Rudolph
FINANCIAL CONSULTING LLC

February 2017

Health Care Task Force 25 years later

By Max J. Rudolph, FSA CFA CERA

The recent repeal and replace discussion has gotten me thinking about the Clinton administration attempt to move toward a single payer system. In 1993, right after I had taken the Health of Nations actuarial exam (the text was *Health of Nations: An International Perspective on U.S. Health Care Reform*, by Laurene A. Graig, 1991). The topic was current and the book's review of current health care systems in other countries led me to come up with some talking points about the American system. In May 1993 I sent a letter to the Health Care Task Force, and in August I received a form letter in response. I recently found this letter and found it's relevant today, nearly 25 years later. One point to make is that it was not a comprehensive solution, but the key points would easily fit into such a response.

- Current over-reliance on employers for health insurance; suggest looking at costs of the underlying health care
- Eliminate the corporate deduction for health insurance
- Need to focus on the rate of increase of health care costs
- Use the OASDHI tax collection process to pay for coverage (this would coordinate well with recent proposals for earned income tax credits)
- Use incentives to encourage primary care doctors
- Personal incentives should focus on the health impact, not on revenue generation (e.g., alcohol sin taxes)
- If there is a transition to a single payer system, reserves set aside by employers to cover this in retirement should be paid to the government – no free lunch
- Find a role for insurers – administrative services, hot lines, etc.
- Standard claims form and other technological solutions
- Research grants should focus on cost reduction
- Allow budget savings to be shared with the institution in the following year
- Separate operating and capital budgets for health care facilities (e.g., Canada)
- Review past "solutions" to identify cost shifting
- Utilize government negotiated prices for individual market
- Tort reform
- Overall look at a system with a base of coverage and allow supplementary policies to cover more than that

Here is the letter I sent and the response I received.

May 7, 1993

Hillary Rodham Clinton
Health Care Task Force
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mrs. Hillary Rodham Clinton:

I am an actuary employed in Omaha, Nebraska by Mutual of Omaha Insurance Company. I do not, nor do I claim to, represent Mutual of Omaha in this letter. In fact, my positions are often contrary to our company line.

I have never written a letter to anyone in government before, but the health care issue is one that I feel very strongly about and, perhaps, have enough knowledge to speak with some intelligence. I recently saw a tape of your speech in Lincoln, Nebraska, and this has given me the extra piece of encouragement that I needed to write. I was very impressed with the breadth of health care knowledge you displayed during your speech.

Although my 10 years of actuarial experience has been primarily related to life insurance, I have always tried to keep abreast of topics relating to health care. The decisions being made today will affect everyone for a long time. Please don't forget that not everyone in the health care and insurance fields is getting rich from their job. Eliminating jobs should not be done without careful consideration of other viable options.

The major source of disagreement that I have with the current proposals is who has responsibility for health care. The present system, and the current proposals, rely heavily on employers. I believe very strongly in free markets, where the individual is responsible for his/her own well being. Only 15% of the uninsured remain so for more than two years. Maybe we're fixing the wrong problem.

If employers were not allowed a deduction for health care benefits and individuals were allowed the deduction, I believe that the market would solve the health care problem much more efficiently than a task force (however knowledgeable and well meaning they are) could. Other countries don't purchase health care through employers. Why does ours?

I am concerned that the task force has not addressed the underlying problem of health care cost. While having one claim form and eliminating waste will reduce costs and is a good idea, if that is the only solution presented the group will have failed their mandate. Employers who have introduced managed care through HMOs and PPOs have already found out that the problem is not the underlying cost, it is the rate of increase. As long as medical costs grow faster than the economy, each year less is available to the economy to generate growth. The best incentives to lower costs continue to be reasonable copayments and deductibles. One plan reduced doctor visits by 30% by increasing the copayment from $5 to $10.

With universal coverage, I believe that an increase to the OASDHI (Social Security) would be the most efficient payment option. Since this tax is already in place, implementation costs would be minimal.

The task force appears to have already realized that health care suppliers (e.g., doctors, hospitals and pharmaceutical companies) do not operate in a supply and demand environment. They are able to act as a monopsony and create additional demand. The medical profession is the largest unofficial union in the world. The government has not helped this situation by funding new technology and medical schools without any cost reduction related goals. The easiest way to persuade potential doctors to become general practitioners is to refuse to help them financially to become specialists.

I have compiled a number of items that I feel would be useful in a universal health care system. Most of the following ideas are designed to control costs.

