Climbing the mountain that is healthcare reform

One step at a time

First, an introduction

- My name is Gord Tulk.
  - I am a self-employed insurance broker in Red Deer specializing in small business group health insurance and benefits. I have been doing it for a decade.
  - I sit on three Red Deer Chamber of Commerce policy committees – Tax and Finance, Agriculture and Health (chairman).
  - I have been a Board member on the Federal Conservative Party Electoral District Association for Red Deer (Earl Dreeshen MP) for seven(?) years.
  - I was born and raised in Newfoundland

Some Groundwork...

- In business there are three types of people who buy products or services:
  - Customers
    - first time buyers
  - Clients
    - buyers who return for a two or more purchases
  - Fans
    - clients who tell others about you in positive, possibly ravingly favourable terms.
    - Fans will also defend you against detractors.

Healthcare as Everest

- Healthcare is the Everest of political policy challenges facing the industrialized world.
  - Just stating the goal makes it evident what a colossal challenge we face:

To make healthcare work.

In other words:

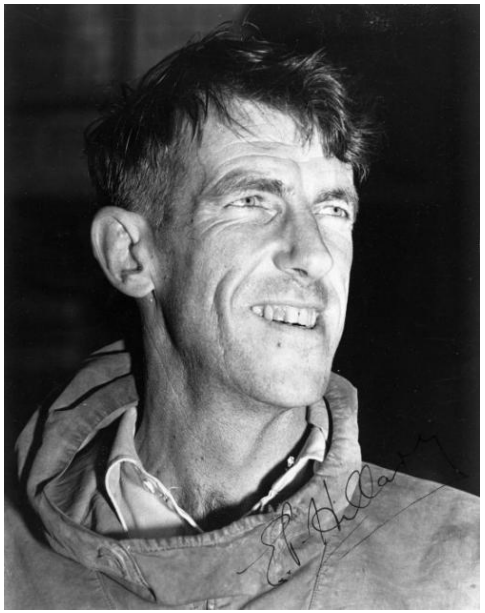
- make the system provide healthcare to all of our province's citizens at the level of quality we want in the quantity we need at a sustainable level of cost

And there is a secondary goal:

To not get killed politically trying to achieve the primary goal.

What makes it conceivable that Alberta will be able to successfully conquer the healthcare mountain?

Well… look at where the first man to conquer Everest



came from…

- Sir Edmund Hillary was born and raised in New Zealand – a country of about 2 million when he climbed it in 1953.

Granted, we are a small juristiction, but we are capable of acheiving big, world-class things:

- For example:
  - In Oil and Gas, Alberta has been a leader in the commercialization of five of the most significant technologies in the last 25 years
    - Horizontal Drilling
    - Coil-tubing
    - Fracing
    - SAGD
    - THAI

Efficient marketing has been a key character trait throughout our history.

It is an elemental part of the Alberta Advantage.

And it makes us uniquely able to adapt to an efficient market approach to providing publically-funded healthcare to all Albertans.

And lead the rest of the world by doing so...

In order to climb the mountain of healthcare policy reform we must first learn how to walk.

- Put another way,
  - Albertans have to be comfortable standing on two feet clutching the edge of the coffee table first...

  ...before we begin maxing out the credit card at the Mountain Equipment Co-op and arranging for Sherpa guides.

The fundamental reason why the current system not only does not work but it is, indeed, failing:

We have '**Utilitized**' healthcare

FORTIS ALBERTA

While this may seem to be a benign idea, it is a deeply flawed approach for two reasons:

- Providers are paid to administrate not innovate
  - no incentive to find efficiencies and improve care.

And, more importantly:

- Consumers are charged a flat rate (Zero in Alberta) whereas we pay on a per unit basis for things like water and power supply.

- Rapidly the system moves first to:
  - triage –rationing
    - Wait-times, closed beds and surgery theaters

- and now to ‘lottery-age’
  - GPs getting matched to those wanting a family doctor by drawing names out of a barrel

Increasingly for many Albertans, their healthcare outcome is now being left largely to chance.

To make our first step safely we cannot try to do too much too soon.

- We need to make sure what we implement has the following characteristics:
  - It needs to be voluntary
    - forcing someone to do something will only result in tears, fear and loss of trust
  - Tools used have to be something consumers are familiar with.
  - It can't be rocket science
    - it needs to use off-the-shelf systems and concepts
  - Accountability on all sides
    - consumers and providers and government as overseers
      - waste on anyone's part needs to have an impact on the person or group doing the wasting.

