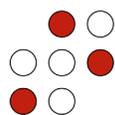


# A PRIMER ON HEALTH CARE REFORM

A DrScore White Paper

**Steven R. Feldman, M.D., Ph.D.**

**Founder and CEO, DrScore.com**



**DrScore.com**

PATIENTS SPEAK, DOCTORS LISTEN

### Trip to Best Buy

Things that need batteries always catch my attention. So when my family says they want to make a trip to Best Buy, I'm ready to go. What a great store! What a great country! What a great time to be alive! Going to Best Buy reminds me that I'm probably wealthier, at least in terms of the goods I can buy, than most of the richest kings in all of history. Best Buy is filled with many amazing gadgets: sound systems, radios, telephones, electronic games, MP3 players, household appliances, cameras, video recorders, computers, and computer peripherals. There are so, so many options and choices.

The computers are truly amazing. When I finished my training in dermatology and joined the faculty of the Wake Forest University School of Medicine, I splurged and bought a really nice home computer. I was so proud of it. It was a state-of-the-art Gateway 486DX, 66MHz machine. I paid an extra \$1,000 so it would have lots of RAM— 16MB of RAM to be precise. The entire package cost \$5,000. Of course, by today's standard, that computer is an archaic piece of junk.

A modern computer might have a 3.2GHz processor, over 50 times faster than the one in the old Gateway, and would have 250 times as much RAM. The modern computer would be smaller, lighter, have a bigger screen, and would cost 1/10<sup>th</sup> what I paid for my old Gateway. Over the past 15 years, the quality of computers has improved dramatically, and the cost has continued to decline. It would be hard to find a 16MB USB drive today; a 1GB USB drive costs no more than a few dollars.

There's tremendous competition driving innovation and keeping pressure down on prices. My nearest Best Buy store competes with nearby Circuit City, Costco, Walmart, Sams, Target, Office Max and Office Depot stores. The different suppliers for these stores compete on price and quality too. No doubt we can expect the speed of computers to continue to improve while the price continues to drop.

The tendency for consumers to look for the best deal helps keep prices in check. If consumers didn't care about price, Best Buy could charge a lot more. Best Buy doesn't though, for if they did, customers would go somewhere else.

The consumer also looks for quality: faster computers, more gigabytes of memory, more megapixels of camera resolution and more features. Those aren't the only measures of quality though. Reliability is critical too. Sometimes it's hard to know how well something will perform. Sometimes brand names help, as companies with strong reputations can command higher prices. These companies have an incentive to make good products and to provide great service to maintain their reputations. Sometimes the recommendations from trained professionals at the store can be used to help guide a purchase decision for a complicated product that we otherwise don't understand.

Service quality also affects decision making. While people could go to Best Buy, for some purchases a consumer might prefer going to a smaller, boutique-type store, say to buy a home theater audio system for example. The one at Best Buy probably works pretty well; the one at the boutique may or may not be better, but the personnel there may have more experience and training with audio systems. They may charge higher prices but provide better (almost certainly more personal) service. While most people may feel the need to have a TV or stereo system, they don't all need one of the same size, they don't pay the same price, and they don't even shop in the same stores.

The inner workings of all these electronic devices are a bit of a mystery to me, despite my interest in science and technology. I may understand the basic physics of blue ray technology but not all the engineering that goes into these devices. Fortunately, the stores from which I buy these items attend to

a reasonable minimum guarantee of quality. Beyond that, if I want, I could take the time to research the quality of services using Consumer Reports or online product reviews. In the end, though, it's up to me to decide if the price of a product is worth the benefit I would get from it. Because it's my money and my benefit at stake in the decision making process, I have a strong incentive to seek out a high quality, low cost product with great service.

These consumer experiences are basic to our every day life in the capitalist world. The market—the direct interaction between buyers and sellers—provides a system in which there are incentives to improve quality and service and to lower cost. Buyers are careful to purchase that which they value and not to waste money on things that provide little benefit to them. The market is an amazing system in which simple economic principles function. This system makes food inexpensive and plentiful. This system provides for an extraordinary array of housing and clothing choices and underlies the availability of an incredible array of affordable goods, services and entertainment options. This system—direct interactions between buyers and sellers— does not, however, underlie the economics of healthcare in the United States, and that is the basic problem underlying the U.S. healthcare cost crisis.

