Health Care Reform Issues and Solutions

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January 27, 2010

Introduction

It now appears we may have a real dialogue on health care reform with the election of a Republican in Massachusetts for U.S. Senate. Until now, the health care reform plan has not been debated by anyone except the Democratic leadership in the House and Senate. Obama/Pelosi/Reid appear to be only listening to their confidants, which includes many special interests tied to this administration. Their key component is a single-payer system at an extremely high cost (Bader, 2009). Although they state it is no longer a priority, we must be constantly vigilant against any legislation that supports this notion if a single-payer system is invoked, I believe the entire medical system would over-time be subjugated to the federal government.

This paper discusses some of the issues currently debated in Congress and their impact on various groups in and related to the medical industry. However, complaining does not solve anything. This paper also discusses a few solutions. I acknowledge the number of uninsured has increased due to many reasons (Center on Budget and Policy Priorities, 2006). Many people, including the Republican members of Congress, have offered solutions and some of those may be repeated here. Given the “new” environment maybe the right people will listen now.

Health Care Reform?

Summary

I cannot believe anyone in the medical insurance business, anyone that works in the medical industry, and even the tort lawyers would go for the Pelosi/Reid/Obama health care reform plan. In a single-payer system the prices they charge and the pay they receive would be directed by the federal government.

Medical Insurance Industry

I do not believe the medical insurance industry would approve of this plan. I do not know if anyone in Congress understands the term "anti-selection," but to force
insurance companies to insure people with pre-existing conditions goes against all principles of insurance. Basically, insurance companies are in the risk business. That is, they insure property, life and limb based on a probability of a claim. The lower the probability of a claim the lower the premium one pays for the insurance. As the probability increases so does the premium. There is a point where insurance companies are unlikely to underwrite insurance. When there is a virtual certainty (100% probability) a claim will be paid. At this point it is not insurance rather a service.

An example of a service is when one buys new tires. The customer has a 100% expectation to receive tires in return for payment, that is, a service is expected. In the insurance business, a customer pays a fee to the insurance company for a service, which is unlikely to occur during the policy period (based on a probability). If a person wants to purchase a 10-year term life insurance policy, the insurance underwriter determines the mortality rate based on the person’s age and health. Assume the underwriter has determined this person falls into a group having a 1% chance of dying during the policy period (10 years). They estimate, on average, an annual premium of $105 for a $100,000 policy would be a sufficient premium to cover all the claims and make a 5% gross profit for the company from which all company expenses are paid including a net profit. Anti-selection comes into play when a terminally ill person wants to buy life insurance. Since the risk is 100% the premium would be the coverage amount plus a company fee to manage the policy, which is a losing proposition for all.

My guess is Congress has chosen to ignore anti-selection for the proposed health care reform plan. As I understand it, they want a private insurance company to cover someone with a pre-existing condition AND limit the premium amount they could charge (Brewer, 2010). I believe this is the fundamental section of the Pelosi/Reid/Obama health plan. This is a plan where they drive insurance companies out of business over time and, eventually, force their single-payer government option on everyone in the country. I can see why the insurance companies would not want this health plan.

Medical Industry

In the case of the medical industry, I cannot see why anyone would support a single-payer system either. The medical industry, that is, doctors, nurses, and hospitals, should not be in favor of this plan. A single-payer system, as proposed by Pelosi/Reid/Obama, will lead to the government determining what they will pay for medical services. You can observe this circumstance with Medicare as more and more doctors are dropping out of Medicare since the federal government is less willing to pay for the increases in health care cost for those over 65 (Siegel, 2009). When the single-payer system is in play, doctors, nurses, and hospitals will be forced to take whatever the federal government is willing to pay.
Extending this logic further, the federal government will eventually control the income of doctors, nurses, and other hospital workers. A federal government single-payer system will control how much will be paid for a service and those providing the service will see their income controlled as well.

**Medical Services**

I do not see it stopping with medical service providers either. A service industry supporting the medical industry such as the pharmaceutical and medical equipment industries will be ultimately controlled by the federal government. Controlling what will be paid will naturally extend to those providing goods and services to the medical industry.

