



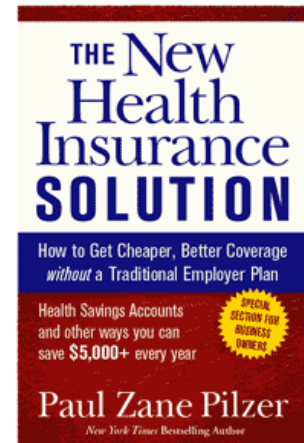
FREE NEWSLETTERS OF ECONOMIST/ENTREPRENEUR/PROFESSOR
PAUL ZANE PILZER

NEW YORK TIMES BESTSELLING AUTHOR

Three Newsletters on The New Health Insurance Solution

This issue is part of a triptych of three different newsletters related to my new book, *The New Health Insurance Solution* (Wiley, 2005). All three newsletters are available at www.paulzanepilzer.com

1. *How Americans can now get quality affordable lifetime health insurance for themselves and their employees*
2. *How U.S. consumers are financing the \$1 trillion wellness revolution*
3. *The Economic Impact of the New Health Insurance Solution on the U.S. Economy*



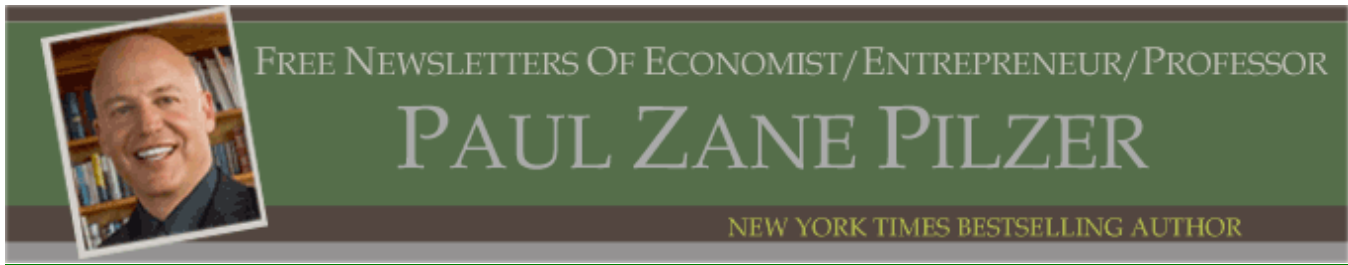
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The Paul Zane Pilzer Newsletter Economic Impact of The New Health Insurance Solution on the U.S. Economy by Paul Zane Pilzer October 1, 2005

In the 1980s when I was a lecturer at Moscow University in the former USSR, I was embarrassed when questions were asked of me about U.S. health insurance—this embarrassment led me to testify before the U.S. Congress about the problems with employer-sponsored healthcare. In 1985, I testified:

"Show me a person who owns their own 100-employee business, and I'll show you an employer who knows the first name of each child of an employee who has diabetes—even though they are not supposed to know. A small employer with a \$35,000-a-year employee should not be burdened with the \$75,000-a-year medical cost for a child of that employee who has diabetes."

More importantly, as pointed out in my last three books, the health insurance system is the number one threat to your financial future. Today, approximately one million U.S. families file bankruptcy each year because of medical bills, and 75% of these families owned a home and had employer-sponsored health insurance when they first became ill. Once they could no longer work, they lost their job and their health insurance at the same time. What kind of "insurance" is that?



Until very recently, Congress did little to address this national tragedy except to vote themselves lifetime coverage. But, our federal and our state governments have now finally passed the legislation necessary to reform our \$2 trillion healthcare system. However, there has been so much else going on in the world that few individuals and businesspeople know about these new changes, or how to take advantage of them. This is why I wrote *The New Health Insurance Solution*, a new book that is being released this month.

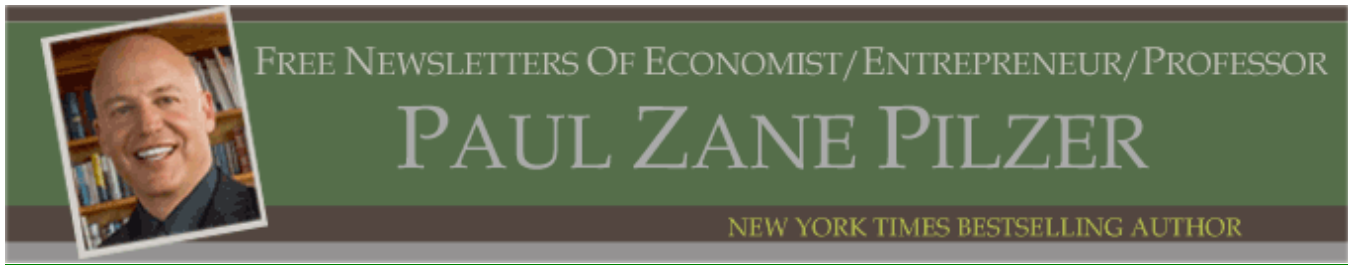
The New Health Insurance Solution explains how individuals can now get affordable, permanent health insurance without an employer-sponsored plan, and how businesses may now give their employees tax-free allowances to purchase their own affordable, permanent health insurance. The book also explains every aspect of managing your health insurance—from maternity coverage to HSAs to the new Medicare Part D prescription drug coverage.