## Health care reform myths

The U.S. healthcare system is an amazing healthcare system. Many of the best, brightest, most caring people work in it. This system is capable of extraordinary technologic feats, treating previously fatal ailments, peering unobtrusively into the depths of the human body. Yet if there is one thing on which Republicans, Democrats, Independents, Libertarians and most everyone else can agree, it is that the U.S. healthcare system is broken. The costs are just too high and continue to grow. The high cost means that if a person is not incredibly wealthy or insured, he or she not going to have good access to medical care. People who are insured can lose that insurance, sometimes just by changing their jobs or perhaps sometimes just by becoming ill. People who are already sick with a condition can't get coverage for that condition. Sometimes people who are covered by insurance aren't covered well enough to make their medical needs affordable.

There's agreement that something needs to be done to fix the system. That's as far as the agreement goes, because there isn't agreement on what exactly causes the failure in the current healthcare system. Many of the theories that have been proposed are simply myths—well meaning proposals, but myths nonetheless.

First is the idea that there isn't enough competition in the insurance market. There's plenty of competition already. There are more health insurance companies, options, and plans than there are companies making many of the high quality, low cost consumer goods sold at Best Buy. Adding more competition among insurers isn't at the heart of the problem.

Then there is the idea that inefficiencies in the system are responsible for the high cost. Proposals to eliminate inefficiencies sound good, but if those inefficiencies are there, why haven't we already gotten rid of them? If companies providing healthcare services or insurance are so inefficient, competition would have helped already cut them out, much as Circuit City was rooted out by competition in the retail electronics market. If any insurer was providing terribly inefficient, low quality, high cost service, employers would find a better insurer.

Some people seem to blame "evil" insurance companies for the crisis. The concept of a health insurance company is—much like everything else in healthcare—quite a noble enterprise. People working

in the health insurance industry help patients get access to medical care. There's nothing wrong with that. The fact these organizations are for profit isn't bad either. For-profit companies make and sell all those wonderful, high quality, low cost electronic gadgets at Best Buy. Being "for profit" doesn't make a company evil and doesn't make the company's products or services expensive. In fact, being "for profit" provides the incentives to compete in the market.

I heard one talk show host claim that being a "for profit" company means a company's goal is just to make money. That is ridiculous. Fed Ex is a "for profit" company whose mission is to deliver packages. Canon is a "for profit" company that makes great cameras. Apple is a "for profit" company that makes great, easy to use computers. Disney is a "for profit" company that gives people a magically great experience. Don't be fooled into thinking that because a health insurance company is "for profit" that its only reason to exist is to make money or that its "for profit" status underlies the high cost of medical care.

High salaries for executives at health insurance companies aren't the heart of the healthcare crisis either. I must say that seeing some of the ridiculously high salaries makes me sick (being naturally envious may be part of my thinking there). Some of the salary figures seem unconscionable. But even if those salaries are somehow unfair, they aren't the problem underlying the U.S. healthcare crisis. The combined value of all the health insurance companies' top executives' pay probably doesn't add up to more than a few percent of annual healthcare spending, perhaps less. There's high executive pay in many industries. The heads of Microsoft, FedEx, Apple, and Disney probably do very well, yet those industries provide great quality and affordable prices. No insurance is needed to purchase products or services from those industries.

Then there is the myth that "evil" drug companies are the problem. These companies aren't evil at all; they are the companies that take the risks to make the innovations that actually improve patients' lives. There's nothing inherently wrong with being a "for profit" drug company. Drug companies are just like all the other "for profit" companies that make products that people buy. If drugs are extraordinarily expensive, so expensive that they are unaffordable unless a person has great insurance, it isn't simply because the companies that make those drugs are "for profit" companies. As we saw with all the products at Best Buy, the "for profit" companies that make those products compete on price as well as on quality.

Another myth is that "evil" malpractice lawyers are at the heart of the problem. OK, I have to admit that as a doctor I can't toss away the "evil" adjective before malpractice lawyers as easily as I did for the insurers or drug companies. Logically, though, I know malpractice plaintiff's attorneys aren't evil. They probably consider themselves a force that encourages better medical quality. Moreover, though fear of malpractice suits cause doctors headaches and lower our quality of life, malpractice risks account for only a tiny fraction of health care costs.

Some people argue that fear of malpractice drives doctors to order unnecessary and expensive laboratory tests. Based on my experiences in the trenches of medical care, I think that's probably pretty uncommon. On this point, lawyers may be right. If a test were truly unnecessary, then not doing it wouldn't lead to a lawsuit. Sometimes doing a test might not be cost effective, but when you are dealing with an individual patient, you ought to offer the patient those services that may benefit the patient without regard to whether it is cost effective or not. Patients often don't care about cost effectiveness since the patient has contracted (usually through the health insurance their employer provides) to have their medical care needs paid for by someone else.

