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**OUR MISSION**

*is to educate members and all South Carolinians about state and local public policy based on the traditional South Carolina values of individual liberty and responsibility, free enterprise and limited government.*

## Market Based Medicaid Reform: No New Costs, Better Quality Care

The best way to assure cost control and good quality in our health care system is to focus reforms on competition and consumer choice. Market-based solutions put patients' needs in focus and reduce the cost inflation that comes with third-party payments and government bureaucracy.

Medicaid enrollees can also benefit from a health insurance mart, with multiple plans competing for "Medicaid business". This would be particularly beneficial to South Carolina's taxpayers, as our state's Medicaid costs are spiraling out of control. Without market-based reform not even repeated tax increases will be able to sustain Medicaid. Today costs are outpacing the state's ability to pay for it, and there is no end in sight.

Competition and consumer choice are the main problems with health care, especially with health insurance; there is virtually no competition in the industry. The most important reason for this is that each state is its own isolated "island" when it comes to health insurance: each state enforces its own set of mandated coverage that each health plan has to comply with. No two states have identical coverage mandates, which leaves very few plans in each state.

There are several other reasons why competition is stifled in the health insurance market:

- Pricing is artificially determined in both Medicaid and private plans;
- Most medical insurance is paid by third parties, including employers and Medicaid; this weakens incentives to contain costs as patients do not see the real bill;
- The "fee for service" structure also weakens cost incentives, promoting more expensive care without any guarantee for higher quality.

Market-based health care reform is superior to the conventional-wisdom alternative of allocating more tax money to the current system. Not only will it combine cost control with improved quality in Medicaid itself, but it will also reverse the trend of Medicaid/SCHIP expansion crowding out private coverage. The nonpartisan Congressional Budget Office finds crowd out rates to be as much as 50%: for every two new enrollees in Medicaid/SCHIP, one person drops private coverage.

A market-based reform for Medicaid and private health insurance can be designed in many different ways; here is a check-list for how to put it to work:

-Create a market place for small groups, individuals and entrepreneurs (SGE) where they can log on and shop for health insurance;



-Remove the state-specific coverage mandates and allow insurance plans from all over the country to offer their plans through the SGE. It is better for the uninsured to have access to insurance plans with some coverage at low cost, than to only face high-feature plans at insurmountable cost;

-Health Savings Accounts (HSAs) create an incentive toward a healthy lifestyle;

-Open Medicaid and let enrollees choose from numerous health plans offered through the SGE, including a variety of managed care plans and private plans;

-Adjust funding for Medicaid enrollees for health status;

-Employers provide their employees with funds to buy health insurance; employees choose among the offers through the mart based on their individual needs and preferences.

How would the SGE work in reality? Here is an example.

## SGE – AN EXAMPLE

- JOE SHLABOTNICK TOOL & DIE HAS 5 EMPLOYEES
- APPLIES AT SGE FOR COVERAGE
- SGE RISK RATES EACH EMPLOYEE, 4 HEALTHY, 1 SICK
- CARRIERS EXAMINE RATING AND OFFER PLANS TO EACH EMPLOYEE
- TOOL & DIE RECEIVES QUOTE FOR GROUP

### SGE QUOTE TO JST&D

- WORKER 1 2 3 4 5 TOTAL
- PLAN A 2 2 2 2 12 20
- PLAN B 1.8 1.8 1.8 1.8 11.8 19
- PLAN C 1.6 1.6 1.6 1.6 11.6 18
- PLAN D 1.4 1.4 1.4 1.4 10.4 16
- PLAN E 1.2 1.2 1.2 1.2 9.2 14
- JST&D DEFAULT PLAN 1, BOSS WILL CONTRIBUTE \$15K

### SGE QUOTE TO JST&D

- WORKER 1 2 3 4 5 TOTAL
- PLAN A 1 1 1 1 1 20
- PLAN B .8 .8 .8 .8 .8 19
- PLAN C .6 .6 .6 .6 .6 18
- PLAN D .2 .2 .2 .2 .2 16
- PLAN E -.2 -.2 -.2 -.2 -.2 14
- JST&D DEFAULT PLAN 1, COLLECTS EMPLOYEE CONTRIBUTION

- EMPLOYEES SEE “COLUMN” QUOTES FROM EACH PROVIDER
- IN THIS CASE THEY “SAVE” MONEY BY SELECTING LESS EXPENSIVE PLANS



- EACH EMPLOYEE GETS COVERAGE THEY ARE WILLING TO PAY FOR
- INCENTIVE TO ECONOMIZE ON HEALTH CARE

#### SGE ADVANTAGES

- SETS UP 125 PLANS FOR PRE-TAX PREMIUM
- HUSBAND & WIFE CAN COMBINE EMPLOYER CONTRIBUTIONS
- TWO PART TIME JOB CONTRIBUTIONS
- INSURANCE BECOMES “PORTABLE”
- FREE TO SWITCH PLANS DURING ANNUAL ENROLLMENT PERIOD
- COORDINATES “USE IT, LOSE IT” CREDITS

