Real Health Insurance

by Sherwood R. Kaip, M.D. 2006

So-called health insurance and government tax policy and regulation has caused insurance companies, employers, and government to be considered the consumers of healthcare, not patients. Healthcare needs to be returned to the same status as any other economic good or service to solve its systemic problems, including runaway costs.

Properly designed health insurance will lead to people directly paying their healthcare costs except for extraordinary costs reimbursed by insurance. This will result in the real consumers of healthcare, patients, watching costs and deciding how much of what kind of healthcare is desirable, as they do for other goods and services.

This article covers in detail, using recent actual dollar amounts, the effects that can be expected by writing real health insurance properly.

The Problem

Modern American healthcare is a technological marvel—and a systemic disaster. The reason for the disaster is simple: we are not treating healthcare like other economic goods and services. So-called health insurance and government programs have for about 70 years changed the consumers of healthcare from patients to insurance companies, employers, and government.

So-called health insurance was originally called "pre-paid surgical care". You paid the premium and when you needed care the 'insurance' paid most of the bill—unless you needed a lot of care and went over your limit. So, from the beginning so-called health insurance was not doing what real insurance should do: cover very costly care and let the patient and family pay for costs up to that point.

Then during World War II prices and wages were frozen. However, benefits were not considered part of wages. This gave employers a chance to compete for workers by offering more benefits, such as so-called health insurance. In addition, so-called health insurance provided by employers for employees was deductible as an expense to the employer but not charged as income to the employee. The income tax consequences made this benefit even more valuable to the employee because the health insurance benefit received was not taxed. This

caused pressure to have the so-called insurance cover almost all ordinary medical costs. (This is sometimes referred to as 'first dollar' coverage.)

Of course now patients were paying little attention to costs. Their behavior in the area of health care was quite different than their behavior when shopping and spending their 'own' money in other areas. After all, "I have insurance", so what did they care. Of course, the premiums went up because of the increasing costs but even that was not a problem to many patients—it was the employer's problem.

Medicare and other government programs were more of the same. Eventually this mess became a severe problem.

How can it be solved? Easily.

A "right" is something which everyone can have, such as the right to liberty, where one person's having it does not interfere with another person's having the same thing. Healthcare, like food and furniture, cannot be a "right" because if I don't provide it for myself, then to obtain my "right", you must be made a slave to provide it for me. Healthcare is simply another economic good like food, furniture, clothing, or heating oil. One way or another it must be paid for, whether individually or through insurance, employers, or taxes. The costs for healthcare workers must be paid or they will leave the field (just as you would).

As an economic good, healthcare differs from food (which is also essential, even more so) in only two ways. First, the amount needed can be extremely variable. Though people eat on average around 2,000 Calories of food per day, there will never be an instance where someone requires and must pay for 200,000 Calories per day for several years. In the case of healthcare of course, some people will have much higher than average costs. This problem is solved by having real health insurance that comes into play only when healthcare expenses are very high, but covers these well.

Secondly, healthcare differs from food in that the need and cost even for ordinary healthcare expenses, including hospitalizations, is quite sporadic. This problem is taken care of if the healthcare insurance is written to cover a longer time than one year and the deductible over the longer time is increased appropriately. For example, if the time is five years, the deductible will not have to be five times the one year deductible because the same families will not have the high expenses each year.

When most insurance is written in the above manner, most families will not collect on their insurance and therefore will be watching the costs. (You really don't want to collect on your health insurance, any more than you want to collect on your life or fire insurance.) Families watching costs is what keeps the cost of food, furniture, etc., from escalating wildly. Doctors who find ways to reduce costs while keeping quality satisfactory to the patients will get more patients, forcing other doctors to follow their lead or lose patients. Same for hospitals. Costs and satisfaction should improve rather quickly.

How expensive might such proper health insurance be? Not very! I will give concrete examples from actual cost data.