- Encourage ingenuity – reward ingenuity.
  - Ingenuity is what will drive down costs and improve outcomes
  - It is also a potential source economic benefit – see Oil and Gas examples above.
- Provide choice both for the consumers **and the providers** of healthcare services and products.
- Enable equal provision of care to all parts of Alberta.
  - Citizens in more remote and rural areas need to have similar access to those in the larger urban areas.

- Recognize the differing economics of the regions
  - Wages for work of similar effort are different in different parts of the province. Things cost more in some areas than they do others.
- Power to make decisions needs to be given to the immediate provider as much as possible.
  - Management system has to be as thinly layered as possible
- Consumers need to have access to as much information as possible so as to be able to make informed decisions on what healthcare services they should use.

The first Baby Step

Setting up a publically funded Health Spending Account (HSA).

- Let's call it the Alberta Health Account (AHA)

What is an HSA?

- From Wikipedia:
  - "Health Spending Accounts (HSAs) are a tax-free health benefit vehicle available to employers for employees residing in Canada. They were introduced in 1986 by Canada Revenue Agency (CRA) in their interpretation bulletin entitled IT-85R2. They are discussed at length in the CRA interpretation bulletin IT-529 on flexible employee benefit programs."

- Funds from these accounts can be used to pay for health expenses (tax-free) that are not covered by the government or the employer's health benefit plan.
- They are extremely popular both with employers and employees as they:
  - Are almost by definition very flexible.
  - Leave the choice to the consumer and eliminate the overhead cost of having an insurance company act as an arbiter and risk-taker.
  - From the employer's perspective the plans are "bankable"
    - they have set limits – limits they set – on how much they cost – they are not open-ended commitments on the employer – the one who's putting up the money
- Many public sector unions – including some in the healthcare sector – have them as part of their benefits plans.
- It was a key recommendation of the Mazankowski Report

How would the AHA work?

- It would be voluntary – Albertans would have to enrol
  - using a T1 general that proves residency perhaps?
    - *(discuss residency issue the Newfoundland scandal and the coming Alberta scandal)*
- Each client would have a fixed amount to spend.
  - Say, $500 per person per year to start.
- At first it would be limited for use in purchasing paramedical services that currently are not covered by the provincial government.
  - Eg. – chiropractors, acupuncturists, physiotherapists

- Why just paramedical services?
  - These services are already operating within the private health insurance sector. Some paramedicals – chiropractors for example – are already beginning to electronically transact with private insurers for services rendered.
  - They would be the most easily and quickly up to speed.

On the paramedical's part, they would also voluntarily enrol and by doing so agree to have statistics and prices published on-line (more on this shortly).

On the consumer's side...

- Consumers could purchase paramedical services using the account:
  - where the account covers 75% of the cost and the consumer pays 25% of the cost **at time of purchase** – no charging.
    - *(cite Fraser institute data on co-pay)*
  - Consumers who are low income/low net worth will have a lower to nil co-pay but:
    - To qualify they would have to submit tax returns and *sworn statements of net worth* annually.
      - (cite current Alberta Non-Group Plan)

- Consumers would have an electronic chip card and the ability to arrange auto-debiting for their part of the cost.

Important Point:

- BECAUSE it is not impacting the part of the healthcare sector that is currently funded by government, it will not create conflicts with that sector (for now).

Also Co-pays have been, until very recently, thought to be expressly forbidden for services regulated by the Canada Health Act (CHA)

