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End Medicare, use vouchers and deregulate insurance

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As the discussion of health-care policy unfolds, what we are seeing is a nondebate over nonreform. Instead, as someone who thinks that we need more personal responsibility in health-care choices, I believe both Democrats and Republicans are attempting to entrench the status quo.

To show what I mean, hold up 10 fingers. Each finger represents 10 percent of health-care spending in the United States. Five fingers — 50 percent — represent what is paid by government programs such as Medicare and Medicaid. Four fingers — 40 percent — represent what is paid by private health insurance. One finger — 10 percent — represents what is paid out-of-pocket by individuals.



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To move in the direction of personal responsibility, we have to make more of our health-care system look like the one finger. That is a radical idea for reform, and neither political party is talking about it. Instead, the Democrats are trying to incrementally make the system look more like the five fingers now represented by government. In response, the Republicans are trying to protect the four fingers of private health insurance.

Politically, the Democrats are trying to position their plan as expanding our existing system, while the Republicans are trying to say that the Democratic plan threatens the existing system. Instead, we need to confront the real problems with American health care.

Our health-care system is wasteful. We spend far too much money with relatively little to show for it. That would be of little concern if individuals were wasting their own money. However, because close to 90 percent of personal health-care spending is paid by third parties, we are wasting each other's money. This approach of spending each other's money is not sustainable.

Employer-provided health insurance is unraveling, as workers are getting less take-home pay while employers are shelling out more to compensate workers in the form of health care. Medicare is even less viable. Medicare faces tens of trillions of dollars in unfunded liabilities, which is the gap between what future beneficiaries have been promised and the taxes we expect to collect to fund those promises. Rather than make hard choices to restrain costs, the political class works to provide benefits to existing constituencies now, while passing the costs of those benefits to future generations.

To fix these problems, we need to do the following:

1. Government assistance should take the form of vouchers, given to people based on need. Need would depend on income and pre-existing conditions.

2. Medicare should be phased out in favor of a system that encourages people to save for the health coverage they will need in their old age.
3. Private health insurance should be deregulated.

Government assistance in health care needs to be voucherized. That is, government must end the practice of reimbursing health-care providers for services. Instead, consumers with low incomes or expensive pre-existing conditions should be given vouchers. Consumers could then make the choices of which health-care services best meet their needs, given what they can afford with their own resources and the vouchers.

In order to fund health care for the elderly on a sustainable basis, we have to increase our savings. Medicare should be phased out, by gradually raising the age of eligibility. In its place, people should be given savings targets and tax credits that help them meet those targets.

For private health insurance, the "reform" plans are designed to minimize disruption to the status quo and to force insurance companies to subsidize coverage for people with pre-existing conditions. I believe that people with pre-existing conditions need subsidies, but the subsidies should come in the form of on-budget government transfers, not in the form of regulatory taxes that insurance companies have to pass on to ordinary customers.

Affordable health insurance requires radical changes to the way health insurance policies are designed today. In order to get there, we need less regulation of health insurance, not more. My hope is that the industry would develop plans that pay claims to only those who fall within the top two or three percent in terms of health-care needs. Health insurance would then look like fire insurance. Few of us would make claims, and premiums would be affordable.

I am under no illusion that my ideas for health-care policy are going to play a role in the debate this year. However, by the same token, the public ought to be under no illusion that what the politicians are calling health-care reform offers any hope for solutions to the real problems with America's health-care system.

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