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Health care proposals that will work

Private sector can cut medical costs without involving government

by Cliff Slater

It is now clear that the health care reform legislation before Congress will not meet President Obama's primary goal of reducing future medical costs.ⁱ Unfortunately, since members of this administration have little or no private sector experience, they fail to comprehend that the only way we can discover the lowest price for a product or service is through competition among suppliers. Unless this becomes the cornerstone of medical insurance, costs will continue to rise.

Here are four proposals that have been proven to work

First, we must allow medical plans to be sold nationally so that consumers have a much wider choice of medical plans. This requires breaking down state and federal regulatory barriers that stifle competition.ⁱⁱ Imagine how much auto insurance would cost if Hawaii had as few competitors as we have for health insurance.

Second, we must implement aspects of the medical insurance scheme developed by Safeway Stores, the nation's fourth largest supermarket chain, which has in the last five years reduced costs by 40 percent in their non-union stores from what the costs would have been without the changes they made.

Safeway's plan capitalizes on two key insights.ⁱⁱⁱ The first is that 70% of all health-care costs are the direct result of behavior. The second is that 74% of all costs are confined to four chronic conditions (cardiovascular disease, cancer, diabetes and obesity).^{iv}

Safeway's medical insurance plans differ only by using discounts for those who take care of their health; those who do not smoke, are of normal weight for their body size, and who regularly exercise, and they couple the discounts with companywide encouragement of health and wellness programs.

Safeway says, "By our calculation, if the nation had adopted our approach in 2005, the nation's direct health-care bill would be \$550 billion less than it is today." That alone is enough to take care of all the uninsured – and some.

Third, we need the widespread adoption of the [Health Savings Account](#) program that was first proposed 25 years ago. While it now covers 8-12 million people^v in the U.S., its growth has been hampered by state and federal restrictions.

Presently most consumers pay little attention to what they are being charged for health care. The ideal health care market is one where consumers have the incentive to shop for quality and price in medical products and services with the same diligence they do for food, shelter and clothing. This is where HSA's would help reduce costs.

HSAs differ from normal medical insurance in that an employer who is currently paying, say, \$8,000 annually for an employee's conventional family coverage may offer them, as an alternative, an HSA combined with a [High Deductible Health Plan](#) (HDHP). Here's an example:

- The employee opens an HSA and the employer pays \$4,000 into it annually. The first \$4,000 of an employee's family medical expenses is paid for by the employee using a debit card from this account.

- The employer also buys an HDHP for \$4,000 and covers the employee's family medical costs once they exceed \$4,000 annually.

Note that the employer's costs are the same regardless, while the employee's costs may be the same only where annual costs exceed \$4,000. The benefit to the employee is that when their family's medical costs are less than \$4,000 then the balance remains in their HSA to be treated in future years just like an IRA account.

Employees become quickly aware that spending money from an HSA account is the same as spending cash. This spurs many patients, for example, to explain to their physicians and other medical providers that billing is unnecessary since the procedure is paid for on the spot by the HSA debit card – and that should warrant a discount.

It also encourages patients to be more frugal in other ways. For less serious medical procedures, such as checking whether your child has a cold, or the more serious flu, consumers may choose to use the new in-store clinics staffed by Registered Nurses in chain stores like [Wal-Mart](#), [Walgreens](#), and [CVS Pharmacies](#). No appointments are necessary; charges are as low as \$30 for children's physicals and \$60 for treatment of common illnesses.^{vi}

The fourth opportunity in reducing costs is to reform our current medical malpractice legal system. We must consider the cost to physicians of extremely onerous malpractice insurance, which is passed along to consumers. In addition there is the cost to consumers of treatments that physicians recommend primarily in practicing "defensive medicine" to keep their insurance costs down.

Ironically, while many people laud other countries' lower medical costs they ignore that America is alone among all Western Democracies in not having some form of a "loser pays" legal system.

These four proposals would significantly lower costs but they are only a start in ensuring competition in every aspect of medical care. We do not need to enlarge the role of government further. Instead, we can use voluntary financial incentives to both reward healthier lifestyles and encourage shopping for lower cost medical treatments.

A footnoted version of this op/ed may be found at www.cliffslater.com

Endnotes:

ⁱ http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-Reforming-the-Health-Care-System-to-Reduce-Costs/

<http://abcnews.go.com/Politics/Health/story?id=7555066&page=1>

<http://blogs.wsj.com/health/2009/06/15/text-of-obamas-speech-before-the-ama/>

<http://www.barackobama.com/pdf/issues/HealthCareFullPlan.pdf>

ⁱⁱ "...the guiding lines in construction of the [Commerce] clause were initially laid down in the context of curbing state power rather than in that of its operation as a source of national power." Chief Justice Taney in *Findlaw*.

ⁱⁱⁱ "This is almost four times the \$150 billion that most experts estimate to be the cost of covering today's 47 million uninsured. The implication is that we can achieve health-care reform with universal coverage and declining per capita health-care costs." The key to achieving these savings is health-care plans that reward healthy behavior. "As a self-insured employer, Safeway designed just such a plan in 2005 and has made continuous improvements each year. The results have been remarkable. During this four-year period, we have kept our per capita health-care costs flat (that includes both the employee and the employer portion), while most American companies' costs have increased 38% over the same four years." [Wall Street Journal](#).

^{iv} “As much as we would like to take credit for being a health-care innovator, Safeway has done nothing more than borrow from the well-tested automobile insurance model. For decades, driving behavior has been correlated with accident risk and has therefore translated into premium differences among drivers. Stated somewhat differently, the auto-insurance industry has long recognized the role of personal responsibility. As a result, bad behaviors (like speeding, tickets for failure to follow the rules of the road, and frequency of accidents) are considered when establishing insurance premiums. Bad driver premiums are not subsidized by the good driver premiums.” [Wall Street Journal](#).

^v <http://www.ahipresearch.org/pdfs/2009hsacensus.pdf>

^{vi} <http://www.walmart.com/clinics>

<http://www.takecarehealth.com/>

<http://www.minuteclinic.com/en/USA/Treatment-and-Cost.aspx>