

RECORD

DOES HEALTH INSURANCE HAVE A FUTURE?

*Speaker: ROBERT F. FROEHLKE**

MR. ROBERT F. FROEHLKE: Some people hold the opinion that the health insurance business in the United States today is in roughly the same position that Canada was ten years ago, prior to national health insurance. According to this view, the United States is simply ten years behind Canada.

I don't believe this is the case. The private health insurance business in the United States, for a variety of reasons, is quite a bit different than it was a decade ago in Canada. Compared to most of the world, our cultures are quite similar -- but the health insurance situation was different then and still is, whether for better or for worse.

Does private health insurance in the United States have a future? An honest answer to that question is, "Yes, but"

Or, if you prefer, "Yes -- and then again, no"

Like almost every important issue facing us today in society, health insurance -- the private enterprise health insurance we know today -- is in a state of flux. You can't say categorically how it is going to look tomorrow, or even if it has a tomorrow. It depends on a lot of things, some of which are out of control.

However, many of the factors that will determine the future of health insurance are within our control. Therefore, before I can answer the question, "Does Health Insurance Have a Future," you must first tell me whether the health insurance industry is going to recognize the opportunities it will be facing in the days ahead -- and whether the health insurance industry will have the good sense, the courage, the imagination to take advantage of these opportunities.

If we can act intelligently; if we can act responsibly; if we can act with a great deal of innovation, the answer to the question is an emphatic: "You bet there's a future!"

If, however, we as individuals and as an industry act in a reactionary way, constantly playing it safe, refusing to face up to our social responsibilities, then the best answer I can give you is, "Probably, no."

What are the factors that will in the long run determine the future of the health insurance business? First and foremost, there is ourselves. Are we going to act intelligently, responsibly, effectively and with integrity?

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However, at the same time, we cannot ignore that there are other parties in the health care field. They include the government, the doctors, the hospitals, the employers, organized labor, and a group we're beginning to hear more and more from -- the patients. Each of these groups will have at least some influence on the future development of health care in our country and, in acting responsibly, we will have to work with all of these groups.

What is the role of government in the years ahead? All of our polls and surveys for some time have been showing clearly a shift in the nation's thinking. Today, it appears that most of our legislators and those in the executive branch have gotten the message: The American public wants less government. Perhaps the Federal Trade Commission hasn't gotten the message -- but hopefully it will eventually sink in there, too.

It's only natural that we in the health insurance business get a warm comfortable feeling when that message is repeated, as it was in California with the passage of Proposition 13. However, don't get too comfortable. As I read the political tea leaves, the American public is saying that they want less taxation and less regulation. At the very same time, however, the public has made it clear that they do not want less benefits from government.

You and I can argue that the public is in an inconsistent position. Logic seems to dictate that the people must make a choice -- either less taxation and lower benefits, or more taxation and the same or increased benefits. However, inconsistent or not, that is the position of the public. And if you ask the average person to rationalize this position, he will probably say: "Cut our taxes -- but maintain the same level of benefits by operating government more efficiently." That's hard to argue with.

Whether it will happen is uncertain. And in the meantime, government is still deeply and directly involved in our nation's health care system, and I don't see them abandoning or even curtailing their involvement. But because of the message that the public is sending, I think it is very unlikely that government will make an overt move in the near future to expand its role in any way which will involve additional tax dollars. In the long term, however, it will depend on whether the private sector is performing responsibly. If we don't and a vacuum is created, it is inevitable that government will move in -- because the public will demand that it do so.

The medical profession will continue to play an important part in the health care delivery system of the future. However, I see certain developments that will somewhat reduce the doctors' role. This may result in substantial antagonism among the doctors and between doctors and the rest of society.

I see the holistic health movement gaining both stature and advocates. This movement clearly is not anti-doctor. However, this movement just as clearly states that there is more to health than just curing physical ailments. Healing includes psychological and spiritual attention. The holistic movement also states that the individual has the primary responsibility for the state of his own health -- not the doctor.

I think high health care costs will demand that government, insurance companies, employers and the patients themselves will help determine the what, where, how -- and how much! -- of health care.

For too many years, insurance companies had the very comfortable position of staying out of the doctor-patient relationship. We merely collected premiums and paid claims in the most efficient manner possible. Those days of merely being a conduit of cash are gone. Any insurance company that in the future attempts to limit its activities merely to premium collection and claim payment will soon find itself priced out of the market.

On the contrary, insurance companies must take strong and active stands on a number of issues, foremost among them the crucial issue of cost control. And, like it or not, this also opens a whole new field of problems -- or opportunities -- the gathering of data on an industrywide basis. Without it, cost control becomes either much more difficult or impossible.

The thrust for greater and greater government involvement in the health care field gets its strongest impetus from the runaway costs associated with health care. The argument that only the Federal government has the clout to control these costs is persuasive, even to a public that otherwise clearly wants less government, not more.

