

Perrycare – Neiman-Marcus Quality at the Wal-Mart Price

or Thank Heaven for Chief Justice Roberts

First, let me thank Chief Justice Roberts and his four colleagues for providing the State of Texas an opportunity to make a pile of money. This could be accomplished through consolidating health insurance or coverage provided by the public sector and offering this policy through the health exchanges available through the ACA.

While the state's fiscal condition has dramatically improved, tax collections in FY12 will be \$4 billion more than the Comptroller's estimate, and biennium tax revenue will be at least \$8 billion more. These funds will be used to address programs, Medicaid, public education, whose appropriations were reduced to remedy the previous session's shortfall. While the state workforce has declined, this decline will only reduce the growth rate (the second derivative) in the cost, not the total cost of providing health insurance to active state employees and a few committed retirees. I would not be surprised that your data on active state employees shows that the average age continues to increase. And as you are well aware the older one gets, the greater the need for health care services.

During my tenure as a state employee, the mantra that continuously emanated from the hallowed Capitol grounds was the state needed to operate like a private business. The chadrooms a few blocks south always thought the private sector always performed activities more efficiently and at a lower cost than lethargic, lazy public sector employees. (I being a sterling example, as all I did at the agency was walk around w/ a cup of coffee and thought. Fortunately, I did have a few good thoughts.) Politicians win/won elections on going to Austin and exterminating the waste and fraud that bureaucrats are noted for. Privatization, "the yellow pages test," and outsourcing would be the key to insuring the state would be able to provide minimal services at less than minimal costs. The history of these efforts is not chronicled with any great success. In fact, look at the state's most recent efforts to [outsource family assistance](#) or [consolidate agency computer services](#) might lead one to ask why the private sector is so incompetent. As the leading candidate, Mitt Romney, for the Republican nomination for President recently stated, "The principles of business work in government and it's high time to bring those principles of fiscal responsibility to Washington, DC." How might a business approach providing health care be implemented? This article offers a suggested means to provide health care for those participating in government health plans and others by implementing what any profit-maximizing firm would do when presented with a once in a lifetime opportunity.

During the 82nd legislative session, legislation was passed that implemented significant changes on how the state would provide health insurance to its employees and its retirees, retired teachers, and those receiving Medicaid. These changes intend to reduce the rate of growth in employee and retiree health costs, along with reducing Medicaid expenditures. These changes were implemented to achieve "savings." Unfortunately, as past efforts have demonstrated

changing vendors or shifting retirees to a private sector provider will result in diminished service to employees/retirees, increased costs to employees, and continuing fragmentation in providing health care. One would also not expect these actions to improve the [state's scorecard on health care](#).

Providing health care to eligible citizens and its workforce has been a primary activity of both the state government and local governments. However, with the recent economic downturn and resulting decline in public sector revenue, along with both increases in citizens eligible for Medicaid and continuing increases in the cost of healthcare services, governments have been forced to either reduce services or shift costs. While government units have undertaken many efforts to reduce health care expenditures, what hasn't been done is considering a radical restructuring of the way health care services are delivered to their employees or clients.

According to the most recent Census estimate, Texas leads the nation in percentage (24.6 percent) of the population without health insurance. Not only does the state have the highest proportion of its population without health insurance, but the state also recently earned from the Agency for Healthcare Research and Quality a "ranking of dead last on the delivery of health services, falling short in areas ranging from acute hospital care to home treatment of the chronically ill." (<http://statesnapshots.ahrq.gov/snaps11/index.jsp?menuId=1&state=>)

In fact, some might conclude that being a plaintiff among the 26 states which argued for the repeal of the Patient Protection and Affordable Care Act ("ObamaCare") was motivated by the state's desire to remain No. 1 in percentage of residents without health insurance and between [46th](#) and [50th](#) in health system performance among the states. Fortunately, for our leadership even though Obama nee RomneyCare was declared constitutional, the Medicaid section to expand Medicaid roles could not be mandated, and it would appear that our state will not join the dumb, bloated blue states in expanding Medicaid rolls. This will also allow us to continue the chant "we're No. 50." I would hope my efforts will provide a path for Texas to win the MCS (Medical Championship Series) and show how an innovative approach to providing all its citizens with health insurance and reduce expenditure per capita.

Governments in Texas are the mega Wal-Mart of health care services in Texas. State and local government in Texas provide health coverage to almost 30 percent of the state's population (25.1 million). This compares to 7 percent of retail sales that Wal-Mart accounts for in the U.S.

