

A Facilitated Free Market Approach

by Tim Maroz

In order to sell a health care system vision to the public and to a great variety of stakeholders, it has to be simple, logical and have a high perceived return on investment. My suggested approach would likely meet these criteria. Here is the essence of my vision:

Provide consumers of medical care with transparent and comparable price and quality information to enable them to make economically optimal decisions.

Many economic theories are based on the assumption of perfect information. Having perfect or near-perfect information would enable the “invisible hand” to align the forces of supply and demand in the equilibrium price/quantity combinations for medical services and prescription drugs. It would also increase competition between providers of medical services and prescription drugs, which should favorably affect the consumer.

Current Situation

Under the current state of affairs, patients are usually unaware of the cost of their upcoming medical service or prescription drug until after they buy it. The cost of the service would depend on the amount charged by the provider and on the discount, if any, negotiated by the insurance company. The lack of upfront pricing and comparable quality information hinders optimal decision making.

We can take any competitive free market industry as juxtaposition: for example, the car industry. Availability of fairly good price and quality information leads highest relative quality/lowest relative price automakers to succeed. Wouldn't it be logical for the higher quality/lower cost hospitals and physicians to attract more patients? The less effective and less efficient providers of medical care would need to take steps to either improve the quality or reduce the price of their services. Same goes for prescription drugs: a lower cost drug with comparable or better outcomes should logically gain market share. (The patients would need to

make trade-offs between incremental differentials in price versus quality, but this should naturally happen.)

Redesign Of Medical Coverage Cost Sharing

We need to make health care consumers more cost conscious. Making people pay more at the point of sale would result in more efficient and effective utilization, which will paradoxically lead to more affordable health care for everyone. To draw a parallel, a person with modest means would try to eat as much as he or she can at a low-fixed-price buffet, but may limit himself or herself to a glass of water and a main course at a nicer restaurant. Wine, appetizer and dessert are available, but would cost extra out-of-pocket. There is no reason medical service utilization cannot work in a similar economic fashion.

Whether it is partially mandated by the government or driven by the marketplace based on guidelines from the government, medical plans need to be redesigned to include significant employee coinsurance (e.g., greater than 20 percent, up to 50 percent). Current fixed-fee plan design parameters (copays, deductibles, etc.) have a limited impact on utilization and provide little incentive for the consumers of the medical services and prescription drugs to learn about the comparative price and quality of medical care providers and, therefore, no incentive to price shop.

Preventive services should be covered at 100 percent subject to a stipulation that if preventive services—such as an annual physical—are not performed, the coinsurance for the remaining services would go up (e.g., by 10 percent). Not following treatment plans, such as specific prescription drugs, should also carry a significant penalty.

This should apply to Medicare and Medicaid participants as well. Both of these categories are at least partially subsidized by current taxpayers. Therefore, it may be perceived as acceptable to require Medicare and Medicaid beneficiaries to: utilize preventive services, adhere to

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treatment plans, and use discretion in utilizing medical services and prescription drugs. (For example, we could implement steep financial penalties for Medicaid recipients for using emergency room facilities for non-emergency services).

Funding Of Higher Cost Sharing

If mainstream health insurance plans adopt higher coinsurance designs, individuals should be provided with a vehicle that would enable them to set aside money to use for medical expenses. A tax-favored Health Savings Account or a similar structure would be an ideal vehicle to meet this need. This account should have a high maximum allowed contribution and should be extended beyond the group plans to the individuals who are currently uninsured. The account money could be used to pay premiums and pay medical/Rx/dental/vision coinsurance, with balances that can be saved for future use, including postretirement medical expenses.

Linking Pricing Of Medical Services To Quality And Care Delivery

In order for the pricing transparency to be successful, it has to be relatively simple for the consumer to figure out and it has to be coupled with the quality ratings.

To simplify the pricing, it could be linked to clusters of care as opposed to individual services. For example, there could be a price for annual ongoing care of a diabetic at a given stage of her condition. Hospital pricing could be primarily based on a diagnosis—as is currently the case for Medicare—rather than on the number of services performed.

The medical community should play an active role in designing the pricing structure and in developing acceptable quality metrics that could be consistently used to evaluate the performance of physicians and hospitals. I believe there has been some progress made in developing “Zagat” ratings for physicians that evaluate a number of parameters, including such service metrics as waiting times.

Quality ratings should also reflect the adherence of hospitals and physicians to evidence-based treatment guidelines. Quality ratings and pricing information could be delivered via the Internet.

Impact On Health Care Reform Objectives

Enforcing pricing transparency and developing appropriate pricing units, developing relevant evidence-based treatment plans and corresponding quality guidelines, and implementing universal tax-favored medical savings vehicles would all require upfront investments. However, these investments would likely be very modest, with a substantial ROI.

Making prices transparent will likely reduce the sticker prices for most medical services by almost half. In and of itself, this will make health care more affordable.

Moreover, there should be substantial savings from the economically optimal utilization of medical services and prescription drugs due to the increased price and quality information transparency. These savings to the health care system should enable the marketplace to provide affordable preventive and catastrophic coverage to the currently uninsured.

Tim Maroz, ASA, MAAA, FCA, is a vice president at Aon Consulting in Somerset, New Jersey. He can be reached at tim_maroz@aon.com.