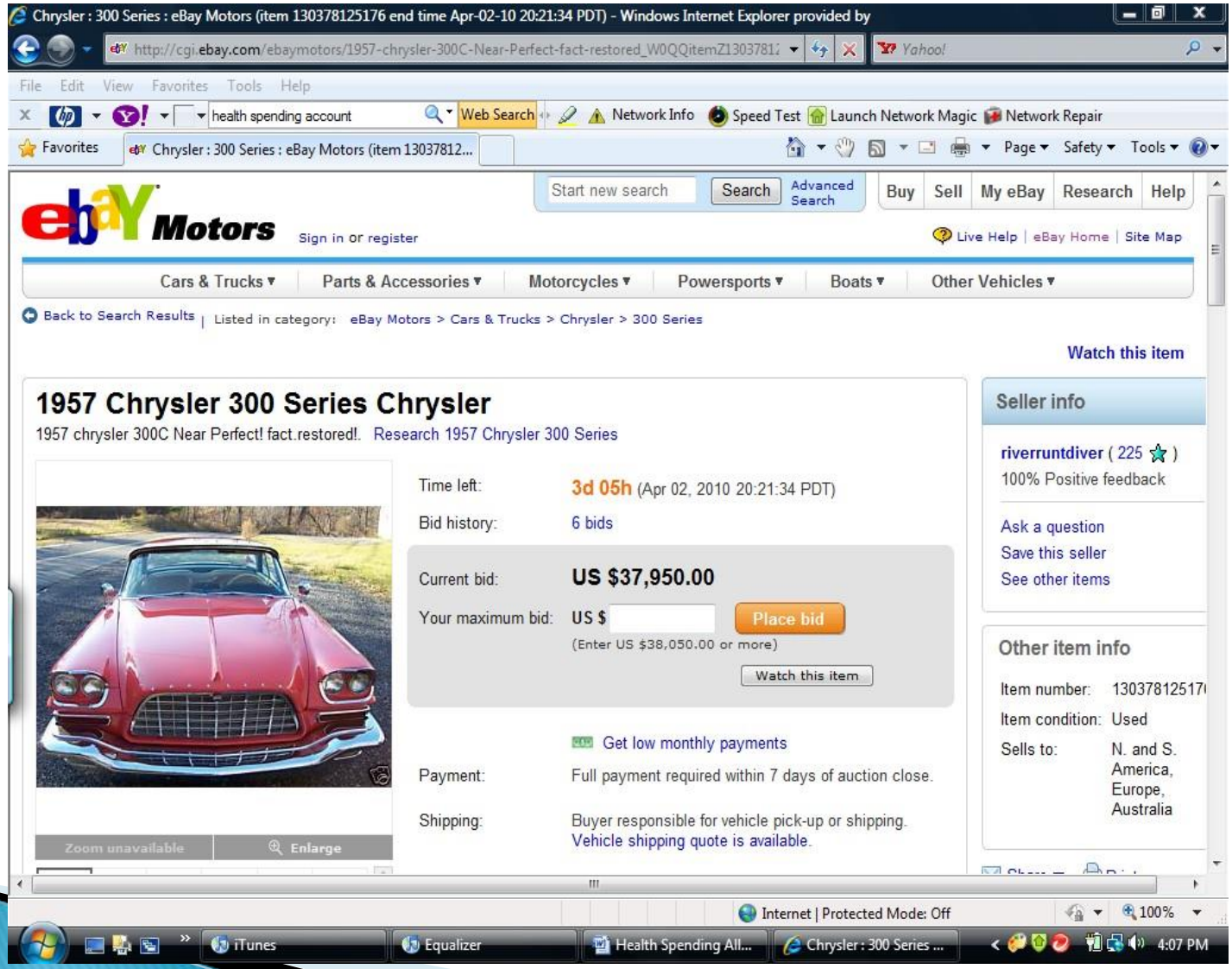
- Quebec apparently has a workaround for this.

- An absolutely key part of the AHA will be the information website.
  - This site needs to give information in an easily navigated format that empowers clients to make smart choices,

SO…

let's use the most successful market tool of the modern era as our template:

