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New Systems Needed to Replace Managed Care, Expert Says

By Richard L. Reece, MD, editor in chief

After five years of struggle and debate, the U.S. Senate and the U.S. House of Representatives passed different versions of a patients' bill of rights. Now, a conference committee is likely to continue the struggle and debate as it attempts to work out the differences between the two versions.

But the main problems physicians and other health professionals face will not be solved by these actions of Congress, according to Daniel H. "Stormy" Johnson Jr., MD, a diagnostic radiologist who practices in Metairie, La. Johnson was president of the AMA from 1996 to 1997. He is now a visiting fellow in health policy at the Heritage Foundation in Washington, D.C.

"If we were doomed to stay in the current health care system, it would be crucial to regulate that system differently than it is now being regulated," Johnson says. "If, however, we have the opportunity to move to a different kind of system, the importance of that legislation will be markedly diminished."

Such change is crucial, albeit difficult, Johnson acknowledges. "If we do not change, we are doomed to our current system of managed care, which is marked by rigid price controls, limitation of services for people who deserve them, ever-increasing administrative hassles, and rapid escalation of costs," he says. "No one wants such a system. Therefore, it is not a question of whether we are going to move beyond today's system of managed care, but rather when we are going to move beyond it."

Cost Insulation

"Managed care was a response to the double-digit escalation of health care costs faced by private-sector and public-sector payers," Johnson observes. "Because payers could not afford these cost increases, they imposed managed care on the health care system. But employers failed to diagnose their cost problem correctly, leading them to pick a mechanism that is not an appropriate solution."

Among the reasons experts cite for rising health care costs employers face are advancing technology, an aging population, the professional liability insurance crisis, and the increasing cost of pharmaceutical agents, Johnson says.

"But the major reason for cost increases over time has been that the people using health services have been insulated from the costs of those services because employers were paying for them. In essence, employers have been relying on a mechanism that insulates employees from the cost of the health services they use,

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that limits choice, and that relies on price controls. Is it any wonder that system has failed?"

Change in the U.S. health system is imminent, Johnson believes. "The first factor prompting change is that, having failed to correct the cost problem, we are now returning to double-digit escalation of costs," he says. "This cost growth was preordained. Managed care cut some of the fat out of the system, but because employers continue to insulate their employees from the cost of health services, cost increases will continue." As a result of these cost increases, many employers have not even been able to determine how much health benefits will cost them next year, he adds.

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Second, the users of the health system are reaching a critical point of disenchantment. "The tension that has developed between patients and their physicians (who are trying to deliver what they think are needed services) and the plans (which do not want to pay for those services, whether or not they are needed) has caused much anxiety and anger among patients and their doctors," Johnson says.

Employer Liability

Third, employers will soon face the threat of liability for medical decisionmaking. "Even though employers are not making any medical decisions, a disgruntled consumer could argue that because the employer picked the plan that limited his or her health care services, the employer is responsible for any adverse outcomes that occur as a result of this limitation," Johnson explains. "That logic gives patients who have not been able to access the services they believed they needed a legal cause of action against employers."

Johnson notes that the patients' bill of rights in its current form has attempted to immunize employers from liability. "But such immunity is not possible, even though the language that has been proposed is very solid," Johnson says. "Theoretically, the corporate veil is present to protect employers from liability in medical decisionmaking. But once litigants realize that they can pierce that veil, they will pursue legal action against employers. Employers are beginning to understand that they are at risk."

Cost and Choice

These three factors driving change have led employers to consider an alternative mechanism for managing their health benefits: the defined contribution plan. "Soon, defined contribution plans will replace defined benefit plans on a broad scale," Johnson predicts.

Under the defined benefit plans traditionally offered by employers, employees have little or no choice regarding health plans. "The health care marketplace will continue to be dysfunctional if consumer choices are limited by an external force—an employer—rather than by the marketplace," Johnson says. "If employees are given both the option to pick a plan and the option to change that plan if they are dissatisfied with it, their satisfaction will increase and their anxiety and anger will decrease. The flexibility inherent in offering multiple health care options to employees will lead to a more effective marketplace."

