The Other Side Of The Coin

by Dennis R. Barry

In today's health care arena in the United States, two seemingly inexorable, and conflicting, forces seem to be on a collision course. Politically, the cry is for universal insurance coverage, or more accurately access, for health care. Economically, the common perception is that health care in the United States costs too much and doesn't necessarily deliver as much bang for the buck as it should considering the price. Reconciling these forces seems at best difficult and at worst impossible, but there is a way.

Politically Speaking

On the political side, universal insurance coverage has great popular appeal. In practice, however, its effect will be to provide a new source of revenue from which medical costs might be covered. While some of those currently uninsured are poor, many have insurance available to them, but have chosen to forgo it. Of course they are at risk in the event that something catastrophic might happen; however, they have opted to take that risk rather than pay for insurance they see as largely unnecessary. For many of the voluntarily uninsured, universal coverage would be a net cost rather than a benefit—they may get some additional medical care, but overall it's doubtful they will cover their premiums. For the uninsured poor—for whom access to care is now generally available one way or another—there's not a lot of gain either.

The Cost Perspective

On the cost side, things are less clear. There are lots of good ideas about how to reduce costs. One with broad appeal is to change the practice of medicine to focus more on prevention rather than reaction to disease. That seems self-evident, but it will take time to happen. Another proposes to construct a nationwide database which in theory will make care more efficient. There are proposals to wring various kinds of overhead out of the system. There are many other proposals as well, all of which have merit in one way or another. However, it's important to recognize that one person's health care cost is someone else's health care income. In order to reduce health care costs, a way must be found to reduce health care incomes. Those changes are not going to come easily, especially when universal coverage—if it comes to pass—will be pushing costs in the other direction. To say that the "health income reducees" might resist is an understatement, but it does point out the difficulty of bringing costs down. Each constituency is going to hang on to what it has for as long as it can, as would the rest of us if our incomes were threatened.

It seems to this writer that there are two possibilities regarding the reduction of health care costs, and the associated incomes. One avenue to pursue—by far the less appealing—includes a series of bureaucracies establishing prices and/or treatment practices and/or administrative approaches and/or whatever else bureaucracies can think of to control. Whether those bureaucracies come from various parts of the federal government or from contractors who effectively fill the same roles, any practices established (including prices) would be artificial and costly both to determine and to enforce. The effect of this approach is visible today as Medicare administrators artificially push down reimbursements to providers, and the providers in turn refuse to accept any more new Medicare patients. Right now, those providers have other potential customers to whom costs can be shifted. But, if all care being provided was subject to the same bureaucratic processes, the ultimate result isn't very appealing. It's not unimaginable that all Medicare patients could end up in public hospitals that aren't legally allowed to turn anyone away, or maybe even that the entire health care industry could become a public utility. Perhaps in today's economic climate—with unemployment rising and employer-provided health insurance being lost—a solution that depends on artificial cost controls can be made to sound appealing, but in the long run it is not commendable.

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The other possible route to reduce health care costs is through the actual health care services market, but it would require political action opposite to what would be popular. Suppose that there was no first-dollar health insurance for anyone but the very poor. If everybody had to pay for their health care—to the extent they can afford it—the market would very quickly shake out whose health care income should be reduced and whose shouldn't. This approach would require universal insurance, but only stop-loss insurance at different deductible levels depending on income. The two best points of this approach would be: 1) no one would be subject to economic catastrophe because of a medical problem; and 2) the market, rather than an appointed bureaucracy subject to political pressures, would decide which health care providers would thrive.

In my opinion, insurance, true insurance, has three defining characteristics:

- It applies to events that are random, and non-trivial.
- It applies to events that the insured prefer not happen (childbirth being perhaps the lone exception).
- It reimburses for an otherwise unaffordable economic loss.

Modern health insurance commonly violates all three of these characteristics in one way or another, but especially violates the last one noted above. There is no reason why someone making $50,000 per year needs health insurance to pay for a $100 doctor office visit or a $4 prescription. There is no reason why someone making $100,000 needs health insurance to pay for a $1,200 diagnostic test. There's no reason why Bill Gates needs health insurance at all! The need for insurance depends on the resources of the person being insured. One size does not fit all.

Successful Health Care Financing

As I wrote in an article recently published in *Contingencies,* any successful health care financing system should have at least the following characteristics:

- Universal access for everyone to *necessary* health care.
- Out-of-pocket limitations on *necessary* expenditures at the individual and/or family level. People shouldn't have to go broke acquiring needed health care. Nor should they get that care for free unless they cannot pay.
- A connection between the total amount an individual or family pays for its necessary health care and its ability to pay.
- Financial involvement of the patient/family in all treatment. There should always be some out-of-pocket cost—not reimbursable from any source—for every encounter with a health care provider.

Only the second and third bullet points above have anything to do with insurance. They deal with things insurance should always deal with—cushioning of individuals against losses they otherwise cannot afford. Modern medical insurance sometimes accomplishes this goal, but often does not. If small items are covered, that's not insurance. It is non-productive dollar swapping, an inefficient use of resources. If the medical insurance policy is limited at a relatively low maximum amount, the risk of catastrophe still exists.

A stop-loss program as described could readily provide the features people like in a health insurance program—freedom to choose a doctor or hospital, freedom to go to a specialist, freedom to insist on a CT scan, freedom to use a designer drug rather than a generic, etc. The only catch is that the patient would have to pay, except in catastrophic circumstances. That seems a perfectly natural approach to purchasing anything, including medical care. It would certainly winnow out the parts of the current treatment process that we could live without or with less of—and it would still protect us against the catastrophic medical events that threaten us all.

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Insurance is personal to the insured. Our circumstances and resources are all different. And while it would be nice to have someone else pay for all our medical care needs, that's not realistic thinking. Insurance doesn't create money. It redistributes money, and that's all it can ever do. But as long as people see insurance as a pot of gold to be used, they have no incentive whatsoever to seek efficient treatment rather than intensive treatment. Until people have to invest their own money into their own treatment, the idea of containing costs is a pretty tough one to swallow.

During the recent presidential campaign, Senator John McCain said, in effect, that it makes no more sense to require someone to buy health insurance than it does to force them to buy a house. He's wrong, but only in part. Everyone should have insurance for the catastrophic health risks that we all face. One of the great tragedies of life is when a family is wiped out because one of its members had an uninsured medical problem. That shouldn't happen in the United States, to anyone. But, there is no reason why anyone should be compelled to buy health insurance that covers things the person could easily afford personally. That's a bad use of resources, and it breeds a lot of bad habits on the parts of both patients and providers. We can do better. We need to do better. What we're doing now isn't getting the job done—economically, socially or medically.

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