**WHAT WILL WORK TO KEEP COSTS DOWN?**

**Stephen L. Bakke – September 10, 2009**

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***This is a follow-up to my recent report on suggestions for health care reform.***

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One of the major issues which started this health care and insurance debate was the ever increasing costs of health care. But how will costs be saved while implementing my suggestions for health care reform? Following are my predictions, but I will leave it to the Congressional Budget Office to actually quantify these savings.

**List of Cost Saving Influences**

- It is important that individuals own their own insurance. Once consumers actually control the treatments and costs, through ownership of their insurance policies, they collectively will apply pressure to get more value for it.
- Individuals can choose their own coverage and will not have to purchase coverage they don't want or need. Expensive state mandated coverage will be virtually eliminated. Mandates may increase the cost of care for a typical person by 50%. That seems high but I have seen it reported from credible sources.
- Individuals who own their own policies will not be forced out of coverage when they lose or change jobs. With this portability, coverage would continue and they would not be exposed to new underwriting which usually increases costs.
- The consumer will make their own decisions on treatments and coverage – along with their doctor, of course. Any time the consumer is paying (even if reimbursed by tax credits) there is a downward influence on costs since the provider must keep the individual informed about what and why.
- There will be much more financial transparency and scrutiny if consumers are involved in decisions and payment. This scrutiny and the power of public opinion will have a moderating affect on costs in the system.
- Individuals should have periodic opportunities to change health coverage. This will further introduce competition because the carriers want to retain their customer base.
- Reducing "first dollar coverage" will save costs overall. If these costs are covered by an insurance policy, insurance companies will certainly pay them, but not without adding a profit margin for the service. Under my plan, the consumer would be paying for these services directly, and the costs could be neutralized by the introduction of generous deductibility and tax credits for medical expenses. Dramatically expanding the use of health savings accounts (HSAs) would also make the net costs to the consumer go down for those who need the relief most – remember that I suggest the use of a sliding health care cost subsidy accomplished through variable deductibility and tax credits based on income. These revised tax provisions would apply to both the direct payments for basic care and the

premiums for the very reasonably priced major medical coverage. Overall, costs would be saved.

- There will be much more competition caused by erasing the artificial state boundaries. Insurance carriers are not now allowed to insure individuals beyond their state borders. Consumers would be able to buy insurance from dozens, even hundreds, more carriers than are now available to them. No public option is necessary to create competition.
- The elimination of state boundary limits on competition would follow from the elimination of 50 state insurance regulatory agencies and consolidation of that function at the federal level. This consolidation and streamlining of regulation should be a "no-brainer" for instituting significant regulatory cost savings.
- Billions of dollars would be saved by eliminating the expensive SCHIPS program which covers children in families well above the poverty level and even well above average income levels and replacing it with tax credits for families up to the average income level.
- Implementing tort reform can save costs. There are estimates that 10% of our health care costs are directly or indirectly related to this problem. I am not suggesting that victims should not be "made whole" to the extent possible given their situation, but extreme punitive damages should be strictly and reasonably "capped." The result would be a reduction in defensive medicine and redundancy of testing and treatment in addition to savings in malpractice insurance litigation and settlements.
- A limited supply of health care personnel will naturally tend to increase the price of services, except for when costs are kept lower by controls and rationing – and we don't want to introduce the access problems and rationing that would likely lead to. If we can increase the numbers entering health care professions, the increased supply will at least have the effect of slowing the increase of costs if not actually reducing them.
- Using existing bureaucracies, the IRS through changes to the tax code and insurance regulators (regulators would be moved from the states to the federal level), my suggestions forgo the enormous new bureaucratic costs implicit in Obamacare's establishment of "30 or 40 or 50" new bureaucracies and thousands of new governmental employees.
- And the most important opportunity for doing a better, more efficient job just might be in the improvement of the delivery system – a real tough problem to address, but there are many who are working on it.

**How About Preventive Care and Wellness Programs?**

As discussed before, this list can't include preventative care or wellness programs. It has been well documented that while such programs may be cost beneficial for a particular individual, for the system in its entirety, there is almost certain to be a net increase in costs from this type of proposal. That is because performing preventative measures or taking medication to reduce or prevent a condition, it is necessarily to treat the entire population, whereas only a small percentage of the population would experience the medical condition if left unchallenged. This would be cost effective only for those

unidentified few who would have experienced the condition or illness. But for the entire population, the costs of prevention would exceed the cost of treatment of those few who would have been afflicted. Also, there would be some extension of life expectancy, but in doing so there would be a marginal increase in numbers receiving routine care. And end of life health issues would only be delayed slightly, on average, and would always occur eventually. **Nevertheless, wellness programs and preventive are inherently good and should be pursued,** but out of wisdom and altruism not for cost savings.

**Throw Out the Bathwater, BUT KEEP THE BABY!**

While cost savings is important, we should also remember that sometimes high costs are the result of high quality and innovation rather than just excess volume and inefficiency. For example the U.S. has proportionately more MRIs, coronary bypass operations, more new pharmaceutical drugs available than other countries. I am told that an important example of a costly new drug is Avastin which is widely used in the U.S. to treat advanced colon cancer. But it costs $50,000 a year. The Canadian system, for example generally does not permit its use. Another example of costly but valuable care is the use of colonoscopies. The U.S. performs them much more frequently than does Canada, and in fact Canadians wait an average of eight months for the procedure. Perhaps Canada's higher rate and lower survivability of colon cancer are largely due to these costly but successful care techniques. The U.S. also has more of what is referred to as "amenities" in health care such as more privacy and comfort in hospital rooms. Sometimes it is not quantity or inefficiencies which drive up costs but demonstrably higher quality.

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**Sources of Information**

The major sources of information used in developing my health care commentaries were included in my recent report on health care reform recommendations.