

## **Health Care 2002: Improving Cost, Quality and Choice**

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A summary by Eric Montague, Policy Analyst

More than 170 health experts, policymakers and media gathered at the Crowne Plaza Hotel in downtown Seattle on August 14<sup>th</sup> for Health Care 2002, a half-day conference sponsored by Washington Policy Center. The conference consisted of three expert panels exploring the impact of mandates and regulations on health care costs, consumer access to prescription drugs and free market solutions to the rising cost of health care. Congresswoman Jennifer Dunn delivered the keynote address and nationally recognized health care expert Dr. Merrill Matthews served as keynote panelist. This Policy Note outlines the three panel discussions and Congresswoman Dunn's remarks.

### **Panel One: Health Care Mandates**

Moderated by Melanie Hughes, Association of Washington Business

Panelists: Dr. Merrill Matthews, Institute for Policy Innovation; Paul Guppy, Washington Policy Center; Gary Smith, Independent Business Association

#### Summary of Panel Discussion

The cost of health insurance and the number of uninsured is increasing in Washington state. Some of the reasons costs are going up are clearly beyond the control of state policymakers, but there is one key factor that is often overlooked: the cost of mandates -- laws that limit the kind of health insurance that can be sold in our state. Each of these mandates adds to the number of uninsured by driving up the cost of health insurance. One national study estimates that 20 to 25 percent of the number of uninsured is due to the presence of state mandates. Another study found that by the mid-1980s, state imposed mandates accounted for 14 percent of the uninsured population nationwide.

Often, the high cost of health insurance is blamed on the market. In practice, the health care market is not a market at all, but a highly regulated system of benefits that are controlled by politicians and government regulators. Many people are forced to go without a health insurance plan because they cannot afford to purchase the high-end, Cadillac health plans mandated by state regulations.

Two troubling new trends in health care mandates are guaranteed issue and mental health parity. Guaranteed issue is a government mandate requiring private companies to sell health insurance to individuals regardless of pre-existing health conditions. The other emerging threat to health care affordability - mental health parity - is very expensive and easy to abuse because the treatment needs of the patient are difficult to monitor and costs are almost impossible to control.

Small businesses and self-employed entrepreneurs are particularly vulnerable to increases in health care costs. A new survey of Washington state small business owners shows rates increasing an average of 19% over the past year. Small businesses have a limited ability to accommodate higher costs. Many large businesses are exempt from state and federal health care mandates, leaving small businesses and individuals to bear the full cost of health care regulation.

A few basic reforms can help re-invigorated the insurance market. They include: legalizing basic health insurance, adopting a moratorium on new mandates and legalizing point of origin policies -- policies that allow people in one state to purchase insurance from another state, thus increasing competition among states to reduce the burden of additional mandates. Effective reform can move personal decisions about health care out of the political process and into the hands of the consumer. Fewer mandates, greater consumer choice and vigorous price competition among insurers is the most effective way to promote affordable, high-quality health care for all Washington residents.

For a more detailed look at the impacts of mandates see, “How Mandates Increase Cost and Reduce Access to Health Care Coverage,” online at [www.washingtonpolicy.org](http://www.washingtonpolicy.org).

<b>Panel Two: Prescription Drugs</b>
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Moderated by Bob Wiley, Sound Capital Partners and WPC Board Member

Panelists: J. Thomas Ranken, Vizx Labs; Kaye Allen, Enbrel Patient; Wade Schutze, Bartell Drugs; Dr. Merrill Matthews, Institute for Policy Innovation

Summary of Panel Discussion

Because health care is a vitally important and emotional topic, it attracts the attention of politicians interested in soliciting votes and media attention by polarizing the debate on one side or the other. The latest health care target chosen by the media and politicians is the pharmaceutical industry.

Politicians claim the pharmaceutical industry is more profitable than other industries, and therefore it must be taking advantage of its customers. What the media and opportunistic politicians don't explain is that it takes an average of fifteen years and \$880 million to develop a new drug. On average, for every 5,000 chemical compounds researchers test for use as a treatment of medical needs only one makes it to final approval. Only three of ten drugs that reach final approval actually recover initial research and development costs. Of those three, only one is highly profitable.

Innovative, entrepreneurial companies around the state are developing the next generation of drug treatments that will cost less, come to market faster and be more effective than treatments available today. Washington is one of the top regions in the nation for private biotech spending. The industry provides more than 15,000 jobs to the region. Without the incentive of future rewards, investors will be unwilling to place their money into the development of new drugs and life saving treatments. Drug formularies, like those proposed by the legislature to limit drug prices, are a form of price control that eliminate the potential investment return that is fueling the innovation and investment in new pharmaceutical technology.