So why is the U.S. health care system broken? Why are we spending so, so much for medical care with no end in sight to the increases in cost? Why is the cost of medical care so different than the costs of so

many other goods that we buy? Well, it is largely because unlike any of the things we actually buy ourselves, medical care isn't something most of us pay for directly; the insurer is paying the medical bills, insulating us from the price of the medical care we use.

## The real reason why medical care costs so much

As a dermatologist, one of the most common problems my patients have is psoriasis. Psoriasis is a red, scaly rash that can affect different parts of the skin. These spots on the skin are caused by inflammation, in other words, an overactive immune system. When psoriasis is particularly severe, the inflammation causes internal problems. Psoriasis is associated with arthritis, heart disease, and depression.

Psoriasis has been a model for the development of new anti-inflammatory drugs. Much in dermatology has been learned through our understanding of psoriasis. Psoriasis can also help us better understand the costs in our health care system.

Let's consider first a patient with relatively mild psoriasis. This patient may just have a few red, scaly spots on the elbows and knees. They have several reasonable options to treat these spots. First, they could use a high potency topical cortisone medication on the psoriasis. This medicine would probably clear up the spots if the patient were to use it regularly. The topical cortisone medicines are reasonably safe, though with persistent long-term use cortisone medicines can cause some thinning of the skin.

The high potency topical corticosteroids have been around a long time. Generic versions are available in creams and ointments and can be purchased for only a few dollars a tube. The creams and ointments are somewhat messy, however. If patients prefer, they can choose newer formulations including a spray or foam that is less messy and easier to use. These new formulations are more expensive than the older, generic products, costing \$100-200/container. Another option is a vitamin D cream or ointment. These drugs are considerably more expensive than generic topical cortisones but have fewer long-term side effects. One company developed a combination cortisone/vitamin D ointment that contains both products. While this is a convenient way to get the benefit of both drugs at once, a large tube of the medication can cost \$800 or more.

Which of these options do psoriasis patients choose to get for their psoriasis? It often depends on their insurance status. If patients are paying for the medication themselves (for example if they are uninsured, have no prescription benefit, or have a high copayment for medications) they will often choose one of the low cost, generic topical cortisone medications. If patients have good prescription coverage as part of their insurance, they may choose a more expensive, branded cortisone medication. I had one patient who had terrific drug coverage in their insurance plan. When offered the choice of a low cost generic cortisone, the less messy/more costly high strength cortisone in the spray, and the highest cost combination cortisone/vitamin D medication, the patient said, "Doc, give me the spray and the combination drug. I'll try them both and see which I like better. My insurance covers the cost of my medications."

The cost of medical care doesn't follow the rules of cost that apply to all the products at Best Buy because the people who consume the medical care aren't the ones directly paying for it. If well insured patients are given a choice between a \$10 drug that may work reasonably well and a \$10,000 drug that might work 10% better, the patient may choose the \$10,000 drug. That kind of thing doesn't happen at Best Buy. People won't pay a 100 times higher price for a computer that offers just 10% more RAM or a camera that has 10% more pixels. Few Best Buy customers are likely to say, "I'll take both computers and see which

one I like best; someone else is paying for them.”

The underlying problem that makes the costs of our health care system so different from other products and services is that people are not paying for their care from their own wallets and purses. If people were paying for care out of their own pockets, they wouldn't buy \$50 aspirin pills in the hospital. They wouldn't pay hospital room rates that cost far more than that four-star hotel rooms. They almost certainly wouldn't pay for high cost, unnecessary testing that wouldn't be expected to benefit them. People would pay for less expensive products that met their needs and would be more discriminating in their choices. As they do for so many other products that they purchase, they would search for the best deals on medical care. Some people would even choose to purchase less care than another person might choose to buy. Providers of services would be forced to compete on price, and the price of health care services would drop, *making care more affordable for everyone*.

There are people who argue that medical care is inherently different from other services we purchase, that we need health insurance companies to make decisions for us and to pay for things that we can't afford. Certainly the growth in the cost of health care is different from other goods, but *much of the high cost is caused by health insurance, not solved by health insurance*. There are emergencies and complexities that may make it seem like health care is in a different class compared to other products. Health care isn't so different. There are non-health care emergencies and other incredibly complex products and services that we purchase. Whenever we buy those products with our money, our tendency to search out low prices helps keep prices low. Our tendency only to pay for those things that are worth the price keeps prices down too.

### **Isn't medical care different from other services we need?**

Medical care seems to be very different from TV's, automobiles or other goods and services. When we talk about health care, we're talking about people's health. While we don't all have a right to the biggest TV, perhaps everyone in our very wealthy country should have a right to the best possible medical care. On the other hand, maybe we shouldn't. Health, like audio equipment, may be more important to some people than to others. Given the choice, some people might choose to spend more on their health at the expense of other of life's options, while someone else might spend less. Is that ok? Is it ethical? It just is.

