

# The Economy and You Report

ESSENTIAL FACTS • OBJECTIVE ANALYSIS • CRITICAL THINKING • THOUGHTFUL COMMENTARY

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## Essential Facts about U.S. Healthcare

### In this issue

Which liar should you believe? •• What if we had a new oath of office? •• Essential facts about U.S. Healthcare •• An offer you can't refuse?

### Which Liar Should You Believe?

All the lies told during the healthcare "debate" by politicians, columnists, and commentators brought me to the edge throwing up. The only times I have ever heard so many lies were during presidential election campaigns, which somehow manage to reach new records for dishonesty every four years.

The comments from non-politicians were bad enough, but what really upset me was the number of Senators and Representatives who participated in this frenzy of mangling the truth.

An example is one Senator who said the proposed healthcare bill contained a stipulation that didn't exist. During an interview, he was asked point blank if what he claimed was in the bill was actually there. After trying to weasel his way around answering the question, he finally admitted there was no such provision in the bill.

Why is it that the people who hold the highest offices in the land see nothing wrong with lying to all Americans to further their own interests? And what are their top three self-interests? Getting re-elected by pleasing constituents, regardless of the national consequences and costs; getting re-elected by opposing whatever the other political party proposes, regardless of its merits; and getting re-elected by rewarding their campaign contributors with favors so they will get more money for their next election campaign.

Most politicians of both parties lie whenever it is more beneficial than telling the truth - and it's not "misspeaking" or "misrepresenting the facts", it's just plain lying. As an old Jewish proverb put it, "A half-truth is a whole lie".

The lying done by our political leaders is an insult to the American people and seriously weakens our democracy. How can the average person know which liar to believe - especially when the mainstream press does such a poor job of calling politicians out on their lies even when they are painfully obvious?

Do you think our elected officials should lie to us? Don't you want to be told the truth? If you do, then drop a note to your representatives in Washington asking them to tell the truth - even when it hurts. If enough of us speak up, maybe somebody will listen.

Go to <http://www.rstu.org/links/index#contact> and send a message to your representatives asking them to stop lying and reprimand others when they do.

### What If We Had a New Oath of Office?

Let's pretend all members of Congress and the White House had to include the following statement in their oath of office.

*I will not lie to the American people. If I do, the first time I am caught lying about anything that relates to public policy or any national issue, I will publicly apologize and forfeit one year's salary and benefits; the second time I am caught lying I will resign my office within 30 days and permanently forfeit all retirement benefits.*

What percentage of the members of Congress and the Executive branch do you think would be around today if this statement was put in place one year ago?

### Essential Facts about U.S. Healthcare

So many lies have been told about healthcare, I felt compelled to clear the air a bit by providing the following summary of the more important points. This report was compiled from research and hundreds of pages of articles in reputable publications like *The Wall Street Journal*, *Business Week*, *The Economist*, *The Washington Post* and many other reliable sources.

I believe this report covers the most essential facts about our healthcare system, but certainly not everything. If you question any statements, please send your comments to me along with your sources of conflicting information. Any corrections will be provided in the next issue.

#### **What is the scope of the problem?**

The number of people not covered by insurance is estimated at 46 million in 2008. The Census Bureau data is incomplete, but information from other reliable sources leads to the following estimates.

- 46,000,000 - Total uninsured
- 7,000,000 - Illegal immigrants
- 12,000,000 - Could afford insurance but don't buy it
- 15,000,000 - Qualify for Medicaid or other government programs but don't participate
- 12,000,000 - Uninsured Americans who don't qualify for a government program and make less than \$50,000 per year

These numbers are only rough estimates and should be treated as such. Any one of them could be off by 25%, but these figures indicate the problem is considerably less than 46 million people and may be as small as 10-15 million if everyone who qualifies for a government program participated in it.

However, a large group of people has been left out of the discussion – the estimated 25 million people who are under-insured. The definition of “under-insured” is debatable, but there is no question there are millions of people in this group, including those who have been sold an insurance policy that covers far less than they have been led to believe.

Perhaps the best way of stating the scope of our healthcare insurance coverage problem is as follows.

- 7 million illegal immigrants do not have health insurance and are passing some of their costs along to others by using emergency rooms and hospitals which write off all or some of their charges. Illegal immigrants are already eligible for emergency care through the Emergency Medical Treatment and Active Labor Act, signed by President Reagan in 1986. This emergency care is paid for by Emergency Medicaid, private insurance (if the patients have it), out-of-pocket cash, or it's written off as bad debt or charity care by the provider.
- 12 million people are not paying for health insurance they could afford and are passing some of their healthcare costs along to others when they don't pay their full bill.

