and the cost of insurance for catastrophic claims (which are more common today than ever due to technology) and keep the required reserves they need to comply with state laws. They'll just go out of business….and so will the over one million people who work in the industry.
3) The bill taxes pharmaceutical manufacturers $2.5 Billion in 2011, increasing to $4.2 Billion in 2018. Those costs will be passed back to consumers, making drugs even more expensive.
4) The bill taxes health insurers $8 Billion in 2014 increasing to $14.3B in 2018. Those costs will be passed back in insurance premiums, if the companies manage to survive…which is doubtful.
5) The bill puts a reinsurance tax on health insurers and self-funded groups of $25 Billion that will be passed along in costs to the consumer.
6) Taxes tanning salons 10% beginning in July 2010 (why?) Isn't that a race tax?
7) The bill puts taxes on medical devices of 2.3%, which will be passed along to the consumer.
8) The bill closes, eventually the Medicare Part D donut hole, which means Medicare costs will go up, which will be paid for in more taxes. By the way,

Medicare did not even cover drugs until 2003 and now the government and recipients all think that having this coverage is an entitlement.

9) Removes lifetime limits and annual limits from insurance plans. This will increase costs by an unknown amount, but is estimated at a 1.5% increase in costs.
10) Puts another $2 per employee tax on self-funded plans.
11) Sets maximum deductible and out of pocket costs on health plans that will increase costs for many consumers.
12) Creates all kinds of new reporting costs for employers and insurance companies that will raises costs unnecessarily.
13) Taxes good insurance plans (what the government refers to as Cadillac Plans) by 40% in 2018. (Looks like if you had a nice program, you won't now).
14) Increases the number of people eligible for Medicaid, thereby raising Medicaid costs which are half paid by the states through taxes.
15) Makes it harder to take a deduction for individual medical expenses.
16) Reduces payment for Medicare- increases the number of people allowed in Medicaid- which will reduce the number of doctors that take Medicare and Medicaid patients.
17) Puts a reduced cap ($2,500) on the amount of money people can set aside on a pre-tax basis for medical expenses in Flexible Spending Accounts (FSAs), which will increase the amount of money many people pay in taxes.

In other words, the Obama health care "reform" does nothing but increase the cost of health care. Those increasing costs will ultimately be paid by the same consumer that this legislation was supposed to protect.

A wise and frugal government, which shall leave men free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned - this is the sum of good government.
Thomas Jefferson

If Stupidity got us into this mess, then why can't it get us out?
Will Rogers