Incentives for wellness should be designed to offset the additional health care cost, NOT to maximize revenue. I was disgusted when I read in an article that the cigarette "sin" tax may cause too many people to stop smoking and not raise the expected revenue. I hope this is not true.

Retirees currently covered by their former employers should have those prefunded liabilities switched over to the government. Many companies that promised their retirees health coverage are now campaigning hard for national health care so that these funds will be returned to them. This should not happen.

Health insurers should have a place in a managed competition system. If base services are defined, supplemental policies would be sought out by many in the marketplace. This is currently the practice with Medicare benefits (Medigap). Private companies, including insurers, have been providing administrative service only benefits to self insured plans for years. By allowing private companies to "compete" with state run groups, costs are bound to be minimized.

Although this has taken years to accomplish in the private sector, it is obvious that a standard claims form should be used.

Government research grants should be taken out of the political arena so that the money is more efficiently distributed. I have read that there is more money allocated to AIDS research than there are competent researchers available, while cancer research could use the money to make progress. Too many grants are distributed based on which Hollywood star is involved. Politics and research should not mix.

If hospitals were required to use prospective operating budgets with incentives for reducing costs, overall costs would go down. A potentially effective incentive would be to apply half of the savings in one year to increase the capital budget for the following year.

Capital budgets for hospitals should be outside their operating budget. This is one piece of the Canadian system that I really like.

Many of the past health care solutions have been anything but. Medicare and Medicaid have resulted in the unfair practice of cost shifting, creating many of the current uninsureds by pricing them out of the market. They have also shown what can happen when the payer has negotiating power with hospitals and the medical profession.

The lawyers on the task force know that tort reform that consists of reducing the number of defendants to one that has deep pockets is good only for the lobbying group that came up with it, the lawyers that spend their careers chasing ambulances.

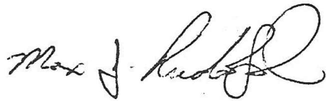
I am deathly afraid that national health care would form a huge, uncontrollable bureaucracy.

Whether purchasing groups are formed by insurers, large employers or governmental entities, there must be some form of measuring the relative health of each group. Germany has developed a system to accomplish this, although I know little about how it works. If everyone pays "premiums" based on their pay scale, a problem that I wrestle with is how to give incentives to citizens to maintain a healthy lifestyle. I believe that this is the key to controlling costs under a universal care plan.

I hear that there is much concern about rationing care and the rights of terminally ill patients to live an additional day or month. The United States of America is the greatest country on earth and I am proud to be a citizen. It will cease being an economic power and all the good things that go along with that if we don't attack these difficult questions NOW. I believe that the mindset of the country needs to change. I saw a quote recently from a doctor practicing in another country. I think he hit the nail on the head when he said that the United States has the best health care in the world, but we don't know when to stop. Rationing is a natural part of capitalism. Rationing fairly is where the government, and this task force in particular, can best serve the people.

Several countries, notably The Netherlands and Germany, have recently legislated the managed care concept. Learn from their successes as well as their mistakes.

This letter is longer than I had expected and is late in the game, but I hope that someone on the task force will take the time to consider the points that it addresses. Actuaries have much to offer the task force, and I am disappointed that none were included.



Max J. Rudolph, ASA MAAA
1114 Ironwood Court, Apt 150
Bellevue, Nebraska 68005-4757
(402) 292-9316

THE WHITE HOUSE

WASHINGTON

August 25, 1993

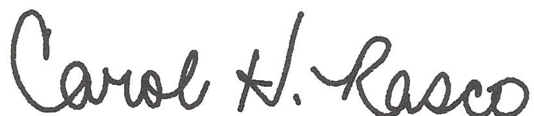
Max J. Rudolph
Apt. 150
1114 Ironwood Court
Bellevue, NE 68005-4757

Dear Mr. Rudolph:

On behalf of the President and Mrs. Clinton, thank you for taking the time to write and share your thoughts with us on the issue of health care reform. It is very important that those of us working on health care reform hear from individuals like yourself who have valuable information to contribute.

We appreciate your participation in this vital endeavor. Again, thank you for your interest.

Sincerely,



Carol H. Rasco
Assistant to the President for
Domestic Policy

It is clear that the issues really haven't changed, but the politics have become so divided that it has become even harder to bring consensus to an issue like health care. We are running out of time, with expenditures nearly 20% of GDP each year and sub-par results relative to other countries spending much less.

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