- 15 million people don't participate in government programs that would provide them a reasonable amount of healthcare coverage, but they would add to government healthcare costs regardless of which program they used.
- 12 million people are uninsured, make less than \$50,000 per year, and don't qualify for any government program.
- 25 million people are under-insured which means they may not get the healthcare they need or they pass along some of their costs to others.

Against this background, companies are eliminating their workplace plans, increasing employee contributions and co-pays and/or reducing the extent of coverage. 62.2% of the population was covered by workplace plans in 2000. By 2008 this had decreased to 58.8% and no end to the downward trend is in sight.

### **How good is our healthcare system?**

There are three important aspects to determining how well a country's healthcare system performs: the quality of services, the costs, and the percentage of the population that receives adequate services.

Making comparisons between healthcare systems in different countries is very difficult because the data can be full of errors, countries are not consistent in their definitions of terms or how they collect data, and outcomes are affected by many other factors than the quality of care. For example:

- The World Health Organization ranked our healthcare system 37<sup>th</sup> in the world, but there are many problems with this study. In the first place, it doesn't pass the smell test of reflecting what we see and hear. If our healthcare system was that bad, we would be the international poster child for stupidity and there would be rioting in the streets. Other faults with the study are that much of the data is questionable and this low ranking is largely caused by our high costs and less than universal coverage, not poor quality of delivered care. In my opinion, this ranking means very little, if anything.
- Our life expectancy is lowered by high rates of murder, obesity, and other factors that have nothing to do with the quality of care, including limited access to healthcare for many people.
- Our higher infant mortality rate reflects better reporting than in many countries and some differences in what countries call "infant mortality".

The quality of care provided by our healthcare system compares very favorably with any other country, but claiming we have the best healthcare system in the world doesn't square with the facts. We are first in responsiveness, have high quality services, have excellent diagnostic tools, provide good preventive care, and provide some specialized services that many other countries don't have because we have a much larger healthcare system.

However, we spend twice as much, or more, on healthcare per person as all other developed countries, we have the highest costs, the lowest access to healthcare services, and we are certainly not the best in everything. Our healthcare outcomes are not superior to other industrialized countries and we have the highest preventable death rate. U.S. survival rates for many diseases are no better than in countries that spend far less on healthcare and people here are less likely to have long-term survival after colorectal cancer, childhood leukemia or a kidney transplant than they are in Canada.

Trying to rank healthcare systems is an exercise in futility, but it is safe to conclude the quality of services delivered by the U.S. healthcare system is generally as good as any of our peers, but we have higher costs and our system falls short of covering everyone.

## Healthcare systems in other countries

All healthcare systems have some problems and their critics. France has a public/private combination that *Business Week* and *The Economist* say does a good job at much lower costs.

Canada's system gets criticized for long wait times, but this is only for elective surgery. People don't wait for urgent treatment and have prompt access to doctors for ordinary care. Waiting times for specialists are longer than in the U.S., but are generally regarded as acceptable. Waiting times for elective surgery can be quite long and much of this is caused by a shortage of doctors.

Canada's government pays the bills, but medical decisions are left entirely up to doctors and there are no requirements for pre-authorization as are required by insurance companies in the U.S. Canadian hospitals are controlled by private boards and/or provincial and regional authorities rather than the government. Most doctors are self-employed.

Because Canada has a much smaller population and medical community, Canada sends some of its citizens to the U.S. for specialized care that is not available in Canada - and it pays the bill.

Most Canadians think their system works pretty well, but they have some complaints, particularly about wait times. One important difference between Canada and the U.S. is that Canada recognizes the shortcomings of its healthcare system and has been working to improve its system through government and private sector cooperation. The same cannot be said about the U.S.

The most important problems with Canada's system are a shortage of doctors, providing coverage in rural areas, having longer wait times than desired and increasing costs. Canada's strongest points are universal coverage, much lower costs than the U.S., and results that are comparable in quality with other industrialized countries. In one study, fewer Canadians reported unmet healthcare needs (11.3%) than Americans (14.4%).

Despite their healthcare system's shortcomings, Canadians like their system. As one doctor said, "Today a politician is more likely to get away with canceling Christmas than he is with canceling Canada's health insurance program." The same is apparently true of Great Britain, France, and other industrialized countries.

Great Britain's Public Health Service (PHS) has some problems similar to Canada's, but the PHS has the overwhelming support of the British public. Switzerland, Germany, and other countries in Western Europe have different systems with different levels of government involvement, but they all have good health results, essentially universal coverage and considerably lower costs than we have.

All industrialized countries have good healthcare systems, but they all have some flaws. It isn't difficult to find some horrific anecdotes of poor treatment, inefficiencies, or other types of poor performance in any country's system, but they are the exception, not the rule.

