

Preparing for Healthcare Reform  
By Nathan Kaufman, Managing Director  
**Kaufman Strategic Advisors, LLC.**

***A review of current state and federal initiatives to reform the nation's healthcare system provides clear insight as to the direction our healthcare system will change over the next 3-5 years regardless of who is elected.***

**Any New Plan to Reform the Healthcare System will Result in Reduced Reimbursement to Hospitals**

The government projects that by 2013, over 45% of the Medicare Program will be funded by general revenues (vs. premiums and payroll deductions.) On April 23, 2007, the Secretary of Health and Human Services issued a "Medicare Funding Warning," which requires Congress to consider proposals to "*reduce expenditures on an expedited basis.*"

Providing insurance coverage for the uninsured is the primary focus of most current healthcare reform plans. However, once these individuals have government-sponsored health insurance, they will face another crisis: an absence of hospital beds and physicians to provide care.

Medicare and Medicaid represent over 50% of most hospitals' revenues. Medpac reports that on average, Medicare pays hospitals less than 97% of the cost of providing care to Medicare patients. The deficit generated by providing care to Medicaid patients is even greater. To make matters worse, hospitals are facing cost inflation due to manpower shortages, ever-increasing unfunded regulatory mandates, and the escalating cost of purchasing physician services. In addition, hospitals are losing high margin services that subsidized the losses from Medicare and Medicaid to physician-owned enterprises. Medicare's response to these financial pressures on hospitals is to reimburse hospitals at a rate that will decrease the hospital Medicare margin by 1-2% per year. The hospital industry is already reeling from this policy. Several hospitals close every year. Currently, more than 1000 hospitals are operating at a deficit. Further hospital closures are inevitable due to the under-funding from Medicare and Medicaid. Clearly the under-supply of hospital beds is going to reach crisis proportions in many markets if it hasn't already. Over 40% of U.S. hospitals report that they have to divert patients from their emergency rooms at some time during the year, primarily because their beds are full.

Preparing for Healthcare Reform  
By Nathan Kaufman  
(Continued)

**Any New Plan to Reform the Healthcare System will Result in Reduced Reimbursement to Physicians**

In the face of physician shortages and increasing demand, many physicians are seeing their compensation decline primarily due to the shrinking reimbursement they receive from Medicare and Medicaid. Medicare payments to physicians are projected to continue to decline in both real and inflation-adjusted dollars. Medpac projects that by 2010, Medicare will reimburse for physician services at a rate which is below what they were paid in 1996! In order to deal with this underfunding, physicians are:

- limiting the number of discounted patients that they are willing to treat, especially those covered by Medicare and Medicaid
- developing freestanding services to treat patients that traditionally generated profitable revenue for hospitals e.g., outpatient surgery
- demanding payment from the hospital for services that they used to provide on a voluntary basis, e.g. emergency call

By 2014, the Healthcare Crisis Will Shift from “No Care Due to No Insurance” to “No Care due to No Providers.”

**“Consumer Directed Healthcare” will Result in More Bad Debt Not Rational Purchasing Behavior**

The belief exists that if patients, (‘consumers’) have more financial responsibility combined with more information on the cost and quality of care, then market forces will improve the healthcare system. There is no empirical evidence that “consumer-directed health care” will have any positive impact on the healthcare system. Research on how patients select their healthcare provider for all-cash health services e.g., Lasik surgery, indicates that the pundits are wrong: consumers will not become rational shoppers of healthcare once they have more out-of-pocket responsibility (see Health Affairs, March/April 2007; 26(2): w217-w226.). Even if the pundits are correct, the supply and capacity of providers will be so limited that choice will not be an option when urgent care is needed.

Preparing for Healthcare Reform  
By Nathan Kaufman  
(Continued)

**There will not be a “Single Payer System.” Hospitals and Physicians Must Continue the Battle with Dominant Payers to Capture their Fair Share of the Premium**

While the hospital industry suffers, insurance companies continue to report record profits. By consolidating and dominating markets they attempt to increase their profitability by:

- negotiating marginal rate increases (even rate decreases in many cases)
- arbitrarily denying claims – a major initiative
- increasing deductibles and co-payments which increase bad debt
- steering patients away from hospitals to deeply discounted providers by providing incentives to physicians

**While the next 3-5 years will be turbulent times, it will be possible for providers to continue to achieve peak performance. Kaufman Strategic Advisors has prepared a comprehensive presentation which projects the direction of the next proposal to reform healthcare and offers guidance to providers on how to achieve peak performance.**