eBay.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6 bids
Current bid:
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Your maximum bid:
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Place bid
(Enter US $38,050.00 or more)
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Get low monthly payments
Payment:
Full payment required within 7 days of auction close.
Shipping:
Buyer responsible for vehicle pick-up or shipping.
Vehicle shipping quote is available.
Zoom unavailable
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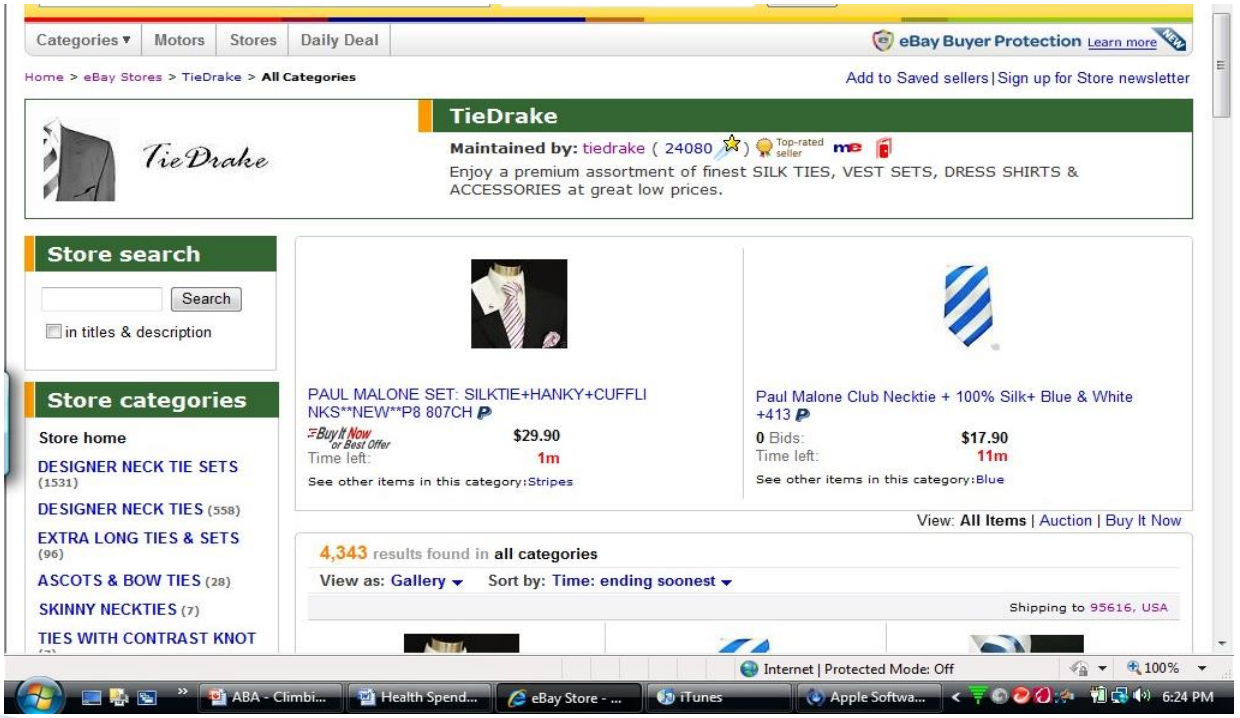
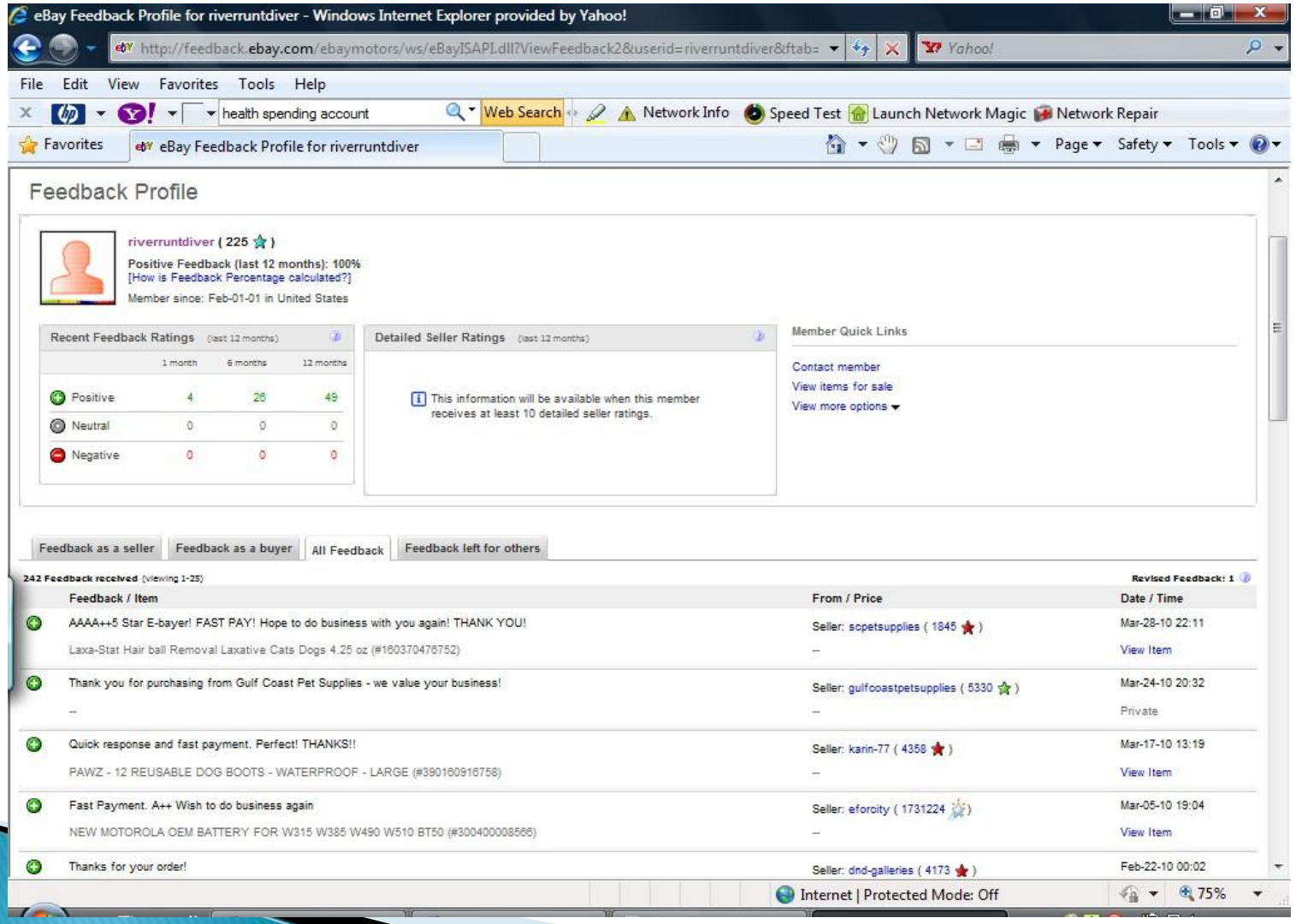
- The AHA website would publish information about a provider's:
  - pricing for services and products
  - Hours of operation
  - Wait-times
  - Areas of specialization
  - certification



