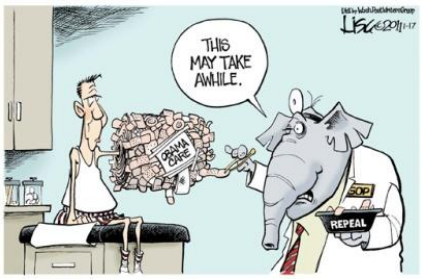
A PATH TO HEALTH CARE REFORM! - Replacing ObamaCare!



Stephen L. Bakke August 12, 2012

> ***Four things have almost invariably followed the imposition of controls to keep prices below the level they would reach under supply and demand in a free market:1) increased use of the product or service whose price is controlled, 2) Reduced supply of the same product or service, 3) quality deterioration, 4) black markets.*** **–** Thomas Sowell.

The Republicans Have a Responsibility!

> ***This does not absolve the Republicans from producing a health care replacement. They will and should be judged by how well their alternative addresses the needs of the uninsured and the anxieties of the currently insured.*** – Charles Krauthammer.

A successful "repeal" effort will introduce another step which is necessary for making progress and fulfilling a new responsibility for the Republicans. That process is to "replace" what has been repealed, and it should introduce important and popular elements of any new reform of health care: deal effectively with the pre-existing conditions and lifetime coverage limitations; create the ability to shop for coverage "across state lines"; create a "shopping-basket" approach for buying health coverage; enforce cost transparency for the consumer – with the consumer in charge; legislate meaningful tort reform; and more!

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 the case because adding tens of millions of 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 Democrats' approach adds many 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 dramatic cost increases. **Many of our current and historical problems stem from departures from free market principles and bureaucratic interference.**

My ideas make sense because:

- 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.
- 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 much 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 for consumers.
- First dollar coverage isn't forgotten – I just deal with it in a different way. Paying directly (using Health Savings Accounts) for some services further reduces costs by eliminating the overhead costs of third-party payment systems for a huge portion of health care spending. Consumer-directed health care initiatives, under which individuals manage their own health care dollars through systems such as Health Savings Accounts (HSAs), are superior in cost and quality to traditional first dollar coverage through insurance companies.
- I believe my changes deal realistically 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, uneven in its results, and it leaves 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.

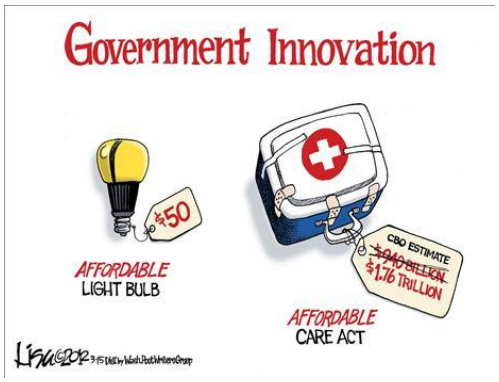
Our current system suppresses true market forces. We must institute and maintain an unimpeded free market system of providers, insurers, technology development, pharmaceutical development, manufacturing of equipment and drugs, and marketing of all these products and services. We must retain the best 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 forced to purchase health insurance. But, significant tax incentives should be made available 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 person chooses), and would be surprisingly inexpensive. "First dollar coverage" is dealt with in the "tax code" section below.



- Eliminating pre-existing condition limitations, and eliminating the requirement that all individuals would be "required" to purchase coverage, combine to introduce a very 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 obvious problem 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 tax credits and refundable tax credits 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. I've always considered tort reform kind of nebulous/sounds good/but what does it mean!Here I would like to insert a suggestion from the President of NCPA, John C. Goodman:

  > One way that Goodman discusses is to create an alternative to malpractice litigation: allow patients, doctors and hospitals to enter into voluntary, no-fault contracts. In return for forgoing their common-law rights to litigate, patients would be assured that if they experience an adverse outcome for a reason other than medical condition for which they seek care (whether or not malpractice is involved), the provider institution will write them a check, without lawyers, without depositions, without judges and juries – no questions asked.

  It's definitely worth a serious look!
- 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.

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 if you agree.