

**Senate Republican Policy Committee
Healthcare Affordability Testimony
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Healthcare Reform Principles – Every reform action should be tested against two criteria.

- Does it take costs out of the system?
- Does it price insurance in proportion to expected usage of the system?

Current Status

Insurance involves the interrelationship of three concepts: (1) the pooling of unexpected risks, (2) covering risks of a significant nature, (3) establishing premiums which accurately reflect the underlying risk profile of the insured.

Health insurance frequently does not consistently meet these criteria. Requirements such as “community rating” and “guaranteed issue” actually significantly undermine the concept of insurance. Advocates of these rating restrictions confuse fairness with equity.

In situations where premiums are not properly set, the result is a system of forced subsidies (incorrectly referred to as insurance). Consequently, certain individuals/organizations may logically choose not to purchase an overpriced product. Such a factor plus the cost of coverage mandates serves to increase the number uninsured.

Further, research suggests over 25% of costs relate to modifiable risk factors which should be properly priced into the premium.

Provider revenues are compromised by under-reimbursements from certain government sponsored programs and by uncollectible revenues.

Overall, the entire healthcare system is over-regulated and encumbered. Is it any surprise certain insurers and providers are losing money?

The net result is a marketplace which is overwhelmed by government interventions. The subscriber expectation is unrestricted access to the entire healthcare system with the costs transferred to someone else.

The proposed remedy by many is to enact even more regulations. The reality is there is simply not enough money to sustain such a system. History has shown such an approach will fail and lead to rationing. Ultimately, any health insurance product (like any other consumer product) needs to be priced consistent with the consumer's ability to pay. Any successful reform needs to better engage the consumer to purchase healthcare based upon value. HSAs were developed upon this premise. To merely insure more individuals in the current healthcare system will drive up utilization and cost, as there is little, if any, incentive to control either variable.

Our healthcare system is neither market-driven nor is it really insurance. The system is effectively a complex set of politically-influenced subsidies fostering higher utilization and/or prices requiring even greater "taxes" on our neighbors to sustain it.

Given the goal of reducing the number of uninsured, a successful strategy should involve lower-priced products where consumers are value-driven. A concurrent strategy for society as a whole should be to successfully transition individuals from medical assistance into the private market.

Recommended Actions – rebuilding a true market of insurance

1. Sunset all coverage mandates and require any current and proposed mandates be offered as optional riders.
2. Protect the fairness, integrity and viability of medically underwritten group and individual insurance markets.
3. Establish an independent and autonomous state high-risk pool (35 states have high-risk pools) without additional costs to the taxpayer. (A good starting point is SB 1191)
 - a) Establish premium maximums at a specified limit (such as 200% of the standard rate). Premium subsidies would cover any rates above this limit. Some subsidy could also apply based upon income level.

4. Convert all not-for-profit insurers to a complete for-profit status to ensure standardized, consistent and fair competition within an open market. Profit incentives ensure innovation, the effective use of capital and the necessary accountability to owners and customers rather than politicians. Such accountability cannot be effectively legislated given the current arrangement.
 - a) High-risk pool funded by all insurers through assessments with tax credit offsets.

5. In the interim - reprioritize and redirect the existing Community Health Reinvestment Agreement (CHRA) to subsidize costs in this high-risk pool. The current CHRA results in not-for-profit insurers becoming encumbered, effectively creating over-regulated quasi-government entities. Such an arrangement reflects an outdated sub-optimal business model which will never be able to fund the ever-increasing scope of government-subsidized programs. Such relationships result in an overly-political co-dependency compromising the goal of lowering insurance costs for all.

6. Aggressively means-test and phase-out subsidies in programs such as AdultBasic and Cover-all-Kids. Redesign these plans to achieve more consumer involvement in the purchase of healthcare. The ultimate goal should be to have these coverages obtained in the private market. "Crowd-out" compromises the integrity of the insurance marketplace.

7. Consider adoption of reform package similar to Missouri's HB 818 – adopted in 2007.
 - a) The first state to permit pretax contributions from small business owners to their employees' individually selected policies.

 - b) Unlike other health care reform "solutions" that require more government intervention and bureaucracy—third-party or one-payer systems, employer mandates, tax hikes, and cost shifting—this law offers a common sense approach to health care reform.

- c) Health Insurance Premium Deduction - This act authorizes 100% of the amount paid for nonreimbursed qualified health insurance premiums to be deducted from a taxpayer's Missouri taxable income to the extent the amount is not already included in the taxpayer's itemized deductions (Section 143.121). This provision is contained in HCS/HB 364 (2007).

 - d) Health Insurance Tax Credit - This act allows a self-employed taxpayer, who is otherwise ineligible for the federal income health insurance tax deduction under federal law, to receive a tax credit (Section 143.119).

 - e) Access to Tax Refunds for delinquent medical bills - This act establishes a process for hospitals and other health care providers to levy a person's tax refund or lottery winnings.
8. Enact tort reform – complete this open initiative. Raise the burden of proof to a clear and convincing standard. Poorly performing providers should be removed from the system. Phase out the abatements and aggressively pay down the MCare unfunded liability.
9. Curtail any legislatively-approved subsidies (“investments”) in healthcare in favor of market-driven solutions.