Yearly healthcare expenses of families can be divided up into a number of ranges from least to greatest with the number of families in each group listed. In addition, the cumulative number of families and cumulative expense for each successive range can be expressed as a percentage.

Below is a table showing the various amounts families spent for healthcare in 2004. From the nature of the data I assume 'family' means an economic unit, including single adults, widows, etc., as well as parent(s) with children. (Blank lines in the bottom half of the table are category values left out to keep the table a reasonable size; however, the cumulative values are still correct.)

Distribution of U.S. Families Across Total Healthcare Expenditures.

Source: Medical Expenditure Panel Survey, 2004.

Expenditure Category ($)	Unweighted Number of Families	Weighted Number of Families	Cumulative Weighted Number of Families	% of Weighted Families	Cumulative % of Weighted Families	Total $ (mill) this category	%of total this category	Cumulative Total $ (mill)	Cumulative Total $ %
0	651	5,968,484	5,968,484	4.89	4.89	0	0	0	0
<1000	2,853	25,440,911	31,409,395	20.83	25.72	12720	1.32	12720	1.32
1-1999	1,618	15,084,115	46,493,510	12.35	38.07	22626	2.35	35347	3.67
2-2999	1,262	11,924,952	58,418,462	9.76	47.83	29812	3.09	65159	6.76

Expenditure Category ($)	Unweighted Number of Families	Weighted Number of Families	Cumulative Weighted Number of Families	% of Weighted Families	Cumulative % of Weighted Families	Total $ (mill) this category	%of total this category	Cumulative Total $ (mill)	Cumulative Total $ %
3-3999	934	9,076,369	67,494,831	7.43	55.26	31767	3.3	96926	10.06
4-4999	752	7,368,106	74,862,937	6.03	61.29	33156	3.44	130083	13.5
5-5999	630	6,026,839	80,889,776	4.93	66.22	33148	3.44	163230	16.93
6-6999	563	5,388,731	86,278,507	4.41	70.63	35027	3.63	198257	20.57
7-7999	428	4,046,298	90,324,805	3.31	73.94	30347	3.15	228604	23.72
8-8999	350	3,183,762	93,508,567	2.61	76.55	27062	2.81	255666	26.52
9-9999	324	3,207,982	96,716,549	2.63	79.18	30476	3.16	286142	29.69
10-10999	268	2,606,930	99,323,479	2.13	81.31	27373	2.84	313515	32.53
11-11999	198	1,870,106	101,193,585	1.53	82.84	21506	2.23	335021	34.76
12-12999	190	1,700,322	102,893,907	1.39	84.23	21254	2.21	356275	36.96
13-13999	180	1,614,482	104,508,389	1.32	85.55	21796	2.26	378071	39.22
14-14999	158	1,569,977	106,078,366	1.29	86.84	22765	2.36	400835	41.58
15-15999	143	1,424,345	107,502,711	1.17	88.01	22077	2.29	422913	43.88
16-16999	118	1,111,461	108,614,172	0.91	88.92	18339	1.9	441252	45.78
17-17999	93	936,854	109,551,026	0.77	89.69	16395	1.7	457647	47.48
18-18999	106	959,152	110,510,178	0.79	90.48	17744	1.84	475391	49.32
19-19999	89	901,391	111,411,569	0.74	91.22	17577	1.82	492968	51.14
20-20999	76	639,940	112,051,509	0.52	91.74	13119	1.36	506087	52.5
21-21999	70	684,664	112,736,173	0.56	92.3	14720	1.53	520807	54.03
22-22999	58	553,070	113,289,243	0.45	92.75	12444	1.29	533251	55.32
23-23999	63	649,596	113,938,839	0.53	93.28	15266	1.58	548517	56.91
24-24999	51	511,284	114,450,123	0.42	93.7	12526	1.3	561043	58.21

