



Episode 481: How Capitalism Can Fix Health Care

Guest: Josh Umbehr

WOODS: I'd like to talk about your practice first of all, because it's not completely unique, but it's highly unusual from the point of view of the average consumer of health care, the average deliverer of health care. I want people to know exactly what it is you do, and then I want to talk about the more general question of government and health care. So tell me about Atlas.md and why it's a little bit different from my neighborhood physician's office.

UMBEHR: Well, in a lot of ways nothing's different, and in some ways everything's different. It's Marcus Welby medicine with an iPhone, because it's going back to what a lot of people remember from their doctor in the old days, where they worked directly with their doctor; there was no insurance; you paid with cash or chickens, and the doctor took care of you. But our system, tomorrow will be our five-year anniversary, and we started with the idea that we have insurance for the wrong things. We don't have car insurance for gasoline or home owner's insurance for lawn care; why have health insurance for family medicine, the bulk of what most people need?

And we were able to remove that middle man, the third party payer; we structured it a little differently on the billing side, so it's a flat rate per month based on age, just like a gym membership, and for that membership, you get unlimited home visits, work visits, office visits, technology visits – like email, cell phone, texting, Twitter, Facebook, Skype – basically whatever we want, because now we're not limited from what insurance will allow or pay for. Then we have no copays in our office. Any procedure we can do in the office is included free of charge, because that's what the membership is covering, just like any equipment in the gym is included at the base membership price – so stitches, biopsies, joint injections, ultrasounds, bone scans, lung scans, urine testing, strep throat testing, minor surgical procedures – all included for free.

Then something else we do that makes us very unique and valuable is wholesale medications, labs, imaging, and pathology. So I can get – we had a perfect example recently. We ordered some blood work, we have our negotiated cash discounts of usually 95%, and a patient's blood work was accidentally billed through the insurance rate, because of a computer mistake at the lab, and the price that they were quoted was \$1,028. We ran that back through our system; it cost \$39, a 97% savings by just

cutting out the middle man. And it's an amazing opportunity; it's far past the 10x improvement that most entrepreneurs are looking for.

We can do the same things with medications. We out-compete the Wal-Marts, the CVSs, the Targets of the world, because we have a different business model. We can dispense medications in Kansas just like a pharmacist. 44 states allow physicians to function like this, and so I can order the medications wholesale from the same places the pharmacies do, but I can get 1,000 blood pressure pills for \$8.33. Even after my 10% markup, they're under a penny a pill. Wal-Mart would literally have to give them away to outcompete us, and if they do, great; we still win. It's not a value that's a revenue generator for us; we're adding to the value of the membership, very Costco-esque. So we could drastically reduce the costs of people's health care by 80 to 90%.

We can take all of the value; we can go to your employer; we can restructure their insurance plan, decrease the premiums by 30 to 60% year one. We had an example of a company in town here in Wichita, Kansas, 18 employees. Long story short: from 2013 to the end of 2014, decreased their out of pocket costs for insurance from 98,000 to 47,000, year one. Now, employees had unlimited access 24/7 to their doctor – call, text, email, visits, hour-long appointments if necessary, free stitches instead of going to the ER – but none of that was claimed toward the insurance. Even the insurance company loves us now, because they realize their in the business of insuring rare catastrophic events, not the daily things.

So in a lot of ways, we haven't done anything different – this is regular medicine, regular blood pressure, regular stitches, regular doctors – but then in other ways, we've done everything different. The exciting part but maybe the sad part too is all these pieces were in place for the last 20 years. Any doctor could be doing this going back a long ways. We didn't create a new way of dispensing medications, of dispensing labs. Those discounts were already available inside the system. It just took doctors who were willing to say the system's broken, and I'm going to take a very logical business approach to this.

