

**Beyond Band-Aids:
Curing the Sick American
Health Care System**

Ezekiel J. Emanuel, M.D., Ph.D.

Considering All Aspects, How Well Do You Think the American Health Care System Functions?

- Very Well
- Moderately Well
- Fairly Well
- Not Well at All

**Considering All Aspects,
How Happy Are You Personally
with the Health Care Services
You Personally Receive?**

- Very Happy
- Moderately Happy
- Fairly Happy
- Not Happy at All



The U.S. Health Care System

- The financing system is
 - Inefficient
 - Inequitable, and
 - Fiscally unsustainable.
- The delivery system is
 - Fragmented
 - Not designed to care for chronic diseases
 - Haphazard and poor quality
 - High use of unproven and marginal therapies.

Health Care Reform

- True health care reform must fix both the financial and delivery systems.
- Unfortunately, most public discussions focus exclusively on the financing system and getting to (or close to) universal coverage. They ignore delivery system reform.

7 Goals of Reform

- Guaranteed coverage for all Americans
- Controlling costs
- Integrated, high quality delivery system
- Choice
- Fair financial responsibility
- Malpractice reform
- Helping the economy

Guaranteed Coverage

- 47 million uninsured in America.
- 75% of the uninsured are in households where there is one full-time working adult.
- 9 million uninsured children.

Controlling Costs

- In 2006, the U.S. spent \$2,100,000,000,000 --\$2.1 trillion –on health care.
- \$1 out of every \$6 spent in the U.S.

