

Reshaping the Healthcare Insurance Industry

by Fred Gluck

The essential first step in reshaping the healthcare insurance industry will be to kick-start the elimination of choice by specifying an identical Guaranteed Access Plan (GAP) for all Americans- e.g. comparable to the level of access contemplated by Medicare for All or those provided by other developed nations. The GAP would have a single set of limitations (e.g. deductibles, copays and coinsurance) for controlling unnecessary utilization with appropriate safety nets for lower income families. The GAP would also be complemented by standard rates along the lines of the Diagnostic Related Groups (DRGs) used by Medicare and some private insurers. Although defining the specifics of the GAP and the DRGs is crucially important, this is a situation where being approximately right is good enough since mid-course corrections can be made with the stroke of a pen.

The second step would be to require all extant health insurance policies to include two separate and independent segments - in effect two separate policies priced separately: (a) the GAP and (b) optional supplementary coverage. This will force the private insurance companies to compete on the effectiveness and efficiency of their management of their GAP – i.e. primarily their costs of managing the delivery of care to control overutilization and fraud. This simplification will, in turn, compel them to downsize by eliminating the great majority of unproductive marketing and sales costs and most of the costs of negotiating with providers - on the order of 15-20% of their staffs. They would also compete for the remaining supplementary insurance segment in much the same way as they do today, but this segment would represent less than 5% of the total market.

At the same time, each and every provider of care throughout the system will be able to eliminate most of their BIR administrative staff. These savings will be spread through the total universe of providers and can be realized with little disruption. Perhaps more important, physicians, nurses, and other professional would be freed from the nuisance of interpreting the complexities of the BIR systems and could devote substantially more of their total working hours to delivering health care (improved morale would be an important side benefit). These changes would eliminate more than \$500 Billion of unproductive administrative costs with little impact on the delivery of care. Private insurers spent \$1.2 Trillion in 2017 on health care services and products. Because approximately 85% (\$400 Billion) of the administrative cost reductions will come from these expenditures, private insurance premiums should decrease by about a third.

The impact on public insurers will be much less since Medicare A is already a no-choice system funded primarily by payroll taxes; and Medicare Parts B and D are primarily funded from general revenues. Nevertheless, the costs of government insurance programs would decrease by about 8%. Concurrently consolidating Medicare, Parts A, B and D into a single access plan identical to the plan offered by the private insurers would begin the process of reducing the costs of complexity of multiple government agencies and programs. Medicaid and Medigap would also be folded into Medicare further reducing complexity and eliminating additional duplicative administrative costs. The result would be a significant simplification of government provided insurance and lower costs for enrollees. Over time, all government insurance programs could be folded into Medicare eliminating redundancy and further reducing costs. Depending on their income level the

uninsured would either be enrolled in the newly consolidated Medicare program or required to purchase a private GAP.

Importantly, the delivery of care would remain primarily in the private sector and the private insurance companies would continue to have a major though somewhat scaled back role. In fact, on the surface, the actual provision of care will not appear to have changed very much except for the increased access. The real changes will be in the elimination of unproductive back-office administrative jobs throughout the system and the additional time that our healthcare professionals will be able to devote to their patients.

Finally, eliminating the inequity in access caused by the tax preference for Employer- Sponsored Insurance would complete the restructuring of the industry. This step could be taken concurrently with the decision to restructure the industry around a GAP and would immediately deliver an additional \$280 Billion in foregone revenues primarily from the highest earning sectors of the population. The total impact of these three initiatives will be quick and dramatic. Most importantly all Americans will have guaranteed access to our world class private health care delivery systems. In addition, the \$780 Billion that will be freed up will not only pay for any additional costs for guaranteed access but should also reduce the nation's total expenditures on health care. Finally, the increased transparency enabled by the simplification of the private insurance industry will point the way to further savings such as more effective control of overutilization and fraud which wastes hundreds of billions of dollars providing unnecessary care; and targeted programs to shift lifestyle choices to reduce the incidence of chronic disease much as has been accomplished with smoking .