Consider the car my wife and I bought for our son. He recently turned 16, and in North Carolina that makes him eligible to drive a car. His safety was our utmost concern. He wanted us to get him a Saturn. We decided to get him a Volvo.

I'm now more attuned to looking at the cars on the road. I see a lot of Volvo's. Volvos have a reputation for safety. But not everyone—not even every new teenage driver—drives a Volvo. There are tiny little Smart cars and behemoth Yukons and all sorts of cars in between. There are minimum safety standards for cars in the US, so everyone is guaranteed some reasonable level of safety, but for some people health and well-being are so important that they will pay for a higher standard. Those people choose Volvos or other cars with great safety features.

We accept that everyone doesn't have to have an equally safe vehicle, even though this impacts people's health and lives. We even let people drive motorcycles! Is optimal auto safety something to which everyone is entitled, something that society guarantees to all citizens? No. We accept that we all have choices. We make choices about health related issues based on what it will cost us and whether we think

the benefits are worth the cost.

Is everyone entitled to the \$800 tube of medication to treat their psoriasis when a \$4 tube of cream from Walmart or Target pharmacy might work almost as well? Not if we want to control U.S. healthcare costs. There are incentives for patients covered by some insurance to take cost into account when making the decision of which product to purchase. Those incentives are in the form of copayments (say \$5 for generic or \$50 for brand name) or coinsurance (for example 20% of the cost of the medication). Incentives that make patients pay more for more expensive medications help control costs not just by having patients choose to forego a higher cost drug but also by encouraging the manufacturer of the higher priced drug to charge less.

I think most people would agree that everyone in our society should have affordable access to adequate food and shelter. Most would also agree that society shouldn't guarantee everyone the right to the best possible food or the best possible shelter. People who want to live in a nicer house have the responsibility themselves to work toward that goal, to save in other areas if they want to spend more on housing. Medical care isn't different; it can't be if we are going to control the cost of health care.

## Coupons

One of the great ironies of our health care system is the copayment assistance program. Such programs seem like a wonderful way to help patients obtain access to modern medical treatments. Here's how they work. Let's say a company comes out with a new drug, and they set a price of \$800 for a month's supply. The insurer may cover much of the cost of the drug. But because the drug is so much more expensive than other options, the insurer puts the drug on "tier 3" requiring patients to pay 20% of the cost. In this example, that's \$160/month, nearly \$2,000/year, a considerable sum of money. Some patients either can't or won't pay that much. To help patients get better access to the drug, the company may offer patients a rebate or coupon program that cuts the cost of the copayment from \$160 to something far more affordable, perhaps just \$10 or \$20/month.

This sounds like a great way to help patients. Unfortunately, it is also a great way to game the system and keep the costs of drugs high. The purpose of copayments is to create some incentive for patients to choose a lower cost product, the same way we have an incentive to find and choose a lower cost TV or other electronics product. The copayment assistance cards insulate patients from the cost of the drug, such that they may choose the higher priced drug even though it has perhaps little marginal benefit over a less costly alternative. The drug company can charge the insurer a very high price. There's no incentive for patients to worry about whether the marginal benefit of the new, high price drug is worth the added cost.

We have some great new drugs for psoriasis. These high-tech, "biologic" medications were developed based on improvements in our understanding of how the immune system works. The new biologic drugs are very effective and very safe. They are probably better than the older medications we used to use to treat psoriasis. These new medications also come at a higher price. For example, methotrexate—which has been used for psoriasis for over 40 years—used to be the gold standard treatment for psoriasis. Great care had to be taken when using the drug, however. A variety of blood tests are required every few months to monitor for toxicity. But the drug itself cost very little, perhaps as little as \$20/month. The new biologic drugs that are replacing methotrexate as a psoriasis treatment cost over \$1,000/month.

In a world in which patients paid for drugs themselves, the drug company would have to lower

the price to get people to buy the drug. When someone else is picking up the tab, patients rightly choose the best possible drug, even if it were only marginally better (and biologics are probably a lot more than just marginally better). Insurers may require patients to pay a higher copayment for the biologics. If the copayment is 20% of the drug cost, patients may have to pay \$300-400/month for their share of the cost of the drug. At that price, few patients would buy the product. Insurers ask patients to pay for a part of the cost in order that patients consider the financial cost of using the biologic. If drug companies are permitted to eliminate the copayment that insurers have in place, incentives for the patient to be cost conscious are removed, and the drug company no longer has to compete on price.

