Patient Protection? Who is the Boogie Man in the Room?

By

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When the Patient Protection and Affordable Care Act (PPACA), affectionately called Obamacare, was introduced, there were a number of "claims" that were made in order to gain support for the legislation. Of course this could be said about any introduction of legislation. Whether the Democrats or Republicans introduce legislation, the theme is almost the same; to protect the American Public. The question we should ask ourselves; who are we protecting the American Public from? Who is the boogie man in the room that requires a 2,410 page law to "protect" the patient from such a boogie man?

The Patient Protection and Affordable Care Act has in the title, **Patient Protection**. Before the legislation was passed, Nancy Pelosi, the then Speaker of the House, said, "*We have to pass the Bill so that you can find out what is in it… away from the fog of controversy."* When people read the TITLE, many felt pretty good about it. Forget about reading the 2,410 pages of the legislation when you can quickly come to a conclusion based on the title alone. And there are two very important concepts in the title. One is protecting the patient; that sounds good. After all, everyone wants to be protected. And then there is the concept of "affordable". Who would be against something affordable? More on the concept of affordable later.

So if we are going to protect the patient, who are we protecting the patient from? Is it the government? No, the government is the entity that wants to protect you, the patient. Though, many have suggested that the government can often play the role of the boogie man quite well when they decide to overreach through the many administrative rules and regulations. Is it the Doctors? No, the doctors are here to help you get well. Is it the hospitals? No, because they too are here to help you. Is it the patient; are they the boogie man? Not exactly, because even if they live an inactive lifestyle and eat poorly, we have learned that we should blame someone else. And there are many to blame. And the patient can then feel like a victim. So it is not the patient. Who is the boogie man? The insurance company!

Now, most people when the read that the insurance companies are indeed the boogie man, we should explore this a bit before we indict the insurance companies altogether. They are an easy target to gain consensus about who we should blame. However, is the blame warranted? To answer that question, I am going to try to understand the dynamics of the healthcare system in the US. I am going to use analogies to try to make a point.

The question we are trying to understand about the boogie man is why the insurance industry came to be labeled as the enemy. And why did we needed to pass 2,410 pages of a law in order to "protect" patients from the insurance industry? And if we can answer that question, we can then understand better why the patient needs protection. If the insurance company is the boogie man according to the

Obama administration, what makes them deserve such a label? One of the "talking points" we heard from the Democratic Party was that the US spends more money on healthcare on a per capita basis, than any other of the 190 countries in the world. The other talking point was that even though we spend so much money on healthcare, we don't get the bang for the buck, evidenced by the rankings in Infant Mortality Rates (IMR) when compared to other countries, the US ranks near Cuba around 29th in the world.

On the first talking point, it is true that the US does spend a tremendous amount of money on healthcare services. In fact, the US spends aproximately 2.2 trillion dollars every year on healthcare services. That comes to nearly 20% of our GDP is spent on healthcare services. This is where the insurance companies come in. Many believe that the insurance companies are the "drivers" of the cost of healthcare. And if the insurance companies are driving up the cost of healthcare, then they get the label of the boogie man and the government must step in to "protect the patient".

On the second talking point, though an emotional charged claim, one must understand how Infant Mortality Rates (IMR) are calculated to determine whether or not this is a good metric of quality of care of our hospitals. First a baby must be born. Then the baby must die. If these two events occur, then an IMR has developed. However, the length from birth to the death in order to be labeled as an Infant Mortality is 12 months. So once the baby is discharged with the mother, and if the baby dies months later in the care of the parents, is that an appropriate measure as to how the hospital is doing providing quality of care? NO it is not. And most of the infant deaths occur after the hospital discharge. So IMR is not a good metric to tap quality of healthcare of the hospital. In the 1930s, IMR may have been an appropriate measure in that the rate was close to 50%. Today the rate is 5.87 which is a significant improvement which most of that improvement is because of the high quality of care mothers and babies receive in our healthcare system. Thus, implicating IMR as an appropriate quality measure that demonstrates we need to reform our healthcare system evidenced by IMR outcomes is no better than suggesting that I should use a thermometer to measure how tall you were. The thermometer is not a good metric to tap the measurement of height. IMR is not a good metric to tap poor quality of care in our hospital system.

Let's look at another industry to analyze the cost drivers of the oil and gas industry. In particular, why is it when I go to get my car filled up with gas at my local gas station, it seems to cost a LOT? When President Obama took office, I paid about $1.76 per gallon for gas. Some years later, I paid over $4.00 per gallon. Is the local gas station the "boogie man?" To answer that question we need to find out what the cost drivers are for the gas at the gas pump. If I gave you three choices and asked you to select one, which choice would you select as to the biggest cost driver to gas at the local gas station? Is it:

1. The cost of transporting the gas from the refinery to the local gas stations that have driven up the price of a gallon of gas to $4.00 from $1.76.
2. The huge profits of the local gas stations which was achieved by driving up the price of a gallon of gas to $4.00 from $1.76.
3. The cost of the barrel of oil in the open market based on a large part, supply and demand.

