Cost Shifting
Distorts Health Care

In his inaugural address this week, President Barack Obama listed some of the major challenges our nation faces today and touched on a topic close to my heart when he said, “Health care costs too much.” He’s absolutely right.

I also know that comprehensive health care insurance is a precious and truly valuable benefit our company provides members of our ‘ohana working in Hawaii and our Denver Worldwide Reservations Center. So let’s take a couple of minutes to briefly examine the economics of health care in the United States and why it “costs too much.”

I think everyone can agree that one of the reasons more of our dollars are going into health care is that our population is aging, and senior citizens require a great deal more health care services. I know this from personal experience, both as a doctor and as a patient.

Science has also made tremendous progress in the quality and types of life-saving health care we can now provide.

I recall my early days of medical practice in the 1950s, when I watched the very beginnings of open-heart surgery while working at hospitals in Boston. It was a very risky and relatively experimental procedure at the time. Three decades later in the 1980s, I watched Drs. Chuck and Jenny Kelley help refine the surgical techniques at the Queen’s Medical Center, making open-heart surgery a much safer procedure. Today many types of open-heart surgery are routinely, safely performed every day in communities throughout our country.

But heart surgery is just one example. Advanced surgical and non-surgical cancer treatments, organ transplants, sophisticated electronics and imaging (CT scans, MRIs, and PET scans), telemedicine, robotics (a surgeon can be in one room and the patient in another room, or even another city), a wide range of highly sophisticated laboratory tests, new types of pharmaceuticals barely dreamed of a few years ago, and so forth, have led to far better patient care and have significantly extended the lives of many of our friends and family.

Life-saving advances like these take money, lots and lots of money.

I am sure most people would agree that everything we do in these areas is worth every penny we spend as individuals, as a company, or as a community.

But greater numbers of aging patients and expensive advances in medical science are not the only reasons why the cost of health care is climbing so fast. Unfortunately, the way our nation’s health care system is structured has also significantly contributed to the rise in costs. One of the reasons health care costs have gone up much faster than the rate of inflation is because of something called “cost shifting,” where the cost of care is “shifted” from one group of people to another. If one group is unable or unwilling to pay the bill, the costs are redistributed to others who can’t refuse.

Today there is an unbelievable amount of government-mandated cost shifting going on throughout our health care system. This cost shifting is really a hidden tax on people who buy health insurance, but politicians and government officials don’t like to admit that.

One of the biggest cost shifters is government itself, which currently pays for close to half of all U.S. health care. (*Wall Street Journal*, January 6, 2009: “federal, state and local governments paid for 46.2% of health-care spending in 2007, up from 45.3% in 2004 and 37.6% in 1970.”) In the private sector, if one corporation controlled nearly 50 percent of the market, it would be called a monopoly.

This week, the U.S. House of Representatives further increased government’s share of the health care market by passing, 289-139, a major expansion of the State Children’s Health Insurance Program (SCHIP). The program will now provide government-funded health care for children in families earning up to 300 percent of the federal poverty-level wage ($63,081 for a family of four). Research shows that as SCHIP grows, it displaces existing private insurance policies for kids between one quarter and one half of the time. (*Wall Street Journal*, January 21, 2009)

Unfortunately, SCHIP and most other government health care programs do not pay fair market rates for physician care, diagnostic services, and hospital services. Using their monopoly-like power, government-paid health care programs pay less than the actual cost of services and force the shifting of the rest of the cost to private insurance payers. Government reimbursements paid to health care providers can be as low as 30 percent of the amount needed to cover their costs and allow a reasonable profit.

On top of that, the bureaucracy, paperwork, delays in payment, and seemingly arbitrary denials of claims further increase the cost of doing business and further erode the income from providing government-paid health care.
To survive in business, providers (hospitals, physicians, etc.) have to ask other patients – those with private insurance policies – to pay higher rates to make up for the very low reimbursement from government programs. This cost shifting is one of the major reasons why the cost of health care insurance keeps skyrocketing.

Government regulations also require hospitals to provide free care for patients who have no health care insurance and no other way to pay for services. All hospitals with an emergency room were essentially nationalized two decades ago (1986) when Congress passed the Emergency Medical Treatment and Active Labor Act (EMTALA), which requires them to provide medical screening examinations and treatment for “emergency medical conditions” (including labor and childbirth) for anyone who arrives at their door. The cost to hospitals, particularly those in areas with a high population of recent immigrants, has been staggering. As a result, many emergency rooms have closed and gone out of business.

The emergency rooms and hospitals that are still in business can survive only by even more cost shifting. They have to ask patients with private insurance policies to pay higher rates to make up for the free services provided to others. Those “free” services are certainly not free to those other patients who are paying the bills. They are paying more than it costs for the services they receive so the providers can give “free” care to those without insurance. Because this situation results from government mandates, it amounts to a hidden tax. (This cost shifting explains why itemized hospital bills can include things like a $7 charge for a gauze pad, something a friend of mine experienced a few years ago!)

Legislative mandates also cause cost shifting. Every state has a different “wish list” of medical services and conditions that health care insurance providers must cover in order to be authorized to do business in that state. Some states require that health care policies include coverage for chiropractic services, psychiatric care, alternative medicine, childbirth, neonatal care, etc., etc. The cost of providing these coverages is shifted to those who can “afford,” or at least cannot refuse, to pay, even if they do not want or need those services.

Some states also mandate “community rating” of health care insurance. This means that by law, there is one price for health insurance, no matter what the person’s age, sex, lifestyle, health record, etc. might be. The cost of health care is thus shifted from the old to the young, from those who are obese and unfit, to those who watch their diet and exercise daily, from those who smoke, to those who do not, from those who consume large amounts alcohol, to teetotalers, and so on.

No wonder health care insurance is so expensive! No wonder that, as a result, over 40 million people in the U.S. do not or cannot afford to buy it.

There are several other factors that also contribute rising health care costs, and I do not have all the answers to solving the problems of the U.S. health care system. But I do know that we should all fasten our seat belts. In the coming weeks and months, there will be lots of very significant new legislation on health care at both the state and federal levels. As you watch the action, look for the cost shifting – the hidden taxation – and let your elected representatives know how you feel about it.