



The Problem with Health Care Reform

By Nathan Kaufman

Providing more benefits to Medicare recipients and the uninsured may be politically beneficial, but it only worsens the financial strain on providers—ultimately limiting their ability to care for patients.



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Whenever the government attempts to fix the nation's health care crisis, the crisis deepens. This is clearly the case with most of the current proposals to reform health care.

For example, the government recently passed Medicare Part D to reimburse Medicare beneficiaries (voters) for pharmaceutical supplies. On the surface, this program makes sense. However, a deeper analysis shows that this pharmaceutical coverage may ultimately result in a reduction in benefits for Medicare beneficiaries.

Together, Medicare and Medicaid comprise more than 25 percent of the federal budget. In addition, by 2013, over 45 percent of the Medicare program will be funded by general revenues (versus premiums and payroll deductions). On April 23, the secretary of Health & Human Services issued a Medicare funding warning that requires Congress to consider proposals to "reduce expenditures on an expedited basis." At the current rate of spending, Medicare's Hospital Insurance Trust Fund is projected to be exhausted by 2019.

Is it any wonder that David Walker, the comptroller general of the United States, has described Medicare Part D as "one of the most fiscally irresponsible pieces of legislation since the 1960s"? The fact that seniors now have a drug benefit has put the solvency of the entire Medicare program in jeopardy.

Pressure on Hospitals and Physicians

Providing insurance coverage for the uninsured is the primary focus of most current health care reform plans. However, once these individuals have government-sponsored health insurance, they will face another crisis: an absence of hospital beds and physicians to provide care.

Medicare and Medicaid represent more than 50 percent of most hospitals' revenues. Medpac reports that on average, Medicare pays hospitals less than 97 percent of the cost of providing care to Medicare patients. The deficit generated by providing care to Medicaid patients is even greater. To make matters worse, hospitals are facing cost inflation due to employee shortages, ever-increasing unfunded regulatory mandates, and escalating

SOURCE: H&HN Magazine online site, Oct. 2007

costs of physician services. In addition, hospitals are losing high-margin services that subsidized the losses from Medicare and Medicaid to physician-owned enterprises.

Medicare's response to these financial pressures on hospitals is to reimburse hospitals at a rate that will decrease the hospital Medicare margin by 1 percent to 2 percent per year. The hospital industry is already reeling from this policy. Several hospitals close every year. Currently, more than 1,000 hospitals are operating at a deficit. Further hospital closures are inevitable due to the underfunding from Medicare and Medicaid. Clearly, the undersupply of hospital beds is going to reach crisis proportions in many markets—if it hasn't already. More than 40 percent of U.S. hospitals report that they have to divert patients from their emergency rooms at some time during any given year, primarily because their beds are full.

In addition, many physicians are seeing their compensation decline primarily due to the shrinking reimbursement from Medicare and Medicaid. Medicare payments to physicians are projected to continue to decline in both real and inflation-adjusted dollars. Medpac projects that by 2010, Medicare will reimburse for physician services at a rate below what they were paid in 1996! In order to deal with this underfunding, physicians are:

- limiting the number of discounted patients they are willing to treat, especially those covered by Medicare and Medicaid;
- developing freestanding services to treat the patients who generate profitable revenue for hospitals, e.g., those needing outpatient surgery; and
- demanding payment from the hospital for services that they used to provide on a voluntary basis, e.g., emergency call.

So, who will care for the indigent and uninsured when they are covered by the new government-sponsored Medicare/Medicaid-like health insurance plan—the hallmark of most politicians' plans to reform health care? Hospitals that are obligated to provide care will not have sufficient capacity. And many physicians have already limited the number of government-funded patients they will treat. The crisis will shift from “no care due to no insurance” to “no care due to no providers.”

The belief exists that if patients (“consumers”) have more financial responsibility combined with more information on the cost and quality of care, then market forces will improve the health care system. But there is no empirical evidence that consumer-directed health care will have any positive impact on the health care system. Research on how patients select their health care provider for all-cash health services, e.g., LASIK surgery, indicates that the pundits are wrong: Consumers will *not* become rational shoppers of health care once they have more out-of-pocket responsibility (see *Health Affairs*, March/April 2007; 26[2]: w217-w226).

Even if the pundits are correct, the supply and capacity of providers will be so limited that choice will not be an option when urgent care is needed.

Covering the Providers

Clearly, any proposal to reform the health care system must address the uninsured problem. However, it must also address several other issues currently not under consideration. Health care reform must:

- Allow physicians and hospitals to align financial incentives to improve quality and reduce the cost of care.
- Increase compensation for physician-patient encounters, thus eliminating the need for physicians to subsidize their incomes by cannibalizing profitable hospital services.

SOURCE: H&HN Magazine online site, Oct. 2007

- Redistribute Medicare and Medicaid expenditures from highly profitable drug companies to underfunded physicians and hospitals by allowing government-sponsored plans to purchase pharmaceutical and other medical supplies at the same rate as that negotiated by Veterans Affairs.
- Tax health care providers who do not provide their fair share of care to the indigent and government-funded patients, and redistribute those funds to providers who have a disproportionately high indigent/government caseload.
- Scrutinize commercial insurance payers (both nonprofit and investor-owned) under antitrust laws/regulations for the extent to which they unfairly dominate their markets.
- Provide financial incentives to expedite the deployment of electronic medical records in physician offices and hospitals.
- Continue reporting on quality and pay for performance to promote the consistent application of the best science in medicine.

The plan to reform the nation's health care system can strengthen our health care delivery system, or it can hasten its demise. The reform plan must recognize the impending crisis in the provider community rather than merely take the politically expedient approach of providing more entitlements to the patients while reducing reimbursement to financially strapped providers.

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