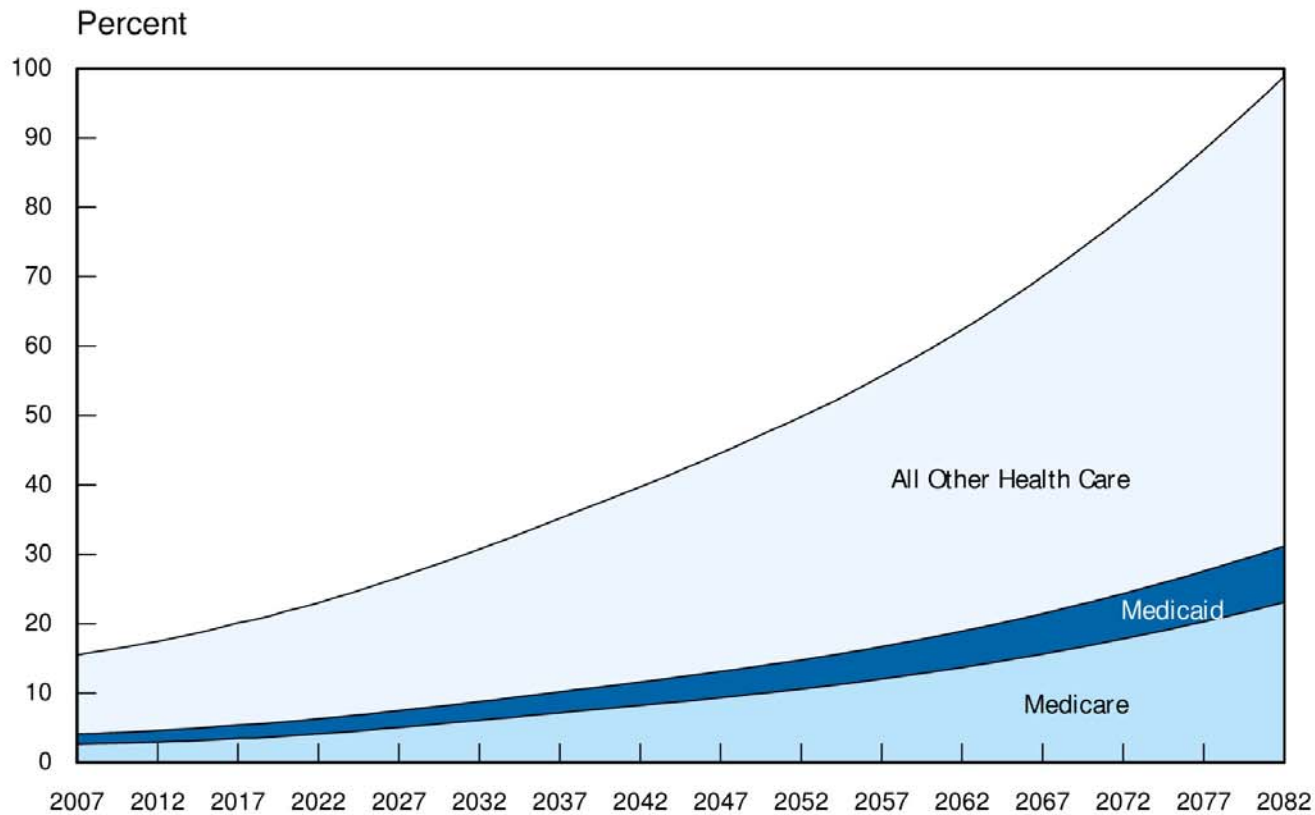
Controlling Costs

How Big is a Trillion?

- 1 million seconds Last week
- 1 billion seconds Richard Nixon's resignation
- 1 trillion seconds 30,000 BCE



Spending on Health Care as a Percentage of Gross Domestic Product Under an Assumption That Excess Cost Growth Continues at Historical Averages



Controlling Costs

- Administrative waste—mainly insurance underwriting, sales and brokers' commissions, marketing, and billings.
- Cost increases—50% is technology—new technologies and wider uses of old technologies

Controlling Costs

The need for more than 850 insurance companies to see and contract with millions of employers, underwriting each one, adds greatly to administrative costs. Typically, administrative costs are on the order of 11% of premium, and this does not include the costs to employers to purchase and manage health care spending.

Increasing Efficiency

To understand how this could be different, consider that Kaiser Permanente signs only one annual contract for the coverage of more than 400,000 employees and dependents with CalPERs [and the] administrative costs are on the order of 0.5% of premium.

Integrated Delivery System

- Fragmentation
 - 1 billion office visits per year: 33% to solo practitioners and 33% to groups of 4 or fewer physicians.
 - Typical Medicare beneficiary sees 7 physicians—including 5 specialists—in a year.

Integrated Delivery System

- RAND study showed that Medicare patients get about 55% of proven, effective therapies such as cholesterol drugs or pneumococcal vaccine.
- AHRQ reports 30% of Americans with hypertension have it adequately controlled.

Integrated Delivery System

- Provide a lot of unproven, costly therapies
- Radiation treatments for early prostate cancer:

| | |
|---------------------------|----------|
| • 3-D conformal radiation | \$11,000 |
| • Brachytherapy | \$15,000 |
| • IMRT | \$42,500 |
| • Proton Beam | \$80,000 |

Inadequate—single institution— data.

No survival difference.

At best a 10% decline in side effects from 14% to 4%.

Integrated Delivery System

- Among men 66 and older with low or moderate grade prostate cancer not receiving XRT or prostatectomy:
 - 32.4% received androgen deprivation treatments
 - (No evidence it is beneficial and not recommended in NCCN or AUA guidelines.)
 - 29.0% among academic urologists.

Drag on the Economy

- Average cost of employment based health insurance costs over \$12,000 for family coverage.
- This is over \$6 per hour for 2,000 hours.

Health care insurance=1 minimum wage
worker

Helping the Economy

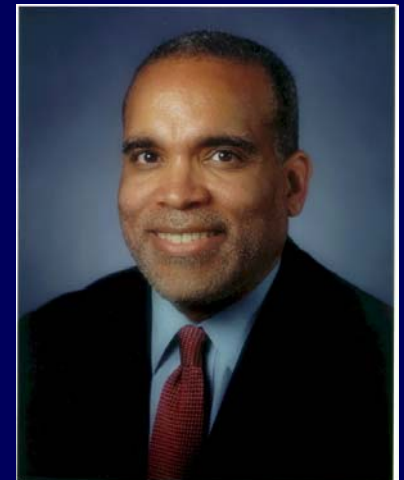
Linking health insurance to employment creates serious labor problems:

- Almost all strikes are over health benefits.
- Lack of portability.
- Outsourcing.
- Suppresses wages—money for insurance not pay.

What Should be Done?

DISCLAIMER

The views expressed in this presentation do not represent the views of the NIH, DHHS, or any other government agency or official. These are not their views.



DISCLAIMER

These views merely represent
The Truth.