Expenditure Category ($)	Unweighted Number of Families	Weighted Number of Families	Cumulative Weighted Number of Families	% of Weighted Families	Cumulative % of Weighted Families	Total $ (mill) this category	%of total this category	Cumulative Total $ (mill)	Cumulative Total $ %
25-25999	43	486,156	114,936,279	0.4	94.1	12397	1.29	573440	59.49
26-26999	43	406,544	115,342,823	0.33	94.43	10773	1.12	584214	60.61
27-27999	40	325,439	115,668,262	0.27	94.7	8950	0.93	593163	61.54
28-28999	34	294,336	115,962,598	0.24	94.94	8389	0.87	601552	62.41
29-29999	38	389,840	116,352,438	0.32	95.26	11500	1.19	613052	63.6
30-30999	28	250,027	116,602,465	0.2	95.46	7626	0.79	620678	64.39
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35-35999	17	172,114	117,955,074	0.14	96.57	6110	0.63	665662	69.06
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40-40999	11	114,061	118,763,909	0.09	97.22	6840	0.71	737223	76.48
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45-45999	14	150,332	119,697,801	0.12	97.98	5969	0.62	760335	78.88
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50-50999	13	118,197	120,174,751	0.1	98.37	4204	0.44	784351	81.37
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60-60999	5	21,575	120,852,185	0.02	98.92	2183	0.23	804621	83.48
* * * * *									
70-70999	2	17,997	121,106,760	0.01	99.13	2769	0.29	824203	85.51
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80-80999	3	32,366	121,486,912	0.03	99.45	0	0	850524	88.24
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100-101	0	0	121,748,387	0	99.66	0	0	870041	90.26

Expenditure Category ($)	Unweighted Number of Families	Weighted Number of Families	Cumulative Weighted Number of Families	% of Weighted Families	Cumulative % of Weighted Families	Total $ (mill) this category	%of total this category	Cumulative Total $ (mill)	Cumulative Total $ %
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120-121	0	0	121,844,580	0	99.76	0	0	877977	91.09
* * * * *									
124-125	1	8,691	121,853,271	0.01	99.77	1082	0.11	879059	91.2
* * * * *									
125000+	27	310,031	122,163,302	0.25	100	84841		963900	100
	=====		=========		====			======	====
Totals:	13,018		122,163,302		100			963900	100

Average annual healthcare expenses: $963.9 billion / 122+ million = $7890

For example, 11.9 million families spent between $2,000 and $2,999 that year for a total of $29.8 billion dollars (some numbers in the table are in millions of dollars) which was 3.09% of the total. From the table you can also see that about half or exactly 47.83% (percentile) spent $2,999 or less, which is 6.76% of total expenditures. Because families can spend a lot more than $2,999 but cannot spend less than $0.00, this 48th percentile amount and 6.76% of total expenditures will be less than the average expenditure per family, which is the total healthcare expenditures divided by the total number of families.

One way or another, families will cumulatively pay the yearly average healthcare cost, whether individually, or through insurance, employer, or taxes (plus overhead costs for the latter three). In other words, families should expect to self pay the average, although over 70% will be lucky and pay less than the average of $7890 while the rest will be unlucky and pay more, as shown in the table.

Since the average annual 'family' healthcare expense in 2004 was approximately $8,000, according to the table, in round numbers 74% of families spent 24% or $229 billion of the total $964 billion; the remaining 26% spent 76% or $735 billion of the total. If every family had purchased a real health insurance policy in 2004, each family's total healthcare cost would have been the cost of the health insurance premium plus the total they spent for healthcare, up to the deductible. Most would have paid less than the deductible plus the premium. A few would have paid the deductible plus the premium, with the rest of their healthcare cost covered by the insurance provided by the premium.

The idea of insurance is to pick a deductible amount which allows most people to pay for their healthcare directly, protects against high costs, yet has reasonable premiums. These are conflicting goals. People want low premiums and deductibles but low premiums result in high deductibles so there must be compromise.

Real Insurance

Let's examine various choices of deductible. Let's assume that below the deductible, families pay directly and insurance pays everything above the deductible.

