

## Talk of the Tundra

# Health-care reform, Medicare and the facts

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In several past columns I have stated that I think that the only truly rational way to reform health care is to institute a single-payer system operated by the federal government using money collected from the public according to ability to pay. I claim that an unbiased examination of factual information on health care systems and application of logic to the result dictates my view. I am not alone here; all industrialized nations have reached the same conclusion and have established systems involving treating the entire population in a single risk pool wherein the payment is by a single payer or several payers making equal payments (an all-payer system.)

But perhaps facts are more useful than opinions, so rather than offer more opinion I present some factual information on the Medicare program. I pick this topic because the Medicare program is much talked about in the health care debates now under way. In particular we are seeing proposals intended to cut Medicare costs. For any of us old or sick enough to be on Medicare (and 60 million of us are), the immediate knee-jerk reaction to any proposed changes or cuts in the program is to scream out in opposition. Surely, they can't do that to us! However, given a little time to look into the facts of the matter, we can see that some changes could be good for all concerned, even those involving actual programmatic cuts.

One proper cut under consideration is to completely eliminate Medicare Advantage, formerly known as Medicare Part C and Medicare + Choice. Most Medicare beneficiaries are enrolled in Medicare Part A (pays for hospital care) and Part B (pays for doctor and other care) but since 1997 the Medicare Advantage program has allowed them to join health maintenance organizations (HMOs) instead. The idea at the time was that this option would provide good health care at costs below that of Medicare A and B.

Not so, as it turned out. Those joining Medicare Advantage no longer dealt directly with doctors and hospitals because they now had for-profit insurance companies to decide what and how much health care they would receive. The quality of health care went down, but, worse yet, overall costs went by 13 percent just to pay for the insurance company administrations and shareholder profits. During 2009 that extra cost amounts to \$9 billion, and over a ten-year period it would add up to approximately \$100 billion. (Based on information in Kaiser Publication #7305-04 available on the Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).) This is not a huge saving, but a significant one that actually would improve health care for the ten million current beneficiaries of the Medicare Advantage program. So this would be a proper reform of Medicare.

Another highly useful reform under consideration by Congress is to allow Medicare to negotiate drug prices with the pharmaceutical companies in the same way the Veterans Administration does. The VA pays only about half as much as Medicare for the drugs it purchases, and Medicare currently spends approximately \$50 billion on prescription drugs each year. So if Medicare were allowed to negotiate, the saving would amount to about \$25 billion annually, for a ten-year saving of approximately \$250 billion. That is more than chump change, and like the saving incurred by dumping Medicare Advantage, the reform would have no negative effects on the health care Medicare beneficiaries receive.

One major criticism of Medicare is the complexity of the fee-for-service system for paying health-care providers. It truly is a cumbersome administrative nightmare for everybody, especially the health care providers. In itself, the fee-for-service system is not inherently bad, as is proven by its successful use in other countries such as Canada. It works in these other countries because health care providers are required to bill at set rates, and these rates are exactly what they get paid for each service provided. The trouble in the United States is that providers are allowed to bill whatever they want, and consequently the billings range from what the providers actually get paid to more than ten times as much. The disparity between billings and payments sets up a negotiation dance that is not only costly and time-consuming but also conducive to misuse and outright fraud. The system clearly needs to be changed, but the needed change is likely to take some years to accomplish so as to

avoid undo disruption.

Another criticism of Medicare is that it does not allow providers to be adequately paid for the medical services they provide to Medicare beneficiaries. The fault here is not with the Medicare system itself, it is the fault of Congress. The details of how funds are allocated between various health care services are determined within the system by the Centers for Medicare and Medicaid, but the overall total is determined by the magnitude of a number called the Uniform National Conversion Factor. Congress has the power to set this number each year, so that body decides the overall annual cost of Medicare. With a laudable intent but misguided methodology, Congress has tried to hold Medicare costs down by keeping the Uniform National Conversion Factor too low.

One potential improvement to the Medicare payment system under consideration is to abandon the fee-for-service system in favor of global payments perhaps on a per capita basis, or also one based on performance instead of the number of procedures performed. Such changes would vastly reduce paperwork and also induce providers to give priority to improving the quality of health care. Both consequences would reduce overall health care costs.

In sum, those of us on Medicare do not need to be concerned over changes to the system because most or all of the changes being contemplated actually will improve the situation for all of us while also reducing overall costs. The changes we should be worried about are those proposed by conservative elements of society that are intended to destroy Medicare. Beware any proposals emanating from organizations such as the Heritage Foundation or the Cato Institute, and even the Republicans in our own Congressional delegation. Recent pronouncements by them indicate a dangerous lack of understanding of the Medicare system.

*Neil Davis is a retired geophysicist and author of several fiction and nonfiction books. His most recent book is *Mired in the Health Care Morass*. More on health care issues can be found at his blog, <http://healthcaremorass.blogspot.com>. His work also appears in *The Ester Republic*. Neil can be contacted at [neildavs@mosquitonet.com](mailto:neildavs@mosquitonet.com).*

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