Recently a new drug for psoriasis was approved. This drug looked like a truly wonderfully effective (and apparently safe) new option for patients with severe psoriasis. The very day the drug was approved, the manufacturer sent me detailed information about the drug, how it works, and the results of the clinical testing of the drug. But they didn't say anything about the price. I asked one of the company representatives point blank, "What does it cost?" The answer I got was, "it won't cost your patient anything out of pocket for the first four months."

The price of medications is very complicated. Wholesalers might pay one price, large pharmacies another, large insurance plans may contract for yet a different price. The actual standard price of the medication was over \$4,000 per dose. I applaud the effort to make this new miracle drug affordable for patients, but I'm not sure it is such a good idea that companies do it by getting rid of the copayment. Shouldn't patients have to decide if the potential benefits of this drug are worth something to them? People do for any non-medical product they choose to purchase whether it is clothing, housing, education, or any other good. If patients don't pay anything for the drug themselves, they may choose an extraordinarily expensive treatment that offers them little benefit compared to other choices they could make.

A similar phenomenon happens, albeit on a smaller scale, when doctors see patients without charging copayments for the visits. The doctor may feel that they are just being nice to patients by not charging the copayment. But these copayments have a central place in helping regulate patients' use of doctors' services. Doctors can reasonably see a patient without charging the patient (or the insurer) anything if the doctor wants to help the patient out. Taking payments from insurers without trying to collect the copayment is somewhat dubious and sometimes illegal.

Years ago, while still in training, I went to see a dentist for a regular check up and to address a minor problem. It was a very rainy day, and I was able to get in right away due to a cancellation. Understanding that I was a student, the dentist offered me a very reasonable, low price for his services. Upon finding out that I was insured, he said I didn't need to worry about the bill at all, and that he would happily take care of everything directly with the insurer. Almost certainly, he billed the insurer far more than he offered to bill me directly. Insurance doesn't just insulate the purchasers of services from the cost of the service; the doctors who provide the service have little compunction about charging unseen, 3<sup>rd</sup> party insurance corporations whatever the doctor can, while many doctors wouldn't directly charge the patient such a high price.

## Economics

The issues I've described regarding the real problem with healthcare aren't new. The effect of insurance on prices is a basic issue covered in first year economics courses. Price is determined when supply and

demand are equal. If insurance lowers the prices that consumers pay for a product, then far more of the product will be consumed, and the total cost paid by consumers and the insurer will be much higher than the price would have been if consumers had paid for the product themselves. There's nothing about this that is specific to healthcare. It is true of any insured product. The high cost of automobile body repair is a function of the fact that the insurer, not the car owner, pays for the repair.

If our society were to decide that everyone had a right to the best possible house but didn't have to pay for it, the quality and prices of homes would skyrocket. If our society were to decide that everyone had a right to the best possible TV but didn't have to pay for it, we'd all have extraordinarily expensive flat panel televisions covering one or more walls in our homes. If our society were to decide that everyone had a right to the best possible milk but didn't have to pay for it, we'd all be drinking milk from organic, hormone-free, grass-fed, free-range cows, delivered in chemical-free, gold plated containers. The increasingly high cost of health care is largely a direct result of the insurance system that we have in place to pay for that care.

Imagine for a moment that we decided that having HDTV was essential to being an informed citizen and that everyone in the United States had the right to the best possible HDTV. In order to achieve that aim, employers would be mandated to provide all employees "TV insurance" that covered 80% of the TV cost. Immediately, the cost of HDTV sets would rise dramatically. Very quickly, new HDTV innovations would hit the market. The costs would become so high that there would be a crisis for uninsured people who would have a very hard time affording the new HDTV sets. The result of such an insurance system for televisions would be very similar to the healthcare crisis we face today.

Adding a public option insurance plan along the lines of existing plans doesn't address the underlying problem. Implementing any new healthcare programs that simply insure more patients will not control the cost of healthcare. Passing laws that prevent insurers from denying coverage for pre-existing conditions doesn't solve the cost problem either (and creates the incentive for everyone not to have insurance until they get sick). Proposals for insurance systems that further minimize patients' direct contributions to the cost of care will only exacerbate the cost problems we face.

Solving the problem of increasing high costs for health insurance must address the basic principle that someone has to say no to high prices. Somebody has to have an incentive to pick the less expensive option and to encourage sellers of healthcare products to lower their costs. To whatever extent that we are going to solve the healthcare cost problem without government or insurers rationing care, it must be by empowering patients to make rational healthcare consumption decisions. Patients who use care must pay for the care; if they don't, they won't have the incentive to control cost.

