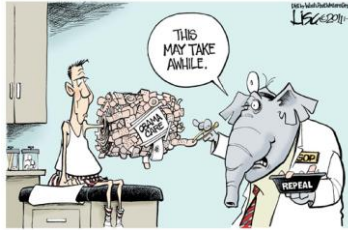


HEALTH CARE REFORM – THE NEXT STEP

Stephen L. Bakke – January 22, 2011



I invite any reader to contact me if you feel my suggestions are more costly, less workable, or less practical than Obamacare. Don't "just disagree" – provide specific reasons and related logic. If I agree with you, I will "tweak" my opinion. I've done it before, and I'll do it again.

If you agree with my suggestions, send any or all of them to your friends, Senators and Representatives. You can copy them and make them your own if you desire – but send them on.

As We Enter the New Congress

As I write this, the 112th Congress is early in its session. One of the things the House of Representatives did was to make good on their pledge to vote to repeal the 2010 Health Care reform legislation commonly referred to as "Obamacare." While the repeal passed the House, as a practical matter this will prove to be ineffective because the repeal legislation will have a tough time in the Senate due to its Democratic majority. If it were to pass the Senate, the President would certainly veto it with no chance for override.

Is the attempt by the House to repeal Obamacare just symbolic grandstanding? No, I believe doing this sets the stage for the longer term measures for correcting, on a piecemeal basis, the problems of the 2010 legislation. Making changes is possible because much of the reform doesn't begin until 2014 and probably won't be entirely implemented until 2015. The President would have real PR problems if a very logical and popular revision was passed by congress and he vetoed it for ideological reasons.

The Obamacare legislation is flawed for many reasons, but simply stated, promises about cost savings, retaining coverage, etc. are now proving to be false and empty promises. It would be irresponsible not to do the things necessary to improve the health care system, but without devastating our economy.

My consistent stance has been that our system needs comprehensive reform. In this report I present again my suggestions for correcting the mistakes of Obamacare. This is presented in the form of a "comprehensive" approach, but each point can stand on its own in the piecemeal approach necessary in the 112th Congress.

Why My Ideas Make Sense!

Obamacare legislation made it structurally and fundamentally impossible to reduce our health care costs, or even “bend the cost curve.” This is true because adding over 30 million individuals to insurance roles will, simply because of volume, add to net costs of the system. But a much worse “cost culprit” is that the democrat’s approach potentially adds tens of thousands of individuals to the government bureaucracy which will administer, regulate and control our health system. And the inherent nature of Obamacare reform, especially considering our government’s past tendencies, lends itself to cost increases. Many of our current and historical problems stem from departures from free market principles and bureaucratic interference.

My ideas make sense because:

- Costs are saved, compared with Obamacare, because virtually NO NEW BUREAUCRACY is created. Read my suggestions to see how the tax code, in combination with financial incentives, accomplishes most of the reform.
- I believe the key elements of sound health care reform are competition, consumer control, and free market influences. My suggestions provide those elements.
- There is considerable evidence that consumer-directed programs reduce costs. We now suffer from a lack of “spending consciousness” by consumers – and Obamacare doesn’t fix that. My suggestions would significantly improve cost transparency to consumers.
- Paying directly (using HSAs) for some services further reduces costs by eliminating the overhead costs of third-party payment systems. Consumer-directed health care initiatives, under which individuals manage their own health care dollars through systems such as Health Savings Accounts (HSA), are superior to traditional first dollar coverage through an insurance company.
- First dollar coverage isn’t forgotten – I just deal with it in a different way which is described below.
- Most Americans agree that everyone should have ACCESS to affordable health coverage. But the debate really is centered on: How do we expand the number of insured? Who will pay the costs of expanded medical care? And, what is the proper payment arrangement? My suggestions provide some answers.
- I believe my changes deal realistically and effectively with the chronically uninsured.

For all its success at helping people live longer and healthier lives, America’s pre-reform system is costly, confusing, inefficient, and uneven in its results, and it left too many people not accessing benefits. But let’s not forget that ours is the system which developed virtually all new medical technologies, new pharmaceuticals, and which has the best treatment outcomes on the planet. Correcting those faults while maintaining the history of innovation and creativity is what Obamacare doesn’t do, and we must fix that. **We must maintain a free market system of providers, insurers, technology development, pharmaceutical development, manufacturing of equipment and drugs, and**

marketing of all these products and services. We must retain the best of what we have while we fix the problems.

Summary of Reform Elements

Here is my idea of a framework for workable health care reform:

Changes Affecting the Insurance Industry and Insurance Coverage

- Individuals should be the key decision makers in a reformed system. Individuals should own their own health policies. Prices for coverage, services, or products should be transparent to the individual. Once consumers actually control the treatments and costs, they will collectively apply pressure to maximize value. This separates coverage from employment and provides portability.
- Coverage must be available for all individuals. “Pre-existing condition” provisions and those of “lifetime limits” in insurance policies must and can be eliminated. To the extent this is found to be actuarially unwise or burdensome for any single insurance company, something like a “reinsurance cooperative” should be created which would be owned jointly by the many U.S. insurance companies.
- Individuals should not be “required” to purchase health insurance. I believe there is a legitimate constitutional issue based on the Commerce Clause. However, significant tax incentives should be made available specifically for the purchase of major medical/catastrophic coverage. The old system is closely tied to the very expensive “first dollar coverage.” The new emphasis would be on higher deductible insurance policies, e.g. \$5,000 or \$10,000 (or whatever the consumer chooses), and would be surprisingly inexpensive. “First dollar coverage” is dealt with in the “tax code” section below.
- Eliminating “pre-existing condition” limitations, and because individuals would not be “required” to purchase coverage, combine to introduce a big problem – exploitive individuals would still try to “game” the system by waiting until care is needed to purchase insurance – this in spite of the generous tax treatment which would also be available. I would limit this by not allowing perpetual access to guaranteed coverage – e.g. a person would have to accept or reject coverage at a point in time, and would not again be eligible for guaranteed coverage for a specified period of time. This could be set at 3 to 5 year intervals, for example – or whatever. Additionally, after declining to purchase available coverage one time, when such coverage is ultimately obtained, there should be a waiting period before non-emergency treatment would be covered – say 6 months to 1 year. Also, the administration of these periodic applications could be “spread out” by making them available only in the month of the individual’s birthday.
- Individuals should be allowed to buy insurance across state lines. State borders now act as unnecessary regulatory walls. This would permit shopping among a robust variety of insurers. They all currently exist – we just can’t access them outside of our state of residence. Each consumer now has very few options, thereby limiting competition. This would remove that problem.
- State mandates for insurance coverage should be eliminated and we should move closer to a “shopping cart” approach for buying insurance. This would allow

