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**Cut Costs Without Rationing Care By Putting Patient Back In Charge**  
**By: TEVI D. TROY AND JEFFREY H. ANDERSON**

Decades of data confirm a simple truth: If we want to lower health costs, we need to put consumers back in charge.

Many people now feel like second-class citizens when they enter the doctor's office. That's because everyone in the office knows that the patient isn't really the payer — that the patient doesn't hold the purse strings.

The greater the percentage of medical costs that patients pay to their insurance company in premiums, the more insurers are in charge.

The greater the percentage that patients instead pay directly to their doctor out-of-pocket, the more patients are in charge.

Whether it's televisions, computers or Lasik eye surgery, when consumers are in charge, prices stay in check. In 1970, consumers paid for 62% of all privately purchased health care out-of-pocket. Today that percentage is just 26%.

Meanwhile, per-patient health costs have nearly quadrupled — even after accounting for inflation.

Consumers are paying less directly to doctors, but they're paying four times as much overall — to insurers or the IRS.

Where consumers have had the least control, costs have risen the most. As a study by one of the authors (Anderson) for the Pacific Research Institute study has shown, since 1970 the per-patient costs of Medicare and Medicaid have each risen one-third more than the combined per-patient costs of all other health care in America — the vast majority of which is purchased privately. And that's even without the Medicare prescription drug benefit.

Yet President Obama and most congressional Democrats insist that a dramatic expansion of government-run health care is necessary to cut costs.

Only two basic ways exist to cut costs: putting consumers in charge and letting them pursue value; putting the government in charge and letting it ration care.



So, how do we put consumers back in charge? First, we need to reject the current bills in Congress, which would restrict consumer choice substantially. Then we need to empower consumers in three key ways:

1. End the unfair tax on the uninsured. We should give tax credits to individuals and families who are uninsured or self-insured, thereby putting them on the same ground as those with employer-sponsored insurance.

This would reduce the number of people who are uninsured, increase fairness and inject needed life into the insurance marketplace. Those with self-purchased insurance shouldn't have to pay higher taxes than those covered by their employer.

2. Make it easier for consumers to see prices. When then-Secretary of Health and Human Services Michael Leavitt was in China a couple of years ago, he posed for a picture in front of a giant fast-food-style menu board.

Instead of cheeseburgers and fries, the board listed medical services and prices. If Chinese consumers can see prices and respond accordingly, American consumers should certainly have the same freedom.

3. Encourage consumer-driven insurance models to give consumers skin in the game. Intel offers a plan in which it pays all insurance premiums, while its employees pay all health costs up to an annual deductible of about \$2,500 for families — with certain preventive care provided for free.

Intel employees deposit part of their income into a health savings account tax-free, just like any income that's used to pay for insurance premiums is tax-free.

These consumers have a stronger incentive to shop for value — as everything they spend up to \$2,500 comes from their own pockets, and everything they save is theirs to keep. Whole Foods offers a comparable plan.

Similarly, Safeway has an employee-incentive program rewarding healthier lifestyles. If you exercise, watch what you eat and don't smoke, you get charged lower premiums. This has cut costs by almost 40%, and 76% of Safeway's employees are asking for more cost-cutting financial incentives.

Unfortunately, the federal government currently limits the use of such incentives.

Even more unfortunately, the bills being debated in Congress would greatly undermine consumer-driven plans by capping by law the percentage of payments that patients could make directly to their doctor — thereby entrenching insurers' control and denying consumer control.

Furthermore, the Senate bill would make it illegal to charge lower premiums to those who stay in better shape. Instead of making the tax code fairer, prices more transparent and consumers freer to shop for value, the Democratic bills offer a combination of mandates and restrictions, subsidies to families making up to \$88,000 a year, and government-run care.

**99 Canal Center Plaza, Suite 250, Alexandria, VA 22314**  
**Office: 703.373.9974 | Fax: 703.373.9813**  
**[www.wwspeakersgroup.com](http://www.wwspeakersgroup.com)**



Yes, some can't afford insurance or suffer from prohibitively expensive pre-existing conditions, and they should receive needed financial assistance.

But the core of our system should be built around common sense, market-based principles, not the government-centric ones espoused by the president and the Democratic Congress.

Any system that cannot control costs won't have much left over for the needy.

Across nearly 40 years, the costs of government-run medical care have risen far more, per patient, than the costs of privately purchased care. As consumers' opportunities and incentives to pursue value have diminished, costs have skyrocketed.

Even President Obama has talked about the hidden costs of unnecessary care: "You may not see it because if you have health insurance right now (the money is) just being sent to the insurance company."

His solution is to redirect that money to the federal government. This would cement a still more cumbersome middleman in place, consolidate power in Washington and reduce consumer freedom — while increasing taxes, deficits and costs.

The only proven pursuer of value in American medical care is the American consumer. By basing policy on this principle, we can bring our costs under control while maintaining — and improving — our high quality of care. If consumers are encouraged to control their own resources and shop for value, they'll find a way to do what they've done in nearly every other economic sector: pay less for higher quality.

Experience has shown us what works. The only way to cut costs without rationing care is to put the American consumer in the driver's seat — and to put Washington in the rearview mirror.

- Troy is a visiting senior fellow at the Hudson Institute and was the deputy secretary of health and human services from 2007-09.
- Anderson is a senior fellow in health care studies at the Pacific Research Institute.