But that's not medicine. My med school, we were taught that business is bad, it's beneath us, it's unbecoming and unprofessional of a physician to dirty their hands with it. Of course, I didn't buy that. Business is the most ethical of things, because it forces you to ask the question what is value, what is right. And I can go to a patient and say you're getting your migraine medicine for \$200 a month at the pharmacy; I can get it for 6. That is a better value for you. If I take my oath of "Do no harm" seriously, it has to include "Do no financial harm." That means I should be the constant advocate in an open and free and efficient market for my patients, looking for the best prices, the best quality, guiding them and bringing high value to them, just like Amazon, just like Wal-Mart, just like any other industry. And so as doctors take that responsibility on, their patients are the benefactor of that.

WOODS: Now after listening to everything you just said, I can't help wondering how can we possibly account for the staggering scope of the savings you're talking about. I could see a little bit of savings here and there, but the scope of the savings you're

talking about basically solves the health care problem, so what could possibly be going on here?

UMBEHR: Well, I think we all understand the health care system is bloated and expensive and bureaucratic and cumbersome, and everyone complains about the red tape. So if we just associate that red tape and bloat of the system and equate that to dollar signs, it makes perfect sense why everything is so expensive and why the health care system is broken. But on that same message would be the proof that we can lower the fees. Actually doing a blood test isn't expensive. We've done that for so long, and the cost of doing that has been driven down to pennies on the dollar. It's the delivery of care, it's the payment system that is expensive.

So when we're insuring the equivalent of gasoline for cars, oil changes, tires, windshield wiper fluid, then we're going to get a very bloated system. And it's not that insurance is bad; it's that we've been using it wrong. So actually I blame doctors more than I blame the insurance company – not that they're blameless, but the real fault lies in the fact that we're using it inappropriately. Einstein said that if you judge a fish by its ability to climb a tree, he'll forever think he's unable. And if we think that we're going to pinch the cost curve by adding more red tape to the system, then we're fools.

What we need is a free market system, and I think we can all agree that there's probably never been a mechanism in history that will efficiencies and drive down the cost of a product and drive up the quality quite like the free market. So when doctors have to compete with other doctors, when hospitals have to be transparent in their prices, when the provider of care, the deliverer is taking their oath to the next level and saying a good business results in good medicine, when done appropriately. Bad medicine applied to a restaurant would result in a bad restaurant, and that will fail. So this idea that medicine is above business is ridiculous.

It is so important, we should look to business to solve those issues first and foremost that the reason health care is broken is that we don't have a Wal-Mart or an Amazon, a Sam Walton or a Jeff Bezos who have a pathologic desire to drive down the cost of their goods and services, because they understand what it means to be valuable. Einstein also said don't aim to be a man of success; aim to be a man of value, and I love that quote, because we're constantly telling that to other doctors looking to start this model. How do you want to be successful? Be valuable to your patients, and they will come to a model like this.

Doctors will tell me, well, I can't get my patients to pay \$20 for their copay; how am I going to get them to pay \$50 a month? Well, a \$20 copay for a seven-minute visit that you're an hour late to is not a value. \$50 a month for unlimited access is. Netflix to Blockbuster. Blockbuster had an unpredictable fee for service type revenue model, very analogous to our current health care system. Netflix found out how to give me 10,000 videos for \$7 when Blockbuster could only give me one for \$7. So if we apply that same innovation to health care, it only stands to reason that we can drastically reduce the cost curve.

The innovator's description of the standard Silicon Valley bar is a 10x improvement, you have to be that much better before the barrier to change is overcome. We're at 20x better. The total cost, if you go back to the last year that I have data for, I think it was 2011, the cost for all prescription medications in the U.S. was 263 billion. The cost for all cancer care was 157 billion. So if we could, with our wholesale changes – and we can get cancer medicines cheaper. Not all of it, not everything's cheap. Some stuff is just expensive. But if you get that lower, and we have an example where we had a breast cancer chemotherapy pill that was \$600 for every two refills at the pharmacy and \$7 with us – a literal 99% savings. Hell, we gave it to her for free, just so we could say we were now providing chemotherapy. So if we took – let's just be minimalists and say we only save 157 billion out of that 263 billion in prescriptions for all the things that are expensive. Well, then we've paid for all cancer care.

