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Want to cut health care costs? Get insurers out

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The biggest challenges are those that require thinking outside the box – especially so when it comes to reducing health care spending in California.

The federal Centers for Medicare and Medicaid Services reported last month that total health care spending in 2014 – the first full year under President Obama's health care law – rose by 5.3 percent. That's the largest single-year increase since 2007.

Californians are paying for it at every turn. Premiums for 2016 plans obtained through the law's exchanges continue increasing statewide, while deductibles for the most popular plans average over $3,100 for individuals and $6,500 for families. This has rendered many exchange plans "all but useless," according to a recent New York Times report.

Reversing these trends requires a new way of thinking. In fact, the Affordable Care Act's central tenets – mandating that everyone have insurance and requiring that insurance cover more – is exactly what's causing the problem. That's because the law's goal of increasing insurance coverage is misplaced. Putting an insurance card in everyone's hand does nothing to address rising health care costs. It merely inserts a third party between you and your health care provider.

This inevitably raises costs over time. The hospitals, doctors, drug companies and other providers are all negotiating prices with middlemen, the insurers, whose only concern is keeping costs low enough to keep premiums competitive with rivals. Each additional middleman adds additional costs – taxes, regulations and the like.

Insurance also incentivizes everyone – insurers and patients alike – to spend more.

When insurers are negotiating rates with health care providers, they're not spending their own money. As a result, they have less of an incentive to spend that money efficiently, knowing they can always just charge you more. And after paying premiums, health insurance gives the illusion that you're spending someone else's money. As a result, you don't shop around for the best prices, and are more likely to receive treatments you don't actually need.

Now here's the kicker: The Affordable Care Act accelerates this vicious cycle by mandating that every Californian have insurance. That only adds more middlemen, more costs and more backward incentives.

It’s time for a new way of thinking about health care spending: We must *reduce* the role of insurance in medical care, rather than continue increasing it.
Insurance shouldn’t pay for essentially every medical treatment. It instead should return to its traditional role of covering unpredictable, catastrophic expenses (think car crash, cancer, etc.). As shown by the few medical fields where insurance is not the primary method of payment, costs have plummeted and quality has greatly improved.

Consider Lasik eye surgery. Not too long ago, this procedure cost several thousand dollars. Today, you can have the same procedure done for several hundred dollars.

Patients spend their own money, incentivizing them to spend it wisely. Doctors deal exclusively with patients, incentivizing them to provide the highest quality care at the most affordable price.

Of course, we can’t radically reduce the role of insurance overnight. But keep this in mind when you hear politicians say the Affordable Care Act will help control costs. It might sound good on the stump, but that way of thinking only guarantees that Californians will keep paying more and more with each passing year.

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