How Would You Like Your Medicine? -

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Richard B. Warner, M.D.

As Congress debates various prescriptions for the ailments of the American health care market, it would be good to define what we think a healthy system would look like. A variety of people have different interests in what they would like to see.

Patients would like to find medical care affordable and accessible. They would like to have the freedom to see the doctors of their choice and to do so with assurance of the privacy of that relationship. Doctors would like to be able to practice their profession without a lot of bureaucratic intrusion into their decision making and their clinical record keeping. Employers, who currently provide the health insurance that covers 52% of the people in this country, would like to see their costs stabilized and predictable.

To speak of these wishes is to identify a number of ways in which people are unhappy with the current state of affairs in medicine. The unhappiness stems in large part from the consequences of the way in which we provide for the financing of health care. What started as an accident of history has evolved over a half century into a morass that no one would have planned. During World War II the federal government instituted wage controls to inhibit the wage demands that would have resulted from so much of the labor force being deployed overseas. It then allowed employers to offer health insurance to attract workers. A little later this practice was codified in the federal income tax code, and during the next three decades the high marginal tax rates made health insurance a very attractive benefit.

Over time the majority of the population has come to depend on employers or the federal government to provide their health insurance. Three fourths of people obtain their health insurance this way, while only a tenth purchase their own. Since people experience the insurance as something provided rather than as something purchased, they think of it differently. Being insulated from the costs, they do not judge its value in realistic economic terms but are free to demand of it what they will.

As a result, pressure is created for health insurance to be constructed with low, fixed dollar copayments and deductibles that relieve patients of all but the least costs of their medical care. In 1930 89% of medical costs were being paid out of pocket. By 1997 only 17% of costs were left to patients, the balance being paid by third parties. Instead of simply insuring against the risk of financial catastrophe arising from illness or injury, health insurance has become a way of communally paying for all medical care.

The reduction of patients' economic stake in their medical decisions has led inevitably to inflation rates that run higher than in other sectors of the economy. This is not hard to understand if we think of inflation, not simply as rising prices, but as the progressive devaluing of money in relation to the things it will buy. It is clear that in medical transactions we are spending a different kind of money than in other purchases. We aren't spending my money or your money. We're spending *their* money, the money of the government, the insurance company, or the big employer. And we don't value their money in the same way that we do our own.

This inflationary phenomenon was unrestrained during the 1970's and 1980's and produced generous increases in doctors' incomes and hospital revenues. In response to this inflation, the employers, the insurance companies, and the federal government instituted a group of "managed care" measures to control prices through bureaucratic oversight. In so doing, they have made the classic price control error of focusing concretely on prices and on the attempted control of those who set the prices. They have avoided effective modification of market demand. They have left out of consideration the people who might best judge the quality, value, and necessity of their medical care, the patients. If patients had a significant economic stake in these decisions, they would be the ones to see to it that money is well spent.

The insurance bureaucracies that were created to process clinical and financial information have themselves grown in size and complexity. They are mirrored by added staff in doctors' offices and hospitals, and they command a rising portion of the health care dollars. Referrals, tests, treatments, and outcomes all need to be documented in manners dictated by these bureaucracies. The informational demands of the oversight process encroach on the clinical process. What was originally intended to be a safety net becomes a wet blanket, smothering efficient medical care.

The way to reduce medical inflation and achieve the wishes listed at the outset of this article is to encourage the individual selection and ownership of health insurance. In a reformed market, people would find insurance that would protect them from the financial catastrophe of serious illness, while rewarding them for the prudent self- management of discretionary costs. Whether through high deductible insurance combined with medical savings accounts or through HMO's with point of service options, if people owned their own insurance, the savings that prudent self-management could accomplish could be reflected in lower insurance premiums.

There are several legislative measures that are necessary to bring about conditions in which a much larger portion of the population would find it advantageous to own their own health insurance. At the federal level the most important step would be to change the tax treatment of individually owned insurance, putting it on a par with employer provided insurance. This could be done by the creation of either tax deductions or tax credits, particularly for catastrophic insurance.

Secondly, removal of the caps and limitations that were placed on medical savings accounts in 1996 would allow larger employers to offer these plans to their employees. Allowing the establishment of an unlimited number of such accounts would encourage investment and insurance companies to spend money to educate the public about the virtues of high deductible insurance. Most people have not heard of medical savings accounts or mistakenly believe that a person is supposed to pay all of their medical expenses out of the savings account. They often do not realize that the medical savings account is simply a tax-preferred way to meet the high deductible of a catastrophic insurance policy. The premium savings that accompany the ownership of the high deductible policy can largely fund the savings account.

A third element of federal legislation would be a mechanism to allow people to aggregate themselves into large risk pools that would attract insurance companies to compete with lower premiums. The American Medical Association is promoting the idea of a voluntary choice cooperative as a community based clearinghouse. It would allow a large number of people to attract a variety of insurance plans. This would allow the individual selection of the type of plan that would best serve peoples' needs. The current Federal Employees Health Program is an example of this approach.

In addition to these federal measures, it would be helpful for state governments to reexamine their approach to regulating health insurance. Over the past decade, there has been explosive growth in state mandated treatment benefits that have collectively added approximately 30 percent to the cost of health insurance. The states that have been most zealous in their creation of mandates have found insurance companies unwilling to participate in their markets, and their rates of uninsured people have risen dramatically. A reduction in these mandates would encourage more insurance companies to compete and would make health insurance more affordable.

Finally, if these legislative changes were made, employers would then find it more attractive to offer their employees defined contributions toward their health insurance. This would take the place of the defined benefit approach that has the employers choosing specific health insurance plans for their employees. This approach has proven quite popular in retirement planning and makes good sense in health insurance also.

Although the development of a better market for individually owned health insurance might at first appear a daunting task, the changes that would encourage it are definable and achievable. The payoff

would be health insurance that would produce price stability and would restore personal control of health matters to patients and their doctors.

Richard B. Warner, M.D.