Below is a second table. It is derived from the healthcare expenditures listed in the first table. The left four columns are from the first table. For example, 84.23% of families spent under $13,000 each for healthcare in 2004. They spent $356 billion or 36.96% of total healthcare expenses.

Insurance Premium Costs vs. Deductible

Cumulative % of Weighted Families	Category Upper bound (deductible)	Cumulative Total $ (mill)	Cumulative Total $ %	Remaining $ needed (bill)	Available $ from deductible (bill)	Net Ins. $ needed (bill)	$ Ins. Premium per Family	ratio premium to Average	ratio deductible to average	Deduct. + Premium $	ratio Deduct. + Premium to Average
4.89	0	0	0								
25.72	1000	12720	1.32								
38.07	2000	35347	3.67								

Cumulative % of Weighted Families	Category Upper bound (deductible)	Cumulative Total $ (mill)	Cumulative Total $ %	Remaining $ needed (bill)	Available $ from deductible (bill)	Net Ins. $ needed (bill)	$ Ins. Premium per Family	ratio premium to Average	ratio deductible to average	Deduct. + Premium $	ratio Deduct. + Premium to Average
47.83	3000	65159	6.76	899	191	708	5792	0.73	0.38	8792	1.11
55.26	4000	96926	10.06	867	219	648	5307	0.67	0.51	9307	1.18
61.29	5000	130083	13.5	834	236	597	4890	0.62	0.63	9890	1.25
66.22	6000	163230	16.93	801	248	553	4527	0.57	0.76	10527	1.33
70.63	7000	198257	20.57	766	251	514	4211	0.53	0.89	11211	1.42
73.94	8000	228604	23.72	735	255	481	3934	0.5	1.01	11934	1.51
76.55	9000	255666	26.52	708	258	450	3687	0.47	1.14	12687	1.61
79.18	10000	286142	29.69	678	254	423	3466	0.44	1.27	13466	1.71
81.31	11000	313515	32.53	650	251	399	3268	0.41	1.39	14268	1.81
82.84	**12000**	**335021**	**34.76**	**629**	**252**	**377**	**3089**	**0.39**	**1.52**	**15089**	**1.91**
84.23	13000	356275	36.96	608	250	357	2924	0.37	1.65	15924	2.02
85.55	14000	378071	39.22	586	247	339	2772	0.35	1.77	16772	2.13
86.84	15000	400835	41.58	563	241	322	2635	0.33	1.9	17635	2.24
88.01	**16000**	**422913**	**43.88**	**541**	**234**	**307**	**2510**	**0.32**	**2.03**	**18510**	**2.35**
88.92	17000	441252	45.78	523	230	293	2395	0.3	2.15	19395	2.46
89.69	18000	457647	47.48	506	227	280	2288	0.29	2.28	20288	2.57
90.48	19000	475391	49.32	489	221	268	2190	0.28	2.41	21190	2.69
91.22	**20000**	**492968**	**51.14**	**471**	**215**	**256**	**2099**	**0.27**	**2.53**	**22099**	**2.8**
91.74	21000	506087	52.5	458	212	246	2013	0.26	2.66	23013	2.92
92.3	22000	520807	54.03	443	207	236	1933	0.24	2.79	23933	3.03
92.75	23000	533251	55.32	431	204	227	1858	0.24	2.91	24858	3.15
93.28	**24000**	**548517**	**56.91**	**415**	**197**	**218**	**1787**	**0.23**	**3.04**	**25787**	**3.27**
93.7	25000	561043	58.21	403	192	210	1723	0.22	3.17	26723	3.39