The drug companies will be obliged to sell their drugs to the doctors, hospitals and pharmacies at a price consistent with what the federal government will pay. The same goes for those providing medical equipment. In a single-payer system, the federal government will only pay $1 million for an imaging system and the medical equipment companies will have a choice to either accept the price or not sell anything in the United States.

Can you imagine the impact on creativity? Without a profit motive who would want to invest their time and money just to have the federal government decide how much their investment is worth? The way I see it, eventually everyone in the extended medical industry, including the medical service companies, will have their income controlled by the federal government with a single-payer system.

**Tort Lawyers**

These guys should be fighting tooth and nail against the Obama/Pelosi/Reid plan. With everyone in the medical industry working for the federal government who are they going to sue? Although, this might be a good thing!

**Other Solutions**

I did not write this paper just to complain. I think there are viable solutions to the problems with our medical system. Perhaps now there may be ears to hear them.

**Pre-Existing Condition**

Those with a pre-existing condition, such as diabetes, make it difficult or impossible to purchase health insurance at a reasonable price. Given the anti-selection nature, insurance companies would be providing a service if they insured that person. Thus,
the premium would be extremely high. Could the federal government step in like they did with the federal flood insurance program?

The federal flood insurance program is essentially a federal government solution to anti-selection in the real estate market. Homes in flood prone areas, such as coastal areas and rivers, are high-risk to the point where the premium would in some cases be the value of the property. However, people still want to live in those areas and not be subject to a high premium. The federal government, however, stepped in with the federal flood insurance program, which uses taxpayer dollars to cover properties in the event the building has water damage from a flood. Even the federal government is not stupid though. When there is an impending hurricane their agents get many calls from frantic property owners. They could sell a flood policy, but the waiting period is 30 days before it takes effect (FEMA, 2009).

A similar program could be organized for the medically uninsured where the federal government would provide supplemental insurance to cover individuals with defined pre-existing conditions. A private insurer would be the primary insured with a supplemental policy underwritten by the federal government to cover specified pre-existing conditions. I am sure a standard could be devised where the person requesting insurance would be required to pay for a comprehensive exam, which would uncover conditions that would be insured under the federal program.

**Options for Health Care Coverage**

Some other solutions I have read about are to allow insurance companies to compete across state lines and not have state-mandated coverage in the policies. As I understand it, many states have mandated coverage for every policy issued regardless of the circumstance of the policy owner. Does everyone need pregnancy coverage? Allowing an individual to select coverage and deductibles would seem to be a reasonable option. Given a possible federal program for pre-existing conditions, this may be a way for the medical insurance industry to offer low-cost plans.

**Uninsured and Emergency Care**

Even with those plans above, there will still be individuals without health insurance. They either do not want health insurance or still cannot afford to purchase a policy, and will continue to use a hospital emergency room for medical attention.

I think there are other solutions. People have complained about the uninsured flooding emergency rooms (O’Shea, 2007), but what about having another federal program (perhaps managed by the states) to support free clinics around the country? As I understand it, there are currently about 1000 free clinics around the country, (Darnell, 2007), and they have been an effective source of medical care for the uninsured (Bello, 2009).
I think it would be possible to organize a free clinic system where a clinic is located relatively close to everyone in the country. I think most people would support this notion. The system could be the first point of contact for most people needing medical care with the hospital emergency rooms as their backup. Furthermore, if the system were set up to take anyone (insured or uninsured) without having to pay a fee for the service we may find many people (even the insured) would want to use a free clinic at least as the first contact with a physician.

With a free clinic system in place, those with insurance would have a choice. Those without insurance or cannot afford insurance would have a place to go as well.

**Conclusion**

As I have heard on television and read in the online papers, we should start the Heath Care Reform debate anew. It appears Obama/Pelosi/Reid may be forced into a dialogue now. If a set of solutions is properly discussed and the American people believe there are appropriate and affordable solutions, then we are heading in the right direction. Be advised the Progressive movement has pushed for universal health care for many years. FDR proposed this during his State of the Union speech in 1944 as part of a second bill of rights (Reding, 1996). Recently, FDR's statements were confirmed by Senator Harkin. On January 11, 2010 he stated health care is a right (Fox Nation, 2010). During this national debate we must not let our guard down and stop the Progressive movement. The solutions proposed are only talking points, but I believe it is a good start for a truly open, national discussion.

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References


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