Panelist Kaye Allen explained the human benefits of investment in new technology. Kaye suffers from rheumatoid arthritis, a debilitating condition that weakens the joints and can make it nearly impossible to live a normal, healthy life. After enduring four surgeries over five years Kaye began treatment with Enbrel, a drug developed by Immunex. Although the drug is expensive, Enbrel reduced her overall medical bills by eliminating the need for weekly doctor visits and additional expensive surgeries.

Patients like Kaye rely on the valuable assistance provided by their local pharmacist. Many of the plans proposed at the state and federal level threaten the health of community pharmacies. In many cases the government's prescription reimbursement rates are too low for pharmacies to dispense prescriptions profitably. Other programs require that prescription orders go through online or mail order pharmacies, removing the valuable personal contact with the knowledgeable pharmacist that is unavailable online or through the mail.

### **Panel Three - Free Market Solutions**

Moderated by James Whitfield, Washington Health Foundation

Panelists: Dr. Merrill Matthews, Institute for Policy Innovation; Margaret Lane, Regence BlueShield; William Struyk, Johnson and Johnson; Dr. Dave MacDonald, SimpleCare

#### Summary of Panel Discussion

Washington's health care system is mired in a top-down, bureaucratic system of regulation and mandates that stifles innovation and shields the consumer from the true cost of health related decisions. A number of common sense, market-based solutions are available to address the many problems facing the health care system.

One promising new alternative is a proposal called Fair Care. This new legislation would provide a health tax credit to people who choose to purchase their own health insurance, instead of receiving it through their employer. The plan would allow a refundable credit of up to \$3,000 per year to purchase an insurance policy. The tax credit would give consumers a new incentive to make educated decisions about their health insurance needs. The plan would also expand the private insurance market, reducing the burden on already subsidized public health systems.

Another alternative with encouraging potential is the use of Defined Contribution Plans (DCPs). These plans allow individuals to contribute their own pre-tax income to an account that can be used for medical services traditionally covered by insurance. Two successful examples are Regence BlueShield's MyHealthBank and Aetna's Health Fund. DCPs can be used in conjunction with low cost catastrophic health insurance to maintain full health coverage for a consumer. DCPs offer a decided advantage over the current system of employer paid health insurance because it makes the consumer aware of the true cost of different health care choices.

SimpleCare is another example of a market innovation that reduces the cost of health insurance by streamlining the billing process and eliminating unnecessary paperwork and middlemen. Medical professionals in the SimpleCare plan offer 20 to 50% discounts on medical services in exchange for full payment at the time of the patient's visit. SimpleCare

also offers defined contribution plans and high deductible health insurance, lowering the total cost of health care by placing more decision making power in the hands of the patient.

Drug companies, like Pfizer, Johnson and Johnson, Eli Lilly and Merck, have implemented private, discount programs for low-income seniors and Medicare recipients giving them access to a 30-day supply of their medication for a low flat fee. Many of these same companies are also working together to develop a more comprehensive solution for ensuring access to prescription drugs for low-income seniors. Together Rx, a privately run program initiated by major pharmaceutical companies, offers more than 150 free or discounted drugs to the more than 150,000 enrolled members. Within the next few years, the program will serve more than 400,000 needy seniors across the country.

There are many options for reforming the health care system in Washington. Market solutions can play a vital role in the transformation from a system with few choices and little patient accountability, to a system with many choices and positive incentives for individuals to manage their own health care. Allowing consumers more choice and opening the market to more competition will best serve the health needs of patients.

### **Summary of Luncheon Keynote Address - Congresswoman Jennifer Dunn**

Congress is currently considering a number of measures to help increase access to prescription drugs for those who need it most. One bill under consideration would cover 80% of the first \$1,000 and 50% of the second \$1,000 in prescription drug costs for low-income seniors. The program would also limit total out-of-pocket prescription drug costs to \$3,700 per person, per year.

Congress has also set aside \$30 billion over the next ten years to increase the Medicare reimbursement rate for doctors. At present, the reimbursement rate is projected to *decrease* by 4.5%. Under the new plan, reimbursement rates will increase by 2% per year, helping physicians serve low-income patients and those without enough private health coverage.

Small businesses are particularly hurt by the high cost of health care. Congresswoman Dunn recently introduced the “Small Business Health Insurance Portability Act,” which would provide small businesses with a 50% refundable tax credit for health care. Improving access to health insurance for small businesses can significantly reduce the nation’s number of uninsured.

Congress is continually debating many different options for reducing the cost of health care for seniors and low-income individuals throughout the nation. By promoting private sector solutions we can reduce reliance on government programs while lowering the financial burden on employers, taxpayers and individuals.