A plan for patient-centered, free-market health care

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Health care is one of the most heavily regulated and subsidized industries in America. As a result, health care costs have increased much more rapidly than the rate of inflation. **Americans spend far more per capita on healthcare than any other developed nation**, and total healthcare spending in America now exceeds 17 percent of GDP[1].

[1]http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/highlights.pdf

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Government has a justifiable role to play in protecting free market forces, but all too often, government creates obstacles to market competition. I believe we need to reintroduce free market principles into the healthcare field, and that we can do so while still providing support to those who need it.

Truly optimizing our health care system would require a massive overhaul that I do not expect will be politically palatable in the foreseeable future. In the absence of broad reform, I believe there are a few relatively simple, free-market solutions we can implement into our current healthcare system to improve care and decrease costs for most Americans.

Federal spending on a handful of major health care programs - Medicaid, Medicare, the Children's Health Insurance Program, and insurance marketplace subsidies - consume one-quarter of the entire federal budget[2]. That's **about the same as defense and non-health social safety net spending combined** - and much of that is still actually medical spending, like the VA and Indian Health Service. Rising government health care

[2] http://www.cbpp.org/research/federal-budget/policy-basics-where-do-our-federal-tax-dollars-go

spending is driven not only by increasing healthcare costs, but also by our aging population and growing life expectancies[3].

Family health care costs for an average American family surpassed $25,000 last year[4]. That growth has slowed somewhat - a trend that started a few years before the Affordable Care Act took hold[5] - but at 4.7%, it **still far outpaces growth of the consumer price index and median family income growth[6].**

2012	2013	2014	2015	2016
$20,728	$22,030	$23,215	$24,671	$25,826

I think it is important to note that only a small portion of those expenses are actually paid directly by individuals and families. Out-of-pocket expenses account for less than one-fourth of private healthcare spending in the U.S.[7]. That dynamic drives one of our underlying issues - **our healthcare system does not reflect a true free market.** Americans have very little information about the costs of their care and as a result patients seldom "shop around," even though most health care is elective, and not for treatment of emergencies. As a result, neither patients nor providers have much incentive to control costs.

In contrast, two areas of U.S. medicine are not shielded from free market competition - cosmetic surgery[8] and vision correction procedures, such as LASIK[9]. In these two fields, costs have remained stable relative to inflation, and the quality of care delivered has improved, as one would expect. I don't believe it's a coincidence that those areas where we have more competition through free markets - since procedures are typically not covered by insurance, and consumers are more discerning of price and quality - create incentives for providers to innovate and become more cost-efficient.

Promote High-Deductible Healthcare

Insurance - We should return to a traditional insurance model for healthcare, which would provide coverage for unexpected but potential calamitous illness or injuries. This is best accomplished through what is also known as catastrophic health care insurance. Such insurance policies have much lower premium costs[10], making them more affordable to all Americans, and reducing the need to subsidize such costs.

In other areas of our lives we purchase insurance policies to mitigate the risk of unlikely and costly events, but we do not use that insurance to cover routine needs. For example, while automobile insurance will cover a serious collision, and home insurance will cover a fire, we do not expect those insurance policies to cover an oil change or housecleaning.

Promote Health Savings Accounts (HSAs) - Routine healthcare needs - with the exception of unexpected and catastrophic events, which would be covered by insurance - should be paid for by individual patients. This would eliminate the middleman costs of insurance companies, as well as

[3] http://www.DrPetersForIowa.com/entitlement-reform

[4] http://www.milliman.com/mmi/

[5] http://www.factcheck.org/2014/02/aca-impact-on-per-capita-cost-of-health-care/

[6] http://www.forbes.com/sites/mikepatton/2015/06/29/u-s-health-care-costs-rise-faster-than-inflation/#41d1ce216ad2

[7] http://data.worldbank.org/indicator/SH.XPD.OOPC.ZS

[8] http://www.ncpa.org/pdfs/st349.pdf

[9] https://www.acponline.org/acp_policy/policies/controlling_healthcare_costs_2009.pdf

[10] https://www.ced.org/pdf/CED_Health_Care_Report.PDF

allow market forces to work in a myriad of ways. It would promote price transparency by providers, while also promoting cost transparency to consumers, who are currently largely unconcerned with costs of healthcare services. It should thereby reduce the costs of individual medical services[11], decrease unnecessary utilization of healthcare services, and hopefully also promote healthier lifestyles.

Health savings accounts, as currently designed, allow Americans to annually contribute pre-tax dollars to a bank account which is in turn used to fund most routine healthcare needs. These needs can include physician visit co-pays, prescription medications, dental and eye care, as well as to meet any larger charges below a high-deductible healthcare insurance limit. HSAs are not a use-it-or-lose-it system, but accumulate year after year in the same manner as an Individual Retirement Account (IRA), and can even be used to help fund retirement later[12].