insurers to offer a range of plans – from basic/lower cost to comprehensive/higher cost coverage – which would meet a variety of individual needs and preferences while making access more affordable. Mandates have been estimated to increase the cost of health care for a typical individual by 50%.

- We should study the possibility of introducing a system which permits a variety of insurance pools (trade associations, civic organizations, professional associations, business groups, etc.). These pools could choose from a variety of carriers for their members. Each consumer would still own their own policy, and could even choose from a variety of pools for negotiating the best prices.

Changes Affecting the Tax Code

- We should change the tax code to allow all medical related expenditures, up to a generous maximum, to be deductible (not severely limited as it is now). We should implement a system of tax credits as part of this tax reform. We should encourage concepts such as health savings accounts (HSAs) through the tax code, and permit the consumer/owner of the HSA to accumulate a tax deductible/tax sheltered “next egg” to be used in future years for expenses, or if unemployed.
- Tax provisions should strongly encourage widespread use of HSAs to cover “first dollar medical costs” in tandem with a relatively inexpensive, higher deductible insurance policy designed to cover major medical or catastrophic expenses. HSAs would facilitate payment for all medical costs – “first and final dollar.”
- Taking care of children is a “hot button” (witness SCHIP). We should implement tax credits, with generous limits, for expenditures for those under 21 in families below the median U.S. income. This would replace the existing SCHIP program which provides government paid health care to the children of families well above the poverty level, **and even above average income levels.**
- **Tax legislation should assist the poorest taxpayers by having a sliding scale of subsidies based on income. The levels of tax deductibility, tax credits and refundable tax credits would vary with income.**

Other Changes

- Tort reform should occur by eliminating abusive and unnecessary lawsuits and settlements. This should include a cap on non-economic damage awards. The result would be more reasonable awards and also a reduction, over time, in defensive medicine and the resulting insurance premiums.
- Health care providers should be encouraged to offer affordable care at convenient locations such as retail clinics at malls, walk-in centers, etc.
- All persons using emergency rooms or walk-in centers should, as part of their treatment, be directed to the parts of our system from which they could benefit.
- I understand there is a shortage of doctors and nurses in our system – particularly for “primary care”. If there are artificial barriers to the number of professionals our system develops, they must be eliminated. That would include expanding medical and nursing school enrollment or even encouraging more medical schools in certain areas of the country. This could be done partially through our tax system whereby personal and corporate incentives would be developed. Imaginative planning would come up with many constructive programs.

- There are more elements which should be mentioned here such as streamlining provider administration through “paperless office” practices and administrative technologies. Also, “wellness” programs should be encouraged by using the same tax incentives mentioned above. **But it is becoming ever more apparent that preventive care and wellness programs will make us healthier, but are not likely to reduce system wide health care costs in the long run.**

Focus on the Uninsured

How should we deal directly and specifically with the approximately 47 million uninsured? I believe the following would do so in a “smart” way. Some of these are incorporated in what has been discussed above.

- Access to insurance for the transitional uninsured (between jobs or temporarily unemployed) would largely be handled by the change to individual ownership of policies. Payments would be made by the insured with generous refundable tax credit allowances – perhaps some specifically designed for the unemployed.
- Some citizens, for various reasons, choose to “roll the dice” and not spend for health care coverage – even though they could afford it. The approach I suggest should convince many that these provisions make coverage cheaper, more attractive and, I believe, they would buy it. This is where use of HSAs, unbundled major medical coverage, tax deductions and credits, price transparency, etc. would make a difference in the number of uninsured.
- We should aggressively deal with the chronically long-term uninsured (e.g. over two years and “nothing else works”) through a system which combines the revised tax credit provisions with the creative use of vouchers for a private insurance pool set up for this purpose. Or we could issue the medical equivalent of food stamps (using restricted debit cards) for their use, thereby subsidizing their catastrophic health insurance premiums – but through private insurance companies, not a government alternative. I believe this would comprehend approximately 10 million people.
- We should limit illegal immigrants to taxpayer paid coverage provided in hospital emergency rooms or at walk-in centers only. Any person residing in the U.S., however, should be free to purchase their own coverage on the open market.

But It’s Just Too Complicated!

While my suggestions are simpler and cheaper than the “trillion dollar” bureaucracy introduced by Obamacare, if some citizens are still “left out” because they are overwhelmed by the process, that can be easily dealt with. This service could be purchased and the cost would be handled as one other item subject to the tax credit or refundable tax credit.

The different approaches being discussed – i.e. Obamacare vs. Free Market Reform is just one more dramatic example of “**two different world views of the role of government**” in our lives. Both views are comprehensive, and those supporting both extremes are sincere and committed to their philosophies. Will the twain ever meet?