

Financing Health Services

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Healthcare has been provided on a fee for service basis for most of the history of medicine. Indeed, in our own country, this method was considered the norm until World War II. Wages were frozen during this conflict to curtail inflation, forcing employers to be creative in their attempts to attract and retain good workers. It was in this environment that employers introduced health insurance as a benefit of employment. The primary goal of this benefit was not the health of workers. Employee health was only the indirect effect of a tool utilized to maintain corporate profit. It is interesting to note that railroad companies in the prior century had provided healthcare for their workers. Once again, it was not out of corporate altruism. It was out of necessity for maintaining workers so they could lay tracks that would earn the railroad companies money.

Considering the genesis of employer-based health insurance, it is not surprising that the primary requirement of any such plan is a positive effect on corporate profitability. It can be a direct effect, such as healthy employees being more productive, or an indirect effect, such as increased job satisfaction.

The current system of defined benefit plans is failing to increase corporate profits. Regrettably, quite the opposite is true. They have become expensive to finance, burdensome to administer, and legally complex to the extent that they are now hurting corporate profits. This situation must change.

Gandalf's Gang has proposed and debated the pros and cons of three alternative methods for financing healthcare in the United States. They are:

- 1- The adoption of national health insurance (NHI).
- 2- A discontinuation of employee health benefits.
- 3- The natural evolution from defined benefits plans to defined contribution plans (DCPs).

National Health Insurance

National health insurance is the clear favorite of the Gang.

- 1- It would reduce employers' administrative costs. This relief would be appreciated even if companies were required to pay a premium into a NHI fund for every employee because at least the company would not have the burden of administering the plan or deciding upon and paying an outside source to administer a plan. The advantage would be even greater if premiums were extracted from the general tax base instead of employers. Imagine the boost to global competitiveness!
- 2- The previously uninsured could stop using the ER for primary care.
- 3- It is more equitable. The United States health care system has received criticism for spending the most per capita in the world on health care while not delivering

the most health benefit to our nation as a whole. This is not the result of poor care for those who have access to the system. It is the result of a large segment of the population not having access. NHI would remedy this problem by including everyone.

- 4- The government is already the major financier of health care, paying 45% of the cost directly and an additional 15% indirectly. This percentage is expected to increase as the number of Medicare beneficiaries swells from \$40 million in 2002 to \$76.8 million in the year 2030.
- 5- States would find relief from the overwhelming burden imposed by Medicaid. There are 38 million Medicaid recipients in our country consuming \$165 billion per year. Most states are begging for federal help.
- 6- Our nation can afford it. We spend \$1.3 trillion per year on healthcare. The 2000 census reported a population of 288,189,711 people. That's \$4,510 per person per year we are spending already. The cost per person per year of NHI is unlikely to be much more than that.

There are some disadvantages to national health insurance.

- 1- Like with any insurance, there would be a certain level of moral hazard.
- 2- It would create more government bureaucracy.
- 3- Many people would need to overcome the fear of participating in a government run healthcare program.

Although Gandalf's Gang likes the national health insurance option best, we lack the optimism that it will happen in the foreseeable future. The special interest groups that oppose NHI are well financed, influential, and willing to challenge anyone who threatens them or their way of life. Even though President Clinton was one of the most dynamic politicians Washington D.C. has seen, these groups still defeated his attempt at NHI with relative ease. That's the kind of thing other politicians tend to remember.

Discontinuation of Employee Benefits

The Gang doesn't think a discontinuation of employee benefits is a good idea unless it is a precursor to national health insurance. We also think it's the least likely of the three alternative plans to be adopted because too many people would be against it. However, we did consider the potential benefits.

- 1- Less administrative and financial burden for our fine American companies.
- 2- There would be an increase in the federal tax base. Since health benefits are tax advantaged, their disappearance is likely to result in the excess money being spent on things that are taxable, such as larger employee salaries, increased corporate profits or huge and unreasonable bonuses for greedy CEOs.
- 3- Employees would be forced to educate themselves regarding health insurance.
- 4- Employees would also find out how expensive our current system of healthcare really is.

Reasons #3 and #4 could be the best foundation possible for a grassroots NHI movement.

The disadvantages:

- 1- Workers won't tolerate losing their health insurance. Such a withdrawal would generate costly and unproductive labor-management strife.
- 2- There would be many more uninsured people.
- 3- The government would probably be forced to legislate mandatory employer coverage. This is especially frightening to many companies because legislation would likely be determined more by political considerations than by economic criteria.