4 Types of Reform Proposals

- Guaranteed Healthcare Access Plan
- Incrementalism
- Individual and/or Employer Mandates—
The Massachusetts Health Plan
- Single Payer

Guaranteed Healthcare Access

1. Every American receives a certificate to obtain a standard benefits package through an insurance company or health plan.

Standard benefits package is modeled on FEHBP that Congressman and Senators get.

Health plans have guaranteed issue and no pre-existing exclusions, in return they are paid a risk-adjusted premium —paid more for sicker patients.

Guaranteed Healthcare Access

2. Americans have free choice of any qualified plan. 5-8 plans in most areas. Americans who do not enroll are randomly assigned to a health plan by their Regional Health Board
3. Certificates are funded by a *dedicated* value added tax—VAT. VAT starts at 10%.
4. Freedom to purchase more services than standard benefit with after-tax dollars.

Guaranteed Healthcare Access

5. Private sector organizes and delivers care.
6. Elimination of tax exemption for employment-based insurance.
7. Phasing out of Medicare, Medicaid, SCHIP and other government programs. No person is removed from their program, but there will be no new enrollees.

Guaranteed Healthcare Access

8. Administration and oversight by National Health Board and 12 Regional Health Boards modeled on the Federal Reserve System. Sets standard benefits package, oversees insurance exchanges, regulates health plans, and reports to Congress.
9. An Institute for Technology and Outcomes Assessment to evaluate new interventions and collect and disseminate patient outcomes in health plans.

Guaranteed Healthcare Access

10. Centers for Dispute Resolution and Patient Safety to adjudicate claims of patient injury and to promote proven patient safety measures.

Advantages of Guaranteed Healthcare Access

- Guaranteed coverage for all—All—100% -- Americans are covered regardless of income, age, job, health status, or any other measure.
- Controlling costs—Eliminate or reduce costs from:
 - insurance underwriting, sales and marketing
 - income-linked subsidies, and
 - business management of health insurance.

Advantages of Guaranteed Healthcare Access

- Integrated, high quality delivery system—
Health plans provide infrastructure,
information, and incentives for integrated care.
They have to:
 - report outcomes—providing incentives for
computerization and infrastructure changes.
 - provide standard benefits for a fixed premium –
providing incentive to cover only interventions
that pass technology assessment.

Individual consumers—not employers or
government—choose health plans and have incentive
to choose good service and high quality.

Advantages of Guaranteed Healthcare Access

- Freedom of choice—Americans can choose their physicians and health plans and whether to buy additional services.
- Fair financial responsibility— Everyone pays VAT. The more you consume the more you pay. Average American family pays \$4500 and gets about \$12,000 benefit.

Advantages of Guaranteed Healthcare Access

- Malpractice reform—Centers for Dispute Resolution solve malpractice reform.

They have authority and resources to introduce system-wide patient safety measures to reduce rate of errors.

They provide quick payment to people who are harmed and reduce need for physician insurance.

Advantages of Guaranteed Healthcare Access

- Helping the economy—Business no longer pays for health care, this
 - eliminating the incentive for out-sourcing and allowing the hiring of more workers.
 - Reducing labor-management conflict.
 - Providing complete portability.

Reduction in many taxes—e.g. state sales tax and Medicare payroll tax.

Economic Feasibility

- Costs of the current system—without Medicare or nursing home coverage (2006 dollars):

| | |
|---------------------------|-----------------------|
| Employment-based coverage | \$723 billion |
| Medicaid and SCHIP | \$269 billion |
| Other safety net costs | \$ 10 billion |
| Total Non-Medicare | \$1002 billion |

- Economic feasibility means the voucher plan should cost about \$1002 billion in year 1.

Economic Feasibility

How much would it cost to purchase employment-based insurance at 2006 rates?

| | Population | Annual Premiums | Total Annual Cost |
|--------------|---------------|-----------------|------------------------|
| Individuals | 41.2 million | \$5174 | \$213.2 billion |
| Families | 65.2 million | \$11,216 | \$731.3 billion |
| TOTAL | 257.6 million | | \$944.5 billion |

Economic Feasibility

- But, the uninsured and Medicaid recipients are sicker and will use more health care services than Americans with employment-based coverage.
- How much more? \$50 billion.

