Employee Benefit Adviser

How can healthcare reform lower prices?

Bruce Shutan

May 12, 2017

In the ongoing political debate on how to best repeal and replace the Affordable Care Act, no obvious panacea has emerged for reining in the rising cost of health insurance premiums.

But there's also no shortage of ideas from employee benefit experts and scholars about what members of Congress should do next and how it would affect the employer-based model that has been in place since World War II. Their divergent views provide food for thought as benefits decision-makers across the industry ponder the direction of this long-running debate.

Without a consensus, "where we're headed with regard to healthcare reform is nowhere fast," says Michael Cannon, director of health policy studies at the Cato Institute, adding that "where we're headed with regard to healthcare is a race to the bottom."

Community rating under the ACA has destabilized health insurance markets and too many uninsurable preexisting conditions have driven up monthly premiums, according to Cannon. The conservative Republican House Freedom Caucus is "the only group of policymakers in Washington that's actually taking this problem seriously," he says.

Cannon, who's co-editor of "Replacing Obamacare: The Cato Institute on Health Care Reform" and co-author of "Healthy Competition: What's Holding Back Health Care and How to Free It," also believes the employer-based system is a big part of the problem.

His proposed remedy: eliminate the tax preference for employer-sponsored health benefits to level the playing field so that there's no longer a penalty on workers who choose to accept as cash income the $13,000 on average that employers spend toward the premium of a family plan.

Employers can still provide those benefits to attract and retain talent, he explains, but rather than pay an employee $56,000 in salary and $13,000 in health benefits, "they could simply give some individuals $69,000." These same companies also could help their employees select plans on the individual health insurance market.

Under the reform plan Cannon envisions, healthcare spending would shift from employers and the federal government to consumers who would pay out of pocket for a health plan that best suit their needs. The probable result would be less comprehensive insurance and more cost-conscious choices, which would spur competition. The expectation is that this approach will lower prices for both health insurance and medical care.

“There have been a series of experiments done in California that shows when consumers get to keep the savings, they will shop around,” says Cannon. “They’ll demand price information. They will gravitate toward lower-cost providers. They will bring down prices at high-cost providers. And we see in healthcare the same dynamic that we see in other sectors of the economy, which is falling prices. And that’s actually the most important form of assistance we can provide to people with low incomes or high-disease burdens.”

Cannon and others who disparage the employer-based model are essentially “questioning a system that provides more than 177 million working Americans with high-quality insurance coverage that is far more affordable than if they had to purchase it on their own,” says Jim Klein, president of the American Benefits Council. “It is coverage that overwhelmingly people like and want to keep.”

He says eliminating or curtailing the employee tax exclusion for employer-sponsored benefits would push more people into an unstable individual market that’s struggling to cover a fraction of the employer system at roughly 18 million people.

“Libertarians are supposed to believe in giving people choice,” says Klein, referencing the philosophy of the think tank that employs Cannon. “When an employer sponsors a health plan, its employees have the choice to accept it, which the vast majority choose to do, or to decline it. By contrast, if public policy discourages employers from sponsoring plans, then the option to get coverage from their employer is taken away from them.”

An ABC survey conducted earlier this year found that voters rejected arguments for a “cap” on the benefits exclusion by a two-to-one margin. In order to level the playing field, Klein believes tax policy should give people a better deduction if they purchase coverage in the individual market, not take away a tax-favored benefit from working Americans.

He challenges the notion that employer-sponsored coverage contributes to higher health costs. “Our members tell us that the most significant cost driver is not general utilization but rather the unit costs, and particularly the treatment of chronic and other high-cost conditions,” he explains. “Removing employers from the equation would do little to solve that problem.”

Routes to reform

While not a big fan of employer-based coverage, healthcare consumerism advocate Greg Scandlen prefers an incremental approach to healthcare reform through which employers transition to a defined contribution approach as they did with 401(k)s and let employees use dollars earmarked for health benefits to buy their own coverage.

Scandlen, a senior fellow and director of Consumers for Health Care Choices at the Heartland Institute in Hagerstown, Md., and author of the new book “Myth Busters: Why Health Reform Always Goes Awry,” believes many employers would be eager to stop providing health benefits and should be given the opportunity to do so. But he says it “doesn’t mean that those employers who like to provide health benefits should be barred or even discouraged from doing it.”

If the U.S. moves toward sole reliance on employer-based coverage, a direction he describes as positive, then the idea would be “to allow a transition period of probably 15, 20 years, where people can gradually take more control over their own purchase decisions.”

But the trouble with placing so much stock in the healthcare consumerism movement is that the U.S. "still wouldn't fundamentally have an incredibly well-priced, efficient market in healthcare," says Larry McNeely, policy director for the nonpartisan National Coalition on Health Care. "It's because consumers don't have an ability to make the judgments needed to really shop around on the big-ticket items like emergency or acute developments, surgeries or which course of treatment to take."

The focus, he says, needs to be on policymakers finding constructive, bipartisan solutions to growing affordability problems in the non-group market, public programs and commercial insurance. In the absence of a large-scale plan to replace the ACA, McNeely advocates incremental fixes such as chronic care legislation that is expected to significantly reduce "the real driver of healthcare costs" in Medicare. He also identifies bipartisan interest from the House and Senate on maintaining the Children's Health Insurance Program.