Where Can We Invest for Effective Economic Recovery?

HEALTH CARE FUTURES IS AN IDEA COMPANY PROVIDING VALUE-ADDED STRATEGIC THINKING TO LEADING HOSPITALS AND HEALTH CARE SYSTEMS, ACADEMIC MEDICAL CENTERS AND PHYSICIAN GROUPS. FROM TIME TO TIME WE PREPARE A THOUGHT PIECE TO ADDRESS A “BIG PICTURE” IDEA TO HELP OUR CLIENTS ACHIEVE THEIR MISSIONS.

THIS ARTICLE LAYS OUT OUR PERSPECTIVE — THAT HOSPITALS AND PHYSICIANS ARE UNSUNG HEROES OF ECONOMIC STABILITY AND GROWTH, AND SHOULD BE A PRIORITY FOR AMERICA’S PUBLIC INVESTMENT TO PROMOTE EFFECTIVE ECONOMIC RECOVERY.

Our Question — How Are These 3 Points Related?

Our country is facing major changes — due to an economic downturn, new political directions, and an unprecedented recent involvement of government in business. Our people are unsettled by this economic uncertainty. Does anyone know where we can invest for effective economic recovery?

Health Care Futures, a leading health care strategy and financial management consulting firm, envisions part of the solution is in the above “graphic”, combining “Play or Pay”, “Hospitals & Physicians” and “Economic Recovery”. How are these points related?

• Everyone hopes for rapid economic recovery. But how? On this key issue there is great debate from learned economists, government leaders and political pundits about which industry to support and how much to spend.

• “Play or Pay” is shorthand for a central theme in President-elect Obama’s health care reform proposal, in which employers “play” by providing required health care coverage or “pay” into a government fund that provides coverage for the uninsured, and increasing the government’s role in funding health care. In a time when health care accounts for over 16% of GDP and is growing, how can paying more be good for the country?

• Hospitals are known to everyone. But aren’t they part of the fragmented, costly and unhealthy U.S. health care “system”? Of the $2 trillion health care industry, hospitals and physician services account for 52%. While hospitals and physicians may be affected by health care reform, how could they fit into the public policy for economic recovery?

Our Answer — Hospitals and Physicians Are Unsung Heroes of Economic Stability and Growth

At Health Care Futures we believe hospitals and physicians are unsung heroes for our economy, and should be a priority for public investment to promote economic recovery.

Hospitals and physicians have been the economic core of many communities. Nonetheless, public policies often continue to crimp their revenues, and weaken them as an economic resource. Now with the current credit crunch and fall in stock market investments, hospitals’ plans for local construction and technological improvements are being thwarted.

Hospitals help keep families physically healthy, and they also help keep families financially healthy through employment. Hospitals employ over 5 million workers, and as the chart below shows, that employment has grown in good times and bad. In today’s climate, unemployment for hospitals in November 2008 was 1.9% compared to 5.2% for financial and real estate sectors, or 7.0% for all of manufacturing, according to the Department of Labor. The American Hospital Association (AHA) reports that in 2007, 45% of new private sector jobs were created in the health sector. Hospitals pay better wages — the U.S. Department of Labor reports that hospitals pay average
earnings for nonsupervisory workers 30% more than private industry pays overall. Many hospital jobs often require a higher level of education, and therefore attract to communities a more highly educated and skilled work force; and, of course, hospitals also provide many service jobs not requiring college degrees. In addition, the AHA reports that hospitals “regularly rank among the top 10 employers in large urban areas” and in “rural areas, hospitals are often either the largest or the second-largest employer”.

While hospitals keep families healthy, they also keep communities healthy. Hospitals support other business; nationally this impact is ~$1.9 trillion for other businesses. For the

average nonfederal short-term community hospital, this translates into over 1,800 local community jobs — in schools, construction, and other services — in addition to the 1,000 hospital jobs. As such, hospitals attract other business into communities.

Moreover, hospitals invest capital locally. In 2007, $41 billion was invested in hospital and clinic construction, and additional investments were made in health services, screenings, community outreach, assistance for support groups, patient education, and other services.

Nationally, hospitals are essential for the country. As already shown, hospitals are a key customer for other industries. Moreover, hospitals — while often organized into systems and part of the nation’s largest industry

in 2006 — they are relatively decentralized organizationally, so as an industry they have less systemic risk of being “too big to fail” or being next in line for a bail-out.

Hospitals are geographically distributed as well, and thus do not have the geographic risk of many Wall Street companies. Hospitals stay in the local community — they and their jobs are not outsourced overseas. And though hospitals are not immune from broader economic troubles, as an industry they remained profitable during 2007 as the country began to slide into recession.

As a major part of health care spending, hospitals at times may have been considered part of the problem in health care costs. Clearly, hospitals have recognized their need to improve efficiencies, and in recent years hospitals have been taking new steps to improve quality and patient satisfaction while reducing costs.

Hospitals and physicians may be providers of care, but they are not the main producer of costs. Studies attribute the growth in costs to other factors, including the advance of technologies, the third-party payer system of coverage, growth in personal incomes, and the aging of the population. These are societal issues beyond the control of hospitals and physicians. So rather than being part of the problem, hospitals and physicians have been supporting the health of our country while delivering care.