The right answer of the biggest cost driver as to what a gallon of gas at the pump is primarily due to the price of a barrel of oil. When the price of a barrel of oil goes up, the gas at the pump goes up. When the price of a barrel of oil goes down, the price of gas at the pump goes down once the inventory of the higher price gas is exhausted. Would it make sense to label the local gas station as the boogie man and create legislation to protect the commuter? We could call it the ***Driver Protection and Affordable Gas Act***. And we would blame the high cost of gas on the local gas station. Then solve the problem through a 2,000 page regulation keeping the focus on the local gas station in the hope that they would lower the gas prices at that pump. Would that work? Of course not! As it turns out, they are not the boogie man.

What does that have to do with healthcare you may ask? Who is the boogie man in healthcare? I am going to look at three possible culprits as to cost drivers of healthcare. Which one would you select?

1. The increase of cost of prescription drugs and in one case the drug was increased to over 5000%.
2. The huge profits of the insurance companies which was achieved by driving up the premiums of insurance policies.
3. The increased cost of the hospitals and doctors charges as well as the utilization of the consumer of healthcare services.

The selection of these three can be tough for many people. As it turns out, prescription drugs account for less than 10% of what we pay in healthcare services and many of the drugs help the patient avoid other costly services so the first one is not the right choice.

Insurance companies that are publically traded file their financials with the SEC and allows us to evaluate the net profit of these insurance companies. As it turns out, over the last 20 years, the insurance companies have had a rather consistent net profit. When I would ask people to guess what they thought the net profit was of an insurance company was, I would get more answers that were north of 35% of net profit. Some answers were profits of 95%. The answers were nothing more than impressions or speculations as to what the insurance company's net profit were. All were wrong! Over the last 20 years, the publically traded insurance companies made on average 3 to 5%. For most people, that is a shocking revelation. If the huge increases in healthcare costs were due because of the "huge" profits of the insurance company, well the facts do not bear this out. The administrative cost range from 10% to 25% depending upon the size of the company based on membership. Those who claim that CEOs make too much money sounds plausible, unfortunately at admin cost so low, that argument has no credibility. So we can eliminate the insurance companies as to the culprit of the big cost driver.

That leaves us with just one more choice. The doctors and hospitals account for over 70% of where the money is transferred from the insurance premium to those providers. Some of what the providers charge is due to two primary elements. The unit cost of the procedure and how many procedures are demanded by the patient. If patient demanded no utilization at all, the hospitals and doctors would receive nothing. So before we start blaming the provider community, we need to understand the demand side first before we complain about the supply side (physicians and hospitals). And here in the US, we want a lot of healthcare. We want all the healthcare services now and close to home and we

want someone else to pay the bill. And as we get older, we demand more services. And most healthcare providers have done a superb job supplying the demand.

President Obama suggested that by passing Obamacare, we would see reductions in family premiums in the amount of $2,500.00 per year. How did he arrive at such a claim? He was under the impression that if everyone was insured, that no longer would doctors and hospitals charge what they charge because the concept of bad debt would go away. How do they get everyone insured? Mandate everyone and increase the Medicaid rolls to the states that decide to expand Medicaid to 400% of FPL. Yet, even if President Obama could achieve 100% of everyone insured, there are two natural problems with his theoretical hypothesis:

1. What is the probability that a hospital or doctor will lower their rates to the insurance company even if everyone was insured?
2. And to the extent there was a philanthropic physician or hospital, what is the likelihood that the insurance will lower their rates based on the unit costs reductions by the hospital and doctors given there is a likely increase in the demand of healthcare services?

The answer to both questions is nil. Neither would happen. Neither did happen. And that is one reason why we did not see a decrease in insurance premiums.

Now the last few words of the PPACA is about "affordable". That word is a meaningless word. What does it mean? If a word has 300 million definitions, then it has no universal meaning. So if the boogie man was supposed to be the insurance company and as it turns out, beating them up all day long will not drive down the costs of insurance no more than berating up the local gas station will drive down the price of a gallon of gas at the gas pump. And the concept of affordable is nothing more than a "feel good" word with no real meaning. Now we can understand why Nancy Pelosi wanted the legislation to pass before anyone read it. Because had they simple read the title and analyzed the title, they would have had a lot of questions as to how this legislation would achieve their stated goals.

So did the PPACA "protect" the patient from rising cost of healthcare premiums? NO. The lessons to be learned are many. One important lesson is to ask yourself what words mean. How does proposed policy intend to solve a stated objective? If the framing of the problem is simply political and misses the real issues, then all the political "solutions" will never work because the problem was not framed correctly. And pointing the finger at a group because we "feel" that the group is the culprit does not make it so. A careful, cogent analysis is necessary and emotions can often hide the facts. And some people live by the policy that "my mind is made up, so don't confuse me with the facts". I think having a careful understanding of the words and industry is far more fruitful.