

February 20, 2017

The President
The White House
1600 Pennsylvania Ave NW
Washington, DC 20500

Mr. President,

Congratulations on your victory by and for the people of the United States of America. I respect your dedication, personal sacrifice and leadership for us all. My name is Jeff Hinton, and I am the founder of Careadigm, Inc., a healthcare advisory firm, dedicated to helping individuals and businesses navigate the complex U.S. healthcare system. Prior to founding Careadigm, I served as the Chief Financial Officer of two public healthcare companies focused on population health management and inpatient cardiac services.

Based on my decades-long experience with healthcare providers, health plans, individuals and business owners, I respectfully offer for your consideration the following principals in support of replacing the Patient Protection and Affordable Care Act (“ACA”) with a superior plan:

I. Lessons Learned from the ACA

As understood by most Americans, the current paradigm of healthcare reform might be expressed as ***providing affordable health insurance to millions of Americans***. While a noble goal, the challenge of achieving this objective is so complex that one cannot even articulate it without introducing a fatal flaw. This flaw is so fundamental and misunderstood that if we are not mindful of it, we might be doomed to introduce another superficial law that continues to create division and disappointment for millions of Americans. The flaw in the current reasoning is that the lack of affordable insurance is not the problem unless we continue to permit it to be. Therefore, providing insurance alone is not the solution. As classically defined, insurance is a predictable and profitable business. There is no shortage of enterprises motivated to sell it to us for everything from car accidents to broken washing machines. We must replace a product called health insurance as the driving mechanism of reform.

I suggest a new paradigm of healthcare reform, i.e., ***Helping every American afford to pursue a healthy life, regardless of medical conditions beyond their reasonable control***. The new paradigm of healthcare reform makes two realities clear. First, as a financial transfer of risk for a premium, insurance does not, in and of itself, promote the health of our citizens. It has been used as a transfer of cost, not risk, from those who can’t afford to pay for their care to those whose care is relatively inexpensive. “Insurance” is currently the de facto taxing and spending mechanism of the ACA. Private companies were commissioned to do indirectly, what the government could not explicitly accomplish. The health insurance industry was hijacked to avoid the challenges of raising taxes to fund a large social program. Jonathan Gruber articulated the deception rather clearly. As that reality set in, Americans wised-up, something Gruber must not have foreseen. Faced with an unacceptable value proposition, people fled the marketplaces where compliant policies were sold causing a death spiral of claims and leaving insurers with billions in losses prompting their exit from the ACA marketplaces.

The second reality of the new paradigm is that one’s health will never be optimized without a person’s choice to ***pursue*** a healthy life. Achieving a fundamentally new paradigm of healthcare reform and re-shaping the healthcare cost curve is a multi-year journey. No political party is going to get all the credit for achieving it, but there are important steps that

must be taken now to lay out its course and begin the journey. I compare the magnitude of this vision to the one John F. Kennedy articulated when he set out the remarkable goal of sending a man to the moon. We must establish clear objectives and estimate the cost and time to achieve them. Once quantified, we must also raise revenue sufficient to achieve these objectives and develop the healthcare delivery models that make it work. This is the only sustainable way to build the national expertise to cost-effectively meet our high expectations and to pay for them.

II. Options for the Insurable

We also learned from the ACA that the cost of caring for those with chronic conditions is much higher than we originally thought. For the nation to take this burden on, we must save wherever we can. Nearly 30% of all healthcare costs originate from the top 1% of consumers, and approximately two-thirds of all healthcare costs originate from the top 30% of consumers. That leaves the remaining majority of 70% of our population consuming only one-third of total healthcare expenditures. Most Americans will see an immediate reduction in their total healthcare costs if we do two things i.) restore traditional health insurance to cover future medical conditions not evident at the time insurance is obtained and ii.) establish a consumer-oriented marketplace driving competition among healthcare providers for actual goods and services.

In my regional market, the cost of true health insurance for conditions that may arise in the future is approximately one-fourth the cost of ACA-compliant coverage. The broad availability of lower-cost coverage, i.e. true health insurance, will also reduce the financial burden of subsidies for those who are insurable but still find coverage unaffordable. The restoration of health insurance will also increase the number of those willing to purchase it and create larger insurance pools that are efficient, cost-effective and profitable for insurers. By having and maintaining health insurance, insurers should not be allowed to drop coverage or increase an individual's premium due to a change in that individual's medical status. Those costs should be borne by the total insured population, and rate increases should be justified by traditional measures.

Concerning the marketplace, it should be a place where actual goods and services are promoted and acquired, not a bastardization of insurance. We have settled far too long for the excuse that healthcare is too complex for ordinary people to understand and economically evaluate. We have also permitted healthcare providers and insurers to promote an unhealthy level of consumer fear by posing as relevant, prices derived from a master price schedule for goods and services where nearly no business actually transacts. This fear promotes over-insuring which leads to over-consumption and ultimately higher national healthcare costs.

