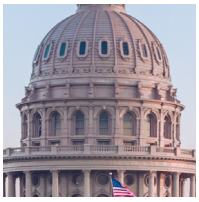

TEXAS PUBLIC POLICY FOUNDATION

Testimony

October 1, 2020

Testimony Submitted to Texas House of Representatives Human Services Committee

by David Balat, Policy Director

My name is David Balat, and I am the policy director of the Right on Healthcare campaign with the Texas Public Policy Foundation.

I have testified before Congress and in various state legislatures regarding healthcare, health insurance, and putting patients first. I have also worked in the healthcare industry as a hospital executive and CEO for nearly 20 years.

Thank you for allowing me to take the time to address these incredibly important issues.

Medicaid and Direct Primary Care

"Direct Primary Care" is not really a new model for healthcare in Texas. Long before employer-based insurance (with the safety nets for the elderly and disabled, Medicare and Medicaid) became the standard, patients paid doctors for their care. There were no middlemen—only the patient and the provider, and they made the decisions.

Direct Primary Care (DPC) seems innovative now because we have moved so far away from that model. Government regulations combined with ever-more complex insurance standards have put third-party payers in charge of the decision making.

The current system frustrates not only patients, but also physicians. No healthcare provider wants to be second-guessed by a functionary behind a computer screen hundreds or thousands of miles from the examination room. No doctor wants to be limited to a maximum number of minutes of face time per patient, because human beings and their ailments are rarely so conveniently compartmentalized. And doctors and patients alike want the ability to follow up on treatments to ensure the best health outcomes possible.

DPC practices seek to resolve the flaws of our current healthcare system by providing transparent pricing and strengthening the doctor-patient relationship. Direct care has gained momentum in primary care, surgery, pharmaceuticals, and dentistry. Direct care functions differently in each setting, but the central idea is that third-party payers are not involved, and prices are known before the patient sees the medical professional.

It is really simple. Patients contract with DPC practices to receive a wide range of care at a convenient monthly price. Patients are allowed to see their provider as often as they like for preventative, wellness, and chronic care, and certain medical tests are included in the membership fee, depending on the membership agreement.

Typically, patients also have a high-deductible "catastrophic" insurance policy for things like hospitalization. But most of what the average family needs throughout the year will be covered by DPC—including some chronic illnesses, such as diabetes and heart disease, which can actually respond better to the kind of regular check-ins and solid relationships that DPC involves.

It is often confused with "concierge" care—the kind of high-end specialized care that the wealthy can access. It is not that. It shares some similarities, but it is for everyone. The usual monthly fee for a direct care patient is $77.

Many direct care providers connect with their patients through an app that allows for texts and email, eliminating the need for in-person appointments in many instances. Physicians can meet virtually with patients to diagnose illnesses and

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prescribe medication. According to a recent study, 82% of direct care practices have physician email access, and 76% allow patients to have 24-hour access to their direct care provider.

Employers looking to reduce healthcare costs for their employees can enroll their workers in direct primary care memberships in conjunction with a high-deductible policy, which can satisfy employees' needs as well as save money for the company. Companies that switch to membership agreements can see savings of 30% to 50% of their annual healthcare costs.

A 2020 Society of Actuaries report includes a case study that analyzed data from a single employer that offers a DPC benefit option and a traditional benefit option and compared cost outcomes during the same 2-year period between 912 members enrolled in DPC and 1,074 members enrolled in the traditional option. The following are key data points from the case study:

- DPC members had 19.90% lower claim costs for employers on an unadjusted basis and 12.64% lower claim costs on a risk-adjusted basis during the 2-year period.
- DPC members experienced approximately 40% fewer ER visits than those in traditional plans.
- DPC members experienced a 53.6% reduction in ER claims cost.
- DPC members experienced 25.54% lower hospital admissions on an unadjusted basis.

Currently, there are around 1,200 direct care practices in 48 states. States have the ability to regulate DPC as they see fit, and more than two thirds have crafted legislation to do so. Texas, like many other states, has codified that direct care does not fall under the category of insurance and should not be regulated as such.

Expanding the availability of direct care to rural Texans, Texans in busy metropolitan areas, and even Texans on Medicaid could be of great benefit. It can become another tool in developing better doctor-patient relationships and could be a good supplement for people who face healthcare plans with higher and higher deductibles.

Healthcare Price Transparency

It seems like every Texas family has opened that "surprise" bill from the doctor—the portion of a visit that insurance did not cover. Healthcare is unique; it is an industry that does not communicate its prices to its consumers until after services are rendered. People know the prices in advance for almost all goods and services they purchase—the items on the grocery store shelves, houses, or automobiles, for example.

