

POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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The Way Forward for Health Care

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What You Should Know

The COVID-19 pandemic has impacted American health care in many ways: First, it sent hospitals and providers scrambling in a race against time to prepare for potential surges in demand for care. Secondly, it reduced demand for non-COVID services and cut off providers' ability to offer the elective procedures that serve as an important revenue source. In response, like other businesses, hospitals and doctors' offices furloughed and laid off workers and cut pay.

The COVID pandemic also brought the strengths and weaknesses in American health care into stark relief. This should serve to point policymakers in the right direction for three major reforms, even during this difficult time:

Millions of Americans lost jobs as the economy was shut down. This should raise serious concern about our employment-centric model for health insurance, an accident of history. It's time to finally unlink employment and health insurance in favor of portable Health Savings Accounts.

Furthermore, policymakers should restore public trust in healthcare institutions by making pricing information transparent. Price transparency isn't an end in itself, but the means to the ends of patient control, healthy market competition, and lower healthcare spending for all.

And finally, policymakers should look to remove unnecessary government red tape from health care, so that hospitals and providers have maximum flexibility to respond to new events and innovate to better address people's health needs.

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Why You Should Care

The average American household spends **\$28,000 per year** on health care and coverage. **Nine percent** of Americans are still without any health insurance coverage. **One in four** Americans skip healthcare services due to cost, and Americans borrowed **\$88 billion** in 2018 simply to pay for medical costs.

The way we pay for health care doesn't work. This was true before the pandemic, but it's even clearer now. Fortunately, there's a way forward:

- **Expand health insurance options, particularly for those without job-based coverage.** The current employer-centric model is inequitable, leaves many people behind, and restricts choices for patients. This distorts the market and drives up premiums.
- **Lower prices by making them transparent.** It makes no sense to consume a service without any information about what it will cost. Transparency will offer certainty and allow patients to shop for value, driving down prices.
- **Make COVID-19 deregulatory changes permanent to foster flexibility and lower costs.** The pandemic has made it clear that it was never necessary for the government to limit the expansion of healthcare facilities or control the supply of medical labor. Reforms can put us in a better, more agile position to respond to future crises (and to better serve patients in general).

More Information

Paying for Health Care in the U.S.

The U.S. has a quasi-private, quasi-public healthcare system, and the vast majority of spending on healthcare is funneled through health insurance.

As many as **one in three** Americans are on a government insurance plan, including Medicare (14 percent of the population), Medicaid (20 percent), and military patients (1 percent).

Only very few (6 percent of) people buy insurance directly from an insurance carrier or through an insurance “exchange” established by the Affordable Care Act. Nearly one out of every ten Americans (9 percent) has no form of health insurance and must pay for health care out of pocket.

Fully half of Americans have employer-provided health insurance. This comprises the vast majority of people with private insurance.

This employer-centric model is unique in the world. Many other countries have “universal” or socialized government health insurance programs. Some—like Switzerland—have heavily regulated private insurance markets where patients/households must buy insurance directly.

The United States' system is an accident of history. During WWII, government wage controls forced employers to get creative in offering new benefits to attract workers (wage raises were not an option). Health insurance benefits began to rise in popularity. In the 1950s, Congress exempted employer-provided health insurance from the income tax, meaning that since then, including today, these benefits are tax-free.

This created an effective subsidy for employer health plans, which have grown in popularity, size, and scope ever since. While comprehensive job-based health insurance works well for many Americans, it comes with significant downsides:

- **It doesn't work for modern workers.** Americans now change jobs an average of **12 times** during their working years. Increasing numbers of Americans are working in nontraditional "gig" or independent contracting jobs that often don't come with a full plate of benefits.
- **It's not equitable.** The current system favors people with good jobs and incomes. They get a huge tax break (because employer provided healthcare benefits are not taxed as income) and higher-quality insurance. *This is regressive!*
- **It limits choice.** **Eighty percent** of employers only offer one plan. Employees can only choose to opt in or opt out. This is a huge distortion as insurers market their products to very few decision makers (employers) and not individual patients and families as consumers.
- **It drives up costs.** Because of the incentive to pay for healthcare through employers, more and more health services have become covered by insurance (which traditionally only covered catastrophic or unexpected health expenses). This creates a "group lunch" mentality in healthcare consumption and drives up premiums.

The COVID-19 pandemic revealed another flaw in employer-centric insurance. The pandemic is simultaneously a public health crisis and an economic crisis. As millions of Americans lost jobs, they also risked losing their job-provided health insurance. An employment-centric model for health insurance didn't put the country in a good place to face COVID's multifaceted challenges.

Replacing the tax exclusion for employer-sponsored insurance with universally available Health Savings Accounts wouldn't preclude employers from funding health insurance for workers. But it would allow workers to choose their own plans and keep them, even when changing jobs. It would level the playing field (i.e. make tax policy equitable) for people with nontraditional jobs and self-purchased insurance, make insurance markets more diverse and competitive, and help all people (and especially those with pre-existing conditions) maintain continuous coverage (and avoid gaps in coverage that can be problematic). This change would be transformative.

Lack of Price Transparency

In part due to the nation's convoluted healthcare payment pipelines, patients in the U.S. have very little information about how much health care costs. Healthcare prices—that is, the rates that insurance companies pay to hospitals—are not publicly available and can vary dramatically depending on geographic location, individual healthcare facility, and (even within the same hospital) who is paying.