Economic Feasibility

- The total cost of the Guaranteed Healthcare Access Plan would be

\$994 billion

Controlling Costs

- “Rheostat” based on the dedicated VAT—any increase in benefits requires willingness to increase taxes.
- Lower demand by requiring additional services to be paid for by after-tax dollars.
- Competition among health plans will lead to heavy emphasis on cost-effective care.
- Systematic technology and outcomes assessment will change delivery and research by drug and device companies.

Incremental Reform

- Expand SCHIP to all children
- Electronic medical records.
- Medical savings accounts with catastrophic insurance over \$5,000.

Incremental Reform

- Fails to achieve any of the 7 goals.
- No universal coverage.
- No cost control.
- No improved delivery system.

McCain's Health Plan

- People would pay tax on insurance provided by employers.
- Provide people with tax credit--\$5,000 for a family and \$2,500 for individuals
- Allow interstate purchase of insurance in a more unregulated market

McCain's Health Plan

- McCain's plan is incrementalism.

Mandates

- Mandate –Require individuals and/or employers to buy health insurance, even if only catastrophic coverage through high deductible health plans.
- Insurance exchange—Create an exchange to pool previously uninsured, self-insured, small businesses for lower rates.
- Subsidies—Provide subsidies to lower income people—usually up to 300% of poverty—or small companies to buy health insurance.

Obama's Health Plan

- Mandate
- Mandates insurance for children.
- “Play or pay” option for large employers— if they do not provide insurance must pay a percent of payroll to a national insurance plan.

Obama's Health Plan

- Insurance Exchange
- National Insurance Exchange offering a choice of health plans all offering same plan.
- National Health Plan (NHP) open to people who do not have employer insurance or any public program and small businesses.
 - Standard benefit based on federal employees program.
 - Guaranteed issue and no pre-existing condition exclusions.

Obama's Health Plan

- Subsidies
- 50% tax credit to small businesses who provide health insurance.
- Income-linked subsidies for people to buy into the National Health Plan.

Obama's Health Plan

- Other provisions:
 - Electronic medical records—\$10 billion per year for 5 years.
 - Pricing transparency—so people know what medical services cost.
 - Re-importation of drugs.
 - Require reporting of medical errors.
 - Rewards in NHP, Medicare and FEHBP for achieving performance thresholds.

Mandates

- “Fill in the cracks” reform.
- Relies on the current system and tries to make as few changes as possible to get as close to universal coverage as possible.

These are characterizations from Jonathan Gruber, MIT economist who devised the Massachusetts mandate plan.

Mandates

Coverage

97% covered. Many—those with incomes between 300-400% of poverty— excluded because not “affordable” even with subsidies.

Controlling Costs

No sustained cost control over time because relies on existing system.

Mandates

- Preliminary experience in Massachusetts confirms these worries.

Coverage:

- Uninsured before Mandate: 620,000
- “More than 200,000 previously uninsured residents have enrolled, but state officials estimate that at least that number, and perhaps twice as many, have not.”

Mandates

- Real problem will be cost control, making it unaffordable to employers and the state.
 - Rising costs will mean employers will pay the penalty rather than provide insurance.
 - State will have to provide more subsidies.
 - This will force either increasing taxes to pay for subsidies or exempting more people or companies from the mandate.

Mandates

“[Massachusetts’s] insurers plan to raise rates 10% to 12% next year [2008], twice this year’s national average... If we continue with double-digit inflation, I don’t think health care reform is sustainable.”

Jon Kingsdale

Executive Director

Commonwealth Health Insurance

Connector Authority

Mandates

Integrated
delivery system

None. Relies on existing delivery system.

Freedom of Choice

Better for uninsured, self-insured, and small businesses. Not better for others in employer-based insurance.

Fair financial
responsibility

Uses same tax system and tax breaks as currently adds regressive payroll taxes.

Helping economy

No help and may hurt if use payroll tax to fund subsidies.

Single Payer

- “Medicare for All”
- Physicians’ Working Group for Single-Payer National Health Insurance—
otherwise known as Canadian-style single payer.

Single Payer

- Single national health plan –A single public plan covering all Americans for all medically necessary services.
- Reduced administrative costs—National health plan would operate with 3-4% administrative overhead as Medicare does now. Eliminates administrative costs of insurance companies.

Single Payer

- Negotiated fees and payments—Same reimbursement system as Medicare. Physicians paid by fee-for-service or salary at a hospital or managed care plan. Establish single national drug formulary with negotiated prices.

