Fixing the Fundamental Flaw in American Health Care

By Fred Gluck

The single most important factor driving the spiraling costs of health care in the United States is the complexity of the insurance and reimbursement systems. If President-elect Trump is going to work with Congress to replace the ACA and bring the costs of our health care under control, they will have to eliminate that complexity.

To make that happen, we first need to acknowledge that health care is an essential service, and stop treating it as an expensive consumer product.

Ehealth, an online service to browse and buy health insurance plans, states on its homepage that a purchaser can choose from over 10,000 plans from over 180 suppliers. The private insurance companies spend from 15-20% of premium dollars to design, create, market, sell and administer this mind-blowing panoply of choice. Private insurance premiums represent roughly two-thirds of our total annual health-care expenditures of more than $3 trillion, so the insurers are spending about $300 billion to $400 billion before any health care is even delivered.

At the same time, every provider of health care – from doctors and clinics, to hospitals and physical therapists – has to traverse these bureaucracies to negotiate payments. These providers often pay substantial sums to consulting and service firms to help them navigate the reimbursement system and maximize their income. Many small businesses turn to similar outside firms to minimize their costs of providing coverage to employees. (Complexity is a fertile ground for fraud and overutilization.) Add these costs into the equation and you're now well north of $500 billion--still before any health care has been delivered. None of this takes into account the countless hours the public spends trying to make sense of the system. This cost of complexity is roughly equal to total yearly U.S. spending on prescription drugs. Not surprisingly, Bloomberg's most 2019 annual international comparisons ranked the U.S 35thth out 56 countries in the efficiency of its health-care system.

Most other developed countries (and many lesser developed ones) consider health care to be an essential service and deliver it with minimal administrative structure between patient and provider. In the United States, however, access has evolved on the premise that health care should be provided to citizens based on their ability to pay, which is usually determined a) by the type of insurance coverage they have either chosen or has been provided by their employer or a government agency, or b) by their capacity to pay directly for the care. As a result, there is no U.S. "health-care system" but rather a variety of access points and choices provided by a large number of private insurance companies (supplemented by Medicare and Medicaid and a variety of expensive "safety nets").

Treating health care as a consumer product is the fundamental flaw. 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 their wants and ability to pay. For example, in our modern society an automobile is a necessity for most adults. People need their cars. The consumer's decision of how to satisfy that need, however, is where the real choice lies (10-year-old clunker or Cadillac). That choice is driven not by need but by want and ability to pay.

Health care is very different. There is absolutely no connection between an individual's choice of insurance coverage and the type of medical care he or she will eventually need. When the time comes that an individual requires care, he or she will usually receive it based on a health-care professional's diagnosis and recommendation. If insurance doesn't fully cover the cost and the patient can't pay for it, the provider will generally subsidize the uncovered cost as charity care and write it off. (Federal law requires that hospitals provide emergency and medically necessary care to all comers, and this usually occurs in the emergency room for indigent patients at very high cost.) In other words, all the activities that are driven by the notion that the delivery of health care should be based on ability to pay have very little effect on the care that is actually needed and delivered. But they add a huge administrative cost.

President-elect Trump must put the minds of the uninsured and under-insured at rest and, at the same time, assuage the concerns of taxpayers over the escalating costs of health care, which already consume more than 17% of GDP. He should convey his intention to make health care in America an essential service that is guaranteed by the government, and funded by eliminating the complexity of treating health care as a consumer product. All Americans would be guaranteed the same level of coverage for preventive, routine, emergency, chronic and end-of-life care required to maintain a productive life and a dignified passing. Extraordinary measures to extend the dying process would not be covered.

This could be accomplished by gradually, say over 5 years, transitioning all Americans into a government run, streamlined (no choice) single-payer system and eliminating private insurance, as we know it.

Alternatively, to foster free enterprise and competition, the Federal Government could require all insurance companies to offer the guaranteed coverage as a base plan; and subsidize it as necessary. This would give Americans unrestricted access to all essential services, and Medicaid and Medicare would eventually be absorbed. The companies would compete on their ability to control fraud, overutilization and their administrative costs. They could also offer supplemental insurance plans for extraordinary medical measures and market them as consumer products. The Centers for Medicare & Medicaid Services would focus on defining and overseeing the transition. This alternative retains a significant role for the private insurance companies and provides a more sale-able transition path that should appeal to both liberals (true Universal Care) and conservatives (run by the private sector and much lower costs.)

Over time, competition in these dramatically simplified segments will produce consolidation and downsizing of the industry and reduced costs for all health-care providers. The end result will be a dual private insurance system subsidized and overseen by the government, but owned and operated by the private sector. Most importantly, all Americans will be assured of uncomplicated access to necessary care, the continual increase in percentage of GDP devoted to health care will be reversed, personal and corporate spending on health care will be reduced, and substantial additional resources will be diverted from administration to where it matters most: the care of patients.

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