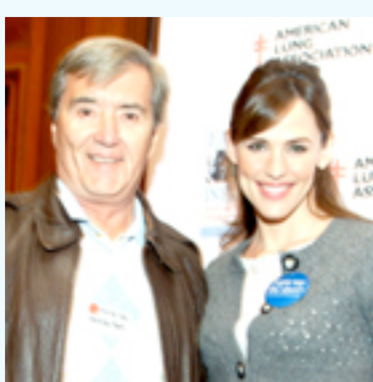
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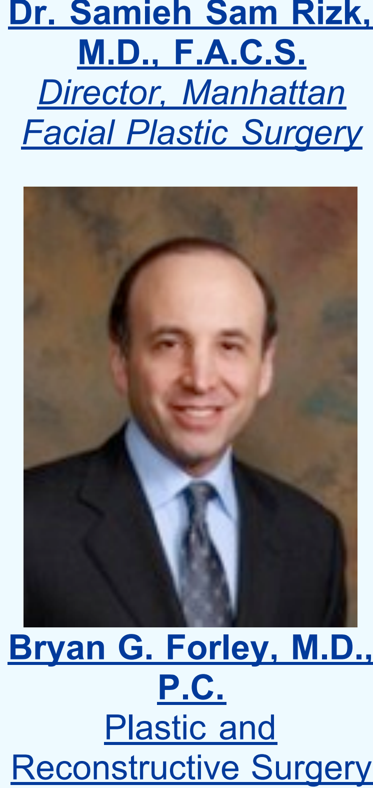
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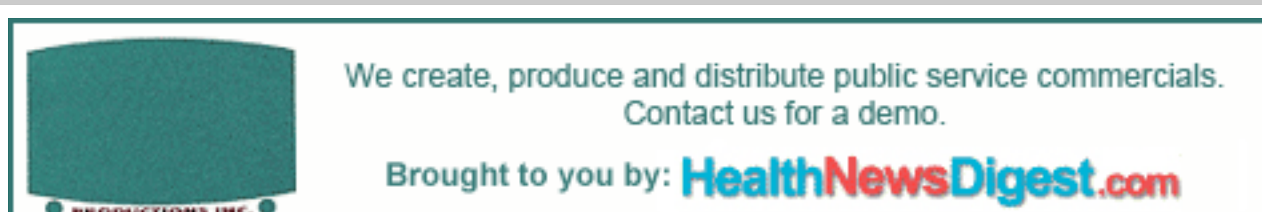

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# False Hopes: Why the Current Reform Proposals Won’t Resolve the Health Care Crisis

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By Robert A. Levine, M.D.
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(HealthNewsDigest.com) - Notwithstanding President Obama’s more active role in the deliberations, the current proposals for reform being shaped by Congress will not resolve America’s health care crisis. Three elements must be included in any program for reform to be successful: universal coverage, stringent cost constraints and simplification. Only the first is being addressed in the plans under consideration.

The use of electronic health records and an emphasis on preventive care in the new plans, ballyhooed by proponents, will not produce the hoped for savings to help fund the expansion in coverage. In fact, there are even questions whether any meaningful savings will result from these measures. There are some analysts who feel that preventive care will improve health and life expectancy, but will merely extend costs over a longer period of time. Electronic health records will also improve care, but will require a huge initial outlay that will take years to decades to pay back. Raising revenue through fees on insurance companies and taxing high health insurance benefits will provide additional funding, but will do nothing to reduce the trajectory of health care inflation. As a number one priority, health care reform should have rigorous cost constraints grounded in reality, since escalating costs could spell economic disaster for the nation down the road.

17% of the nation’s GDP now goes for health care, expected to rise to 25% by 2025 and even higher thereafter. Medicare’s hospital trust fund is projected to go bankrupt by 2016 and the unfunded liabilities of Medicare and Medicaid are estimated to be in the trillions of dollars. 47 million Americans lack health care coverage with millions of others underinsured, unable to afford the out-of-pocket expenses necessary to obtain care. The nation’s products have also been less competitive in the global economy because of businesses’ health care costs. And medical expenses are responsible for over 60% of personal bankruptcies, and a major cause of home foreclosures. Many Americans, especially those who are satisfied with their coverage, do not realize the threat that exists to the nation’s financial well being if health care spending is not significantly curtailed. Yet the reform proposals on the table do not offer any serious mechanisms to rein in spending.