Phase-Out Tax Deduction for Employer-Sponsored Healthcare Insurance - This policy is a relic of two important past events - the Great Depression and World War II[13]. In an effort to preserve a stable revenue stream during the 1920s and 1930s, hospitals and physicians embarked upon the Blue Cross and Blue Shield experiments, which paved the way for employer-sponsored healthcare benefits. During the 1940s, in response to existing prohibitions on wage increases, government exempted healthcare benefits provided by employers from taxation, cementing the association of healthcare benefits to employment.

In the current era, in which long-term employment at a single company is rare and workers commonly not only change jobs but move from state to state[14], this model is outdated and should be eliminated. Instead, insurance should be purchased individually, rather than through an employer, which affords much greater flexibility and security in the event of change in occupation. Many employees are reluctant to change their current employment, even though they otherwise might wish to do so, out of concern for "losing their benefits". This reluctance potentially leads not only to decreased satisfaction with a current job, but also decreases the potential for enhanced productivity and prosperity in a new one.

Eliminate Barriers to Competition between Insurance Providers - Healthcare insurance is extensively regulated by the individual states, and now also by the federal government[15]. Some regulations require coverage of certain healthcare benefits or specific types of providers, while other regulations affect the manner in which insurers are able to operate in a given state. One result of this state-level regulation is that the healthcare insurance market in most states is dominated by one, or at most two, private insurers[16], resulting in monopolistic economic effects which can increase overall costs.

The federal government has an important role to play in enhancing competition between insurers, both within and across state boundaries. It could do so by establishing standard criteria for several tiers of healthcare insurance that would be consistent

[11] https://object.cato.org/sites/cato.org/files/pubs/pdf/pa650.pdf

[12] http://www.ncpa.org/pub/ba791

[13] http://www.wpri.org/WPRI-Files/Special-Reports/Reports-Documents/Vol19no10.pdf

[14] http://blogs.census.gov/2012/12/10/america-a-nation-on-the-move/

[15] http://www.heritage.org/research/reports/2005/10/the-effect-of-state-regulations-on-health-insurance-premiums-a-preliminary-analysis

[16] http://marketrealist.com/2015/02/health-insurance-monopolies-need-know/

from state to state, encouraging more insurers to participate within a given state, and to be able to offer the same policies in multiple states. This would be an essential component of promoting greater insurance portability to employees in a world without employer-sponsored health care. In addition, it would allow individuals to customize their insurance plans as needed beyond whatever basic model they chose, allowing greater flexibility as well as decreased costs.

Pass Legislation Limiting Patient Charges - Currently, all healthcare providers, from hospitals to physicians, must develop a fee schedule which details the charges they bill for each service rendered. Insurance providers, from Medicare to private insurers, typically contract with individual healthcare providers to provide those services at specified rates, which are typically lower than whatever is specified in the provider's fee schedule. However, when dealing with a patient without insurance, or who is paying for services separate from their insurance, providers face a dilemma. While many providers might like to charge less than their fee schedule stipulates, and many do so, they could be accused of fraud if they routinely accept less than they would receive from a given insurer[17].

So, another essential component in a world of patient-centered, free-market healthcare is the need for legislation which would protect healthcare providers from such charges, and especially to allow competitive forces to reduce healthcare costs. The legislation I envision is a simple requirement that no provider be allowed to charge self-pay patients more than they are willing to accept from their lowest-paying insurer. This would include those without insurance as well as those paying out-of-pocket, such as with an HSA.

Consider Reforming Intellectual Property Rights - In the healthcare world, the relevant aspect of intellectual property rights has to do with patents, especially as applied to pharmaceuticals. The premise here is that by granting monopoly pricing power for a defined period of time, pharmaceutical companies are rewarded for past investments in research and development and thereby encouraged to develop new medications of value. As with any arrangement, however, there exist costs and benefits to such patent protections, and, the costs, both direct and indirect, must be weighed against the presumed benefits.

On average, Americans pay a higher cost per medication than do citizens of all other countries[18]. And, as recent controversies involving Turing Pharmaceuticals' Daraprim and Mylan Pharmaceuticals' EpiPen reveal[19], the costs of patents and exclusivity rights can sometimes be quite excessive. Intellectual property rights are something that we, through our government, provide to private corporations, and we have the right and responsibility to ensure that the costs of doing so do not outweigh the benefits. Some commonsense reforms might include unalterable patent protection from the date of drug approval, longer patent protections for newer classes of medications and shorter patent protections for similar medications in a given class, allowing government entities to negotiate drug prices, and ensuring that the public is not giving away patent rights based upon research that was publicly funded.

[17] http://www.physicianspractice.com/qa/charging-less-medicare

[18] http://jamanetwork.com/journals/jama/article-abstract/2545691

[19] http://daily-iowan.com/2016/09/08/patients-politician-speak-on-epipen-price-hikes/