Hidden prices contribute to *high* prices. If we can't see what's being paid on our behalf, we don't know if we are overpaying or not. But we still ultimately pay, even in the form of higher health insurance premiums. Insurance companies lack the right incentive to keep claims payments low, because they know they can just pass the expense along to the pool of insured members.

Some resistance to price transparency in health care comes from resistance to consumer-driven health care in general. "Health care is different," some people say, suggesting that it can't be treated like other markets for goods and services. Of course health care is unique. It is often a life or death matter. But most health care—**more than 90 percent**—is "shoppable," meaning it's care that can be scheduled ahead of time; it's not an emergency.

And most Americans report in **surveys** that they want more pricing information: More than half of Americans say they have sought out information on how much they would have to pay or how much a procedure would cost their insurer before getting care. Over 80 percent of those who have compared prices across multiple providers say they will do so again in the future. Systemwide price transparency would deliver important benefits to patients:

- **Patient Control:** Patients shouldn't be an afterthought when it comes to paying for health care. Patients should be the consumer, and the consumer should always be king. With price transparency, patients can make value-based decisions, weighing price against quality and deciding which hospital or clinic best serves their needs.
- **Financial Certainty:** Fully **57 percent** of Americans report receiving a "surprise" medical bill. For a truly patient-centered medical system to "do no harm," it must consider patients' financial wellbeing. Price transparency would ensure that patients have the financial certainty of knowing what to expect when they consume health care. We receive an "explanation of benefits" after the fact telling us what prices were ultimately paid for our care. Patients should be able to access this information before the fact.
- **Affordability and Accountability:** Economists like Art Laffer, Larry Van Horn, and Steve Forbes all agree that price transparency could lead to reductions in healthcare expenditures by as much as 40 percent. That's **\$11,000** per family per year.

The pandemic has harmed almost every industry, and hospitals are not immune. As of May 2020, more than **200 hospitals** had furloughed workers due to budget shortfalls. Consumer healthcare spending fell 18 percent in the first quarter of 2020, and continued to spiral down in Q2, representing billions of dollars that hospitals and other providers did not receive. The huge dropoff in healthcare consumption in Q2 accounted for 29 percent of the total (historic) GDP decrease of 32.9 percent. Notably, in other previous economic downturns, the healthcare sector was essentially recession proof. But not this time.

Without price transparency, patients might fear exorbitant charges as healthcare spending picks up again. After all, hospitals may be looking to make up for lost revenues. But price transparency will give patients the reassurance that this isn't happening, and will allow patients to reward hospitals and doctors' offices who weathered the pandemic best, cutting costs when possible, rather than simply sticking a high bill to insurers or patients.

Removing Red Tape

During the pandemic, states and the federal government acted swiftly, often in consultation with medical providers, to get rid of unnecessary red tape that did nothing to improve patient care but did make health care more bureaucratic and slow. Here are a few examples:

- **Suspension of Certificate of Need (CON) laws:** Thirty-five states and Washington, DC, maintain a CON program, meaning healthcare facilities essentially must ask the state's permission to expand or build a new facility. **Eighteen states** suspended their CON laws in response to COVID-19.
- **Expansion of telehealth:** Telehealth may not be every patient's preference in normal times, but it should at least be an option. This service has reduced unnecessary in-person appointments (and therefore reduced disease transmission risk). This form of health care was less available before the pandemic due to a variety of regulatory and reimbursement hurdles, which were **quickly cleared** this year.
- **Professional licensing reforms:** Physicians and nurses are licensed at the state level, but many states moved to recognize medical licenses across state lines as many professionals traveled to help in COVID hot spots. CMS also relaxed many federal **regulations related to licenses** for doctors, nurse practitioners, and occupational therapists, allowing these professionals to more easily do all aspects of their jobs.
- **Physician supervision deregulation:** The government requires that physicians do many tasks that could otherwise be delegated to nurses or mid-level health professionals. To give hospitals more flexibility during the pandemic, the government **relaxed rules about this**. Pandemic aside, the country faces a physician shortage, which can make it difficult to get physician signoff on every order or certification.
- **Removal of FDA hurdles to drug innovation:** The FDA modified its "Emergency Use Authorization" for COVID testing, making it easier to bring new versions of COVID tests to market. This should have been done even sooner, but it was a good step.

The pandemic was and is an urgent situation. But we have learned during the past few months that the above deregulatory efforts (and **others**) do not result in inferior patient care. All of the above changes should be made permanent to make health care more agile and affordable: No state should have CON laws, telehealth should be widely available, medical licenses should be universally recognized, doctors should focus on things only doctors can do rather than administrative tasks, and the FDA should remove hurdles to the tests, drugs, and vaccines we need to ultimately end this pandemic and face future challenges.

Conclusion

It's often said that necessity is the mother of invention. The pandemic strained our healthcare system, and will continue to do so. While the problems related to convoluted payment and overregulation were always there, they became more apparent during this crisis. The question before us now is whether we will learn the right lessons and make the right changes to make American health care more affordable, accessible, transparent, agile, and patient-centered for all.

What You Can Do

Get Informed

Visit:

- **Cato Institute—Large HSAs**
- **Galen Institute and Texas Public Policy Foundation—Transparent Prices**
- **Americans for Prosperity—Health Care Reimagined**

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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