The site would provide consumers a feed back opportunity:

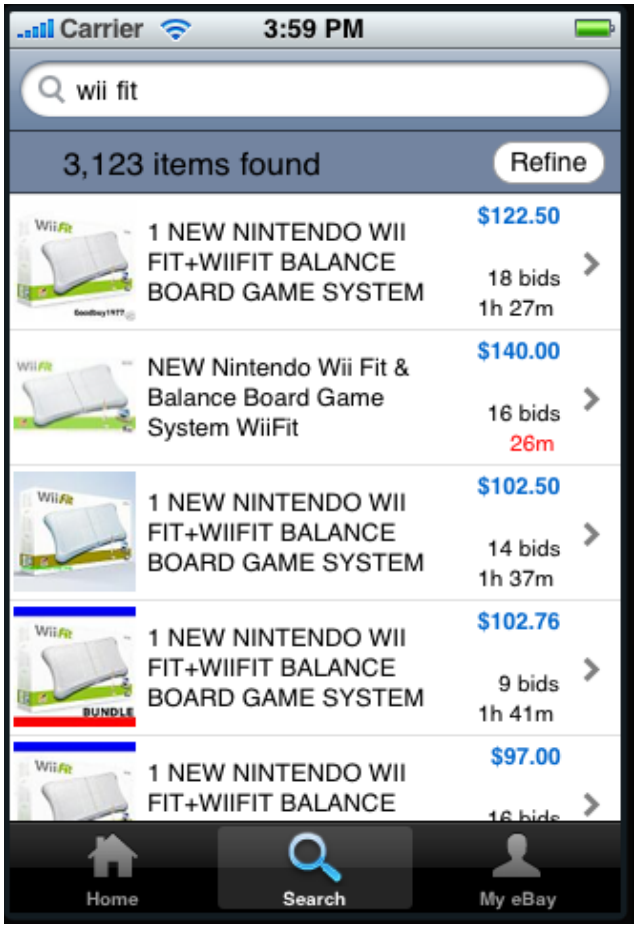


- Consumers would have the opportunity to rate the provider on criteria such as:
  - Bedside manner
  - Quality of care
  - Professionalism
  - Quality of outcome
  - And providers would have the opportunity to respond to and address the feed back

By the way, this person was one of its creators:

A potential friend of ours, perhaps?...

eBay is mobile...



The AHA's site would be too...

A bit of fine, but important, print:

As a precaution, the account balance would have a 24 month roll.

- In other words,
  - any unused balance in a consumer account would be carried forward for one year.
- This is how the rules work for private HSAs and it would prevent a large unfunded liability building up.

(Remember ,we are still at the baby steps stage, we need to show caution and be prudent.)

After a few years...

Albertans will be ready to release their grasp of the coffee table and try more free-roaming routes:

- We could add eligibility for other services and products such as:
  - prosthetics,
  - insulin pumps,
  - sleep apnea devices,
  - hearing aids
  - and other things not covered well by either the government or private insurers.

  These items add important quality of life benefits and in some cases reduce or delay healthcare services that are currently paid by the government (read: taxpayers)

There is little doubt that the AHA would be very popular with Albertans...