We in the insurance industry must make it equally clear, both by words and by deeds, that in the battle to contain health care costs we are on the side of the public interest. This means that when the issue is between the doctor and the patient, the insurance company must almost inevitably be on the side of the patient. I would hope that this does not make us an adversary of doctors and hospitals. Certainly no one wants insurance companies to come between patients and their doctors. But when an issue involving cost containment does develop, responsible insurance companies today and tomorrow had better announce loudly and clearly that they are on the side of the public.

This is a new posture for us. It is an uncomfortable position; it is a frustrating position; it often will be an antagonistic position. But it is the position we must take if health care costs are to be contained -- and if they are not contained, our position will be found only in the history books.

Another area where insurance companies must take an active stand is in the development of better policies. I mean this in the broadest sense of the term. Health insurance policies in the future must be written in plain, simple language that the public understands. The day has long since passed when the public will blindly trust an insurance company merely because it is a good, reliable, financially-stable old company.

The benefits we offer must be broad. The public wants the broadest catastrophic kinds of coverage. Anything less is unacceptable.

Furthermore, the coverage we offer must be designed to encourage patient involvement in cost containment without exposing the insured to too much financial risk. The insured public must not only understand the need for cost containment, they must also have a financial inducement to encourage their cooperation.

Some advocate deductibles and coinsurance as a way of meeting this goal. Other urge that the employees pay a part of the premium. Still others say a long-term educational process is needed. Each insurance company must decide for itself what it considers to be the best approach. However, in

any case the successful insurance company of the future will no longer allow its insureds to be completely disinterested in such problems as overutilization and overcharging.

If we can't create a penurious patient, we must at least create a patient who is mildly interested in whether the health care he or she is receiving is needed -- and whether the charge is reasonable. And the best way I know to create that interest is by appealing in some fashion directly to the patient's own bank account.

We must do a better job of making the public aware of what health insurance is and, realistically, what it can do for them.

Although the insurance business has not slipped as badly in public esteem in recent years as have other institutions, especially government, nevertheless we too are suffering from the slings and arrows of outrageous consumerists. And they are able to attack us because very few people really understand our nation's unique system of private health insurance. Most people simply don't know what kind of protection they have -- or should have. They don't realize how successfully the American public has already been insured by private health insurance.

We must make sure they do understand how insurance works . . . what are sound benefits . . . what health insurance should and shouldn't do . . . what kind of protection they have purchased and how it fits into an entire program of health insurance coverage.

It is only by making the public generally aware of the total insurance function that we can be assured the public will then accept us as a vital part of the health care system and cooperate with us in those areas where we need their help -- primarily, of course, in cost containment. This is perhaps the most difficult and quite possibly the most important arena for the future.

It is also well to recognize that in the main, the public is bored with insurance and the biggest obstacle we have in educating the public is to get their attention.

We cannot ignore employers. They are our policyholders, and the vast majority of people insured today and tomorrow will be covered under the group mechanism for the simple reason that that is the least costly, offers the broadest benefits to the most people and involves the least underwriting. And by group mechanism I mean not only the traditional group policy but HMOs and other approaches, even those that have not yet been developed.

Employers more and more are going to insist that insurance do more and more -- or they will decide to do it for themselves. Which is another way of saying that many employers have it within their own power to say to insurance companies, "Do it my way, or I will do it my way" -- which means self-funding.

I think that for a period of time we are going to see the self-funding movement accelerate. I think this will be short-lived, however, because once it gets the insurance companies' attention, the insurance companies will decide to fill the breach, taking advantage of their unique position and doing what the employer is not capable of doing.

A major part of the insurance function is to spread the risk -- to insure. But it also includes efficient claims administration, wise benefit provisions, educational opportunities for good health -- and health cost control. Taxes and administrative expenses make up a small part of the premium dollar. Benefits are where the big money is.

In the health insurance business of the future, I foresee many insurance companies developing health cost control engineering similar to the loss control engineering that is commonplace in the field of worker's compensation. The time will come when health insurance carriers will be selected not because they need the insuring aspect of the company but because they need the engineering know-how of the company -- not because the company pays the claims rapidly, but because the company, through its professional engineering services, sees to it that claims are avoided entirely.

If this can be done for worker's compensation, there is no reason why it can't and shouldn't be done in the health insurance field. This is an open marketing opportunity that has just barely been tapped. And if the insurance industry doesn't provide this service, I can see the personnel departments of large group employers providing it.

In talking about the future of health insurance, we must focus on the critical issue of health care cost containment. If the inflationary spiral of health insurance isn't slowed down, the public will become so frustrated and angry that they may well conclude that any different approach is better, no matter what.

And that is the kind of political climate the demagogues love.

