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# PROPOSED ALTERNATIVES TO CURRENT HEATLHCARE FINANCING

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The United States health care system is in a state of flux. Alternative means of health care financing are being proposed from multiple sectors of society and the political establishment. The initial section of this paper will debate the pros and cons of three alternative methods of financing healthcare in the United States.

National Healthcare Coverage-

Under this option, the federal government would finance health care. The general population would have little or no direct out of pocket expense. Under this plan the problem of the uninsured in the United States would be eliminated. The federal government would cover all citizens of the United States. The issue of any entitlement for illegal aliens would still need to be addressed. Medicare, Medicaid, and government coverage of government employees (including DoD) already accounts for the coverage of a large portion of the US population. In addition, employer based health coverage plans are hugely subsidized by the tax advantage they receive. These health care benefits are sheltered from Medicare and Medicaid taxes, social security taxes, federal income taxes and most state and local taxes. It is likely that between directly federally funded coverage and federal subsidization of private coverage, it may not require a large increase in "real tax burden" to fund a national healthcare coverage plan.

Another advantage of a national healthcare plan is the potential to standardize care throughout the system. If care is standardized, unnecessary procedures, tests, and treatments will be decreased. As these unnecessary procedures are decreased or eliminated, consumers of healthcare will realize that more medicine is not necessarily better medicine. There will be less demand by the consumer for frivolous medical expense as they will no longer see or hear of their neighbors getting these tests or treatments. Also, standardization of equipment and vertical integration of the healthcare system would also presumably occur with a national health insurance plan. If the costs savings of these two factors is taken into account along with the degree to which the federal government subsidizes health care currently, it is very likely that a national healthcare coverage plan could be implemented with little or no real increase in tax dollars.

On the down side, national health insurance coverage would distance the health care consumer from the reality of the cost of his health care. This could potentially drive total costs higher as consumers demand health care that may not be necessary. Additionally, any attempt to implement a national health care insurance plan will be met with political resistance. Political resistance will be framed by the idea that national coverage would require a large tax hike to implement. The public may view the federal governments involvement in healthcare and healthcare decisions as an intrusion into their privacy. This sort of government intrusiveness has been the target of outcry by the American public since we started dumping British tea into Boston Harbor and may be a significant stumbling block in implementing a national healthcare system.

Defined Contribution Plans-
The term defined contribution plans cover a myriad of health insurance options. A common thread among defined contribution plans is that employers will contribute a set amount toward the employees health care coverage needs. The employee will have some degree of freedom in choosing how this amount is allocated and would be responsible for any uncovered costs after this defined amount has been spent. One of the common advantages of the many defined contribution plans is that it involves the consumer in the purchase of health care. Health care becomes a commodity that is purchased like any other commodity. The consumer no longer feels divorced from the cost of his health care and will presumably start to make more frugal healthcare choices when he feels that he is spending his or her own money. This system also places choice in the hands of the consumer. Giving the consumer choice and a stake in his healthcare will increase the consumers' satisfaction with his healthcare and at the same time serve to constrain medical costs and drive down rampant medical inflation.

The major cons of this system lie in the fact that it will require contributions from the employee. In a tight labor market, employees will balk at the possibility of being forced to pay for healthcare services with out of pocket dollars. Employers who offer this type of coverage only may be at a competitive disadvantage in a tight labor market. If the labor market softens in the US, employers will have more leverage to implement these DCP's. Additionally, when out of pocket dollars are involved, a certain subset of the population will delay seeking healthcare when it is in fact needed. In individual cases, this may lead to unnecessary morbidity and mortality due to neglect of conditions that could be more easily treated in earlier stages.

The DCP system also fails to cover the unemployed or underemployed. This major concern would still need to addressed in some manner. Different DCP plans may also not cover catastrophic occurrences. This lack of an overriding policy to deal with major medical events could leave the consumer open to huge out-of-pocket expenses. Many consumers will not open themselves to this amount of liability. Other consumers will accept the risk and realize that they will be unable to pay if these large costs are incurred. The latter option will again burden the government and the healthcare system as a whole to make up for these shortfalls.

Modification of Current Employer Based Coverage-
The biggest advantage of the current employer based coverage system is simply that the system is already in place. The system is accepted and at least marginally understood by most of the population. Employees have come to expect health care coverage from most major employers. The quality or lack thereof of this coverage has come to be a determining factor in the employment decisions of many American workers. An additional advantage of the system lies

in the ability of large employers to bargain with larger populations for group rates. The employer is, in effect, able to utilize the purchasing power of a large number of consumers in obtaining discounted insurance rates. This is unavailable to the individual consumer who attempts to purchase insurance on his own.