Single Payer

Radical reform of the financing system while retaining the 19th century fragmented delivery system.

Single Payer

- Key Problems
 - No integrated delivery system.
 - Has no cost control or failed cost control mechanisms.
 - Politicization of decision-making

Single Payer

- Reform of the delivery system requires
 - **Infrastructure** for coordinated and integrated care. Mechanisms to bring physicians, nurses, pharmacists, hospitals, home health agencies onto one team.
 - **Information** shared electronic medical records, guidelines with reminders, and outcomes measures on performance.
 - **Incentives** so people work together and have interest in delivering quality not just quantity.

Single Payer

- Only an organization like an insurance company can integrate different providers and systematically measure clinical outcomes.
 - Single payer is against such organizations.
- Institutionalizes fee-for-service delivery system which does not provide infrastructure, information, or incentives for integrate delivery of care and makes quality initiatives impossible.

Single Payer

Main mechanism of cost control is setting prices for physicians, hospitals, home care agencies, durable medical equipment, etc.

Failed as a cost control mechanism.

Providers game the system

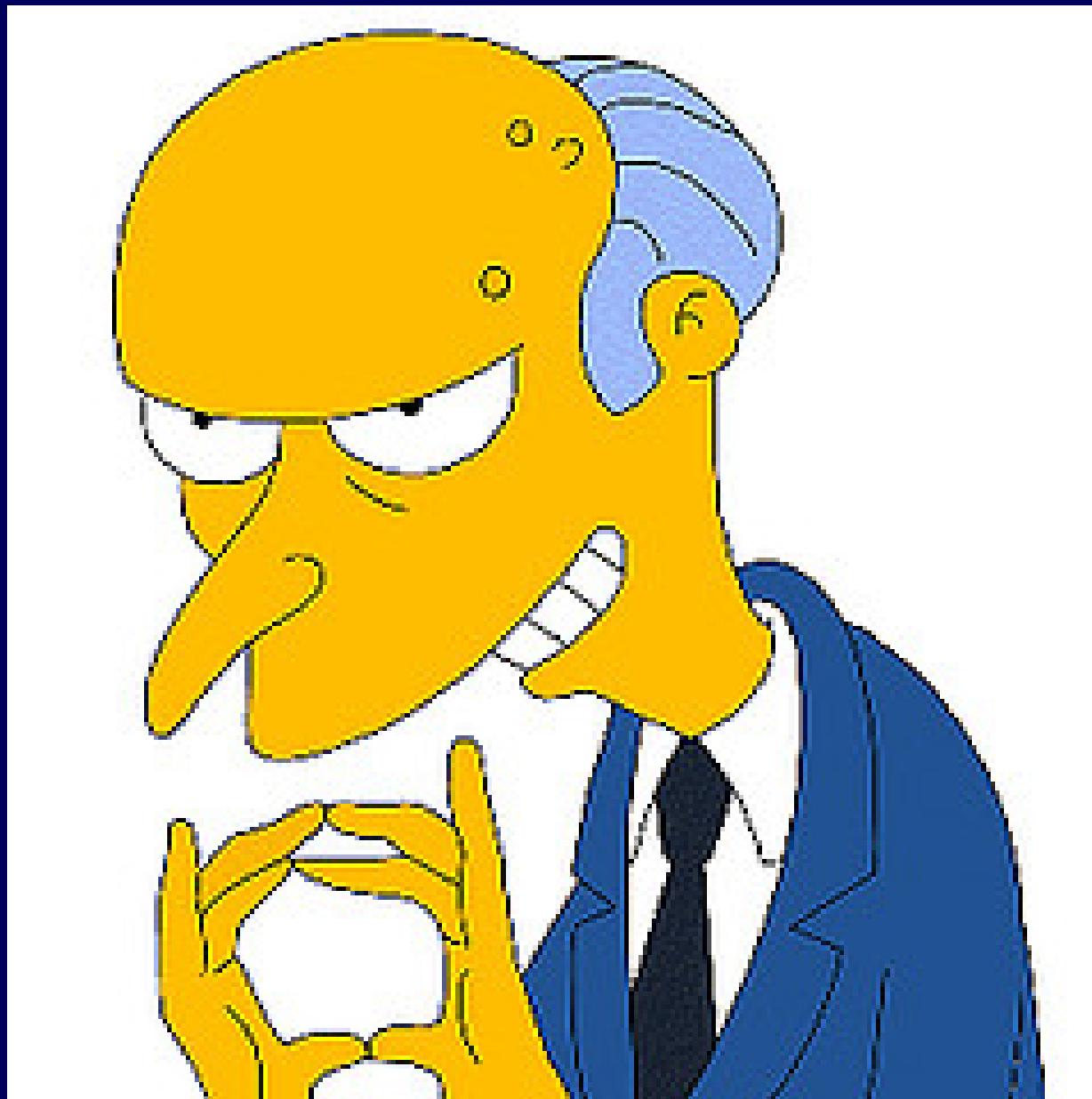
Single Payer

When single payer advocates imagine the administrator of the national health plan they imagine:



Single Payer

But what if the administrator were...



Single Payer

Medicare, which provides near-universal coverage to U.S. residents 65 years and older, is the prototypical single-payer model and routinely exhibits the problems of the model. Although permitted to arbitrarily set fees, Medicare has found it difficult to do so effectively. Across the board fee changes elicit broad based political reaction; narrowly focused changes draw sub rosa special-interest lobbying.... [P]atient advocacy groups, often supported by industry and specialty societies, encourage coverage for specific services....

Single Payer

Rather than market discipline, Medicare is subject to political manipulation and bureaucratic rigidity....

Single-payer advocates envisioning an equitable and efficient healthcare system idealistically disregard the example of Medicare and the ethos of the U.S political system.

Harold Luft

Institute for Health Policy, UCSF

JAMA 2006

Comparison

| | Incremental McCain | Mandate Obama | Comprehensive Wyden |
|--------------------------|-------------------------------|--------------------------|--------------------------------|
| Coverage | 21 million | 27-34 million | 47 million |
