The state of US health-care reform

In the weeks before US President George W Bush’s annual State of the Union address, rumours abounded that he would use the speech to propose bold new initiatives to reform the USA’s troubled health-care system. The problems plaguing the world’s most expensive health-care system are not new. Costs continue to spiral, far outpacing inflation, and now consume 16% of the US gross domestic product. This is far more than is spent by any other developed nation, all of which achieve equal or better health-care outcomes. The rising costs are forcing employers to cut benefits or to shift costs to workers by offering plans with higher deductibles and requiring higher out-of-pocket co-payments. Some are dropping coverage altogether. The number of uninsured, most of whom are low-income workers and their families, continues to climb and is now estimated to be 45 million, roughly one in seven Americans. Many more are underinsured.

Given these and other problems, it seemed natural that the President would use the State of the Union address to propose ways to reform the system. So it came as a surprise when he dedicated only two short paragraphs of his speech to health care and did little more than tout three old and rather shopworn initiatives. He again promised to promote the use of electronic records and information technology. He again asked Congress to change US medical malpractice laws to cap damages. And he again pushed health-savings accounts (HSAs).

None of these proposals comes near to the comprehensive reform needed to address the problems that beset the US health-care system. Increased use of electronic records and information technology, though needed, will take years to implement—and even then, they will not make a sizeable dent in health costs. Changes in medical malpractice laws are likely to reduce the often staggeringly high malpractice premiums paid by many US doctors, especially those in high-risk specialties such as obstetrics and neurosurgery, and may reduce some costs because of the practice of “defensive medicine”, but alone will do little to reduce overall health spending. And HSAs are likely to make things worse.

HSAs allow individuals to purchase a high-deductible insurance plan to cover the expense of a major illness and to create a tax-free account from which he or she can draw to pay for routine health expenses. Money left over at the end of the year can then be rolled over to the next and added to, so that over the years an account could accumulate substantial tax-free savings. Proponents argue that, by forcing patients to pay for more, HSAs will make patients cost-conscious shoppers who will think twice about going to get unnecessary or overly expensive care, and, in turn, health-care providers, to win the custom of these patients, will be forced to compete on the basis of price and quality. HSAs, proponents argue, will impose market discipline on the system.

HSAs will certainly appeal to the well and well-off who generally have low health expenses and, because of their higher incomes, are more likely to benefit from the plan’s tax advantages. The high-deductible plans will, indeed, be more affordable to some low-income workers, but the premiums will remain well beyond the means of most uninsured Americans. And there is a real danger that low-income enrollees will not seek necessary care, in particular preventive care, because of the out-of-pocket expense. Patients with expensive chronic illnesses, of course, will stay with traditional plans. So while healthy low-cost patients move off to HSAs, chronically ill patients will concentrate in traditional plans, which will have no choice but to raise premiums.

It is not clear how the market discipline that is supposed to emerge from HSAs will make a substantial difference to the cost of health care. Health-care costs are being pushed up mainly by the ageing of the population, an increase in the prevalence of chronic diseases, such as diabetes, and the high prices of new medical technologies, not by patients visiting their doctors unnecessarily.

Why President Bush did not come forward with a serious reform plan for the US health system is unknown. Perhaps he felt he is potentially too weak to push major initiatives at this time. Unfortunately, he has chosen to push initiatives that at best nibble around the edges of the problem and at worst are likely to make America’s health-care system even more expensive and inequitable.