Insurance coverage by governmental organization is provided below:

Health Insurance Coverage by Government Organization, in 1,000's

Organization	Employees	Coverage	
State Government - ERS	239.1	504.8	
State Government – UT and TAMU	115.5	231.0	
TRS – TRSCare		225.0	
Local Governments and School Districts	1,246.7	2,300.0	
Medicaid		3,980.0	
SCHIP		500.0	
Total	1,601.3	7,740.8	

Of the 7.7 million Texans obtaining health care through direct government expenditures, almost 60% are participating in either Medicaid (51.1 percent) or SCHIP (6.4 percent), while state employee participation comprises 10 percent and local government participation accounts for one-third of those covered by government insurance.

Senator Jane Nelson, commenting on why [SB 7](#), the Texas leadership's health care bill, isn't like Obamacare, <http://www.statesman.com/opinion/texas-gops-health-care-bill-isnt-like-obamacare-2308855.html>, stated that "our effort is rooted in conservative, free-market principles." My effort is also rooted in these some principles. Using these principles in conjunction with the now constitutional state health care exchange will provide a way to provide less expensive or better coverage to the 7.7 million individuals covered by existing public insurance programs. My proposal will also provide an opportunity for the 1.1 million individual Texans and the 1.6 million Texas families without health insurance, as well as the 11.1 million Texans with employer provide insurance to obtain a reasonably priced starter policy or for employers to provide better coverage at reduced costs.

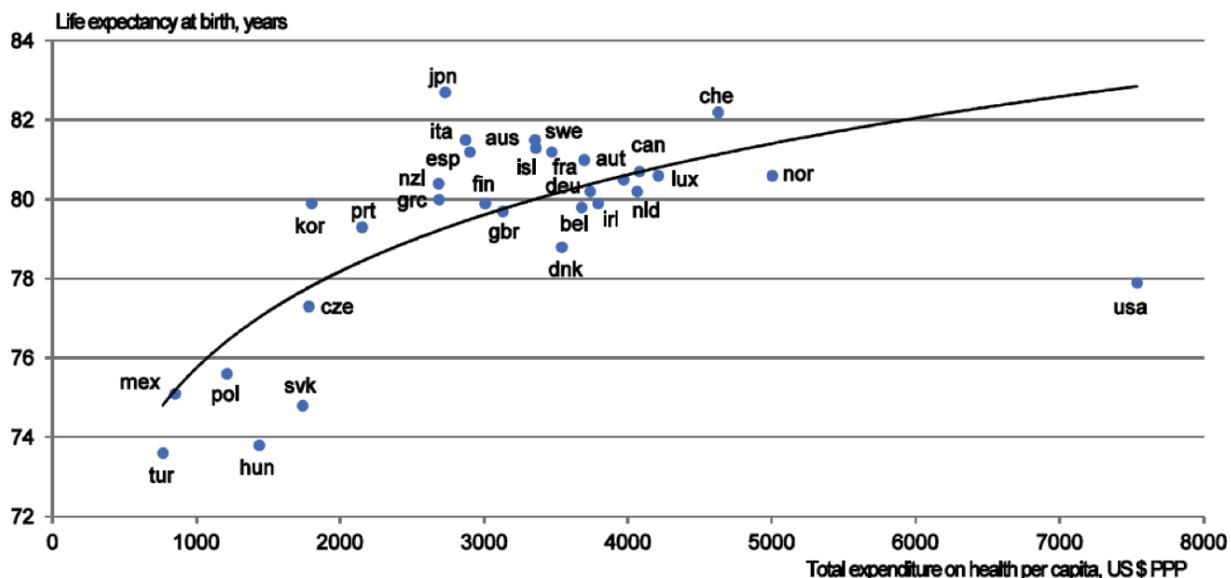
Many of you in the audience are now thinking, "how in the world," "what is he talking about," or "what the (fill in the _____)." He's not an ERS employee or an actuary, what does he know about the complexity of providing health insurance coverage to half a million individuals. Not much, but, you might look at a suggestion I made 21 years ago, "[Increase Participation in the Premium Conversion Option of the State's Flexible Benefit Plan](#)," which I'm sure you are aware continues to save the State a few shekels per year.

My suggestion is based on a 18-year-old suggestion, "[Consolidate Employee Health Benefit Purchasing](#)," that appeared in [Gaining Ground](#), which was the 3rd study done by the Texas Performance Review. Even with the expected \$8 billion increase in state tax collections for this biennium there continues to be concerns regarding the state's budget and I'm sure you were not given Papal dispensation from the requested [10% agency budget cuts](#).