| Cost Over 10 years | \$2.0 trillion | \$1.2 trillion | Save \$1.4 trillion |

Political Feasibility

Many barriers to change:

1) **Rule of Satisfaction**—85% of Americans have health insurance and many are satisfied.

2) **James Madison Rule of Government**—American government was designed with many places for special interests to kill legislation. With 16% of the GDP, health care has many special interests.

Political Feasibility

3) Machiavelli Rule of Reform

“There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order.”

Political Feasibility

4) Rule of Second Best

A majority of Americans are for health care reform. But they are divided among many different plans. After their preferred reform, their second choice is the status quo.

Political Feasibility

Change requires 4 things to coalesce:

1) A **problem** attracts widespread public and political attention.

2) A **proposal** to solve the problem is agreed on by the major actors.

3) A **champion** to vigorously push the policy proposal through thick and thin.

4) A **transforming political event** creates an open policy window to enact the agreed upon proposal.

Political Feasibility

1) **Problem:** We have awareness of the problem.

2) **Policy:** At the moment we do not have consensus on a solution. Many key stakeholders have not said what they will accept.

3) **Champion:** Need to get business, governors, and patient advocates to support a plan.

Political Feasibility

4) Transforming Event: Unpredictable, even to politicians. But the financial crisis may be the transforming event.

- End use of “socialized medicine” canard
- Spending \$700 billion on banks makes spending \$200 billion on health care look like “chump change.”
- Americans will want financial security and guaranteed health insurance is a key part of that

Political Feasibility

- Desire for security may mean Americans will settle for “basic” benefits rather than gold-plated comprehensive plan.
- Employers face financial pressure, thus more willing to support health care reform that takes health off their backs.
- Debt pressure will push towards comprehensive reform rather than incrementalism. The only proposals to save money are comprehensive—e.g. Wyden-Bennett Health American’s Act.

More Information

- Politically Engaged

www.healthcareguaranteed.org

- Policy Wonks

www.FRESH-Thinking.org



HEALTHCARE, GUARANTEED

A SIMPLE, SECURE
SOLUTION FOR AMERICA

"Dr. Emanuel's bold prescription is thoughtful and will challenge everyone involved in healthcare. As America addresses our unsustainable cost, quality, and coverage problems, we must heed Emanuel's call to act."

