SOCIETY OF ACTUARIES

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National Health Care Reform: The Case for a Public Solution[1]

by Lawrence Gostin

Is the U.S. health care system in crisis? Conservative commentators say "no" because they can always find ways to minimize the severity of the unconscionably large number of Americans who have no health insurance. But it is important to put yourself in the position of a person who lacks full access to health care. It is all too easy for an individual of high socioeconomic status, with a full set of health benefits, to discount the pain caused by the lack of access to health care. But if they put themselves in the position of vulnerable persons they would understand that to these Americans, there is a crisis: the mother with a preexisting condition such as cancer, diabetes, or heart disease who cannot obtain coverage; the child in a low-to-middle income family who is not eligible for SCHIP; the unemployed man or woman with no employer based health coverage and ineligible for Medicaid; the underinsured who has only bare bones health coverage but has costly chronic conditions. For these, and many more Americans, the health system is in a crisis. And it is just too flippant to say they can go to an emergency room, which we also starve of funds.

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If conservative commentators cannot win on this argument, they usually try scare tactics where they associate any attempt at comprehensive reform as, you name it: socialized medicine, big government, Hillary Care, illegal immigration or anything that will frighten Americans into thinking that they will lose the privileges associated with their current health care insurance. This is so despite the fact that there are many successful examples of these kinds of "socialized" systems in the United States. For example, the Veterans health care system is akin to a national health service, Medicare is akin to a single payer program, and so on.

Americans have been taught that they should not have to give anything up so that the less advantaged can have more. But the hard truth is that we will have to give something up in exchange for a humane compassionate society. I am sorry if that sounds too "liberal," but the truth is that there are hard tradeoffs entailed, and this country can afford to provide health care to its entire population.

There is a third hobbyhorse of conservatives. The story usually goes something like this: "Everyone comes to America for high quality health care." But this is not quite true. Actually, the world's rich also go to major hospitals in Europe, where countries do guarantee health care to all. And Americans themselves now go to places like India to get good quality care at more affordable prices. We can't be so jingoistic as to think that we are the best and cannot learn from other countries. The truth is that America is the outlier in the world—the only developed country without a national health system. I am not making the claim that the United Kingdom, Canada, Germany, Japan, and many other countries have perfect systems, but we could learn from them.

So, the central question is, how can we truly measure the American health care system so that

[1] My thanks to Michael Gottlieb, O'Neill fellow for national and global health law, for superb research and writing assistance. For an examination of many of these issues, see Lawrence O. Gostin, National and Global Health Law: A Scholarly Examination of the Most Pressing Health Hazards, *Georgetown Law Journal* (2008) 96: 317-329.

we can have a rational debate in this country? The key measures of any health care system are access, fairness, cost, quality, and choice. Americans like to think that we have the best health care system in the world. But the United States health care system, by these measures, is not meeting the health needs of the population. The data are all too familiar, but the underlying indicators of success have been stubbornly resistant to change: nearly 50 million uninsured, including more than eight million children; the uninsured population rising by nearly six million from 2001 to 2005; and 16 million adults underinsured. The high rates of the uninsured and underinsured have profound implications for social justice, disproportionately affecting the poor and vulnerable: 73 percent of the underinsured have annual incomes below 200 percent of the federal poverty level. Low socioeconomic status (SES) Americans are also much more likely to be ill and die young. And the poor, particularly ethnic and racial minorities, receive lower quality care, with poorer health outcomes.

Such health disparities are well documented and affect African Americans, Hispanics, Asian Americans, and Native Americans. Minority groups in the United States have a higher incidence of chronic disease, mortality, and poor health outcomes as compared with whites. Cancer incidence, for example, is 10 percent higher among African Americans than whites.

Consuming $2 trillion, or $6,700 per person, total health care spending represents 16 percent of the gross domestic product (GDP), and is projected to rise to $4 trillion, or 20 percent of GDP, by 2015. Part of these costs is attributable to discretionary private spending, but the economic burden still adversely affects the Treasury, with government bearing 44 percent of total costs through public programs. And 30 percent of health care dollars—more than $1,000 per capita—is spent on administration. Total health care costs, as well as administrative costs, are considerably higher in the United States than in other industrialized countries. Canada and France, for example, spend roughly half of what the United States spends per capita on health care with excellent results.