Defined contribution plans give employees the opportunity and the responsibility to choose their own insurance plan, Johnson explains. "People will periodically have the right to change plans if they are dissatisfied," he adds. "This ability of consumers to 'vote with their feet' will make the plans accountable to those who are the actual users of the health care system."

Employers will contribute the same amount of money per employee regardless of the plan selected. "Employers will provide some funds toward the cost of the insurance, and hopefully that contribution will increase over time with the success of the employer," Johnson says. "Employers will have the incentive to increase this contribution in an effort to retain their employees."

Defined contribution plans for health care will be managed in a manner similar to how employers manage pension plans. "For 20 years, employers have given their employees control over their own pension funds," Johnson notes. "Employees have welcomed this responsibility."

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A Framework for Change

Four conditions, which do not yet exist, must be present for a defined contribution system to work, Johnson says.

First, the tax discrimination against an individual purchasing insurance must be removed. "Under current law, employer contributions toward health insurance are not taxed," Johnson notes. "But if employers allocate funds to employees to purchase their own health care insurance directly, the employees are taxed on those funds, which translates into lower real dollars to use to purchase insurance."

Second, the many limits on medical savings accounts would have to be removed. "The most significant limit is that employees of organizations with more than 50 workers cannot have a medical savings account," Johnson says. "The MSA is a remarkable mechanism that should be an option for everyone who wants it, not just for people in certain employment categories."

Spreading the Risk

Third, a mechanism for pooling individuals for the purpose of purchasing insurance needs to be created. "Currently, such pooling is accomplished through employers purchasing for their employee base," Johnson says. "Pooling allows individuals to take advantage of group rates for insurance, and allows insurers to spread risk among large populations. The pooling mechanism needed for a defined contribution system would not negotiate benefits and prices or micromanage the plans. Rather, it would function as a clearinghouse that qualifies the plans to determine whether they are solvent."

In fact, the Internet may help facilitate the formation of pooling mechanisms. "The Internet enables people to easily compare the features of plans, as well as providing the platform for virtual cooperatives through which people can sign up for insurance," Johnson says.

Finally, the constituencies most affected by changes to the health system—employers and consumers—must accept those changes. "Employers are beginning to accept the wisdom of a defined contribution strategy," Johnson says. "For everyone who defends the current health system, I find five or six individuals who believe we are moving toward defined contribution plans."

To date, many employers have not rushed to adopt defined contribution plans, MSAs, or flexible savings accounts because they are concerned that these mechanisms will not be appealing to current and potential employees. "Employers may feel that employees will not be attracted to the consumer-driven concept of health care financing because it places responsibility on the consumer," Johnson says. "This is a legitimate concern. Employers want to use the health care system cost effectively, but they also want to have satisfied employees."

Over time, employees will be far more satisfied with defined contribution than they are under the current system of care, Johnson believes. "Moving to a defined contribution system would be a radical change," he says. "But once employees learn that they can choose from among many options and that they can change plans if they are dissatisfied, defined contribution will become a very popular idea."

Options Explained

Benefits managers can facilitate employee comfort with the new system. "When defined contribution plans were first discussed in the industry, benefits managers were against the idea," Johnson says. "After all, they negotiate with the plans and choose the benefits, and under a defined contribution system they would seem to be out of a job. However, benefits managers now understand that they will still be needed.

"The concerns that employees will have about changing to a defined contribution system can be significantly reduced if benefits managers assist them in outlining the health care options and helping them determine the best choice for them and their families," Johnson continues. "This new responsibility will involve a change in benefits managers' job description, but one that will take advantage of their expertise and facilitate the conversion from defined benefits to defined contribution."

—Edited by Deborah J. Neveleff, in North Potomac, Md. More information on physician practice strategies is available on our Web site (see page 16).