This is How You Make Health Care Affordable

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As the debate continues to rage in Washington, D.C., and around the country regarding the fate of Obamacare, one elegantly simple concept that would have a dramatic impact on healthcare costs is being drowned out by inflammatory rhetoric.

The One Area of Health Care That's Defying Massive Inflation

Out-of-pocket payment (OPP) by consumers for routine medical care would transform the system from one dominated by third party payers toward a model that would put consumers in charge of their healthcare dollars, and for the first time unleash market disciplines into the equation.

After all, we can all only imagine what our grocery carts would look like, not to mention our restaurant tabs, if a third party was paying for our food. Unfortunately, out-of-pocket payments have steadily trended down over the last 60 years and now account for only 10.5% of healthcare expenditures.

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It is both stunning and disconcerting that the myriad of benefits that flow from a competitive, market driven system have never, in any substantial way, penetrated the healthcare and medical services arena. However, one striking exception to this competitive wet blanket is the $15 billion cosmetic surgery industry, the poster child for out of pocket payments, where innovation and price disinflation have been hallmarks for decades. Examples abound.

As Mark Perry has pointed out on his brilliant economic blog, Carpe Diem, over the past 19 years, the 20 most popular cosmetic procedures have increased at a rate 32%below the consumer price index (CPI) and 68% below the rate of medical services inflation.

Thus, the backbone of a productive reform plan must include a move away from third parties and employers controlling health care dollars toward individuals holding sway over their medical purse strings.

Removing Constraints

This would mean that the "employer contribution" that currently is used to fund corporate group policies would transition to an increase in an employee's compensation, which would be

funneled tax-free into a robust health savings account (HSA) that the employee would control for routine medical expenses.

As Michael Cannon of the Cato Institute has pointed out, "The employer contribution for health care is part of a worker's earnings and averages $13,000 per family. Yet the tax code gives control over that money to employers rather than the workers who earned it."

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Importantly, this HSA would be paired with a high-deductible catastrophic policy and also be valid in the individual marketplace. Additionally, this would go a long way in helping to solve the portability issue that some employees face when changing jobs or careers.

Essential to making these individual plans more attractive and affordable would be the abolition of both the "community rating" and "essential health benefits" mandates currently embedded in Obamacare policies. These concepts make a mockery of a legitimate, actuarially sound insurance market by shifting costs from older and sicker people to younger and healthier people, thus promoting adverse selection.

Without these constraints, families could focus on basic and affordable policies that would better match their needs and also begin building a "rainy day health fund" via their HSA accounts.

Regarding both Medicaid and pre-existing conditions, a strong dose of old fashioned, Tenth Amendment-oriented federalism is long overdue in dealing with these issues.

In fact, both from a philosophical and practical standpoint, they should never have come under the purview of the federal government and are best left to the individual states where diverse, vibrant, and innovative solutions could be implemented. This could include the establishment of reinsurance programs and high-risk pools for those with pre-existing conditions, and the phasing out of the open-ended federal entitlement status of Medicaid through a multi-year block grant program.

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A Patient-Centered System

The current third party payment/community rating model for delivering healthcare is unsustainable and rapidly headed for the dreaded "death spiral," which occurs when an escalation of sick people flock to the exchanges for insurance, while an increasing number of healthy people choose to leave the market. In fact, Aetna CEO Mark Bertolini has recently acknowledged as much.

Make no mistake, Obamacare was designed to invariably lead to a government-run, single-payer model, with its global budgeting, rationing of care, and long wait times for vital procedures in tow.

Without swift and decisive intervention with a system based on patient-centered choice and market mechanisms, the end result will be a Veterans Affairs (VA)-like model that would combine the worst aspects of government inefficiencies and substandard care.

A quick glance at the dismal state of Great Britain's National Health Service (NHS), Canada's single payer scheme, or our own insolvent Medicare and Medicaid plans provides Americans with an acutely unpleasant hint of what is in store if a single-payer model does indeed transpire.