## **Rationing**

In order to keep costs down, someone has to take cost into consideration when determining what medical care is purchased. If patients are paying for care out of their own pocket, the patient will take cost into consideration, thereby controlling the cost of care. If a third party—an insurer or the government—is paying the cost, that third party either has to take cost into account when making coverage decisions or costs will skyrocket. Under a 3<sup>rd</sup> party payment system, the only way to control costs is for the payer to ration care.

In the context of medical care, rationing simply refers to controlling what medical services will be purchased. Insurers can do this in a number of ways. There may be some services they don't cover at all.

They may negotiate lower rates from some doctors and drug companies, choosing to cover services from some doctors and not others and products from some drug companies but not others. These decisions limit patients' choices in place of patients making those choices for themselves. Insurers may involve patients in rationing by creating different copayment levels (or the use of a fixed percentage coinsurance) to incentivize patients to choose lower cost treatment options.

William Liss-Levinson, Ph.D., is Vice President and Chief Strategy & Operations Officer for Castle Connolly, an organization that helps consumers find the best healthcare in America, publishing lists of Top Doctors. Bill knows a lot about medical care. He points out that rationing is already happening at one level or another.

As Bill points out, the simplest rationing is done by patients themselves. If his doctor recommends a new, expensive brand name medication, he asks if there is an alternative, older, generic medication that can be used instead, ideally one available from the \$4 list at Target and Walmart pharmacies. I do that myself, paying about \$2 for a 3-month supply of simvastatin (the generic of Zocor) rather than pay for a more expensive, newer statin drug (that might be somewhat more effective) for my high cholesterol.

Health insurance companies and government run plans ration care, too. When patients abdicate their responsibility for choosing for themselves, the 3<sup>rd</sup> party payer decides what will and won't be covered. There are multiple biologics for psoriasis. The insurer can command a discount from the manufacturers of these products. They may entice one of the companies that makes biologics to give the insurer a low ball price, guaranteeing that drug company all of the insurers' business for a biologic. In doing so, the insurance company has taken over for the patient in deciding which biologic the patient will get, rationing away other options.

When an insurance company doesn't cover a particular doctor, drug, procedure or test, patients can pay for it themselves, but typically few choose to do so given the cost. Perhaps the very wealthy would have no problem making such a choice. In our current healthcare system, choices are being made—rationing is occurring—and some people have better access to treatments than others. That's not necessarily a bad thing. We may agree there is a right to food, but not a right to the best possible food. We may agree there is or ought to be a right to housing, but certainly not a right to the best possible housing. If we have a system in which people have access to good medical care, perhaps we can live with it if they don't have a right to the best possible medical care, particularly if they aren't interested in paying for it themselves.

## What kind of health insurance can work?

Our current health insurance system doesn't work because that system takes away patients' financial incentives to use medical care responsibly, to only pay for medical care that is worth the cost. Health insurance systems that make medical care affordable, cover catastrophic events, and require personal responsibility would go a long way toward helping control costs.

Deductibles and cost sharing are key elements of a health insurance system that would control costs. In the automotive and home insurance world, we have insurance plans that pay for catastrophic events. We pay for the little stuff, and that helps keep costs of those products and services low. Right now, it may seem that health care is so expensive that we need insurance even for the little things. *But the reason medical care is so expensive is that there is so much insurance for the little things.* We have so little incentive to shop around and conserve on costs that prices are too high and continue to grow. By getting rid of insurance for

minor events and by incentivizing patients to use only the care that is worth the price, the cost of obtaining care would be far lower—for both the insured and uninsured.

High deductible health insurance plans that include a healthcare savings plan to help pay for the cost of deductibles have been tested. Patients in these plans do forego some services that they feel aren't worth the cost. More widespread use of these plans would put pressure on providers of care to lower their prices. A "public option" could be beneficial if it relied on high deductible coverage and encouraged more personal responsibility in paying for healthcare with less reliance on 3<sup>rd</sup> party payers. Under the Patients' Choice Act sponsored by Senators Coburn and Burr, catastrophic/high-deductible health plans with a health savings account can be chosen. Making this type of plan the basis for a "public option" may be a very effective way to help control health care costs.

For there to be an effective market in health care, patients need options to accept basic care or to choose more expensive better care. The choice to spend money on health care would be made at the expense of other choices. Giving patients the freedom and responsibility to shop around and find good care at a lower price will cause providers to keep their cost down and the suppliers to those providers to keep their cost down. This is a basic principle of economics and is essential to managing our health care costs.

## **A solution to "unnecessary" tests performed because of malpractice risk**

"Unnecessary" tests are said to contribute to the high cost of medical care. One problem with this idea is that whether a test is "necessary" or "unnecessary" depends on the eye of the beholder. A test may be very expensive and unlikely to find a problem. For society, it may not be at all cost effective to perform the test. But when the doctor and patients are in a room alone together, societal cost issues aren't given much consideration. If that test might benefit that patient, the patient may want the test done, especially if someone else is paying for it.

