

ON HEALTH CARE REFORM

by Fred Kilbourne and Mark Litow

Everyone seems to agree that the U.S. health care system needs reform, and then different people espouse different solutions. Some people believe that if we merely provide everyone coverage our problems will be solved. Others say that we must control the cost of private insurance, get entitlement spending under control and lower claim cost trends, while at the same time covering those currently uninsured. More recently, proposals to address these issues have resulted in concerns about maintaining access to quality treatment for people currently covered by insurance or programs. But we need to be concerned about the actuarial and other principles underlying the combination of coverage, cost and access to treatment, or how we have arrived at our predicament.

An examination of the current groupings of options noted above shows how ultimately unsustainable they are. These results are evident because fundamental principles are being ignored in each of the following current approaches.

CURRENT APPROACH 1: COVER THE UNINSURED

To provide all or most of the uninsured with coverage, a vehicle is needed through either government or private coverage or some blend of the two. But then what happens? If we push

the previously uninsured into coverage, costs explode due to pent up demand, without any other change, as utilization of coverage under any type of program is much higher than for an uninsured population. This result will mean increases in government costs, private costs or both due to failure to satisfy principles of insurance let alone other shortcomings.

CURRENT APPROACH 2: PROVIDE GOVERNMENT COVERAGE WITH LOWER PROVIDER FEES

If we enroll people primarily into government coverage and reduce provider fees in an attempt to control costs while providing coverage, providers will reduce availability and access to quality treatment. Under this scenario, some think the government can wring out all of the inefficiencies in the process, but utilization under government programs, without restricting access to needed treatment, is generally much higher than private programs for the same demographic population; reasons include more fraud and abuse and mandates. Further, current government entitlements are grossly underfunded, and expanding them increases deficits, putting even more strain on the system. Principles not satisfied include those relating to matching revenues and costs, and supply and demand.

CURRENT APPROACH 3: MANDATE RICH PRIVATE COVERAGE

If we enroll people into private coverage and do not change the utilization implicit with heavy third-party payment, costs will be difficult to control. When people pay for a service or product with somebody else's money, they always spend more. Is this the fault of fee for service reimbursement or is the issue the financial incentive and lack of transparency of costs and services? Are we not confronted instead with classic over and under insurance issues and if so, how does enrolling more people into private insurance without other fundamental changes



address these issues? This approach also violates risk classification principles.

CURRENT APPROACH 4: MANDATE HIGH DEDUCTIBLE PRIVATE COVERAGE

Or what if we try and control costs by simply mandating that people purchase reduced insurance such as Health Savings Account plans? This should reduce cost, but some people will not be able to afford the out-of-pocket costs. Further, this approach does not satisfy the principle of actuarial soundness of entitlements, and with less money going to providers through private insurers/employers, availability issues could increase without other changes.

CURRENT APPROACH 5: MANDATE UNLIMITED ACCESS TO PROVIDERS

If reform creates unlimited access to treatment to the uninsured without any other changes, or even if the status quo is continued with the unlimited access today, the country is headed toward a financial apocalypse. Technological changes are wonderful and we should encourage them, but advancing technology, without balancing associated costs and measuring value, does not satisfy principles of checks and balances or risk management. Our society has limited resources, and focusing only on unlimited access will cause future harm to our entitlements, economy and standard of living.

This list of approaches does not include or address other concerns which also need attention, such as litigation, demographic changes, eligibility for Medicare etc. All of these issues need to ultimately be addressed to bring the health care system back under control.

A DIFFERENT APPROACH

If none of the approaches above can be successful, what should the approach to reform be? The answer can be found in what each of the approaches above avoids. That is, adherence to basic actuarial principles and those of other pro-


fessions that relate to health care. Health care is a complex issue, and treating symptoms without understanding of fundamental principles for success is a formula for poor solutions that may actually compound problems.

Examples of basic principles to which proposed solutions must conform are:

- Actuarial science: principles of risk classification and over/under insurance;
- Economics: principles of supply and demand and value creation;
- Safety Nets: principles of subsidizing only those in need with funding support provided by small amounts from all others who are not subsidized.
- Clinical: principles of maintaining or improving health care over time and meeting the needs of patients; and
- Other: principles such as those relating to risk management, accounting, etc., including a control cycle (i.e. actuarial control cycle).

This change in focus will not happen by accident. Rather, the framework and process followed must be rigorous and follow principles of all the parties involved.

Indeed, this process has in a sense begun through the most unlikely of sources--the public. How strange that the general population, with very limited knowledge of our health care system, has begun asking the right questions of our leaders in Washington. Furthermore, those questions are, as they should be, frequently actuarial in nature. To properly answer them, actuarial principles are needed as part of the foundation, so that people can understand what is black, white or gray.

Actuaries need to work with other professions and groups so that principles are espoused and maintained, and, the input provided is used properly. Such an approach has the potential for a sustainable and well functioning system, while the approach of today does not. 



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