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Overcharged for healthcare

John McClaughry

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“Overcharged: Why Americans Pay Too Much for Health Care” is a fast-paced 435-page trip through the underbelly of the health care industry, the policies that shape it, and their often undesirable and overly costly results. Its basic point is that “The health care sector will become more efficient and pro-consumer when and only when it is subjected to the same competitive forces that apply to the rest of the economy...To make American health care better and cheaper, customers should use their own money to purchase medical treatments directly, the same way they buy everything else.”

This may not strike readers as obvious, but law professors Charles Silver (Texas) and David A. Hyman (Georgetown) have accumulated a ton of evidence in support of that proposition.

America is now six decades into the Modern Era of Third Party Payment. As of 2016, 91% of families had some or all of their health care expenses paid by third parties, notably the government (Medicare, Medicaid) private insurers (Blue Cross, etc.) , and self-insured employers.

The consequence of this is that aside from modest copays and deductibles, third party payment causes people to engage in what the authors call “an epidemic of overuse”. The resulting overconsumption drives prices higher, and that stimulates all sorts of schemes where providers charge “fee for service” for too many procedures, overpriced drugs, unnecessary medical equipment, dubious mental health therapies, and needless ambulance trips.

Among the practices devised by providers eager to get rich from this spending are “upcoding”, “turbocharging”, “evergreening” and “rent-a-patient.” For many providers, excessive health care spending can become a cash flow dream come true.

Third party payers, especially the Federal government, simply cannot keep track of what services hundreds of millions of people are getting, whether they are “medically necessary”, or whether the billed services are actually provided.

The best that Medicare and Medicaid can do is sniff out as much outright fraud as possible, sensationally prosecute the perpetrators (often including doctors who make honest coding errors), and contrive more complex regulations to keep providers from gaming, as well as defrauding, the system.

The authors come down hard on the “old-time providers” who are ever alert to enlist (and finance) politicians to stamp out threatening competition. Licensed physicians and their employers (increasingly hospitals) are the gatekeepers for treatments and prescriptions, and they jealously protect those government-conferred privileges. (Strangely, the authors ignore one of the most potent tools used to shackle competitors, the Certificate of Need.)

The authors deride every proposed political solution. Obamacare? Pumped billions more dollars into a politicized and corrupt system. Repeal Obamacare? The Republicans could only come up with a feeble “Obamacare-lite”.

Socialized medicine? The authors devote six pages to explaining that Bernie Sanders’ “Medicare for All” - putting the government in charge of one fifth of the U.S. economy -aggravates the overcharging problem, promises to be fantastically expensive (\$518 billion the first year, according to the Urban Institute), and is a pathetic example of “magic thinking”.

Even free marketeers, who would agree with all of the foregoing criticisms, come in for their share. Silver and Hyman oppose any kind of tax incentives or benefits to influence health choices. They even oppose Health Savings Accounts, the tax-free contributions which are restricted to paying for health care, though they grudgingly concede that HSAs “make a horrible tax policy less horrible.”

But later on, after approvingly describing Singapore’s (mandatory) Medisave accounts, they reverse course, and favor HSAs coupled with catastrophic insurance for rewarding people for saving responsibly for their health care needs later in life. What they underappreciate is that the HSA starts a movement away from the third party payment regime that they rightly detest.

The most hopeful solution they offer is an innovative health care retail sector. That includes astonishingly cost-effective medical tourism (to such remarkable medical complexes as Narayana Hrudayalaya in Bengaluru, India.) It also includes CVS Health’s 1,135 Minute Clinics and the all-inclusive cash-price menu of 112 common surgeries offered by the Surgery Center of Oklahoma. (They neglect to mention Winooski-based Marathon Health, which has built over 130 clinics in plants and offices in more than forty states, and integrated providers like Kaiser Permanente and Intermountain.)

Silver and Hyman conclude that “our politicized third party payment system creates bad incentives that attract the already corrupt, and also corrupt the virtuous.” The crucial reform is to move away from non-catastrophic third party insurance coverage, and dramatically expand the role of first party (consumer) payment in a competitive marketplace. Their argument, buttressed by a wealth of facts, cases, and examples, is a powerful one.