The main "solution" for every American not receiving Medicare or Medicaid is to get their own individual or family health insurance policy directly from a major insurance carrier. Such policies are "guaranteed renewable" which means that your premium cannot be increased nor can your policy be cancelled because of a future illness or claim. Individual/family policies today cost about half the price of equivalent employer-sponsored plans. The reason they are so inexpensive is that, in 46 states, insurance carriers are allowed to accept only the 80-90% of applicants who are healthy and likely to stay that way. My book explains in detail how to obtain such a policy.

This solution was not universally available to all Americans until recently because (1) coverage was not available for the 10-20% of people with a preexisting medical condition and (2) businesses were not allowed to pay for individual/family policies in lieu of having an employer-sponsored plan. This is no longer the case. Beginning 2005, all states are required to have individual health insurance policies available for people who are rejected for traditional individual/family policies. And, also beginning in late 2005, businesses are offering employees tax-free reimbursement of the premiums that employees pay for their own individual/family policies.

These changes are having a profound impact on the entire U.S. economy and on employment in particular. Many employees have felt trapped in jobs they don't want because it was the only way they could get health insurance. Many employers have been reluctant to hire otherwise good employees because of the enormous cost of providing health insurance—the average employer-sponsored healthcare plan cost \$14,000 per family in 2006. These employees are now free to pursue their own American dream and work where they want, and companies can now hire people based on their ability to make a contribution without fears about the health of their families.

These changes will soon have an even greater impact on the largest sector of the U.S. economy, the \$2 trillion healthcare sector that now accounts for 1/6 of our Gross Domestic Product. When you give the 80-90% of healthy employees a \$7,000/year allowance to purchase their own family policy with the same coverage as their former \$14,000/year



employer-sponsored plan, most employees instead choose a higher-deductible policy with lesser coverage for \$4,000/year, and request that the \$3,000 difference be contributed tax-free to their Health Savings Account (HSA). All of a sudden, when it comes to spending their own money, it's surprising how few employees want bells and whistles they don't need like maternity coverage, psychiatric care, or name-brand versus generic drugs.

Automatically, and almost overnight, employees switch from being wasteful medical consumers spending "other people's money" to being sharp, educated patients—questioning the price and value of each prospective treatment. The effect has been not to drive down quality as many have feared, but instead to drive down price and drive up the quality and convenience of medical care.

For example, when LASIK eye surgery first came out in the 1990s it cost \$3,000 or more per eye and was performed mostly in hospitals. Because LASIK was not covered by health insurance, it was one of the few major medical procedures subject to free market forces. In less than 10 years, in response to popular demand from consumers spending their own money, the quality greatly increased, the price dropped to \$500 or less per eye, and the treatment is now mostly performed at convenient retail locations. This is what is now about to happen to most of the U.S. healthcare system.

I estimate that, once free market forces and advancing technology are allowed to work their magic on the rest of the healthcare system, we will be able to provide what we now get for \$2 trillion for \$1 trillion or less—and we can use these savings to either double the quality of healthcare or pump a new \$1 trillion into other areas like education and job retraining.

Once consumer-directed healthcare takes over, millions of Americans working in unproductive jobs will become available to take new productive jobs. For example, today between 2 and 3 million of Americans working in healthcare do not provide anyone any care—half of them work for doctors/providers and half of them work for insurance carriers. All that these 2-3 million people do, like two giant opposing armies, are pass bills back and forth between the doctors and the insurance carriers arguing over who should pay what for a service that occurred weeks or months ago.

It's amazing that you can get your home supplies en masse at a Home Depot, or pet supplies at a Pet's Mart, but when it comes to the largest sector of our economy, no one has yet successfully opened a "Medical Depot" for discounted, name-brand health products. But this, too, will change, and I will save the subject of entrepreneurial opportunities in the new health insurance solution for a future newsletter.

Paul Zane Pilzer
October 1, 2005