Cumula-tive % of Weighted Families	Category Upper bound (de-ductible)	Cumula-tive Total $ (mill)	Cumu-lative Total $ %	Re-main-ing $ needed (bill)	Avail-able $ from de-ductibl e (bill)	Net Ins. $ needed (bill)	$ Ins. Premi-um per Family	ratio premi-um to Aver-age	ratio de-ductibl e to aver-age	Deduct. + Premi-um $	ratio Deduct . + Premi-um to Aver-age
94.1	26000	573440	59.49	390	187	203	1662	0.21	3.3	27662	3.51
94.43	27000	584214	60.61	380	184	196	1604	0.2	3.42	28604	3.63
94.7	**28000**	**593163**	**61.54**	**371**	**181**	**189**	**1551**	**0.2**	**3.55**	**29551**	**3.75**
94.94	29000	601552	62.41	362	179	183	1499	0.19	3.68	30499	3.87
95.26	30000	613052	63.6	351	174	177	1450	0.18	3.8	31450	3.99
95.46	31000	620678	64.39	343	172	171	1402	0.18	3.93	32402	4.11
95.77	32000	632475	65.62	331	165	166	1359	0.17	4.06	33359	4.23
*****											
97.13	40000	692070	71.8	272	140	132	1077	0.14	5.07	41077	5.21
*****											
98.15	48000	747214	77.52	217	108	108	886	0.11	6.08	48886	6.2
*****											
98.9	60000	796267	82.61	168	81	87	712	0.09	7.6	60712	7.69
*****											
99.77	125000	879059	91.2	85	35	50	407	0.05	15.84	125407	15.89
100		963900	100	0	0	0	84	0.01			

Average annual family healthcare cost = $963,900,000,000/122,163,302 families = **$7,890**

The next (5th) column, “Remaining $ needed (bill)”, is the difference in billions between the total $964 billion healthcare expenditures of everyone and the $356 billion spent by the 84.23%, and represents the amount needed to pay for all the healthcare of the remaining 15.77% with expenses greater than $13,000.

"Available $ from deductible (bill)" is the amount in billions available from that 15.77% who will have each paid the deductible ($13,000 on this line) into the healthcare system before collecting on insurance. It equals the deductible ($13,000 for this line) times the number of families who exceeded the deductible (15.77% of 122,163,302 in this instance).

"Net ins. $ needed (bill)" is the difference between the previous two columns and represents the total amount of insurance premium dollars in billions needed to cover the beyond the deductible healthcare expenses of those whose expenses exceed the deductible. In the example in this row of the table that would be $357 billion.

Dividing that number by the total number of families (122+ million) gives the number in the next column, the annual insurance premium of $2,924 per family for a deductible of $13,000. This premium is 37% of the $7,890 average family annual healthcare cost for 2004. The $13,000 deductible is 1.65 times the $7,890 average. In this case of a $13,000 deductible for 2004, the most any family would have to pay for healthcare that year would be the deductible plus the premium equals $15,924, which is 2.02 times the average healthcare cost for that year.

Again, keep in mind that the average of $7,890 is what all families together *will* pay, whether individually, through insurance, through employers paying them lower wages than they could if they weren't paying their healthcare, or taxes. But with real insurance, as illustrated here, most families will be actively "watching the store" and comparing costs, service, and quality. In fact, consumer organizations will probably crop up to aid families in their evaluations.

With a very low deductible, the insurance premium is quite high, approaching the average annual healthcare cost per family. Families won't want to pay such high premiums. Also, there are no cost-cutting incentives, which is why the total healthcare bill is so high in the first place.

With a $60,000 deductible, the insurance premium is only 9% of the average healthcare cost, but who wants to be saddled with the possibility of out of pocket costs of 7.69 times the average family healthcare cost.

The lower the deductible, the more people who will collect on the insurance, the higher the cost of the insurance for each family, and the fewer people who are paying their own costs and will be "watching the store", comparing prices and value. The higher the deductible, the lower the cost of the insurance, the fewer people who will collect on the insurance, and the more people who will be "watching the store". Even some people who collect on insurance will

be “watching the store” until they know they will be exceeding the deductible. But, of course, the higher the deductible, the more you might have to pay if your family is unlucky.

