

WHY WON'T OBAMACARE SAVE MONEY?

Stephen L. Bakke – August 11, 2009

This is one of several topics which lead into my attempt at identifying reasonable and viable elements of health care reform – “soon to be completed”. My suggestions will recognize the compelling need for reform, accept those aspects which virtually all citizens agree must change, and provide an alternative to the undesirable, and ever less popular, government imposed system.

“The status quo is unsustainable for families, businesses and government.” – President Obama, June 13, 2009

“One of the bewildering ironies of the health-care debate is that President Obama claims to be attacking the status quo when he’s actually embracing it. Ever since Congress created Medicare and Medicaid in 1965, health politics has followed a simple logic: Expand benefits and *talk about* controlling costs. That’s the status quo, and Obama faithfully adheres to it. While denouncing skyrocketing health spending, he would increase it by extending government health insurance to millions more Americans.” – Robert J. Samuelson, August 10, 2009

What’s in the Proposed Legislation?

Obamacare has many elements. I have read much from several drafts of legislation offered thus far. Let me simplify what I consider the two main elements of the proposed legislation. Most prominently mentioned is the public insurance option. Then there is “everything else” which is comprised of secretaries, commissioners, committees, agencies, commissions, lists, procedures, regulations, and a whole lot of “the Commissioner shall” and similar directives. The bureaucracies created are many in number and heavy in personnel and resource requirements.

I have read estimates that the early congressional drafts of Obamacare would add anywhere from 30 to 60 new bureaucracies – depending on how you implement all “the Commissioner shall” instructions in the legislation. It introduces duplication of responsibilities and “coordinators” to handle the duplication – etc. etc. And the democratic Congressional Budget Office (CBO) recognizes that and has profoundly affected the debate by boldly pointing out the impossibility of actually saving costs given the proposals. The CBO actually emphasizes that the proposals will significantly increase costs.

There is nothing inherent in the current proposal that would have a significant downward influence on overall costs. The general concepts as presented also preserve the inefficient and expensive system of “first dollar coverage”. This has been described by commentator Jack Kelly as not being insurance at all, but a “baroque form of third party

prepayment”. Think about it, that’s what it is. And the current form of Obamacare reinforces the wastefulness so predominant in our system – i.e. leaving in place the practice of requiring coverage even for things not desired by a particular individual. This happens through state (soon to be federal) mandated coverage. And it ignores one excellent method for putting downward pressure on costs – transparency of costs to the consumer, and individual ownership of insurance policies and involvement in treatment decisions.

Perhaps the most important thing preventing cost savings is, in the legislation sponsors’ own words, Obamacare expands coverage to almost 50 million more people. Even without reform, experts on the health care labor force state there is already a 30% shortage of primary care physicians, and fewer than 10% of medical school graduates choose a career in primary care. It will either cost more, or cause allocation (rationing) of services to the increased demand. This will reduce quantity and quality of care.

The suggested reforms justify the “public alternative” for insurance coverage largely on the basis of increasing competition among insurance companies. That could truly be achieved “in spades” simply by permitting the hundreds of insurance carriers to individually compete across state lines. As of now, only a very few carriers are available to consumers because of the sanctity of state boundaries. There is no reason to have this insurance alternative if it wouldn’t bring about lower costs.

For whatever reason, there has been nothing proposed in Obamacare legislative proposals that would deal in any way with tort reform. The combination of huge insurance premiums, reflecting the gigantic settlements in medical lawsuits, along with the very expensive level of patient testing, is said to be a direct result of defensive medicine. Tort reform would be a move in the right direction of saving costs. Why is this not addressed?

Where have the legislative drafts of Obamacare dealt specifically with efficiency of delivery of health services? Nowhere have I have found such information after reviewing major portions of the draft House legislation. They only give “lip service” to creating commissions, committees, and agencies to squeeze efficiency out of the system. This has focused on payment for results, not for specific services. How? When has the government ever been effective in that endeavor? Their focus seems to be simply cutting costs by allocating less money to the system – presuming an imposed “efficiency” would result. But the true result is the subject of another “chapter”.

And there is nothing worse than the government’s habit of piling on paperwork and bureaucratic complexities on any system. If they create a governmental insurance option, just think about the level of claims processing that will result. It is claimed that Medicare is more efficient than the health care system in general in terms of administrative (presumably including bureaucratic) costs. BUT, the fact is that the current system benefits the “apparent” costs of Medicare administration by “cost switching”. Medicare and Medicaid don’t adequately reimburse doctors and hospitals for the actual cost of providing health care services, nor for the excessive level government paperwork. The

service providers simply cover their “shortfall” by loading charges on the insurance companies of other non-Medicare/Medicaid patients. This “switching” has been estimated by Milliman, a private consulting firm, to cost other patients over \$89 billion per year.

Preventive Care and Wellness Programs – Surely They Would Work!

One prominent way of reducing costs mentioned by supporters of Obamacare is preventive care and wellness programs. In other words, we should transform our lifestyles and attitudes about our health and in doing so will have a major impact on reducing health care costs.

Prevention and wellness programs are inherently good! They should be expanded and encouraged by the same tax and other incentives recommended for direct medical services. But it is becoming ever more apparent that preventive care and wellness programs will make us healthier but are not likely to reduce health care costs in the long run. There are credible predictions that our system-wide costs may even increase. We will be healthier, which is a good thing. But with our longevity going up, so will the expected total cumulative costs of health care over each of our lifetimes.

Wellness and preventive care must be considered based mainly on altruistic motives. As individuals, we may save money, particularly in the short term. But as a total population, over many decades, these programs will extend our longevity and, ultimately, we all will have to deal with end of life medical issues – all expensive. We live longer and consume more health care services – but that’s OK.

Then What?

The logical result is that in an attempt to deliver the campaign promise to reduce health care costs is to do it by mandating reimbursement rates, and where that can’t be accomplished, by “doling out” health care payments. Given a level or increasing demand for medical care, what will we then have? RATIONING. But that’s another discussion.

Sources of Information

The major sources of information used in developing my health care commentaries will be included in my future report on health care reform recommendations. A preliminary, but not complete, list of sources can be found in my April 2009 report on the status of our health care system and reform.