They would move from being customers and clients to becoming:

FANS

This would empower us to move to the next level...

Creating a base camp at the foot of the publically-funded healthcare mountain...

- In time we would transition the AHA into covering the fringes of things already covered by the government:
  - Diagnostic services
  - Doctors consults
  - Specialist consults
    - These could be accessed directly without a GP referral. However that could cost the client more, if that route was chosen.
    - Also it may make sense for a specialist to only deal on a referral basis – *the choice would be theirs*.

- Everyone who is a qualified resident of Alberta would be automatically enrolled in the AHA system.
- Everyone would receive a much larger amount of credit each year.
  - Roughly 30% of the annual cost of healthcare today perhaps.

- The 24 month carry-forward would be removed
  - (if it hasn't been already)
- Annual service costs beyond a certain amount would be 100% covered by the AHA.
  - E.g. if total health expenses cost more than 1,000 in a year to the client (their 25% co-pay) the 25% share above the $1000 would be covered by the AHA entirely.

- Providers would be allowed to charge whatever amount they wanted for their service or product within a range
  - narrow at first, but broader later-on.
  - there would be no minimum price.
- Fraudulent practices would be severely punished with minimum jail terms and life-time license suspensions and banishment from participation in the AHA system.

Abuse=fraud=theft from fellow
Albertans=treason=zero tolerance

By then we will be climbing hilly country. The peak will soon be in view...

- Many with vested interests will be greatly alarmed…
  - Hopefully by this time, hospitals and similar institutions will have already be de-centralized and de-regulated,
    - getting paid based on activity levels and quality of outcomes and
    - run by volunteer boards with complete autonomy on how their facility is run.
- Also,
  - we should have a very large fan base who will have our back –
    - *our support team at base camp to help defend us from the above-noted vested interest's attacks.*

- If it hasn't already been done, hospitals would become independent entities with complete autonomy in how they conduct their affairs.
  - (capital funding/financing for new hospitals (!!) hospices and long-term care centres could be made available for areas that think they can support one)
- They would thus have to price their services to cover their overhead
  - e.g. – the real cost of stitches in an ER setting would be charged.

- But in order to reach the peak we will need an additional tool – pressurized oxygen to give to our fans as they make the final push.

- So some features will have to be added…

- Other government services would also be charged to a client's AHA
  - emergency response costs
  - search and rescue costs.
- Programs like AISH and disabled persons could also be folded into the AHA.
- Nursing home care costs could be possibly be paid by the AHA.

- The credit would be increased to very close to 100% of the annual cost of healthcare per capita
- At the end of the calendar year, 50% of the unused balance of that current year's credit would be deducted from the client's AHA and deposited into a provincial stop-loss account.
  - (more on that in a moment)

- Over several years – decades – a healthy Albertan could accumulate a sizeable AHA.

- That balance will become a tax-free pension payment at retirement.

- Any balance at death would be part of the client's estate (*non-taxable?*).
  - It would automatically be transferable to a surviving spouse.

The Stop-Loss account

- This account would provide funds for those Albertans who have the misfortune of having healthcare costs that exhaust their accounts.

- However the range of services they could access would be limited to suppliers of that service who charge a maximum of 125% to 150% of the average for that service.
  - (there would be some exceptions, of course)

- An example of what that might look like over one's lifetime:

  Using a chart that is unadjusted for inflation and actuarial changes:

Assumptions:

Age at beginning:	0	
Age at time of "retirement":	65	(Actuarially adjusted - increases as annual lifespan increases)
Actuarial growth rate:	0%	(fraction of a year retirement age grows each year)
Inflation rate on healthcosts:	0.00%	
Annual cost of services:	10%	(of current annual credit)
Pension rate:	5%	(of account total in that year)
Starting annual account credit:	5000	
% of unused annual credit moved to stop-loss account:	50%	