Specific Examples

One way to proceed is to pick the maximum “ratio deductible to Average” you wish to face. In the table I have highlighted 1.52, 2.03, 2.53, 3.04, 3.55, and 4.06. The deductibles for these ratios are respectively $12,000, $16,000, $20,000, $24,000, $28,000, and $32,000. The insurance premium that would be required from each family are respectively, $3089, $2510, $2099, $1787, $1551, $1359 which range from 39% to 17% of average healthcare cost. All the above is shown in the table.

Notice that if you go from a $12,000 deductible (1.52 time average) to a $16,000 (2.03 times average) deductible, you save $579 in insurance premium cost. Going from a $16,000 to a $20,000 deductible (2.53 times average), you save another $411 in insurance premium cost. Further successive $4,000 increases in deductible result in $312, $236, and $192 decreases in insurance premium costs but I doubt if many young families wish to risk being responsible for deductibles greater than $20,000 (2.53 times average) just to save a few dollars in insurance premium.

Therefore, a deductible somewhere between 1.5 and 2.5 times average family healthcare costs, which costs *will* be paid one way or another, seems to result in reasonable healthcare insurance premiums. This leaves more than about 85% to 90% of the population watching and determining costs. The cost cutting occurs as more and more people switch to this type of more affordable healthcare insurance and “watch the store” for most healthcare costs.

Additional Considerations which Must be Addressed.

Include all healthcare costs, including prescription meds, braces, rehab, etc., as well as doctors and hospitals, since many small items can add up to just as much as a few larger ones. Also, all healthcare costs including health insurance should be made Federal Income Tax deductible (or not—have equal tax treatment). Thus it will not matter at all taxwise whether your healthcare and/or health insurance is paid for by yourself, your employer, or any other way. This gets third parties out of the picture except for the few families who will be collecting on insurance.

What about co-pays? It does not seem to me to be necessary to have co-pays (e.g., patient pays 5% of amounts above deductible). However, if co-pays for part of the costs exceeding the deductible were considered necessary or desirable, the deductible could be adjusted downward accordingly.

The sporadic nature of healthcare expense, as noted earlier, means that health insurance must be written so that the deductible accumulates over a longer period than one year. Every family can expect the equivalent of an appendectomy or herniorrhaphy hospitalization every few years. Therefore a larger deductible must be accumulated over a long enough period so that many, if not a majority, of hospitalizations will not exceed the deductible. Otherwise there will be no real efficiency incentives in hospitals. The deductible needed to accomplish that will determine the length of time to accumulate that deductible.

Using a high deductible covering several years may seem good economics, even for the family over the long haul, but what about potential events like having high expense, even exceeding the deductible, in the first few months of the policy? Such problems can be handled easily, such as by including a loan provision in the insurance that covers costs early in the policy that occur more rapidly than a given rate. Yet, any cost savings will still accrue to the family, not the insurance company, in the form of less loan to pay back.

One of the things adding substantially to especially hospitalization costs is 'defensive medicine'. There are many things currently done in many conditions which add insignificant benefit for most and could be done later in only those few cases where needed but are done immediately to most patients with that condition to avoid a potential lawsuit. Through tort (malpractice) reform, we must get rid of 'defensive medicine'. This is discussed much more thoroughly in the "Malpractice" article in this Medicine section of this web site.

What about the argument that the cost-cutting incentives will result in poor quality care. The answer is that we all want cheap food—up to a point—but not too cheap. Consumers always assess quality and service as well as price in their economic decisions. Healthcare will be no different.

If the insurance is written for a longer period of time, the ratio of the average cost to the 50th percentile cost will be less because the families with the high costs will not be the same each year. In statistical terms, the distribution will be less skewed to the right. This means that for a deductible set at a certain percentile of the population, the ratio of the deductible to the average will be less.

The health insurance should probably be written as described here for each age group. Younger people will not likely be willing to subsidize the higher costs of older people but they would probably be willing to buy health insurance to help themselves avoid financial disaster if the premiums were lower based on their lower average cost.

