Featured Article

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New tax reforms can open health insurance to innovation

Even as the administration floundered over replacing ObamaCare, the proposed tax reforms have unwittingly kicked off the reinvention of the delivery of health care, a movement with which government wouldn't normally have been involved.

The biggest change under consideration in the tax code as it relates to health care is getting rid of the mandate to buy health insurance. This opens up the possibility for innovation — most notably, in a return or and expansion of health savings accounts (HSAs) and health maintenance organizations (HMOs). The tax reforms will foster more of these types of combinations and innovations.

Here are the key ways I see tax reform affecting health care:

- Health savings accounts (HSAs) will become a permanent part of the healthcare structure
- There'll be a rise of patient-centered care through accountable care organizations (ACOs) that emphasize patient outcomes
- We'll see a decentralization of patient services from regional hospitals to small local outlets
- The market will open up to association group plans and the selling of health insurance across state lines

How are these tax reforms managing to touch off the tinderbox of massive insurance reform, even when bureaucrats proved unable to undo the ACA?

The insurance industry has for some time been blending with the financial services industry — this is playing out in mergers of banks with big insurance carriers, insurance companies opening their own savings and loan companies — for example, Mutual of Omaha. They've been trying to consolidate control of the money flows associated with people's insurance spend and savings.

Now what we're seeing is a different kind of merger that is moving insurance toward lowering the cost of healthcare. The proposed acquisition of CVS by Aetna is the first large-scale example of a movement within healthcare over the past decade to embrace patient-centered healthcare.

Patient-centered healthcare is almost an oxymoron, in terms of how healthcare is currently managed and delivered. But the concept behind it is fairly well grounded, and has given rise to accountable care organizations (ACOs). ACOs have been experimenting with ways to improve the delivery of healthcare that the fee-for-service model has never been able to — notably by fixing the lack of incentives for providers to offer successful outcomes. The old fee-for-service model is designed around managing the patient, but not necessarily managing the patient outcome. It is, in short, a top-down approach. ACOs, on the other hand, take a bottom-up approach, wherein a successful patient outcome is the goal.

What CVS and Aetna understood is that the fee-for-service model poses a major constraint on delivering healthcare services in a distributed business model that is designed around patient outcomes. The ACO approach, on the other hand, is to focus on the patient, developing the team of providers that will deliver the best outcome for the patient.

For example, if a patient needs to have a knee joint replaced, the ACO will assemble the team that will work with the patient from the surgery all the way to "back to normal." In the CVS model, the first step in this process is to determine the location of the services to be provided. Historically, the location of providers has played a big part in poor outcomes. Often patients might have to drive 40 miles or more to a hospital or other

facility that could deliver care, including initial treatment, follow-up treatment, etc. People would often miss their appointments, and it wasn't helping them get better.

What ACOs have found is that the location of the service is one of the most important aspects of delivering healthcare. The current centralized model has the hospital as the central management point for the patient. It doesn't matter if the hospital is 40 miles from the patient's home.

The decentralized approach that a move such as CVS/Aetna would create is delivering most of the healthcare for that knee replacement right in the store location that's just a couple of miles away from the patient. At that particular location, the facility would have pharmacists, physical therapists, counselors, and others who would manage the care that the patient receives.

The goal of the team is to have a satisfactory outcome: no hospital readmissions, no duplicative medications, no missed appointments, no post-hospitalization infections, no missed medications, and finally, clear communications between the delivery team and the patient.

This model recognizes that medical service doesn't necessarily have to be delivered in a medical center — it could be in this "Doc in a Box" format, as in a local store. ACOs have proven that they can deliver lower-cost, high quality healthcare; and the CVS/Aetna model recognizes that the old monolithic delivery model has to change and adapt to true patient-centered healthcare. This a reinvention of the staffing model and pay-for-service, to effect a change from pay-for-outcome to pay-for-service, wherein it's no longer simply fee-based.

The new tax code will incentivize industry behavior toward this new model. And what this will ultimately do for healthcare is to lower the cost. People will be getting back to health savings accounts (HSAs) and health maintenance organizations (HMOs) — and the tax reforms will also foster more of these types of combinations and innovations.

My analysis is that the proposed changes, particularly around abolishing the mandate, will encourage HSAs and HMOs — there will be more of them, and more ways for insurance companies to get in and manage that money. From a tax standpoint, if a person has an HSA, they can invest it. So managing your HSA money, in the same way as managing your retirement accounts, becomes a service that the new insurance-financial services entities will be able to provide.

In short, this "creative destruction" caused by the proposed tax reforms will lead to decentralization of healthcare services, and ultimately, we hope, to better patient outcomes. Making health savings accounts a permanent part of the healthcare structure, and breaking up end-to-end care into more localized, bite-sized pieces, could lead to an unusual, if unintended outcome: a tax code that helps reform healthcare — not bureaucracies.

End of Article

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