Year	Age	Annual credit	Annual amount used	Credit remaining	Amount transferred to stop-loss acct	End of year ABA balance	Cumulative stop-loss account contribution	Retirement age	Pension income
1	0	5,000	500	4,500	2,250	2,250	2,250	65	
2	1	5,000	500	4,500	2,250	4,500	4,500	65	
3	2	5,000	500	4,500	2,250	6,750	6,750	65	
4	3	5,000	500	4,500	2,250	9,000	9,000	65	
5	4	5,000	500	4,500	2,250	11,250	11,250	65	
6	5	5,000	500	4,500	2,250	13,500	13,500	65	
20	19	5,000	500	4,500	2,250	45,000	45,000	65	
25	24	5,000	500	4,500	2,250	56,250	56,250	65	
30	29	5,000	500	4,500	2,250	67,500	67,500	65	
35	34	5,000	500	4,500	2,250	78,750	78,750	65	
40	39	5,000	500	4,500	2,250	90,000	90,000	65	
45	44	5,000	500	4,500	2,250	101,250	101,250	65	
50	49	5,000	500	4,500	2,250	112,500	112,500	65	
55	54	5,000	500	4,500	2,250	123,750	123,750	65	
65	64	5,000	500	4,500	2,250	146,250	146,250	65	
66	**65**	**5,000**	**500**	**4,500**	**2,250**	**148,500**	**148,500**	**65**	**7,425**
70	69	5,000	500	4,500	2,250	149,738	157,500	65	7,487
75	74	5,000	500	4,500	2,250	126,044	168,750	65	6,302
80	79	5,000	500	4,500	2,250	107,710	180,000	65	5,386
81	80	5,000	500	4,500	2,250	104,575	182,250	65	5,229
85	84	5,000	500	4,500	2,250	93,524	191,250	65	4,676
90	89	5,000	500	4,500	2,250	82,547	202,500	65	4,127
95	94	5,000	500	4,500	2,250	74,053	213,750	65	3,703
100	99	5,000	500	4,500	2,250	67,481	225,000	65	3,374
105	104	5,000	500	4,500	2,250	62,395	236,250	65	3,120
110	109	5,000	500	4,500	2,250	58,460	247,500	65	2,923

And if we add Inflation and Actuarial Adjustments…

Assumptions:

Age at beginning:	0	
Current age of "retirement":	65	(Actuarially adjusted - increases as annual lifespan increases)
Actuarial retirement growth rate:	20%	(fraction of a year retirement age grows each year)
Inflation rate on health costs:	3.50%	
Annual cost of services:	10%	(of current annual credit)
Pension rate:	5%	(of account total in that year)
Starting annual account credit:	5000	
% of unused annual credit moved to stop-loss account:	50%	

Year	Age	Annual credit	Annual amount used	Credit remaining	Amount transferred to stop-loss acct	End of year ABA balance	Cumulative stop-loss account contribution	Retirement age	Pension income
1	0	5,000	500	4,500	2,250	2,250	2,250	65	
2	1	5,175	518	4,658	2,329	4,579	4,579	65	
3	2	5,356	536	4,821	2,410	6,989	6,989	65	
4	3	5,544	554	4,989	2,495	9,484	9,484	66	
5	4	5,738	574	5,164	2,582	12,066	12,066	66	
6	5	5,938	594	5,345	2,672	14,738	14,738	66	
20	19	9,613	961	8,651	4,326	63,629	63,629	69	
25	24	11,417	1,142	10,275	5,137	87,637	87,637	70	
30	29	13,559	1,356	12,203	6,102	116,151	116,151	71	
35	34	16,104	1,610	14,494	7,247	150,017	150,017	72	
40	39	19,127	1,913	17,214	8,607	190,238	190,238	73	
45	44	22,717	2,272	20,445	10,223	238,009	238,009	74	
50	49	26,980	2,698	24,282	12,141	294,745	294,745	75	
55	54	32,044	3,204	28,840	14,420	362,131	362,131	76	
65	64	45,201	4,520	40,681	20,341	537,216	537,216	78	
70	69	53,685	5,369	48,317	24,158	650,110	650,110	79	
75	74	63,761	6,376	57,385	28,693	784,193	784,193	80	
80	79	75,728	7,573	68,155	34,078	943,440	943,440	81	
81	80	78,379	7,838	70,541	35,270	978,711	978,711	81	48,936
85	84	89,941	8,994	80,947	40,474	940,186	1,132,577	82	47,009
90	89	106,822	10,682	96,140	48,070	931,481	1,357,211	83	46,574
95	94	126,871	12,687	114,184	57,092	963,031	1,624,007	84	48,152
100	99	150,683	15,068	135,615	67,807	1,032,913	1,940,876	85	51,646
105	104	178,964	17,896	161,068	80,534	1,140,992	2,317,218	86	57,050
110	109	212,553	21,255	191,298	95,649	1,288,761	2,764,193	87	64,438

Points to consider:

- There will be built in incentives for both providers and clients to group together to pool and reduce costs (HMOs of a sort).
- Integration of employee benefit plans could be interesting.
  - Tax deductibility of individual private plans needs to examined by the way.
- There will also be an incentive to buy catastrophic insurance
  - especially so as clients reach middle-age in order to cover large catastrophic expenses and thus preserve the potential ABA pension

- Removal of the fixed rates for services will provide significant incentives for providers to move to underserviced areas.
  - Many will argue that that is unfair.
  - The counter to that is that all other goods and services – fuel, food, etc are also more expensive and wage levels are often much higher.
  - If the government wishes to provide assistance for those living in remote areas it can be done by increasing the annual ABA credit for those living in such areas.