Go a little bit further and take out all the administrative burden of that, the duplication of cost, the waste and inefficiency. So when we talk to an insurance company, they'll say family medicine as a total cost isn't enough for us to change if you take that one small piece. I say great, look at the full value proposition under the umbrella of direct primary care, and you will see a value that will incentivize you to change, because that is all the copays, all the procedures, all the family medicine bills wiped away, but then extend that out to the laboratory, the pharmacy, the imaging center.

No one goes to the ER for \$1500 in stitches when I'll do them for free. Why do I do them for free? Same reason Costco does things for low cost, low profit: to protect their membership. So my stitches cost me a dollar each. They're going to expire in a year if I don't use them anyways. I might as well at least get some value with my patient and my job, just like Jeff Bezos and just like Sam Walton, is to save you money – and make you healthy. So if I saved you \$1500 on your stitches, you're going to come back with me, you're going to stay with this membership. I've become valuable to you, and that's how I become successful.

And in the process of appropriately aligning the incentives from doctor to patient to insurance, or to employer and to insurance, we changed the system. Just something as simple as that transparency in price. I have it on my desktop as something I need to post for social media, an example of what's broken with our health care system: name brand price for 30 pills of a medication, \$268. My generic, \$5.39. So when you align the incentives appropriately, no employee wants to pay \$268 out of their dollars for a name brand medication that's no better than the \$5 equivalent. So you saved the system \$263 just by appropriately aligning the incentives. What patient wants to submit a bill to their insurance to wash their car? It makes no sense. Why would you submit a bill to your insurance for a \$5 medication? So we start removing administrative costs, we start putting the true cost of care directly in the hands of the patient, and they can decide to be as aggressive or conservative as they want. And that makes a very free and efficient market.

Wal-Mart, Target, Amazon all know they're constantly competing against each other for similar products. TVX, I can go on and find out the price and compare, and it's

going to be within a marginal difference from each store, because they know what the other stores are selling it for. But medications? I can pull you up one, using a free market tool, GoodRx.com, and one of my favorite examples is Imitrex, a migraine medicine that at the pharmacy, for the name brand, as I pull it up now, is \$565 cash price, anywhere from \$447 to \$486 with a coupon. The generic is \$260 cash price, as low as \$101 – that I get for \$5, my patient gets for \$5, because I don't need to make revenue off the medication. I'm trying to make them healthier; I'm trying to save them money; I'm trying to show the value of my membership.

So every month they refill that medicine, I'm saving them at least \$100. Their membership's 50, they're medicine's 5, I'm giving them \$45 of their life back – that's life, that's time, that's energy. So when someone says, well, this only works well for the rich, for the healthy, that's ridiculous. This works out best for the sick and the poor. Just like any market, I'm reaching the people most likely to benefit from a food service or a phone service or a car service. So the people who want to save money on their medicines and are sick enough to need medicines benefit the most from this system.

So the government is paying \$101 for that migraine medicine instead of the 5 that they should be. Wal-Mart doesn't want a free market in medication, because they're competing against a very inefficient system. CVS gets to charge that much; Target gets to charge that much. And 65% of all prescriptions are controlled by now four large companies. But it only takes one spot of innovation, one doctor like us to say I'll do it different; I'll be the little company that eats a big company, because I'll offer value that you can't compare to, because I'm looking out for my patient. If physicians had been doing that the whole time, we'd have a completely different health care system.

WOODS: All right, well let me interject here, because if I listen to somebody like Bernie Sanders, or even – I don't even have to bring up Bernie Sanders – just a typical politician, that person will say that what we have in health care now is capitalism, and that's why we need less of it, because it's obviously given us all these problems. What would you say if somebody says the system right now that we have is capitalism? And then secondly, since I'm sure you don't believe that, where did it all go wrong, so that we have all these perverse outcomes?

UMBEHR: Absolutely. I think we have capitalistic components to our health care system, but when I believe the stat's 52 or 53% of all health care dollars are paid for by the government between Medicare, Medicaid, state agencies, you don't have a free market. Doctors have to opt out of their contract with Medicare and the government penalizes them for two years if they can't come back in. That's not a free market, that's not free flow of providers to services to people in need. The restrictive contracts that we have with insurance companies isn't a free market. That is a component of free markets.