A doctor who chooses not to order that test for the patient could be held liable for malpractice if not doing the test resulted in some injury to the patient. Thus, doctors may end up ordering tests that society might consider unnecessary but that the doctor and patient thought was a pretty good idea to do.

"Unnecessary" tests or medications can be eliminated by a 3<sup>rd</sup> party payer, but only by the unpalatable option of leaving the decision to ration care to that 3<sup>rd</sup> party. We cannot lower costs and eliminate unnecessary tests without rationing care in a traditional insurance plan. If we want patients and doctors to have the final say in what tests are done, we can do that and lower costs at the same time if patients take more personal responsibility for the costs associated with those decisions.

My son had a problem with scoliosis, an excessive curvature of the back. This is a fairly common condition. Rarely, scoliosis can be caused by a tumor. Our son's doctor suggested that a magnetic resonance imaging scan—an MRI—could be done just to rule out the unlikely possibility of tumor. MRI is a very safe but very expensive test costing thousands of dollars. Being well-insured, we would only have to pay several hundred dollars for the test, the rest covered by the insurer.

From a societal viewpoint, this test was "unnecessary." It was a very expensive test and very unlikely to find a tumor. To a malpractice attorney, the test might have seemed very much necessary if the doctor hadn't offered it and if the patient had actually had a tumor. Since we had to pay only a few hundred dollars for the test (an affordable amount for us), it was an easy decision to have the test done.

Had we had a high deductible insurance plan and had to pay thousands of dollars for this test, we

could have done so, but it would have hurt a lot more. We would have spent a lot more time thinking about whether we wanted to have the test done, especially considering it wasn't at all likely to have found anything. We might have shopped around as well, trying to find an MRI service that charged less than the MRI service the doctor recommended. Whether we chose to have the test or not, our doctor wouldn't have had to worry about malpractice risk, because it would have been our choice not to do the test, not the doctor's.

We can also see that many people in this situation might choose not to spend thousands of their own dollars on such a test if it meant having less money to spend at Best Buy or for other goods and services. This would mean that some tumor or tumors causing scoliosis might not be identified quite as early. Much as some highway deaths occur as a result of not having everyone drive the safest possible car, giving people the choice of how they spend their healthcare dollars means that people also take responsibility for the results, good and bad.

### **Government involvement**

Asking if government should be involved in the health care system is a bit late. Government already is deeply involved. Government pays for much of U.S. healthcare already between Medicare, Medicaid and the Veterans' Administration health care system. Tax laws that make employer-funded health insurance tax deductible is a major contributor to the shape of the U.S. health care system.

Looking forward, there are several ways we can imagine the government addressing the critical issues requiring health care reform. The two key issues that must be addressed are the millions who are uninsured and the continually increasingly high cost of medical care.

First, we might consider the possibility of a simple public option for the uninsured that provides them with traditional medical insurance along the lines that most Americans enjoy today. While such a public plan would solve the problem of having millions of uninsured Americans, it would do nothing to solve the high cost of health care. There's also concern that such a public system would shift additional burden onto the government if the presence of a public option caused employers to eliminate their health insurance offerings. Having government be responsible for what would or wouldn't be covered under such a plan adds another layer of political complexity and conflict to this approach.

Another possible system is to make government the single payer of health care costs for all Americans, eliminating our current fragmented system of payments. This approach would also solve the problem of having uninsured Americans. Such a system could also cap the overall costs of health care in the United States, but only by rationing/limiting the care that government would pay for. This would be akin to there being a single government payer for housing. Yes, everyone would get housing. The government also would be in a strong position to negotiate with contractors to provide lower cost housing. On the other hand everyone would get the same housing, and it wouldn't be the best possible housing. Canada and Britain tell us a lot about this kind of system. People who are well are very happy with the system; people who want care the government doesn't pay for aren't nearly so satisfied. Would we be happy with a "single payer" approach to consumer electronics? Either government would go broke buying everyone every possible electronic gadget or else government would decide for us which gadgets we could get. Neither of those options seems as utterly wonderful as a trip to Best Buy to choose among the wealth of options available there.

Another option would be for the government to encourage patients to have more responsibility for their own health care decisions. Government can change tax incentives to encourage employers to offer high deductible plans in place of low deductible insurance. The government could offer a high deductible “public option” (along the lines of a high deductible plan encouraged in the Coburn/Burr bill) which would guarantee coverage for all Americans without reducing individuals’ personal responsibility to make wise health care purchases. This system would likely result in some patients choosing less care than others might want them to. Tying the size of deductibles and coinsurance to income could minimize such effects. The goal would be to promote systems that create cost-sensitivity across a wide range of health care outlays while still protecting against impossible financial burdens.