At its basic level, the ACA intends to provide health insurance for all citizens. Depending on where you stand on the political continuum you view how ACA accomplishes this as either a tax on non-participation (the Robert's Court) or a subsidy to purchase insurance (the lefties). As I hope my principles of economics students have learned a subsidy to purchase something, ceteris paribus, will increase demand, which will increase both price and quantity. I'm quite sure that adding 30+ million with insurance to the healthcare market will result in continuing increases in price. The New York Times had a recent story, "[For Uninsured in Texas, Supreme Court ruling Adds to Uncertainty](#)," showing how some families undertake innovative actions to obtain health care. I'm quite sure these people would be the first at the exchange were a reasonably priced, well-structured plan available to them.

From talking w/ various public sector providers of health insurance, it appears that ERS costs are between 10-15 percent more than Medicare reimbursement. It would also appear that HealthSelect is a low premium provider. Medicaid reimbursement is less than Medicare reimbursement, which has led to a diminution in service providers willing to accept Medicaid patients. The actuaries amongst you would say that increasing the pool beyond 250,000 doesn't reduce risk and there is no saving to be realized. As an occasional Wal-Mart shopper, the benefit, lower prices, is derived from increasing your purchasing power. Having a pool of 3 million public sector workers should allow one to negotiate better prices. Assume ERS could reduce their Medicare excess by five percentage points with its increased purchasing power. PerryCare would initially have 30 percent of the state's population. Reducing the state's uninsurance rate to the country's average would increase the proportion of the state's population covered by PerryCare to almost 40 percent of the population. That would provide an initial savings of over \$100 million, which would continue till the country joins the rest of the developed world and implements a single-payer system. I would expect that local governments and school districts would also realize savings.

I assume the 7.3% increase in PY13 contributions is attributable to ObamaCare since the increase per plan year between PY04 and PY12 was only 4.2 percent per year. I would hope that the House and Senate committees that oversee ERS will be informed that the PY13 increase is solely due to ObamaCare and I'm quite sure that President Romney's consumer-directed health plan will return us to the straight and narrow healthcare course that has provided us with the best healthcare system in the world, see graph below:



Some might contend that using life expectancy at birth is not the correct measure since the majority of healthcare costs are incurred after age 65. However, according to OECD statistics the U.S. life expectancy, while .1 years better for males, is half a year less for females than the OECD average. One can view a graph similar to the above, using life expectancy at 65, at <http://www.sgreenfield.net/coursera/lifeexp.pdf>. One should also note that infant mortality in the U.S. is 27th among OECD countries and is around 20 percent higher than the rate in Cuba, a well-known free market economy.

As you are well aware 25 percent of the Texas population does not have health insurance. That's a quite large untapped market. What private sector entrepreneur won't jump at an opportunity to make money from an untapped market with 2.7 million potential customers, who would be subsidized for purchasing their product or offering?

I would hope our business savvy leadership will realize that through the health exchange they are responsible for establishing will allow PerryCare to be offered to all eligible customers cost-effectively. To insure we run this undertaking like a business, PerryCare would be HealthSelect plus 10 percent. Given the PY13 costs for an individual and a family, those wanting to purchase individual PerryCare coverage would be charged \$519.99 per month, while families could obtain coverage for \$1,499.99 per month. This pricing would result in a \$600 per year net cash to ERS per PerryCare beneficiary. You might follow my late Uncle Louie's pricing model and offer the individual policy at \$499.99, wholesale and two discounts.

There are around 2.7 million potential customers for PerryCare. For each 1 percent purchase rate, ERS would "earn" approximately \$16 million per year. Were ERS able to attain the Wal-Mart sales rate, 7 percent, it would collect almost \$120 million. Should everyone without health insurance purchase the offering, the state would earn \$1.6 billion, which would cover the annual appropriation our most generous legislature makes each year.

One would assume with 30 – 40 percent of the state’s population in a single group, which you might rename, Perry’s Extraordinary Plan for Everyone (PEPE) instead of PerryCare, the state negotiators would be able to reduce reimbursements rates by 5 percent, which would reduce ERS outlays for active employees by over \$100 million.

Given our legislative doctrine that the state should be more like a business, PEPE should be a slam dunk. Reducing the un/under insured in the state at a reasonable cost and also realizing a reasonable return might violate the state doctrine, “less is better, then more.” ☺

Components to Consider w/ PerryCare

An Accountable Care Organization should be considered to provide coordinated care to members.

Divide and Kill – bundle the services for individuals like me, a diabetic for 47 years. A component of this service would be a Palin Palliative Panel (PPP) to assist w/ post-retirement planning. Could also assign a Dr. Jack. -☺

Many might conclude that we can't do this; however, you do have a relationship w/ Goldman, Sachs, which can do anything. I'm sure they'll be most willing to assist for a fee.

ERS is quite efficient in providing health care, w/ employee expenditures per capita = \$5010. This compares to a state-wide average in 2009 of \$5924.