We have a lot of benefits there, and I think that's why the pieces that are working are working so well, but if you want to compare Medicaid to Lasik eye surgery – and again, yes, this is apples to oranges – but broad terms, most states can show Medicaid

patients, pure government system, have worse health outcomes than uninsured, because at least I can charge a fair price to an uninsured patient and make money. Medicaid, I am told what I can charge – that's not capitalism – and I lose money on that – that's not capitalism – and so I don't take those patients because they're not a value, and I can only lose so much money to keep my doors open. So they end up getting worse health outcomes. That is a badge of recognition that does not serve them well, which is to say I have a Medicaid card. Now, it covers some things great, but it still doesn't result in great outcomes. Compared to something like Lasik surgery for eyes, where the cost continues to go down and the quality continues to go up, because there's little to no government regulation on that end. So the market is free to move forward as quickly as possible.

Another great analogy would be the iPhone to most medical technology. Most medical technology is a decade behind where we're at with anything else. But the iPhone, with limited government restriction, can create the best software that they know how to make and meet the needs of their client in however way they see fit, to the point now that a billion apps have been made. Okay, fantastic. But that's without regulation and everybody's free to create a unique product. Government dictates how we create health care software and says you'll get paid by us, and we're the 800 pound gorilla, it has to do meaningful use or it has to ICD-10, which is coming down October 1st, and we're going to go from a mandatory 15,000 different billing codes to 155,000 different billing codes. They are continually pulling out components of the free market and complicating it with their bureaucracy. So I think we're going to get all the love and attention of the DMV with all the efficiency of the post office.

WOODS: But what about all these examples of countries that have single payer systems, and if you poll the people there, they say they love their health care system?

UMBEHR: Oh, they do, if they don't use it. And there's plenty of data to show – and of course people will disagree on this – but if you actually look at the data, a great example, the World Health Organization says that we rank 38th in total health care, right below Cuba. Well, when they can't blind you with their brilliance, they're going to baffle you with their data, and lies, damn lies, and statistics. What we know is that study was horribly flawed. They were supposed to repeat that every so often like a census; they never repeated it again, because the data was so bad. Cuba just self-reported data, and their self-reported data says they're better than the U.S.'s data. But we actually submitted information.

Part of that is the grading criteria: you pre-weight the scales so that the people you want to win, win. So part of that is the grading scale for how points are awarded to rank health care systems is based on egalitarian distribution of health care. Well, Cuba has a very egalitarian distribution of health care. Everybody gets the same awful health care. And countries like Canada won't diagnose cancer after 75. Infant mortality is a great example, because there are very few countries that strictly follow the WHO's definition of what is considered an infant death. Basically, if it comes out breathing and with a beating heart, it was a live infant. Anything after that is an infant mortality. Some countries will change that data and give it a month before they'll

consider it a live baby and any death in the first month of life is considered a stillborn. So we're not comparing fair data to fair data. But I think you can say, well yes, us compared to second or third world countries, of course we have better infant mortality rates, but we're actually being more honest with the data than other countries.

So those are the things that don't get reported. Maybe we have worse health care outcomes and we spend twice as much. Again, it's a bit of a straw man argument. We already know we spend too much because of a bloated, bureaucratic system, most of which the government has created. In our system, we have no red tape. If a patient wants a medicine and it's appropriate, we give them the medicine. There's no administrative cost involved. The average physician would have seven employees per doctor to run a doctor. We have half of the full time equivalent per physician, because of less regulation, less red tape, less bureaucracy. That would drive down the cost of care.

So yes, we may be more expensive, but we get better outcomes, but we also buy what we want. If I want to go to the ER because I'm worried about something, I can. Not every country can do that. If I want to have an eye surgery that may be more elective, I can. In Canada, you can't. If I want an MRI because I'm concerned about my back, I can go out and purchase that on the open market. In Canada, you can't. So just because we spend more and we get different outcomes doesn't necessarily mean that those are better or worse. Those are consumer decisions made based on what they want for their health care dollars. And I'll be the first to agree that there's a lot of bloat, but at the end of the day, we still have more options, more choice to decide what we want to do.

