

BRIEF ANALYSIS

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Competing Visions for Health Reform

Relatively simple reforms would go a long way toward solving our most pressing health care problems without creating new ones. Unfortunately, the underlying debate is not about how to solve our health care problems. It's about how our health care system should be organized.

Bureaucratic Vision. Under the Clinton plan, bureaucracies rather than individuals would make most of the important decisions. Most people would be forced to join health maintenance organizations (HMOs), whose doctors would serve as agents of the HMOs rather than their patients. Administrative interference in the doctor-patient relationship would be routine; doctors would be encouraged to practice "cookbook" medicine — following bureaucratic guidelines — and they would face intense pressure to avoid diagnostic tests, reduce hospital admissions and in other ways deliver lower-quality care.

President Clinton's proposed price controls and global budgets would make things worse by forcing HMOs to ration care. And bureaucrats would decide everyone's place in the waiting lines.

Patient Power Vision. The alternative to empowering bureaucracies is empowering individuals. Advocates of patient power believe that individuals should be free to control most of their own health care dollars, using insurance to pay rare, catastrophic expenses. Since most physicians' fees would be paid from personal Medical Savings Accounts (MSAs), doctors would become financial agents as well as health agents of their patients, helping them make wise decisions in a complex medical marketplace. The doctor-patient relationship would be based on the welfare of the patient, not on the financial self-interest of an HMO.

Can Individuals Make Good Decisions? Behind the bureaucratic vision of health reform is an enormous contempt for individuals. For example, explaining why people should not be allowed to control some of their

own health care dollars through Medical Savings Accounts:

- Hillary Rodham Clinton said that many people would save the money and skimp on health care "unless [they are] required to be responsible."
- Rep. Pete Stark (D-CA) has said that patients cannot make such decisions because they consider themselves "invincible" when well, but are "absolutely irrational, brain-dead, sniveling, begging and fantasizing ills and pains" when sick.

But if individuals aren't smart enough to choose their own doctors, are they smart enough to choose politicians who will choose their doctors for them?

Despite the assertions of the pro-bureaucracy reformers, individuals paying with their own money often negotiate better discounts with doctors and hospitals than do large insurance companies. Moreover, advocates of patient power expect people to take advantage of price discounts negotiated by their employers and to seek advice from experts. The key to patient power is *the right to refuse the advice*.

Should Individuals be Allowed to Make Their Own Decisions? One argument in favor of empowering individuals is that bureaucracies are threatening the quality of care patients receive — even without health care reform.

When Les Aspin became Secretary of Defense, he needed additional vaccinations because of his expanded international travel. In order to save \$1.55, however, his physicians gave him a cheaper but slightly more risky vaccine — and Aspin ended up in an intensive care unit. To our knowledge, he was never asked if he would be willing to pay \$1.55 out-of-pocket to avoid the risk.

Most proponents of managed care see little medical benefit in a cancer blood test known as prostate-specific antigen (PSA), and therefore do not routinely provide it. Fortunately U.S. Senator Bob Dole had the opportunity to make his own decision and opted for a PSA test in 1991. The test led to the biopsy and surgery the senator contends saved his life. Had Bob Dole been a member of an HMO, he might not be alive today.

Fee-For-Service Plans vs. HMOs. Advocates of patient power believe that different insurance plans should be allowed to vigorously compete on a level playing field. HMOs would be permitted; and for many people HMOs might be the best choice. Knowing that their customers had alternatives would encourage HMOs to maintain high standards.

Those who adopt the bureaucratic vision of health reform want to stack the deck in favor of HMOs. Although the Clinton administration promises that everyone would have a fee-for-service option, that promise is hollow unless a private insurer offers such a policy. And the designers of managed competition believe that no private insurer would be able to do so:

- Alain Enthoven, father of managed competition, doubts that “indemnity insurance ... can be reconciled with managed competition.”
- Rep. Jim Cooper (D-TN), author of a “moderate” managed competition bill, says, “My guess is that fee-for-service medicine will be discouraged and mostly die out.”

Medical Savings Accounts vs. Conventional Insurance. Employees of Golden Rule Insurance Company can choose an HMO, a conventional insurance plan or a plan with a Medical Savings Account (MSA). For the 90 percent of employees who choose the MSA plan, the employer puts \$2,000 in the MSA for each family. Employees spend the first \$2,000 from their MSA; they pay the next \$1,000 out-of-pocket; and the employer pays all expenses above \$3,000. Moreover, at the end of the year, each employee takes home any balance remaining in his or her MSA.

The plan works well. Since they are not deterred by up-front deductibles, many employees get preventive care they might otherwise go without. At the same time, incentives to consume wisely spur employees to save money. Last December, employees with MSAs were able to withdraw an average of \$602 in year-end balances. After the first year of offering these plans, Golden Rule reported that employer costs (including MSA deposits) were down 20 percent and total health spending was down 40 percent.

Dozens of similar plans are being implemented around the country. The problem is that the federal government taxes MSA deposits as “employee income,” while allowing conventional insurance premium payments to be

made tax free. Patient power advocates want both ways of paying for medical care to be treated equally under the tax law.

Medical Savings Accounts vs. the Clinton Plan. If a fee-for-service option does survive under the Clinton plan, it must have a \$200 deductible and a 20 percent copayment. The maximum out-of-pocket exposure for a family would be \$3,000. By contrast, the Golden Rule health plan limits the family’s out-of-pocket exposure to \$1,000. Yet the Golden Rule option would be outlawed if the Clinton plan became law!

Why? The answer seems to be that *the goal of the Clinton administration is not to limit family health expenses, but to control those expenses.* Under Golden Rule’s plan, 90 percent of all medical episodes do not involve a third-party payer. Under the Clinton plan, third-party bureaucracies would be involved in almost every medical transaction.

Goals of an Ideal Health Care System. Before politicians act to reform our health care system, they need a vision of how an ideal system would work. For those who genuinely believe in “putting people first,” an ideal health care system would seek to:

- Transfer power from large institutions and impersonal bureaucracies to individuals.
- Restore the buyer/seller relationship to patients and their doctors, so that patients rather than third-party insurers become the principal buyers of health care.
- Create institutions in which patients (through MSAs) spend their own money, rather than someone else’s, when they purchase health care.
- Remove health care (as much as possible) from the political arena, in which well-organized special interests can cause great harm to the rest of us.
- Subject the health care sector to the rigors of competition and create market-based institutions in which individuals reap the full benefits of their good decisions and bear the full cost of their bad ones.

Recommended Reading: John C. Goodman and Gerald L. Musgrave, Patient Power: Solving America’s Health Care Crisis (Washington, DC: Cato Institute, 1992); and John C. Goodman and Gerald L. Musgrave, “A Primer on Managed Competition,” NCPA Policy Report No. 183, April 1994.