There are some drivers of health care costs that cannot be controlled (demographic changes) and others that are difficult to attack (unhealthy life styles). Huge savings can be harvested, however, in two areas; administrative expenditures and unnecessary care. (Other opportunities exist for savings in curbing the use of unproven technology and expensive drugs of questionable value, negotiating drug prices, and reducing fraud.)

Administrative expenses for health care are generally considered to be in the range of 15% to 25%. Accepting a figure of 20%, $500 billion of America’s annual health care spending, now $2.5 trillion, is consumed by administration. (In comparison, the percentage Medicare utilizes for administration is in the single digits.) The complexity of the present system is the main reason administrative costs are so high. There are numerous insurance companies with different plans having different benefits with different co-pays and deductibles. Many require pre-approvals for various tests, with multiple interactions between physicians’ offices and insurance companies to get authorization for services and payment. This requires more personnel at the insurance companies and in the physicians’ offices. There is also extensive vetting of prospective enrollees for individual policies by the insurance companies (cherry-picking), trying to decide whether “pre-existing conditions” disqualify them for coverage and how to price their premiums if they are deemed insurable.

Unnecessary care accounts for 20% to 30% of total health care spending according to the Center for Evaluative Clinical Sciences at Dartmouth Medical School. The Congressional Budget Office in June of 2008 put the percentage at the higher end, meaning that over $800 billion may be squandered this year on unnecessary care. The major factor behind this is the financial incentives built into the health care system, where conflict of interest is an integral part of the delivery of medical services. Remuneration for physicians is dependent on the volume of patients seen, and particularly the number and intensity of services performed. The need for these services is determined by the physicians themselves, who then arrange and accomplish the procedures. The more tests and procedures physicians do, the higher their income. This may be a fine way to pay salesmen who sell couches or cars, but it is not how a quality health care system should work. Many physicians have become entrepreneurs who see patients as customers rather than sick people who need help, with financial rewards skewing physician judgment and medical care. Not only are these unnecessary tests and procedures costly, at times some may produce adverse effects including serious injuries and even deaths. (Defensive medicine to protect against malpractice suits also generates some of the unnecessary care. Inadvertent duplication of tests when physicians are unable to access previous studies is another cause.)

Under the reform plans currently being discussed, as tens of millions of uninsured Americans obtain health coverage and seek care, spending will greatly accelerate. It matters little whether or not there is a “public option” or insurance cooperatives to provide coverage, or whether other mechanisms are utilized. While competition may temporarily drop the price of health insurance premiums, it does not tackle the issue of unnecessary care or the incentives that drive it. And the increased complexity of the new system could see a rise in administrative costs. (However, mandating that every American have health insurance, and eliminating insurance company “cherry picking” of policyholders by forcing them to insure everyone, could serve to reduce administrative costs on a per person basis by a small amount.)

In sum, the health care reform plans now being scrutinized in Washington are not long term solutions to the burgeoning crisis. The issue of escalating cost is not being seriously addressed, undoubtedly for political reasons. If reform is passed in a similar form to any of the current proposals, major revisions and restructuring will be required in the near future. To get administrative costs under control, a single-payer system is required, an anathema to free-marketeers. (This could be done under the supervision of a Federal Medical Board similar to the Federal Reserve, independent of the government and immune to political pressure.) And to limit unnecessary care, physicians’ incentives to increase services must be curbed, so income will not be related to how many tests or procedures they generate. There are various mechanisms that could accomplish this task among which are payment for episodes of care, capitation, intensive monitoring, and placing physicians on salary, each one with its pros and cons. (Having physicians on salary would probably be simplest to implement and most effective. Over 30% of physicians are already on salary and this paradigm works well to provide less costly, high quality care as shown by the Mayo and Cleveland Clinics, Kaiser Permenante, and some community based groups.)
It should be emphasized that if administrative costs and unnecessary care can be significantly reduced, neither the government nor individual Americans will have to spend a penny more to institute health care reform, including coverage for all of the uninsured. Though overcoming opposition from the insurance industry, organized medicine and the other stakeholders to produce a sensible reform plan might seem like an impossible task, it is the fiscally responsible path to take. Though it will not happen this time around, after a few more trillion dollars are wasted and the financial imperative becomes more acute, comprehensive health care reform, with realistic cost constraints will be enacted. At some point, when the public begins to understand the implications of cost inflation in the health care system, the electorate will put more pressure on legislators to end the crisis. The sooner this is done, the better it will be for America.

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