

# ACS Industry Update

HEALTHCARE PAYER SOLUTIONS Q3-2010

## A Crystal Ball View of Insurance Overhaul Problems and Responses

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As a health futurist and medical economist pondering the impact of insurance overhaul, I wonder if its architects spent much time considering what would happen after the bills became laws. A look into my crystal ball suggests potential for unintended consequences as serious as the problems that were supposedly going to be solved by health reform.

### Side Effects

In medical terms, the side effects could be as unpleasant as the disease. Here are two that we can expect to experience.

**CONFUSION:** The most immediate problem—and one that will last for a long time—will be confusion. The fact that insurance overhaul was passed as two separate laws will create unending questions about Congressional intent and regulations to implement it. The laws were hurriedly drafted at the last-minute, an approach that inevitably produces ambiguous and even contradictory provisions. For example, a significant omission from the law's promised coverage for dependents up

to age 26 was discovered the day after the reconciliation bill was signed into law. In an ultimate irony, members of Congress discovered the following week that their own health benefits were in doubt due to inconsistent wording. And then a Supreme Court Justice made a highly unusual public statement that the laws would almost certainly be reviewed by the highest court.

Consequently, I would not believe anyone who claims s/he understands the laws, how they will be implemented, and how to begin responding to them. Uncertainty, not clarity, will grow for the foreseeable future. In addition, the laws passed by such slim margins and generated so much political heat that repeal and/or replacement are real possibilities, especially after the mid-term elections in November. (Unfortunately, I haven't yet seen any evidence that the opposition has viable alternatives for solving healthcare's serious problems.) Because the laws' futures are so uncertain, responding to them or doing nothing are equally risky actions to take.

**ECONOMIC PAINS:** In the unlikely

event that the laws are implemented pretty much as presumably intended (the most precise wording I can conjure under the circumstances), the prices of health plans and healthcare will rise dramatically. Inflation of insurance premiums is almost certain because the overhaul legislation mandates more coverage and forces payers to take all applicants. Because the law adds benefits without including any provisions to reduce providers' prices for the newly insured services, payers will be forced to raise premiums and/or to raise consumers' co-insurance and deductibles. The lawmakers who voted for insurance overhaul seem to have forgotten a basic law of economics—TANSTAAFL ("There ain't no such thing as a free lunch").

Prices for healthcare will increase even further because the overhaul laws do nothing to increase supply in response to increased demand. Health systems and practitioners are already operating at capacity (an inefficient situation by itself), so more Americans with insurance will push up prices for the fixed supply of medical services.



Too much money chasing after too few goods will cause inflation, which then leads to rationing, black markets, and deteriorating quality of goods and services in the marketplace.

#### **Actions for Payers**

Ironically, the confusing picture in my crystal ball is not necessarily a cause for despair for payers. Many American industries have successfully responded to similar threats by reinventing the way they do business. In particular, the unintended consequences of insurance overhaul will intensify pressure on payers to optimize the efficiency of their operations. Commercial third-parties cannot prevent problems caused by the new laws, but they can minimize the damage by eliminating waste in their own operations, implementing performance improvement programs (e.g., lean management, Six Sigma), automating work processes, managing information as a critical factor of production, creating win-win partnerships, and taking other concrete steps to reduce the costs of operations. The good news is that quality need not be sacrificed; experience in other industries shows quality can actually be improved in the process.

In addition, product innovation will be more important than ever before,

particularly in the marketplace for individual coverage. Unprecedented changes in labor markets and global economic conditions would be causing employers to offer less group coverage—thus increasing demand from individuals—even if insurance overhaul laws had not been passed. At the same time, individual consumers are demanding transparency in cost and quality and wanting information about appropriate options. Overhaul may be making things difficult for payers, but times are equally difficult for providers and beneficiaries. The next few years would be an excellent time to reinvent health insurance in America—in spite of misdirected health reforms. Payers can lead the way!

*Dr. Jeff Bauer, an internationally respected health futurist and medical economist, is vice President for Healthcare Forecasting and Strategy for ACS, a Xerox Company. He welcomes comments on this article and solicits dialogue with leaders in the Payer community, including suggestions for his future contributions to this newsletter. He can be contacted at (773) 477-9339 or [jeff.bauer@acs-inc.com](mailto:jeff.bauer@acs-inc.com). His blog is published at [www.thehealthydebate.blogspot.com](http://www.thehealthydebate.blogspot.com), and his numerous publications can be downloaded at [www.jeffbauerphd.com/writing.htm](http://www.jeffbauerphd.com/writing.htm).*

## The Healthy Debate

ACS' Jeffrey C. Bauer, Ph.D., a Nationally Recognized Medical Economist and Health Futurist, has Created an Informative Blog on the Healthcare Industry

Each week, Dr. Bauer will update the blog with his thoughts and forecasts on expected trends in the healthcare industry. He will highlight topics affecting all players in the healthcare ecosystem. We welcome your posts and comments and invite you to join our healthy debate.

#### **The Healthy Debate**

[www.thehealthydebate.blogspot.com](http://www.thehealthydebate.blogspot.com)

#### **Dr. Bauer's Background**

Dr. Bauer is a Chicago based partner in the management consulting practice of ACS. Dr. Bauer is a renowned speaker and writer, his unique views and understanding of the healthcare industry have been published in more than 160 articles, books, web pages, and videos. Dr. Bauer is a regular contributor to ACS' Payer Newsletter.

Prior to joining ACS, Dr. Bauer was a Senior Fellow at the Center for the New West in Denver. He previously managed his own consulting firm, specializing in consumer-focused strategic planning for healthcare organizations. He also served as a medical school professor and was health policy advisor to the governor of Colorado. Dr. Bauer received his Ph.D. in economics from the University of Colorado and B.A. in economics from Colorado College. He was a Ford Foundation Independent Scholar, a Fulbright Scholar, and a Kellogg Foundation National Fellow.

#### **Other ACS Social Media Sites**

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