Obviously older people will have higher deductible and higher insurance premium cost because they have higher healthcare costs. That's one of the effects of age. On the other hand their homes are often paid for and they aren't worrying about college costs for their children. The deductible needs to be related to the average healthcare cost for each age group. The older age groups can be large (inclusive) enough by merging them together (e.g., 55-65 years old; 65 years and up) so that the very elderly won't be saddled with ridiculous premiums.

Of course, as in any other insurance, you would want guaranteed renewability and possibly other provisions such as forgiving of premium in case of disability often offered in the insurance industry.

What about the "free rider" problem where the sick buy insurance and the well don't? Determining the deductible and premium by age group will go a long way toward avoiding this problem since the premium for young adults will be low enough because of lower healthcare costs for this group so that young adults will be very willing to pay the premium to avoid a disastrous healthcare cost. Conversely, the elderly expect (or should) high healthcare costs, are likely to recognize their need for real health insurance, and might therefore expect and be resigned to higher healthcare insurance premiums to avoid financial disaster.

Another help to avoiding the "free-rider" problem is to write insurance to members of groups where the rate offered is conditional on the percent of members who sign up with the proposed insurance or have signed up with other insurance. Any who have signed up with another insurance previously will be skewed toward 'sick' people, if there is any skewing at all, probably leaving a slightly healthier group for the new insurance.

Ordinary obstetrical, cosmetic, and other elective care should not count toward the deductible since pregnancy and such other items are an elective choice. Yet coverage should be provided where the expense for elective procedures is high due to complications. After all, avoiding catastrophe is the only sensible reason for having insurance at all. One simple way to do this is to allow only that portion of the cost of an elective procedure which exceeds X times (e.g., 2 times or 3 times) the average cost for that procedure to be counted toward the deductible.

Employers

Health insurance has been a financial disaster for America's employers, especially the large ones. Employer provided so-called health insurance has become ever more expensive, the costs are unpredictable over time and uncontrollable, and it is very difficult to get off this train. Rather than 'provide' health insurance to employees, even the *real* insurance envisioned here, employers who wish to help employees should contribute a *fixed* amount each to employees who buy health insurance that meets the employer's criteria. (I suggest the criteria be as recommended in this article.) This will prevent out of control cost rises to the employer, avoid the "free-ride" problem if every employee enrolls, and leave the cost-cutting incentives with patients where they will be effective.

This is All Very Doable

Health Savings Accounts (HSA's) along with high deductible health insurance is a step in the right direction. The HSA builds a pre-tax buffer so as to be available to cover the ordinary costs. Money not needed for healthcare belongs to the family, meaning it's to their advantage to pay attention to costs. This system could be written over a longer period with the appropriate deductible and otherwise morphed into the principles described here. Or the principles could be applied without reference to the HSA program, although it is very desirable to allow setting aside pre-tax dollars to be available for medical care. When the set-aside funds equal the deductible, the family might wish to take new money for the fund as ordinary income after paying the income tax on it.

Selling It

How would you sell such a program with the kind of health insurance we presently have in force? Until the news media, and therefore most people, who generally follow their advice, are convinced of the wisdom of such a plan, one might best work on convincing an area's large employers and their labor representatives. The reason for picking large employers is twofold. First, large employers are hurting from the unpredictability of their so-called health insurance costs under the present system. And secondly, most of the cost-cutting pressures of the plan described here only begin to operate when a significant portion of the insurance in an area is written in this manner.

Conclusion

"Politics is the art of trying to prevent the inevitable." Healthcare and health insurance need to be removed from the political sphere and brought into the same hard economic realities that have given Americans much prosperity in other aspects of our lives. When all the above is considered and done, cost-cutting pressures from patients, not unsuccessful bureaucratic rationing, will lower healthcare costs for everyone while maintaining the service level and quality patients demand.