

Perspective

UMB | Healthcare Services

The Great Debate: Government v. Consumer-Directed Health Care



By
Dennis Triplett
President,
UMB Healthcare Services

The 2008 Presidential Candidates' Platforms

One's health and relationships with medical providers is an intensely personal issue. However, soaring public and private sector health care costs, combined with the uncertainty surrounding the state of the U.S. economy, have brought health care policy into the limelight of the 2008 presidential election. In many ways, an individual's right to affordable medical treatment has emerged into a societal crisis.

Currently, there are nearly 300 million Americans – each, to a certain extent, needing some amount of health care. Whether one has a bout of the flu or requires critical care hospitalization, the demand for medical treatment transects all demographics and discriminates against none. Through its web of complex networks and loopholes, health care remains one of America's toughest policy challenges.

With the 2008 presidential election well underway, candidates are drawing upon American's call for change within the health care industry. Consequently, the outcome of this movement – either a universal government-run system or private insurance – will influence the cost, funding and quality of care for years to come.

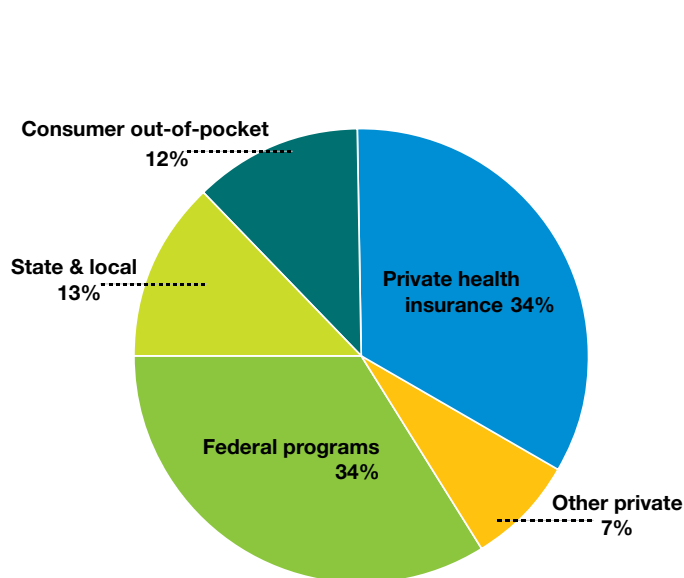
This paper provides insight into the “real world” health care policy debate and the Republican and Democratic presidential candidates' proposed solutions.

We can agree on some basic facts

We all agree that health care costs are astronomically high – and there is no end in sight. In 2008, health care nationwide will cost an approximate \$2.4 trillion – a figure equivalent to approximately \$7,800 per person and growing at twice the overall rate of inflation. Overall, that is nearly 16 percent of the nation's Gross Domestic Product (GDP).¹

WHO PAYS FOR U.S. HEALTH CARE?

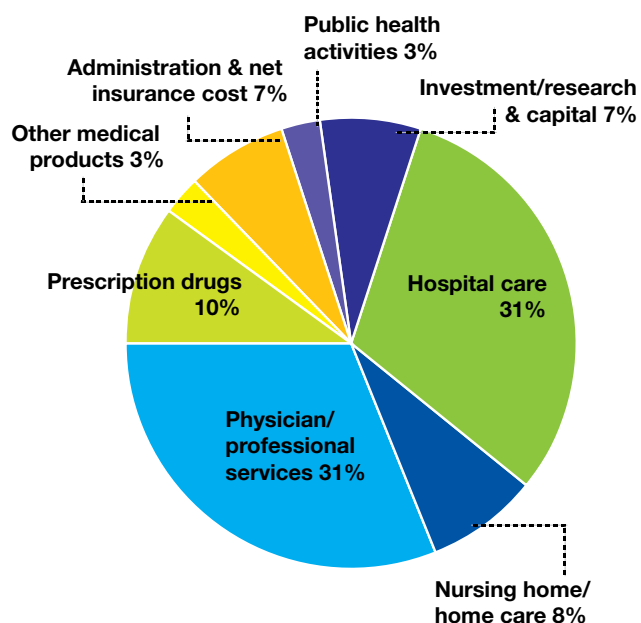
Private payers fund 53%, government programs fund 47%, of an estimated \$2.4 trillion cost in 2008 U.S. health care costs.



Source: Keehan et al., *Health Affairs*, 27:2 (2008)

WHERE DO HEALTH DOLLARS GO?

Hospital and nursing care are 39%, professional services are 31% of the \$2.4 trillion in U.S. health care costs.



