Eliminating choice in healthcare insurance will dramatically reduce costs

by Fred Gluck

The primary cause of extremely high healthcare costs in the US is complexity and, in particular, the complexity spawned by choice in private insurance coverage. The billing, insurance and reimbursement (BIR) systems required to manage and administer this complexity of choice create armies of middlemen between the patients and the providers. These middlemen generate enormous unproductive costs both in the insurers and throughout the delivery system and they provide no healthcare.

Moreover, this complexity and the lack of transparency it engenders provides a fertile ground for fraud and overutilization. Together these costs of complexity which no other country bears have been estimated to produce nearly a Trillion dollars in unnecessary costs.

These complexities are largely the result of the piecemeal way in which our private insurance systems have grown over the years since wage and price controls were introduced during WW II and benefits were declared exempt. President Nixon accelerated the growth in private insurance when he reintroduced wage and price controls in 1971. The private healthcare insurance industry has now ballooned into a Trillion-dollar cost plus business by treating healthcare insurance as a consumer product that offers over 10,000 options for coverage.

On the surface, providing a wide range of choice is a sensible way to permit individuals to select a program that offers coverage at premiums they can best afford. However, there are a number of problems with thinking about insurance this way. First, it puts primary emphasis on premium cost and deemphasizes the additional out-of-pocket costs of paying for care when it is actually delivered. Second, choice of coverage has little or no effect on an individual's access to care when hospitalized for inpatient care. Third, the requirements for cash outlays for outpatient care often lead to avoiding necessary routine or chronic care when an individual is short on cash at the time of need. Fourth, and perhaps most important, the total costs to our healthcare system of providing choice on insurance (which far outweigh the benefits) have been largely ignored when considering reform.

Consumer product marketing is based on market segmentation that provides a broad range of choices to people based not only on their needs but also on their wants and their ability to pay. Providing those choices is the purpose of market segmentation in consumer products such as automobiles. The more you pay the better the product you expect to receive. Health care is very different. A person with appendicitis doesn't choose whether or not they need to have their appendix taken out. The physician does. Nor does the patient decide whether they want a Cadillac or beat-up old clunker version of an appendectomy. The physician does; he or she will choose the standard of care procedure.

Nevertheless, choice is endemic in healthcare insurance infecting all private and public insurance except for Medicare Part A. Administering these many thousands of choices is responsible for a spider web of complexity not only within the insurance companies but also within every single health care provider in the United States. A detailed analysis by The U.S.

National Library of Medicine (NLM) estimated that the resulting billing, insurance and reimbursement (BIR) costs were $471 Billion in 2012. This total includes $70 billion in physician practices, $74 billion in hospitals, $94 billion in settings providing other health services and supplies, $198 billion in private insurers, and $35 billion in public insurers. After adjusting for increases in premium prices and other costs, the total cost projects to over $600 Billion today. The NLM further estimates that 80%, ~ $500 Billion, could be eliminated by bypassing the insurance companies. Importantly these estimates do not include the dollars spent by businesses, educational institutions, eleemosynary organizations and other employers to administer insurance programs for their employees. Nor do they reflect the substantial time, emotional energy and money expended by families and individuals to manage their coverage.

Similarly, NLM estimates of the the costs of overutilization project to well over $300 Billion in 2018.

Eliminating these enormous unproductive costs would provide the financial flexibility for the US to provide guaranteed access to our private system of world class health care providers for all Americans. Moreover, reductions in the complexity of choice will also shine a light on some of the inexplicable cross subsidies which plague the system - e.g. significant differences in price of as much as 8 to 1 for exactly the same procedure or drug both from hospital to hospital as well as within individual hospitals depending on who's paying. Exposing these pernicious cross-subsidies would enormously simplify the problems of controlling costs at the hospital level as well as understanding variations in the cost of care among hospitals and across regions and controlling the costs of overutilization and fraud.

Any attempt to reform health care in the US that fails to eliminate choice as the fundamental driver of the costs of complexity simply misses the point and is doomed to failure. On the other hand, simply eliminating the complexity of choice will lead inexorably to universal access and catalyze widespread initiatives to further reduce costs and improve the access to and quality of care.