Defined Contribution Plans

The defined contribution plan seems the most likely of the three alternative plans because it's already happening to some extent. In fact, some traditional plans that would be expected to compete against DCPs are designing their own plan options that mimic components of DCPs. Since DCPs are more evolutionary than revolutionary in design, the change can occur in smaller, more painless steps. Gradualism is important for limiting potential opposition. They can also be introduced on a trial basis, easing the fears of making an irreversible mistake. In the end, DCPs don't have to be perfect, or even very good, to find success. They only need the perception of being an improvement on the current system.

The advantages of DCPs are:

- 1- Companies can better plan the healthcare portion of their budget because they know the financial bottom line up front.
- 2- Employers can establish these plans so that everyone is treated equally, instead of continuing to subsidize families and exclude individuals who choose not to participate.
- 3- Employees are better connected to the economic consequences of their consumption decisions. This would undoubtedly reduce the moral hazard. It could also result in employees choosing healthier behaviors.
- 4- Employers' potential exposure to medical malpractice litigation would be reduced. There is speculation that under the current system, an employee could sue their employer if an adverse health outcome can be linked to a deficiency in their defined benefits plan. Under a DCP, the responsibility for the selection of a sufficient plan belongs to the employee.
- 5- They preserve the tax advantages of traditional employee based health insurance.
- 6- Employees can better tailor their healthcare plan to fit their own personal needs instead of being herded into a one-size-fits-all package.
- 7- Ultimately, DCPs are expected to reduce administrative costs.

Alas, DCPs are not utopia. The disadvantages are:

- 1- Most DCP models are more complex than current plans.
- 2- Employees may deplete their allowance before the end of the year and be without money in the case of an acute incidence.
- 3- In cases where employers provide the same amount of money for each employee regardless of family size, those employees with large families could struggle to stretch their allowance sufficiently. They would probably be required to pay more out of pocket than their coworkers without families.
- 4- Partially educated, uneducated and misled employees may not appropriately manage their individual funds. It would be easy for persuasive advertising to influence audiences to make unwise decisions.

Policy Changes

Defined contribution plans are close enough to our current system that they will likely be successful without substantial regulatory changes. However, they could be helped with favorable tax legislation. Laws that allow employees to transfer money from their taxable income to their tax advantaged DCP accounts as needed would ease the burden on those with special needs that require additional healthcare spending. Conversely, it would be nice for employees that have money remaining in their DCP account at the end of the year to draw it as taxable salary. This would encourage thoughtful spending habits.

Effect on Government Healthcare Programs

DCPs are unlikely to effect military healthcare programs. DCPs are the response to threatened corporate profits. The military doesn't have to worry about profits. The military needs to worry about maintaining a fighting force that is healthy, fit and ready to kill the enemy. The previously listed disadvantages of DCPs make them unacceptable for our military. There would be too many soldiers, sailors, airmen and marines who would deplete their DCPs caring for spouses and children. Then they wouldn't have enough to cover their own needs, leaving them unfit for deployment. Military healthcare is also quite reasonably priced in its current form. The military health system spends \$25 billion annually to cover 8.3 million people worldwide. That's \$3,012 per person per year. Contrast this amount to $\$168\text{B}/38\text{M} = \$4,342$ per Medicaid recipient per year and the already mentioned figure of \$4,510 per person per year nationwide average. Military healthcare is efficient, effective and should not be altered.

DCPs would also be inappropriate for the Veterans Health Administration. The VA serves the special needs of a unique group of individuals. It would be challenging to find a company wanting to sell a major medical or any other type of "wraparound" insurance policy to those with 50% service-connected disability, ionizing radiation exposure or agent-orange exposure. Those who have been harmed while serving our nation need and deserve a healthcare system of their own.

Government employers will watch the results of DCPs in the private sector with keen interest. Federal employees could be offered DCPs if initial employee satisfaction and

year-to-year retention is satisfactory. It is unlikely that federal employees will be among the first experimented on. They would have the luxury of stepping into a well-evolved system after many of the problems have been worked out.

The elderly would only see DCPs if they came to be viewed as desirable. Gray power is such a driving political force that Medicare will offer DCP options only if those eligible want to be switched to them.

The economically disadvantaged would not likely be effected by DCPs. A NHI program would offer the best relief for their access woes.

Conclusion

The financing of healthcare in the United States has been evolving for sixty years and will continue to evolve for many more years to come. It is the consensus of Gandalf's Gang that a national health insurance program would be the most practical solution to the problems presented by our current system. Special interest groups that feel threatened by such a practical solution will prevent this from happening in the foreseeable future. Corporations will likely react to threatened profits by replacing the defined benefit plans they introduced during World War II with defined contribution plans. These plans will be offered to federal employees if they are well accepted and successful in the private sector. However, some organizations, such as the military and our veterans, have unique needs that are better served by the current system.