- This would not be a boondoggle like the scandalously run e-health system that was tried in Ontario
  - This is not a medical records site. It is merely a fancy medical commerce site
  - Data on services used, costs, etcetera would be captured of course, but they would analyzed using very different data-mining software that is largely done with slightly customized off the shelf software such as Hyperion.

Let's review the criteria for a successful healthcare system:

- Voluntary
  - Providers and Consumers can operate or acquire services outside of the AHA if they choose to.
- Tools need to be familiar
  - HSAs already exist, drug cards are similar to an AHA card
- It's not rocket science
  - See point above. Much of the software design is already done. Segments are literally off the shelf

- Accountability on all sides
  - Have it in spades and in some cases in public view
- Encourage and reward ingenuity
  - Providers can vary their price and their service pretty-much at will
- Provide choice both for the consumers **and** the providers
  - The AHA would provide this as much as possible
- Enable similar provision of care to all parts of Alberta
  - Providers will have strong financial incentives to operate in parts of Alberta that are underserviced. It will never be perfectly equal but it will be much more so using the AHA system

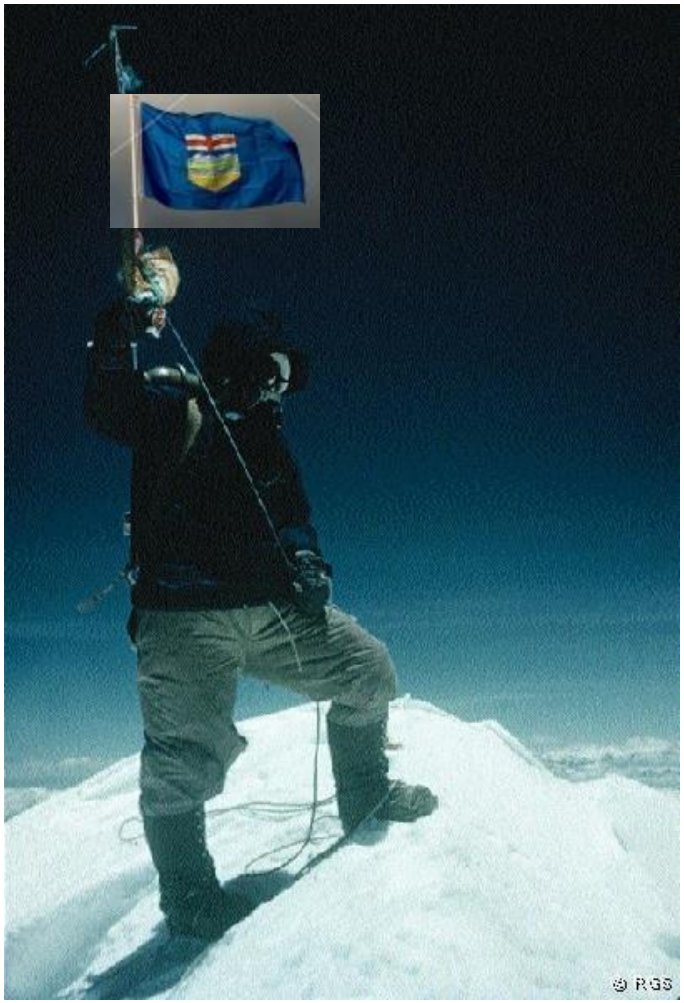
- Recognize the differences in economics between regions
  - See point above
- Power to make decisions needs to be given the immediate provider as much as possible
  - AHA allows it – within professional medical guidelines of course
- Consumers need to have access to as much information as possible so as to be able to make informed decisions on what healthcare services they should use.
  - feedback system and easy-to-use online system

In conclusion:

- The AHA would be a provincial health spending account that provides:
  - incentives to both providers and consumers of healthcare to be efficient while also:
    - ensuring that both groups are accountable and have the tools to make informed decisions.

This will make our healthcare system both financially sustainable and maintain or improve the quality of the services and products it provides our citizens.

Thank you for your time.



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