

To: 2020 U.S. Presidential Candidates

August 11, 2019

Re: Fixing America's health care system

Dear Candidates:

Healthcare and, in particular, how to provide universal access for all Americans has been front and center in the Democratic debates. I believe in universal access too, but Medicare for All or the expansion of Obamacare are not the most effective or efficient ways to bring it about because they fail to deal directly with the institutional bloat and other inefficiencies that have crept into our healthcare non-system over many decades. This creeping complexity has resulted in enormous unproductive costs as well as severe restrictions on the consumer's ability to choose the most cost-effective provider. Suppose, instead of embracing quick fixes, we looked at the root causes driving these unproductive costs and counterproductive restrictions which have been spiraling out of control for far too long.

Estimates vary somewhat but [unproductive costs include about \\$500 billion a year in administrative expense](#) created by the unnecessary complexity of a non-system that evolved in a piecemeal manner. Similarly, estimates of the cost of [overutilization and fraud average about \\$600 billion](#). Moreover, the highly regressive [tax preference for Employer Sponsored Insurance results in about \\$280 billion](#) in foregone revenues. **Finally, the Pharmacy Benefit Managers, who are simply middlemen between the Pharmaceutical and Biotech companies and the patients skim another \$150 billion of our healthcare spending and add no value.** That adds up to \$1.53 trillion; more than one-third of our total \$3.5 trillion annual spending on health care. Although picking this low-hanging fruit is not a quick fix, [it could be accomplished over a few years with manageable disruption](#) and the savings could be used not only to finance universal care but also to reduce total national spending on healthcare.

Complexity in the choice of insurance coverage, the lack of transparency in prices and quality of hospital care, and the unproductive duplication of public health care agencies and middlemen are the root causes of most of our health care problems.

[Because we treat private and, to a lesser extent, public health insurance as a consumer product, insurers respond with a staggering array of choices and options. For example, people who shop for insurance online are confronted with thousands of policies to select from, far too many for anyone to capably examine and compare. This complexity results in endless levels of bureaucracy, administrative expense, and hidden costs that drive up the cost of care.](#) Also, unlike real consumer products, a person's choice of an insurance plan has little connection to the type of care he or she will eventually need. Choice in insurance merely determines who will pay for the necessary care when, and if, it is delivered. In practice, insurance serves primarily to deny preventive or necessary care to patients who can't afford or choose not to pay the additional charges when they actually receive care.

Perversely, [consumers in need of hospital care are severely restricted in selecting the most cost-effective provider. In the real-world, meaningful choice for consumers is extremely limited by the widespread practice of insurers negotiating unpublished prices with each hospital for each service and product,](#) and the scarcity of consumer-friendly quality data at the hospital level. This, in turn, creates additional unproductive costs, limits competition among providers, and prevents free-market forces from bringing the seemingly endless increases in cost under control.

In other words, [our current non-system provides for near limitless choice in insurance coverage](#) which primarily denies necessary care and creates enormous unnecessary costs. It also prevents the transparency required for consumers to make intelligent choices among providers when care is actually needed; once again creating unnecessary costs to do so.

A straightforward approach to reducing this complexity and increasing transparency would be to [mandate a single, comprehensive Guaranteed Access Plan \(GAP\) modeled, for example, on existing Medicare coverage.](#) All insurers in both the private and public sector would be required to provide this same, separately priced GAP coverage as their flagship product. This would create an easily understood, transparent competitive market for insurance coverage uncomplicated by the largely specious options that now obfuscate choice. Competition would be based solely on premium price and quality of service. This single step would eliminate much of the wasteful complexity that now exists

throughout the system, while ensuring that all Americans enjoyed equivalent access to our world class health care providers.

Concurrent with the establishment of the GAP, the Centers for Medicare & Medicaid Services [\(CMS\) would establish complementary nationwide reference prices for all covered hospital-based and professional services and products using, for example, the inpatient prospective payment system now used for Medicare reimbursement.](#) These prices would be published and phased in over a few years as benchmark reimbursement rates for insurers or prices for self-pay consumers. Providers would be free to offer higher or lower prices than the benchmarks based on higher quality or more efficient operations but could not differentiate among payers. [This will create a transparent, competitive health care market and allow free market forces to set prices.](#) This improved transparency will also facilitate continual cost reduction and more effective control of overutilization and fraud.

People who are happy with the workplace-connected insurer they have now would be able to stay with their insurer, with one important difference. They – not their employer – would be in charge of their plan and free to choose both the most cost-effective insurers and providers for their needs in ways that would minimize both their premium and out-of-pocket costs. The money employers now pay for their workers' insurance would be turned into wage increases and workers would decide whether or not to supplement their GAP coverage. This would also eliminate the danger inherent in the present system of people losing their health insurance when they change jobs. GAP stays with you, regardless of your employment status. With employers out of the picture, GAP also eradicates the existing tax preference for Employer Sponsored Insurance that unfairly penalizes the self-employed and others who buy their own coverage. Private insurers would be free to offer supplemental plans to cover modalities not included in the GAP to those willing and able to pay. These supplementary plans would not be subsidized in any way and, given the comprehensiveness of GAP, would constitute a very small market segment.

[All other public programs \(e.g. Medicaid, CHIP, the VA\) would be consolidated into Medicare's GAP and primarily financed by the federal government.](#) This would eliminate billions of dollars in redundant administrative costs as well as improving transparency.

[Over time, natural market forces will reshape both the private and public insurance sectors, eliminating middlemen and other non-medical costs and forcing downsizing and consolidation. Similarly, real competition among providers will drive down the costs of care.](#) Premiums paid by all purchasers of private insurance (and the prices paid by self-insurers) and out-of-pocket costs will also decline. As a result, the need for subsidies will decline and total government spending on health care will decrease.

An additional benefit would be a constructive competition between the publicly financed GAP and its private counterparts, based on the quality and cost of their service. When fully realized, the out-of-control health care spending we see today would be reduced by many hundreds of billions of dollars.

Medicare for All as proposed by most of the Democratic candidates would be an expensive giveaway, socializing our health care and spawning mammoth, economy-wrecking tax increases. Expanding Obamacare would double down on a system that has made premiums less affordable and care more expensive. Neither of these strategies would reduce spending, an absolute necessity for successful health care reform.

GAP would provide all Americans affordable access to our world-class health care providers while dramatically reducing the waste, overutilization, and peripheral spending that plagues our system today. [Most importantly it would be politically salable as a bipartisan solution because it both satisfies the widespread demand for universal access while preserving the free market aspects of U.S. health care that has made us the world leader in medical research, innovation, and quality care.](#) I urge anyone who aspires to occupy the White House in 2020 to take a serious look at GAP.

Sincerely,

Fred Gluck

*Fred Gluck is the retired managing partner of McKinsey and Co. Former Lead Director of HCA, former Director of Amgen, RAND Healthcare, New York Presbyterian Hospital (Vice-chairman) and the Cottage Hospital System of Santa Barbara, California.*