There are many apparent drawbacks to the current system. The foremost drawback is the cost of this system to the employer. Unless medical inflation is checked in the near future, many employers will simply not be able to afford to offer coverage to their employees. As employers drop this benefit, a larger percentage of the public will be left without healthcare coverage thus multiplying the problem of the uninsured. As is the case with the DCP plans, a major disadvantage of this plan is that the unemployed and underemployed are not covered.

A significant modification of this plan would help address the issue of the uninsured. If the federal government limited the tax advantage to the employer to the amount necessary to provide the employee with a no frills health care plan that would not cover excess procedures, tests, treatments, etc., the increase in tax revenue resulting from the limits placed on the tax advantage could be utilized to provide some form of healthcare coverage to the uninsured. The result would be that large employers would still have the option of providing any plans they wished; however, there would be a major disincentive to providing lavish insurance plans as the tax advantage for such plans had been eliminated. Employers would then migrate towards more Spartan, cost efficient plans, and the additional tax revenue would then be available to cover the uninsured. Healthcare would then become more uniform as lavish, exorbitant, unnecessary procedures would no longer be encouraged by tax advantaged insurance plans. A larger percentage of the population could be covered with the excess tax revenue generated.

The most likely of these proposals to be implemented is continuation of the current employer based coverage but with some significant modifications. This is not to say that this is the best option for healthcare in America. It simply answers the question of which plan is most likely to be implemented. The public will not accept national health insurance, as it will be seen as an increased tax burden and also as an attempt by the federal government to intrude on the lives of the public. DCP's will not be an option due to the reluctance of the working American to contribute to his own healthcare dollars or to be subjected to the liability of catastrophic medical expenses. Continuation of the current system with some modifications is in no way optimal, but simply the most likely path that will be followed given all of the options available. The idea of inertia is applicable in this situation. Inertia states that a body in motion tends to stay in motion unless acted upon by some outside force. The concept of employer-based coverage has inertia and is unlikely to change drastically unless some sweeping federal legislation dictates the change. The current political, economic, and fiscal environment make sweeping federal regulatory changes extremely unlikely.

A regulatory change that would facilitate continuation of the employer-based coverage has been discussed previously in this paper. In short, a cap placed on the tax advantage available to employers would disincentive the purchase of lavish insurance plans. As the number of individuals covered in lavish plans decreased, pressure to practice excessive medicine would also decrease. The additional revenue generated by this ceiling on the tax advantage could be utilized to provide coverage to a greater proportion of the uninsured. In addition, it would be wise to implement some fashion of control for those covered under a federal plan. A time limit could be placed on the amount of time an individual could stay under a federally funded plan. This time limited coverage would obviously take into account ability to obtain employment among other factors.

Policy changes by employers could take place, which might help to control the costs of this system and allow them to offer health care coverage to a larger proportion of workers. If employers offered incentives of some form for employees who exhibited lifestyle choices consistent with lower healthcare needs, healthy lifestyles would be encouraged. If healthy lifestyles became the norm in America, healthcare costs could be contained; thus, driving down the overall costs of this insurance for employers. Healthy lifestyle choices targeted by employers might include smoking cessation, proper weight management, appropriate aerobic and anaerobic fitness and seatbelt use. In addition, large employers might consider building facilities, which encouraged healthy lifestyles. Running paths, aerobics rooms, and weight training facilities all would serve to encourage health.

The largest affect that continuation of this system would have on the government financing of healthcare is largely dependent on the economy. As economic conditions worsen, more employers will be forced to get out of the healthcare business and more employees will be forced to accept this decision. This will lead to an increased number of uninsured as well as the underinsured. The federal government will in the end be held responsible for the coverage of the uninsured and underinsured. This burden will be passed on to the public in general in the form of higher taxes or discontinuation of other programs offered by the government in an attempt to free up tax dollars to pay for the coverage of the uninsured. If the economy improves, employers will continue to offer healthcare coverage and employees in a tight labor market will be more forceful in demanding this coverage as a condition of employment. Also, by continuing the status quo of employer based healthcare coverage, it is unlikely that any inroads will be made in stemming the rate of medical inflation. This could severely impact the federal government in its ability to provide coverage for veterans, federal employees, the elderly and the economically disadvantaged. Once again, this increase in costs would either be borne by higher taxes or discontinuation of current programs.

In conclusion it is painfully obvious that no real clear best solution is available for alternative financing of healthcare in America.  Nationalized healthcare, direct contribution plans and continuation of the current system with some modifications all have distinct advantages and disadvantages.  The attitude of the American public, strength or weakness of the economy, and political conditions will all play a major role in determining which of these options is ultimately implemented.