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Americans Deserve “Collision” Option For Health Insurance

By Richard L. Jackson and Stephen B. Bonner

Everyone’s goal for health-care reform is to provide all Americans better care at better prices. Regardless of the outcome of the King v. Burwell U.S. Supreme Court challenge to the federal subsidies under the Affordable Care Act that will be decided this summer, neither the ACA nor the system we had in place for decades before it was designed to contain costs.

High-quality care that is affordable has become unattainable for millions of Americans. A major cause of the problem — and one we can fix — is that we’re not really receiving “insurance” when we purchase health insurance.

Insurance provides us a way to spread out the risk of significant losses among a large population that shares the same risks. No true insurance plan tries to provide insurance for routine, predictable, everyday expenses. Car insurance protects us from unexpected and rare events, namely car accidents and theft. It doesn’t pay for routine oil changes, new tires and small repairs.

According to the Kaiser Family Foundation, the price of health insurance for an American family is now nearly \$17,000 per year.

Beginning with the most routine health-care expenses, there is no substitute for customers making thoughtful, well-negotiated purchases for themselves, with money they control. We shop for tires by looking for what we need at the best price we can find, balancing trade-offs such as waiting a little longer, or buying the discount brand.

If tires were covered by car insurance, then price wouldn’t matter. We’d buy the

very best new tires the insurance plan would pay for, as often and as soon as the insurance would allow. Tire stores would compete for our business based on these factors alone, rather than price and quality, and prices would increase.

That’s how a lot of routine medicine operates. A recent British Medical Journal analysis of routine, uncomplicated baby deliveries in California revealed prices ranging from \$3,300 to more than \$37,000. Generally speaking, the new mother got no benefit from using the best combination of price and quality, within that huge price range. When a baby was delivered for the \$3,300 price, the parents likely didn’t get to keep the thousands of dollars saved in an account reserved for their future health-care needs. Without a personal incentive to pick the best combination of quality and price, few parents bothered to engage that process.

Consider for comparison laser eye surgery, which is mostly paid for out-of-pocket. As with the tire example, patients shop around for the laser eye surgery that fits their needs and their pocketbook. Prices are kept under control.

Ideally, rather than forking over that \$17,000 annual premium to an insurance company, families should be permitted to purchase much lower cost “catastrophic” insurance to protect them against unusual, expensive injuries and illnesses. Real insurance would permit them to keep the thousands in savings so as to frugally shop for their routine medical care, and to invest more in staying healthy.

This is similar to “collision only” car insurance that covers only against cat-

astrophic accidents, but our laws don’t allow most health insurance consumers to have this option. Without it, many on fixed incomes forgo health insurance altogether, putting them at risk of ruin if catastrophe hits.

The dozens of regulatory and tax code distortions that put intermediaries between customers and their health care and distort health insurance into something that really isn’t insurance should be eliminated. A true consumer-based market would emerge that would bring down the price of both health care and insurance premiums.

As the talking lizard on TV demonstrates, dozens of car insurance companies fiercely compete with each other to offer us better services and prices. But there are only five health-insurance companies, limiting competition and driving up prices. Highly restrictive regulations that prevent new health insurers from competing in the market should be lifted.

To make health care truly affordable, we must recognize and address the fact that what we have had for decades is not really insurance. Our policymakers could drop our health-care costs dramatically by taking the successful principles behind auto insurance and applying them to health insurance.

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