



Health Care Regulation Spending Trap

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Our health care system has faced many challenges over the past 40 plus years. Now these challenges have forced us into a complicated situation that makes it confusing on how best to proceed. Today third party insurance payers make most health care payments. Our premiums are paid into a risk pool-on medical services for other people. Just 12% of health care costs are paid directly by consumers. When the third party payer is perceived as picking up most of the tab, the health care consumers are not as concerned about how much is spent – it's not their money. The result is consumers are disconnected from knowing the cost of goods or services that they are receiving, which ultimately means the normal supply-demand price mechanism isn't going to work, prices will go up. [1]

When someone else is paying 88% of the bill (government & insurance) consumers or patients have all the incentive they need to use as much health care as they can. When consumers share in the cost of their health care purchasing decisions, they are more likely to make those decisions based on price and value.

The RAND Health Insurance Experiment, the largest study ever done of consumer health purchasing behavior, provides ample evidence that consumers can make informed cost-value decisions about their health care. Under the experiment, insurance deductibles were varied from zero to \$1,000. Those with no out-of-pocket costs consumed substantially more health care than those who had to share in the cost of care. Yet, with a few exceptions, the

effect on outcomes was minimal. A recent study by Amy Finklestein of MIT suggests that nearly half of the per capita increasing health care spending is due to increased health insurance coverage. [2]

So there is little doubt that patients need to be informed, and to be proactive in their health care decisions. But how does that factor affect the many patients who are not capable or have the resources to be proactive and informed?

The Affordable Care Act (ACA) of 2010 was enacted to provide broader health care coverage to the citizens of the U.S. than what was previously available prior to 2010. Good, bad, or indifferent to the Act it is the Law of the Land and has benefited many consumers. Of the 5.45 million who have signed up through the federal exchange (May 2014), 5.18 million (95%) applied for financial assistance in their insurance plans. Only 695,000 people (13%) indicated that they had previous health coverage. So yes, the ACA health bill has cost us taxpayers more money. [3] However I would suggest that the current increase in cost ultimately saves significant dollars over the long run in providing for a healthier patient community.

Increased Job Creation

Since 2010 the healthcare sector has been a leading job-producer. This may be at risk under the current health care environment of this Congress. A report released Friday by the Commonwealth Fund and the Milken Institute School

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Level of Evidence: AAOS Therapeutic Level V

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of Public Health at the George Washington University found that repealing key provisions of the ACA, including the insurance premium tax credits and Medicaid expansion, could lead to 2.6 million people losing their jobs in 2019. By 2021, nearly 3 million jobs in healthcare and other sectors could be lost.

“Repealing key parts of the ACA could trigger massive job losses and a slump in consumer and business spending that would affect all sectors of state economies,” the Milken Institute’s Leighton Ku, the lead author of the study, said in a statement. “Cuts in federal funding would not only harm the health care industry and its employees but could lead to serious economic distress for states, including a \$1.5 trillion reduction in gross state product from 2019 to 2023.”

Table 1.

Total healthcare jobs per month in 2016 (in thousands)

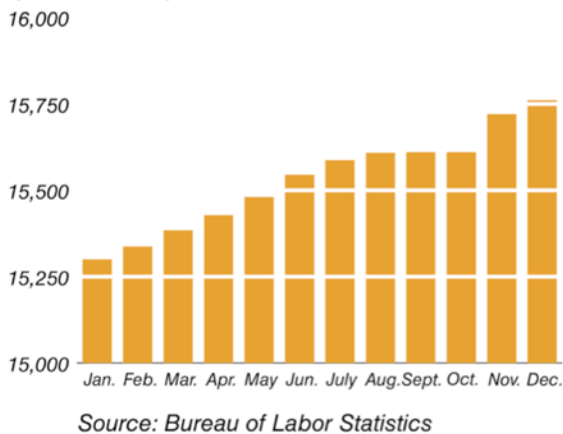
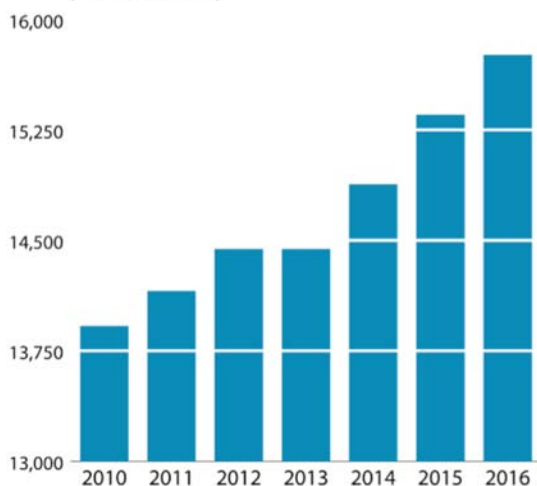


Table 2.

Number of healthcare jobs by year (in thousands)



*As of the end of December in the given year.
Source: Bureau of Labor Statistics

While job growth in the healthcare sector has helped reduce the unemployment rate, it also sped up healthcare spending. The nation’s healthcare sector spent \$3.2 trillion in 2015, up 5.8% from the year before, driven by coverage expansions under the ACA that led to higher spending for private health insurance, hospital care, physician and clinical services, Medicaid and prescription drugs. As the demand for care under the ACA increased, healthcare organizations responded by adding jobs to cater to those newly insured. Moreover, more care was being reimbursed, so hospitals had more money to spend on hiring (Tables 1, 2).

There is no question that the U.S. health care cost of 17% of GDP is too high as compared to other countries, and we need to slow down annual expenditures. But the question is what are the best potential policies?

Here are a few common sense approaches from my point of view.

- Don’t repeal and replace the ACA – fix it by bipartisan cooperation
- Don’t repeal the individual shared responsibility payment in the ACA Health Care Law – this brings in much needed revenue to offset Medicaid increases
- Open up more competition in the ACA Health Care Law – competition reduces cost
- Allow exemptions in Medicare policy for patients to pay for alternative product and treatments currently restricted by law – allows for patients and doctors to be more proactive reducing health care cost
- Consider Loser Pay Laws in the Health Care Market – does not restrict contingency legal action
- Make sure Congress is never exempt from the laws it passes

Our current health care situation is not the fault of any one political party. Nor can any one party fix the many problems we face. Let’s forget about overall comprehensive action and take immediate incremental steps to help us proceed in the right direction.

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