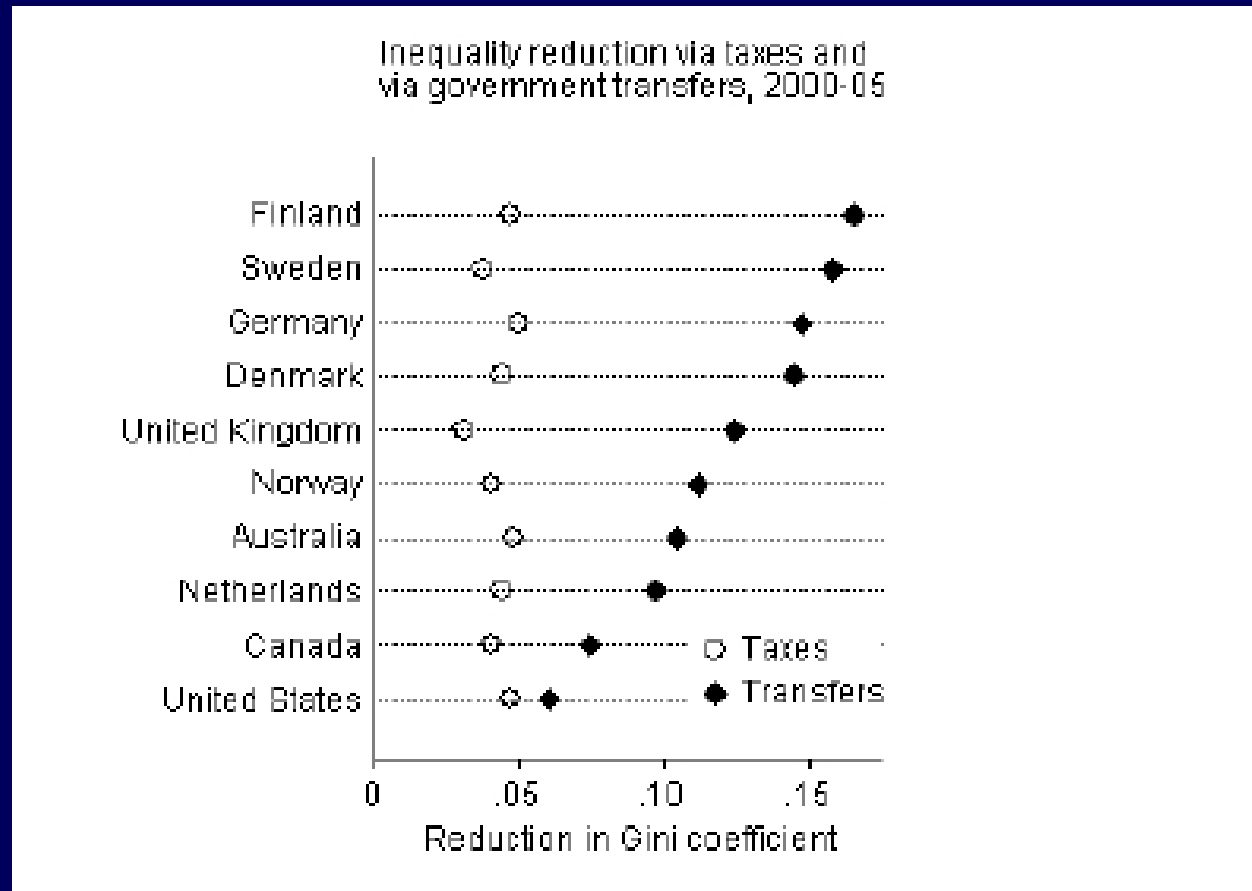
—Andy Stern, president, SEIU

"I wish I had a magic wand to make Emanuel's plan happen. It would create a huge improvement in the competitiveness of American business and reap massive rewards for the health of our economy."

—Steve Miller, former CFO, Delphi Corporation

EZEKIEL J. EMANUEL, M.D., PH.D.
WITH A FOREWORD BY VICTOR R. FUCHS, PH.D.

Reductions in Inequality by Taxes and by Government Programs



The Regressivity of VAT

“None of the countries achieves much inequality reduction via taxes. Instead, to the extent inequality is reduced, it is mainly transfers that do the work... Taxes fund the transfers that reduce inequality.”

The Regressivity of VAT

“What lesson should Americans draw for tax reform? In my view, the key one is that a national consumption tax as a supplement to the income tax, not a replacement for it, is worth consideration...a national consumption tax on the order of 5% that is earmarked to fund universal health care.

Lance Kenworthy

University of Arizona 2008