I think Malcolm Gladwell said it best recently when he was interviewed for a physician website. He said that he's occupied every position on the bell curve from socialist health care, Canadian health care to free market, and now he's on the free market side where we probably need less insurance, less government, less bureaucracy, because those things aren't adding value, but are adding a cost. So the fact that we can remove all that cost and still give our consumer, our patient high choice, is kind of a bedrock of American capitalism.

WOODS: The whole insurance system that we are stuck with – as you note, there's something odd about the fact that you have insurance to get an ordinary check up, but you don't have insurance for all the other things you know you're going to do.

UMBEHR: Right.

WOODS: Insurance is traditionally for things you don't expect to happen. And this seems to have gotten started as a result of a peculiar feature of the tax code that during World War II when the wage and price controls were in effect, you couldn't attract additional labor by raising wages because it was illegal, but you could offer fringe benefits, which in some cases amounted to having your health care paid for pre-tax, and then this became a demand that labor unions had for the future, and it

became embedded in the whole system. I do want to ask you before we wrap up, how is Obamacare if at all going to affect the kind of practice you have?

UMBEHR: Well, slightly tongue in cheek, I'm probably one of the few physicians excited about the Affordable Care Act, because – and this is less Obama; Bush was no friend of the free market at the end of his eight years. Every politician raises the cost of government and health care and bureaucracy and regulation, so it was broken before Obama; it'll be broken after him. But he is speeding it up. The Affordable Care Act is complicating the delivery of care so much that it's driving doctors out of practice. It's making insurance go up 40% a year. In Kansas, Blue Cross has quoted that their average increase will be 37% going into 2016 because we're insuring too much. So as insurance continues to go up based in large part because of government reform – and we haven't raised our prices in five years: \$10 for kids, \$50 per month for all the access that we offer – the delta continually looks better in our favor.

In fact, I don't know if our model would succeed in a economic highpoint, because as incomes are high, there's no need to change, people are comfortable with the status quo as long as they can afford the status quo. We almost need some turbulence in the market for people to see the value of innovation. And if I tried to sell you car insurance that's structured like health insurance now, you wouldn't take it. It wouldn't make any sense. But we stay in the status quo of health care because that's the way we've always done it. So the Affordable Care Act is providing some amount of pressure to incentivize people to look for more logical, more affordable, more common sense options for insuring their high risk health care and for paying for the rest of their health care from doctors who practice insurance-free models like ourselves, so that now, instead of paying a \$25 or \$30 copay for a \$50 blood test, they pay the doctor directly \$1.64 for that same blood test and don't insure that and pocket the savings. So down economy, increasing government regulation, increasing business stress, because of compliance with a bloated, bureaucratic regulatory system, that drives doctors, patients, employers, and even the insurance to a model like this. That pain point has now hit every key player in the health care system to the point that they are actively seeking out innovative solutions to survive.

WOODS: Josh, if people are interested in what you're doing and they want to know about your practice, what's the easiest way for them to find out about it?

UMBEHR: We have a blog at Atlas.md/Blog. We have our Facebook page at [Facebook.com/AtlastMD](https://www.facebook.com/AtlastMD). We have a podcast available at iTunes under the same name. For physicians, we offer all of our consulting on how to convert to a model like this for free, because we're passionate about the movement and rising tides raises all ships. They can contact us directly through Hello@Atlas.md. We're also launching a direct care holiday to help inform doctors and patients of ICD-10, which is going to be that crushing blow for billing, it comes out October 1st, and we're making that a direct care holiday for doctors and patients, so we also have a website, IamDirectCare.com for patients and physicians to learn more about the movement, sign up for their support, follow our social media.

WOODS: Well, that is interesting. I'm going to put all this on the show notes page, everything you just said: podcast, Facebook, blog, this other website you just mentioned. All of it will be up there at TomWoods.com/481. Josh, thanks for your time and especially for being willing to do it at the last minute like this. I really appreciate it.

UMBEHR: Thank you, I appreciate it.