Part V: Choosing the right path to Health Care Reform

The first step to fixing a problem is to admit that there is one - we all have to agree that we absolutely need to reform our health care system. We have to identify the real problem(s) with our health care system (cost, care, access, what?) and then we have to propose real solutions that fix the problem.

The Patient Protection and Affordable Care Act of 2010 (ACA) was written with the belief that Health care is a basic human right, and with the goal that everyone is entitled to affordable, quality health care. To achieve that goal, the ACA expanded the role of government in our health care system - great concept, but poor execution, and it still mostly worked. Consistent with conservative ideology, the health care bill proposed by the Republicans aims to limit the role of government in the private sector. Republicans believe that in a free-market economy, if we remove government interference, our health care system will self-correct and the forces of the marketplace will rightly determine the accessibility and affordability of health care (affordable being a relative term). These are two different approaches channeling two very different ideologies to solve one very big problem - and they both miss the mark badly! Why? Because it seems our elected officials don’t really know (or don’t WANT to know) how our health care system works. My observation, after 30 years in the health insurance industry, is that our health care system operates under these five (5) basic rules:

Rule #1: Health is not Health Care, and Health Care is not Health Insurance. HEALTH as defined by the World Health Organization is “a state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity.” Health CARE is what we use when we are unhealthy. Health INSURANCE is a method we’ve developed to pay for health care. What we pay for health insurance is dictated by the cost of health care.

Our Medical Industrial Complex is a money making proposition, it values HEALTH CARE over HEALTH; health is bad for the bottom line. We have perverted the role of health care in this country - health has become subservient to health care. The amount we spend on health insurance/care dwarfs the amount we spend on health – for instance, the average annual premium for employer-sponsored health insurance in 2016 for single coverage is $6,435; the average annual gym membership cost between $400 and $600.

Rule #2: The Medical Industrial Complex does not behave like other industries in our economy. There is no evidence to suggest that free-market “laissez faire” can fix our failing health care system. First of all, we don’t really have a free market health care system. We have a combination government run (Medicaid and Medicare) and government subsidized (The ACA and private group insurance); a mishmash of public and private health care providers that is ripe for misallocation of resources and waste. We have created a health care system that is immune to the basic law of supply and demand – movement of either/or in any direction has no meaningful effect on pricing; and where economies of scale don’t increase market efficiencies or lower production cost per unit. It has all the vices afflicting unrestrained for-profit industries – fraud, greed, corruption, and incompetence - and none of the moderating virtues of a free market, capitalistic marketplace. And worst of all, we have no choice in the matter; we are held hostage by the health care system that we accidentally created.
Rule #3: There is no market mechanism to control the cost of providing health CARE. Accidentally, but relentlessly, America has built a healthcare system that disguises the true cost of health care and eliminates the market forces that boost efficiency and value throughout the economy. Advances in medical technology, innovations in treatment, development of miracle drugs all tend to increase the overall cost of health care. The last fifteen years of escalating health care provider cost is proof enough that pricing competition between health care providers does not exist in a transparent, quantitative way. The cost of health care will grow to as much as the market can bare.

Rule #4: There is no market mechanism to control the cost of health INSURANCE. The price we pay for health insurance will NOT be reduced by increasing competition between health insurance companies. All health insurers analyze the same set of medical claims data (or the cost of health care) and will ultimately come to the same pricing conclusion – the cost of our health care dictates the price we pay for health insurance. In the absences of “market forces” insurance rates will continue to escalate.

Rule #5: There is no regulatory mechanism to control the cost of private health INSURANCE in the US because there is no regulatory mechanism to control the cost of health CARE. In California, insurance companies and a “coalition” of Hospitals, Doctors and Nurses (very significant special interest groups) spent $43 million of our premiums in 2013 to defeat California’s Prop. 45 – a ballet initiative that would have require health insurers to justify their rate increases. California’s insurance regulatory agencies have no authority to reject health insurance rates (In 1988, California voters passed Proposition 103 that required prior approvals of property and casualty rates, including personal auto and homeowners insurance, and changed the Insurance Commissioner from an appointee of the Governor to an independent statewide officer elected by popular vote. Proposition 103 has saved consumers tens of billions in auto and home premiums). The ACA addresses insurance cost indirectly with its Minimum Loss Ratio (MLR) and some states have the power to regulate health insurance premiums. But, regulatory control of private health CARE costs does not exist at either the federal or state level.

In conclusions, based on past and present industry behavior, and without any evidence to the contrary, the government needs to play MORE than a limited role in health care reform, which also seems to be the general consensus of the American people. The question is how and how much, but that’s a topic for another day.