Source: Keehan et al., *Health Affairs*, 27:2 (2008)

With these staggering numbers in mind, government health care expenditure continues to grow at an average rate of 6.7 percent per year. The first of the Baby Boomers will be eligible for Medicare in 2011, and by 2017 it is expected that health care spending will account for \$4.3 trillion comprising more than 19.5 percent of GDP. At the same time, consumer out-of-pocket expenditures continue to shrink. Since 1960, consumer spending responsibility has decreased from roughly 40 percent to 12 percent of GDP as third-party payments by insurance companies and government programs cover the difference in cost. Moreover, government funding of Medicare, Medicaid and similar health care programs now accounts for nearly 47 percent of total U.S. health care expenditures.²

A variety of sources is driving the growth in spending – price increases for goods and services account for roughly half the increase, with the other half stemming from rising utilization due to chronic disease, population growth and aging demographics.³ Advancing technology and broader insurance coverage are also significant factors.⁴ In addition, an estimated 70 percent of overall health care spending goes directly to hospitals, nursing homes and health professionals for patient care – disputing the claim that insurance and pharmaceutical company profits are the largest contributors to the health care spending crisis.⁵

Key challenges

Often, when presidential candidates discuss health care reform, they tend to focus on the suffering of the uninsured who cannot afford care either because they lack private insurance or government aid at the time of a medical emergency. A recent Census Bureau study reports that approximately 47 million people – 16 percent of the U.S. population – do not have private or public coverage compared to about 250 million individuals – 84 percent – that do have coverage through employer plans, Medicare, Medicaid or other individual policies. Primarily, low-income households (disproportionately Hispanics and other minorities) lack medical insurance coverage.⁶

Currently, the key challenges facing the U.S. health care system are three-fold:

How can we provide adequate care to people who cannot afford it and lack insurance?

How can the U.S. economy afford the continuing growth of health care spending?

What roles should government and consumers play in making health care decisions?

Where the presidential candidates stand

Behind concerns about the U.S. economy and the war in Iraq, registered voters ranked health care as one of the most important issues in this year's presidential campaign.⁷

Both major candidates have outlined detailed health care proposals. At this point, voters are hearing two distinct approaches: first, Democratic Senator Barack Obama proposes government-sponsored universal health care; and second, Republican Senator John McCain supports less government regulation. When compared, this coming fall will truly mark a distinctive fork in the health care policy road.

Obama's proposal aims to provide universal health coverage, emphasizing access and affordable care for all citizens. Alternatively, the McCain plan seeks to expand consumer choice by using market forces and competition to reduce costs and increase quality.

Primarily, Obama supports a plan to make health coverage universal by maintaining the private insurance system while creating a new Medicare-like public plan as an alternative. And, the proposed plan offers coverage to all with income-based subsidies to make health insurance universally available and affordable. He would also require coverage for all children.

The Obama proposal also includes requirements for large employers to provide insurance or help pay for their workers' health care, and requires insurers to continue coverage when employees switch jobs. It bans provisions that deny coverage due to pre-existing conditions or risk factors. To ensure these guidelines are enforced, Obama suggests the creation of a national watchdog group to review all health insurance plans and implement standards of fairness and affordability.

McCain offers a more market-based plan, also with incentives, to expand access and affordability. However, he stops short of promising coverage to all, warning that a new entitlement program from Washington would get out of control. The heart of his proposal aims to provide tax credits to every American for health coverage (\$2,500 per individual and \$5,000 per family), supporting traditional insurance or Health Savings Accounts with high-deductible plans. Likewise, Senator McCain would eliminate favored tax treatment for employer-sponsored health plans, placing the decision-making in the hands of individuals with credits that would buy their choice of coverage.

WHAT WILL 2009 BRING?

Overview of presidential positions on health care

POLICIES	BARACK OBAMA (Democrat)	JOHN McCAIN (Republican)
Core proposal	Universal coverage: Create a new national health plan making affordable coverage available to all Americans. Health care coverage will be required for all children.	Market-based plan: Help consumers buy insurance via new tax credits. Extend Health Savings Accounts. Enhance competition and emphasize consumer choice.
Access to care	Provide income-related subsidies to help consumers afford private or public plan. Also expand Medicaid and State Children's Health Insurance Programs.	Provide tax credits directly to consumers, not tied to jobs. "Work tirelessly" on cost and access, but resist creating a new entitlement. Encourage state help for consumers with insurability problems.
Employers	Require employers to offer meaningful health benefits, or pay percentage of payroll toward the national plan.	Encourage continuation of employer-provided plans but shift tax credits to individuals to pay for health coverage.
Health insurance	New national health plan offers coverage options similar to federal employee plan for consumers and small businesses without private insurance.	Encourage market competition by giving consumers tax credits to spend and thereby the power to choose their own insurance. Allow insurers to compete across state lines and favors drug re-importation.
Regulation	Create watchdog group, the National Health Insurance Exchange, to evaluate plans and make rules to require fairness and affordability.	Use Medicare and Medicaid to shift emphasis from activity measures to prevention and chronic disease management.
Tax strategies	Pay for health care initiative in part by rolling back Bush tax cuts for the highest-income taxpayers. (Has not specified plans for health care tax incentives.)	Give every American tax credits (\$2,500 individual, \$5,000 family) to pay for health coverage. Eliminate favored tax treatment of employer-sponsored plans.