Private insurers, moreover, spend large sums fighting adverse selection, trying to identify and screen out high-cost customers. Systems such as Medicare, which covers every American 65 or older, or the Canadian single payer system, which covers everyone, avoid these costs. In 2003, Medicare spent less than two percent of its resources on administration, while private insurance companies spent more than 13 percent. Paperwork imposed on health care providers by the fragmentation of the U.S. system costs several times as much as the direct costs borne by the insurers.

Despite the enormous amount spent in the United States on health care, there is little evidence of higher quality care compared to other developed countries, and even compared to some developing countries. The World Health Organization ranks the U.S. health care system 37th in the world, and Americans' overall health 72nd among 191 member states. Comparative data also show that the United States ranks low among OECD countries in critical areas such as life expectancy and infant mortality. And the Institute of Medicine estimates that medical errors cause as many as 98,000 avoidable deaths annually. Hospital capacity continues to decline—with nurse shortages impacting both the quality and economics of care—while demand continues to surge. The CDC reports a 26 percent increase in ER visits from 1993 to 2003. In those same 10 years, the number of available ERs nationwide has decreased by 12.3 percent and 90 percent of hospitals are considered at or beyond capacity.

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Apart from the effects on the health and vitality of individuals and the population, the health care system has spill-over effects throughout the economy: medical bills are overwhelmingly the most common reason for personal bankruptcy; hospitals, particularly emergency departments, provide a safety net at considerable cost; and employer health care costs affect global competitiveness.

The popular view about the relative strengths of the U.S. health care system is that it offers individuals more choice, with the implication that greater choice equates with higher quality and lower cost due to competitive pressures. However, Americans may have less choice than is popularly believed. Businesses often sharply limit the number of health plans offered to employees and managed care systems often restrict availability of physicians. In any event, the evidence does not support the assumption that consumer choice significantly increases quality or reduces costs.

These, and many other deficiencies, are well understood. However, the political community has not been able to agree on a solution, despite a proliferation of reform proposals during an election season. The ideological sticking point remains whether public or private solutions should be primary. The serious, foundational deficiencies I have thus far discussed are part and parcel of the private system. But despite the evidence, market theories say that we could fix the problem. The usual proposals are health savings accounts (HSAs), "consumer driven" systems, and high deductibility policies. I am not implacably opposed to all these proposals, but to think that they are sufficiently scalable to even make a dent in the problems I mention above is utterly unsupported.

Problem #1: HSAs, whatever their ostensible goals, are another ***tax break for the wealthy***, who have already been showered with tax breaks. Paying medical expenses with pre-tax income is worth a lot to high-income individuals who face a marginal income tax rate of 35 percent, but little or nothing to lower-income Americans who face a marginal tax rate of 10 percent or less, and lack the ability to place the maximum allowed amount in their savings accounts.

Problem #2: HSAs tend to ***undermine employment-based health care***, because they encourage adverse selection: health savings accounts are attractive to healthier individuals, who will be tempted to opt out of company plans, leaving less healthy individuals behind.

Problem #3: Evidence already demonstrates that ***people don't, in fact, make wise decisions when paying for medical care out of pocket***. A classic study by the Rand Corporation found that when people pay medical expenses themselves rather than relying on insurance, they do cut back on their consumption of health care—but they cut back on valuable as well as questionable medical procedures, showing no ability to set sensible priorities.

Problem #4: The essential issue has been misdiagnosed. Conservatives believe that Americans have too much health insurance. The *2004 Economic Report of the President* condemned the fact that insurance currently pays for "many events that have little uncertainty, such as routine dental care, annual medical exams, and vaccinations," and for "relatively low-expense items, such as an office visit to the doctor for a sore throat." The implication is that health costs are too high because people who don't pay their own medical bills consume too much routine dental care and are too ready to visit the doctor about a sore throat. And that argument is all wrong. ***Excessive consumption of routine care, or small-expense items, can't be a major source of health care inefficiency, because such items don't account for a major share of medical costs.*** A small number of people requiring very expensive medical care (disproportionately in the last months of their lives) account for 80 percent of medical expenditures.

So many questions loom large: Is the U.S. health care system in crisis? Do we really have the best health care system in the world? Are the well-off willing to give up some small benefits to help the most disadvantaged among us? Can the political parties come together to do what every other civilized country in the world has long accomplished—universal access to health care for the common good?