Consider the example of my client who needed a liver transplant. The procedure involved a complex series of advanced approvals, pre-qualifications, surgery, hospitalization and post-operative treatments. The entire transplant case was performed by a regional center of excellence for a flat, pre-negotiated fee of approximately \$130,000. Imagine how simple it would be to disclose the price of common medications, office visits, lab tests, imaging and inpatient and outpatient surgeries. A significant concentration of any primary care or specialist physician's work can be disclosed on a single sheet of paper. Perhaps 80% or more of them would fit on five lines or less.

The current system of disclosing outrageous charges and allowing insurers to methodically overstate the value of network savings is dysfunctional and contrary to public interest. Americans should be able to identify the exact prices they will pay for common goods and services when considering any alternative options for their care. Foreseeable complications to common procedures should be summarized in narratives pertinent to the respective

provider, and pricing for those complexities should be in line with the prices of more common procedures. We should never be confused by misleading gross charges on any medical bill or explanation of benefits. These fundamental market reforms will help every American become less dependent on insurance products, the most expensive form of liquidity, and more dependent on consumer-directed tools leveraging transparent pricing and healthy competition for our business.

III. New Individual Mandate

Since most of our healthcare costs pertain to uninsurable individuals and otherwise insurable individuals with uninsurable conditions, this area will require our greatest innovation and financial support. In addition to offering suggestions below on how to improve the efficiency of delivering healthcare to this segment of our population, I would like to first re-emphasize the fact that our moral obligation as a nation to assist those in need of financial support ends with those who choose not to demonstrate a basic level of personal responsibility for their own health, despite the mental capacity to do so.

I was informed by a national health insurance company that, after the ACA mandated 100% coverage of comprehensive preventive care, the vast majority of its members were still not receiving annual physicals. If we want to have any chance of cost-effectively addressing the cost of this population, we must require new quality measures. For those obtaining financial assistance in paying for the cost of uninsurable conditions, we should establish as a minimum requirement i.) annual physicals and ii.) adherence to plans of care to treat chronic conditions as recommended by the duly-licensed medical professional of their choice.

Sadly, I project that many Americans will continue to ignore the prudent practices outlined herein, and, at some point in their lives, they may need financial assistance and not be able to obtain it. I hope that future advancements in treating many of these conditions will at least reduce the cost of caring for these conditions on a self-pay basis. However, it will be a tremendous accomplishment to first help those who are pursuing their own health. When we have achieved that goal, we can afford to evaluate the merits of re-opening periodic enrollment opportunities in these programs for those who previously neglected the requirements and yet begin complying with them prospectively.

IV. Options for Uninsurable Americans and Uninsurable Conditions

As previously stated, the new paradigm of healthcare reform is going to require innovation. Having effectively removed a significant block of large claims from the general risk pools, we must concentrate the nation's intellectual capital and economic buying power to offer a new series of programs to treat uninsurable conditions. A national critical illness plan will admit only those who are uninsurable or who have uninsurable conditions. Thus, it is possible that this focused coverage will be a complement to broader coverage obtained by traditional means. The projected cost of the combined coverages should be affordable as currently defined by the ACA.

By no means am I suggesting that developing national programs for treating chronic conditions will be easy, nor do I expect that paying for them will be popular with everyone. But, by adhering to the new paradigm of healthcare reform, I expect improvement over the current law based on the following:

- Those receiving financial assistance will be offered focused, condition-specific programs designed at the national level to limit choices in return for lower costs that result from a concentration of buying power. I would envision multi-year provider

contracts to permit a reasonable financial return for the professionals and organizations willing to invest in massive operational efficiencies.

- The opportunity to win large national contracts for disease-specific treatments will foster new healthcare innovations like we have never before seen.
- Unlike the current system where the medical loss ratio provisions permit insurers to mark-up the cost of chronic conditions and layer it across the entire population at standard profit margins, the business generated by these new programs should be serviced on a less expensive administrative services fee basis.
- The introduction of a new individual mandate to take personal responsibility for key elements of one's healthcare will remove a potentially significant number of participants from subsidized programs because many will continue to neglect their own health.
- Compliance with the new individual mandate will improve the early detection of disease, reducing associated costs and saving lives.

As the nation sees improvements in the efficiency and delivery of care, knowing that those receiving financial assistance are also complying with basic clinical standards, the political challenges of raising the taxes necessary to pay for a higher standard of care for all Americans will become more realistic.

I thank you for your generous consideration of the principles outlined above.

Very truly yours,

Jeff Hinton
President, Careadigm Inc.
114 Westfield Rd.
Knoxville, TN 37919
(865) 588-3545

With copies to:

United States Senator Lamar Alexander
United States Senator Bob Corker
United States Congressman John J. Duncan Jr.