In the best of all worlds, the best way to contain health care costs would be to have all the people involved -- government, doctors, hospitals, insurance companies, labor and management and the public itself -- cooperate voluntarily to hold down these costs.

The worst situation, I think most people would agree, would be for the inflationary spiral to continue to get even worse.

But, what do we do if we can't contain costs through voluntary means? We in the insurance industry are doing everything we can to encourage the Voluntary Effort which is being led by the doctors and the hospitals.

In addition, we are beginning an experiment in a local community where we are attempting to get all parties involved to cooperate in a voluntary approach that will explore all possible ways to contain costs.

Further, individual companies are working in individual communities with their group policyholders and the public generally. Hopefully -- and at this stage that is the right word -- hopefully this will all prove to be adequate.

However, this issue is so vital to our future that we feel we cannot let our future depend on hope alone. So we are covering our bets.

Specifically, we are advocating the regulatory route to a certain extent when it is not in out-and-out conflict with the voluntary approach. Thus, we favor:

1. Prospective hospital budget review. The health care delivery system at present does not allow for competitive forces to come into play, and we have learned that in such situations regulation is the only alternative. There are those who say that in time competitive force will be created. No one will be happier than the insurance industry when that time comes. However, in the meantime, we must have a substitute -- and we believe regulation is that necessary evil.

2. We are for peer review, both as to over-utilization and overcharging. In addition, we believe the public, including insurance companies, must have both a window and a voice in this peer review process. The public today has learned to be skeptical, and if denied the opportunity to observe and comment on the process of peer review, the integrity of the process simply will not be believed. Admittedly this disrupts the patient-doctor relationship. We think this is preferable to the other option -- abrogation!

3. We favor the administration's cost containment bill. We admit that by any other name, it is still price control -- and price control has never worked in peacetime. Worse, it is price control of one segment of the industry, and that makes it appear even less workable.

Nevertheless, we favor the administration's proposal because it is the better of the two choices now before Congress -- the administration bill or the Talmadge bill. The Talmadge bill is not cost containment -- it is cost shifting. It would put a cap on government programs, with the result that the hospitals inevitably would be forced to transfer excess expense over to the private sector.

The administration's bill might work for at least a limited period of time. To the extent that it does, it is truly cost containment in that it applies equally both to government and to private payors. It is not the best possible solution, of course. However, in the real world of politics, it is the better of the two possible solutions now before Congress.

Finally, what is the future of national health insurance? In the short term, I cannot conceive of this Congress enacting a Federally funded comprehensive national health insurance program.

Unfortunately, the main reason is not that this Congress believes the private sector can do it better. Rather, this Congress is not willing to face up to the additional taxation which such a plan would necessarily involve.

Further, I believe Congress is becoming increasingly aware that the large majority of the American public is satisfied with our present health care system. Our latest nationwide public opinion survey, conducted for us last year by the Yankelovich organization, showed that about eight in 10 Americans are satisfied with their access to health care and with the quality of care they receive from doctors and hospitals. However, only three in 10 are satisfied with the cost of medical care -- and, ominously,

70 percent of the public feel that the price of health insurance is getting too high for the average family to afford.

Also, the support given by organized labor to national health insurance can be questioned. The leaders of organized labor have enthusiastically endorsed the wrong kind of national health insurance -- wrong because it would be Federally funded, wrong because it would be Federally administered, and wrong because it would be unnecessarily expensive. But our latest public opinion survey showed that union members are no more likely than the rest of the public to favor a national health insurance program accompanied by a tax increase. I don't know whether this means the union members have not gotten the message that their leaders have sent them -- or that the union leaders are not getting the message their own members are sending them.

In any case, the evidence of the many public opinion surveys on this subject -- not just our own surveys -- shows clearly that the large majority of the American public does not see the need for a governmental takeover of health insurance, does not want to pay the additional taxes involved in such a takeover, and is deeply suspicious of entrusting its health services to another Federal bureaucracy.

Does this mean that the health insurance industry can sit back, relax and enjoy a few years of blissful comfort? Sure we can -- but if we do, the day inevitably will come when we will bitterly regret that we didn't make effective use of these next few years.

Today, there is great political appeal for catastrophic protection. We must be out in front making certain that any catastrophic legislation allows the private sector to get the job done. Most Americans already have catastrophic protection. If given the opportunity, we could close that gap.

There are other gaps. While we still have time, the private sector must face up to the fact that our present health care financing system isn't perfect -- and we must take vigorous action to improve it.

All Americans do not have adequate health care. There are gaps in coverage. What is badly needed is a private sector plan that takes care of the relatively few who presently are not adequately cared for -- the uninsurable, the poor, the near-poor, the unemployed and those between jobs.

If we can develop such a plan -- and if health care costs do not continue to soar beyond the reach of the average citizen -- then I believe we will be relieved for the foreseeable future of any pressure for a Federally-funded comprehensive plan of national health insurance.