One physician recommended a simple plan that would immediately inject market forces into the health care system. His plan would combine high-deductible, catastrophic health insurance policies with tax deductible HSAs and would allow consumers to keep the money that is in the HSA that is not used for health expenditures at the end of each year. Eliminating non-catastrophic insurance would create incentives for the health care consumer to be frugal. Premiums for health insurance would be tax deductible for the individual (or could be given in the form of tax credits). Tax deductions could still be permitted for employers who chose to reimburse employees for the cost of their premiums and for employer contributions to HSAs. Low-income earners would benefit from subsidies to help them fund their HSAs and pay their premiums. Those subsidies would likely be easily covered by eliminating current entitlements such as Medicaid, moving people on Medicaid and the uninsured to catastrophic insurance plans along with funded HSAs that give people both better access to health care and more responsibility for the cost of their health care decisions. The resulting market forces would also lower the cost of health care for all health care consumers.

## **Other problems with government regulation of health care**

There are concerns that health care decisions are simply too complicated or important for patients to make themselves. Whether that’s true or not is a critical issue in the determination of how our health care system should be reformed. Given the success of markets for other essentials such as food, clothing and housing, it appears that giving consumers choice and responsibility is a wholesome practice.

In some settings, patients are already making health care decisions for themselves. In the field of cosmetic procedures, patients make choices and pay for those choices. As a colleague pointed out to me, patients don’t need a “nanny state” telling them what cosmetic procedures to have or not to have; patients don’t need a “nanny state” guiding their other health care decisions, either.

In a market-based health care system, there would be strong incentives to promote better quality and service. Doctors with more experience providing better care would be able to charge higher fees—something that doesn’t exist when insurance systems pay doctors a fixed fee regardless of how much experience the doctor has, how skilled the doctor is or how long the doctor keeps the patient waiting. Drug companies that develop better products would be able to charge more for them, though they would have to be more than just marginally better than competing products before people would choose to pay a higher price for them.

Another crucial way in which government is involved in the health care system is in regulation of that system. Government regulates who gets to practice medicine and what drugs may be marketed. There

are regulations concerning billing and medical records. There is regulation of what tests can be done and how they are done. These regulations are costly, sometimes extraordinarily so.

At the school where I work, we train one doctor a year to do skin pathology. The training involves examining numerous skin biopsy specimens every workday during that year. It's a pretty simple training program. The paperwork to document the training is an extraordinary undertaking, comprising hundreds of pages. Every "i" must be dotted and each "t" crossed to get the program accredited. A full time staff person is needed to manage the training program for the one trainee.

Currently, there's so much money spent in healthcare that the cost of all the regulations are covered. A libertarian might correctly suggest that if we offer patients the opportunity to choose less regulated health care providers, products and services, costs would go down. Quality may or may not go down. We don't know how much, or even if, the regulations promote better care. And if we relied on a system in which people paid for their health care and shopped around for the best quality at a lower price, we might do an even better job promoting quality than we do through government regulations.

Do we need doctors who've gone to four years of college, four years of medical school and three or more years of post-graduate training to manage common colds, aches and pains, and run-of-the-mill rashes? I doubt it. Perhaps someone with far less, yet more highly focused training could do it just as effectively or even better. And it could be done at far lower costs, too. Such a system could be put into place without forcing anyone to use it, too, just by reducing government regulations and giving patients the choice of seeing highly trained physicians or other, lower cost health care providers. Patients wanting to see a doctor could still do so, just by paying a higher price.

Consider how tightly the development of new drugs is regulated. It takes many years for drugs to come to market. The cost of testing is enormous, limiting the number of drugs that can be tested. The current system may give us a good sense of the safety of marketed drugs, but it comes at high cost in terms of dollars, the number of drugs available and how long it takes before they become available. Perhaps patients should have the choice to purchase drugs that have been subject to less rigorous testing. By putting the choice and responsibility in the hands of consumers, drug companies would still have plenty of incentive to market safe and effective medications, just as consumer product companies have incentive to sell safe and effective products in every other market.

Just look at Best Buy. Have all the improvements in electronics come from government setting standards for quality, or have they come from market forces, from people seeking out higher quality at lower cost?



Patients throughout the United States share their experiences with their physicians at DrScore.com. Rate your doctor and view ratings of doctors in your area by visiting [www.DrScore.com](http://www.DrScore.com). Medical groups can contact DrScore to start collecting patient satisfaction online by sending an email to [sales@DrScore.com](mailto:sales@DrScore.com).