Unfortunately, hospitals have been under-paid for their services. The AHA defines under-payment as when hospital costs, that is, the “amount paid by hospitals for the personnel, technology and other goods and services required to provide hospital care is less than the amount paid to them by Medicare or Medicaid for providing that care.” As shown on the accompanying chart, this underpayment to U.S. hospitals has grown from $3.8 billion in 2000 to $31.9 billion in 2007. By 2007, Medicare
hospitals were paid $0.91 by Medicare and $0.88 by Medicaid, for every dollar of cost.

This shortfall in reimbursement for government mandated programs is in addition to other uncompensated care — that is, charity care and bad debt mainly for uninsured patients. Uncompensated care for U.S. hospitals has grown from $21.6 billion in 2000 to $31.2 billion in 2006, and recent surveys show charity and bad debts have grown in the year prior to November 2008 by another 8%. While hospitals have been resilient in the current crisis, they are being hurt — by falling non-operating revenues due to falling stock market investments, by increasing costs for capital and credit, and by declines in elective admissions. At a time when hospitals and physicians could help stabilize and strengthen the economy, federal reimbursement policy compounds their economic stress and weakens their ability to help their communities recover.

“Play or Pay” Can Strengthen Hospitals – as Effective Policy, and Not as a “Bail-out”

An intended impact of “Play or Pay” is to reduce the number of uninsured, reported by the Kaiser Family Foundation as 45 million in 2007, and other studies predict an increase to 54 million by 2010. An October 2008 Commonwealth Fund study of the health care reform plan of then-candidate Obama reported an estimated reduction of uninsured by 2010 of 27 million, roughly cutting the uninsured by half. These formerly uninsured would then be covered in a new health plan, and with their new access to care, hospitals and physicians would be paid for their services — reducing uncompensated care. If “Play or Pay” were coupled with federal policy to reduce underpayment in Medicare and Medicaid, plus funding to help hospitals meet the costs of electronic medical records, hospitals would be financially strengthened, and do what they do when strong — they help heal, they hire, they invest in technology and facilities, they buy supplies from local and other businesses — they strengthen the economy locally and nationally.

Health Care Futures views “Play or Pay” as a continuation of an evolving national acceptance that Americans need to share the burden of health care costs. Past initiatives in this process include Hill-Burton legislation that helped share the costs of building new hospitals, and Medicare to share the burden of caring for the elderly. While an employer role in sharing the cost of health care began in a different era, Americans continue to support it, and “Play or Pay” builds on this tradition. “Play or Pay” enables the Federal government and employers to begin reforming health care through a policy long-considered at the state level, and without resorting to bail-outs sought by other industries.

Hospitals Merit Being a Top Priority in America’s Economic Recovery

In recent months, Americans have seen icons in financial services, retail and other industries go out of business or teeter on bankruptcy, with rescue plans du jour. We have seen our retirement funds crash with the falling stock market. And we have seen proud leaders come to Washington seeking a bail-out. No doubt some of the recent bail-out measures were necessary.

Yet as illustrated on the chart below, many...
have been intended mainly to avert a crisis, and few to-date appear to be designed as investments for actual economic recovery.

Compared to many proposals, investing in hospitals and physicians through “Play or Pay” and similar approaches has the potential to be a strong economic policy — better than a bail-out avertting a crisis, and less costly than some other approaches, while providing the potential for economic stability and recovery in communities across the country. At Health Care Futures, we believe that hospitals deserve to be a top priority in promoting America’s economic recovery.

We recognize that some economists are concerned that “Play or Pay” or other health care reforms could be problematic to the economy. Some analyses suggest that costs of reform could burden other industries, leading to fewer jobs, or lower compensation, or slower economic growth, though Americans continue to support health care coverage through employers. Others suggest that “Play or Pay” will lead employers to opt out of insurance, leading to a single-payer model, though the experience to-date from a similar Massachusetts plan does not show that result. And some express concern that “Play or Pay” is part of a pattern of unsustainable health care entitlements, though that outcome depends in part on plan design and mandates. What is clear is that, under almost any foreseeable scenario, America will be spending more for increased health care, and spending for recovery. We believe it makes economic and political sense to direct that spending toward those that have helped the economy grow and can help it grow again — toward hospitals and physicians.

Health Care Futures — Where We Stand

Health Care Futures is one of the leading business strategy and financial management consulting practices serving health care provider organizations nationally. Our vision includes becoming the best health care business strategy and financial consulting company in the U.S. Our clients include community hospitals and multi-hospital health care systems, academic medical centers, specialty hospitals, physician group practices, faculty practice plans, senior services providers and provider-sponsored managed care organizations.

We are advocates for hospitals and physicians. We believe they are heroes of economic stability and growth. We believe that supporting access to affordable health care is good for our people, and good for business — for our own firm, for other businesses, and for our country. As such, we support “Play or Pay” or other mechanisms that strengthen hospitals and physicians, since they in turn will promote economic growth across the country. From our view, hospitals and physicians should be a pivotal priority for public investment to promote effective economic recovery.

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Health Care Futures believes that strengthening hospitals and physicians is a pivotal priority for our country’s public investment to promote effective economic recovery.