More details at www.BarackObama.com and www.JohnMcCain.com

So far, much of the health care debate has focused on access to coverage programs – private or public. Yet less attention has been devoted to the “macro” issue of how America can *actually* afford the rising cost of health care. The candidates cite information technology and quality-improvement initiatives as ways to reduce waste. But cost-drivers like the growth of chronic diseases and the coming surge in Medicare recipients are not a primary focus.

The health care battle shaping up for this fall will be lively as America decides whether consumers or the U.S. government will make decisions regarding the direction of health care. Yet, it seems that most individuals are not making this important policy delineation. In short, Obama has outlined a number of proposals to protect consumers and improve quality of care through new regulation: rules for insurers, drug companies, employers and health care providers. McCain sees government playing a limited role by promoting preventive care, health care coordination and disease management. The foundation of his plan is for consumers to choose their own care in order to drive competition among providers and payers.

Our perspective: a place for consumer-directed health care

UMB Healthcare Services is one of the country’s top providers of spending accounts – including Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs). Based on years of hands-on experience with both employers and workers, we consider consumer-directed care as an economically sound way to provide expanded coverage and as a strategy to address the larger issues of health care costs and quality of care; in other words, a market-based solution.

Consumer-directed health plans have grown rapidly in recent years, with HSAs and HRAs covering an estimated 12.5 million Americans.⁸ Typically, employers and employees both make contributions to a tax-exempt account, which can be spent by the individual on medical services or products he or she chooses. Since becoming an informed consumer is key to making good choices, nearly 90 percent of employers with consumer-directed plans offer employees tools to help guide their choices.⁹

At the heart of consumer-directed plans lies individual responsibility and choice. Likewise, HSAs and HRAs combine increased choice with the benefit of personal ownership – both of the accounts and the decisions on how health dollars are spent – supplanting the “someone else is paying” structure of many private and public plans. In addition to promoting competition among providers for these

health care dollars, self-directed plans also cause consumers to consider broader choices:

For the first time since the introduction of employer-funded health premiums during the Second World War, the government is authorizing health insurance plans that are consistent with efficient markets. These plans at least partially end the third-party payer system and force people to make trade-offs between consuming more health care and other goods and services. With the ability to accumulate unspent funds and invest them tax free, consumers have a strong incentive to avoid unnecessary care and to become more cost conscious when they do seek treatment. Medical providers, in turn, will be increasingly pressured to improve the quality of care and service they offer to consumers while maintaining competitive prices.¹⁰

Americans have grown accustomed to viewing health care as a debate over how to get someone else to pay for our benefits. Truth is, the cost comes back to us whether it be through higher taxes, higher insurance rates or more out-of-pocket expenses – nothing is free.¹¹ Addressing the bigger question of “how our society can better afford health care,” in a way that puts decisions in the hands of the people, is a core component of consumer-directed plans.

¹ S. Keehan et al., “Health Spending Projections Through 2017: The Baby Boom Generation is Coming to Medicare,” *Health Affairs*, 27, no. 2 (2008): w 145-w155 (published online February 26, 2008).

² *Ibid.* Historical statistics back to 1960 are published online by the Centers for Medicare & Medicaid Services, U.S. Department of Health & Human Services, at www.cms.hhs.gov/NationalHealthExpendData/.

³ Keehan, *Ibid.*, p. w149.

⁴ The Henry J. Kaiser Family Foundation, *Health Care Costs: A Primer*, August 2007, pp. 12-14.

⁵ Keehan, *Ibid.*

⁶ U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports, issued August 2007, pp. 18-25.

⁷ The Henry J. Kaiser Family Foundation, *Kaiser Health Tracking Poll: Election 2008*, March 2008, pp. 1-3.

⁸ American Association of Preferred Provider Organizations, *2008 Study of Consumer-Directed Health Plans*, March 2008, available at www.aappo.org.

⁹ *Ibid.*

¹⁰ P.D. Mango and V.E. Riefberg, “Health Savings Accounts: Making Patients Better Consumers,” *The McKinsey Quarterly*, January 2005.

¹¹ On this topic, see E.J. Emanuel and V.R. Fuchs, “Who Really Pays for Health Care? The Myth of ‘Shared Responsibility,’” *Journal of the American Medical Association*, March 5, 2008, pp. 1057-1059.