But healthcare is different. Prices for the same or similar services and treatments can vary widely, both among regions, among facilities within a region, and even within a facility, based on the payer. Patients feel they have limited knowledge about costs—and even less power over them.

How has healthcare resisted the market pressures other industries face? First, most people are not directly spending their own money, so they lack incentives to shop for services that suit them. With employer-sponsored health insurance, premiums are aggregated, and employers and insurers are in key decision-making roles. This

isolates individual employees and consumers from the marginal financial cost of their healthcare decisions.

Second, markets are largely noncompetitive, increasingly dominated by large, integrated hospital systems consisting of inpatient facilities, outpatient facilities, and physician practices.

Finally, people rely very heavily on doctors for referrals. Since doctors are increasingly part of these consolidated hospital systems, they generally refer patients for services within the system regardless of price. All these features diminish price competition in healthcare.

Of course, some healthcare markets are more transparent—for services such as LASIK eye surgery and cosmetic procedures, for example. In these markets, prices tend to be transparent with robust competition among providers. Under these conditions, the result is generally what is found in other markets: prices drop over time, while quality improves.

The Surgery Center of Oklahoma, for example, posts prices on a consumer-friendly website. Over the 11 years it has posted these prices, it has changed them four times—lowering them each time.

What can be done to bring down costs—and frustrations—in Texas? We can make the healthcare industry, and in particular prices, more transparent.

There are four key ways in which price transparency can help make our healthcare system better:

1. Consumers and patients will be better informed.
2. Better-informed employers will be able to help workers shop for value.
3. Employers will be more empowered to monitor insurer effectiveness and to eliminate counterproductive middlemen.
4. And high-cost providers will feel pressure to find ways to lower their prices.

These elements together will create a more competitive market among providers. When price becomes a bigger part of the referral system, Texans will be able to make their choices with more of the information they need.

What can you do as lawmakers?

A step in the right direction for the state of Texas would be to require any third-party administrator of state employees' health plans to provide all claims data to the state. As an employer, the state of Texas has a vested interest in understanding what value it is receiving for the health coverage it provides to employees.

While price transparency efforts are not sufficient by themselves to reform America's healthcare system, it is a first step to help all parties involved rein in healthcare costs.

Medical Cost Sharing as an Alternative

A new and innovative model for healthcare in the U.S. is medical cost sharing. Medical cost-sharing plans are an alternative to traditional health insurance. Instead of operating with a network of providers, these organizations facilitate the sharing of medical costs among members, who pay a monthly amount which is shared to cover healthcare costs of other members.

These monthly amounts are usually smaller than traditional health insurance because the coverage is not as far-reaching. Generally, members will pay the majority of smaller costs out of pocket, and larger costs will be submitted for sharing. The members retain ultimate responsibility for paying their medical fees, because the organization is not contractually obligated to cover specific costs like an insurance company would be and does not always cover as many items as traditional insurance.

Medical cost-sharing organizations are similar to faith-based health care sharing ministries, but there are some key differences. Medical cost sharing will have an appeal beyond a specific religious group. Some sharing ministries prohibit behavior that goes against their statements of belief, such as smoking, drinking, and extramarital sex, and they do not cover medical costs related to such activities. Medical cost sharing would not impose these limitations.

What can the Texas Legislature do to make this innovative option available to Texas families?

Medical cost sharing should be defined explicitly in Texas law as not being health insurance and thus exempted from insurance regulatory law. Medical cost-sharing plans do not operate as insurance companies and should not be regulated as such. This will allow them to operate more freely, bringing more low-cost options to the health coverage market and helping both individual Texans and small businesses.

The ACA significantly limited the amount of choice consumers have in the healthcare system. Medical cost-sharing plans are one more choice we can give to Texans.

ABOUT THE AUTHOR

David Balat is the policy director of Right on Healthcare at the Foundation. He has broad experience across the healthcare spectrum with special expertise in healthcare finance. He is a former congressional candidate in Texas's 2nd Congressional District and a seasoned hospital executive with more than 20 years of healthcare industry leadership and executive management experience.

Balat has earned the privilege of being invited to testify before the U.S. House Committee on Oversight and Reform in Washington, D.C., and before various House committees in the Texas state Legislature. He is a published op-ed columnist in *The Hill, Real Clear Politics*, and other news outlets and an active speaker and commentator on matters of health policy. He speaks at national conferences and advises on healthcare policy to both state and federal lawmakers.

Balat often volunteers to help families navigate their bills and how to understand their benefits. He serves as a board member for a nonprofit focused on educating legislators and the community about important matters pertaining to healthcare freedom.

Balat is a first generation American and the first in his family to graduate from college. He received his B.S. from the University of Houston and joint master's degrees in business administration and hospital administration from the University of Houston – Clear Lake.

About Texas Public Policy Foundation

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

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