Opponents of changing anything in our healthcare system like to raise the specter of "socialized medicine" with long lines and faceless bureaucrats "rationing" care, but the facts say the healthcare systems in so-called "socialized" countries provide healthcare services comparable in quality to what we get in the U.S. along with universal coverage and substantially lower costs. The issue is apparently not whether a government is involved, but how well the system is designed and how well it works.

This doesn't mean that a government-based system is the solution to our healthcare problems, but we can certainly learn a lot by examining what other countries do.

One thing all countries have in common is that they are fighting higher healthcare costs. Cost inflation may be more of a problem in the U.S. than in other countries, but it is a worldwide phenomenon.

### **The realities of our healthcare marketplace**

Some politicians and others involved in the healthcare debate have suggested the cures for our healthcare system's problems lie in the free market. This sounds like a nice simple solution, but there is no free market in healthcare as far as U.S. consumers are concerned. Choice of physicians, treatments, and even hospitals are limited by insurance companies; choice of physicians or hospitals is often limited by geographic constraints; outside of education and licenses, consumers can learn very little about a physician's qualifications; no performance information is available to the public about physicians or hospitals; and even if "shopping around" is possible, it is very time-consuming and impractical for anything needing prompt attention.

Other important points about our healthcare marketplace include:

- There is no price competition in the healthcare market. Pricing information on drugs and services is not available to the public and getting a complete cost estimate on a surgical procedure is difficult, if not impossible.
- 1300 companies sell health insurance plans, but there is actually little competition between companies. Studies have found health insurance is one of the most concentrated markets in the U.S. Out of 314 metropolitan areas across the nation, 94% are highly concentrated, with one or two companies dominating the market. In North Carolina, where I live, Blue Cross Blue Shield has 53% of the health insurance market and United Healthcare has 20%.
- Few patients have any idea about the quality of care provided by physicians and hospitals because virtually no data about their performance is available to the public. Even disciplinary actions by state regulators against physicians or hospitals are generally not accessible by the public.
- Consumers often have only one or two hospitals to select from, and where they go is usually decided by their doctor, not the patient.
- Most consumers are poorly equipped to shop for healthcare services or to know what they are getting. You can get some useful information if you know someone well-placed in the medical community, but otherwise you are flying blind.

### **Inequities in our healthcare system**

There are several areas where our healthcare system treats people differently depending on their circumstances.

- Individuals or small companies have to pay considerably more for the same health insurance coverage than employees of large companies. However, the expected healthcare needs of 20,000 employees in a large company would be no different than the expected needs of 20,000 employees in small companies. In effect, small businesses and individuals are subsidizing large corporations.
- Consumers without health insurance are often charged 30-100% more for identical hospital and other medical services. Since there are no additional costs associated with treating an uninsured person versus one who is insured, this is nothing more than taking advantage of someone who is powerless and uninformed. Charging different people different fees for medical services should be illegal unless the additional charges can be justified on the basis of increased costs. How can you justify charging one person 50% more than someone else for doing the same procedure, with the same doctors, in the same hospital? Whatever happened to the anti-trust laws?
- Consumers without health insurance often pay more for prescription drugs than what insurance companies pay. According to an article in *Business Week*, people without drug insurance may pay up to 30% more than what an insurance company would pay for the same drug at the same pharmacy. What costs an uninsured customer \$100 may

cost a private insurer \$77, Medicaid \$60, and the Veterans Administration \$35. Those who can least afford it end up paying the highest prices, but if anything, cash customers should pay a little less than insured customers because the store gets immediate payment and probably has slightly lower transaction costs.

Drug and medical services pricing is similar to buying a refrigerator at Best Buy and being charged 30% more because you paid for it with cash instead of a credit card! Price transparency – a hallmark of a free market – would address much of this problem, especially if consumers received some benefit for buying lower-cost products.

- U.S. consumers generally pay much more for prescription drugs than consumers pay in other countries. In effect, we are subsidizing the rest of the world.
- Consumers who pay for their treatment with insurance or other means subsidize people who don't pay their full bill by paying higher prices to offset the provider's lost revenue.
- Employer-paid health insurance is not taxed; individuals and the self-employed must pay for their health insurance with after-tax dollars.

### Financial considerations

- Someone pays for every bit of healthcare costs. The costs of treating people who can't pay and do not have insurance are passed on to those who can pay. The same is true of people who can afford insurance, but choose not to buy it and then need care they cannot pay for. This is a hidden tax on everyone who pays for insurance.
- We spend the largest share of our GDP on healthcare compared to any other country: 17% of our GDP in 2008 compared to 10% in the countries in Western Europe.
- A recent Business Roundtable study found that compared to France, Germany, Japan and the United Kingdom, U.S. workers and employers receive 23% less value from our healthcare system, but for every \$1.00 we spend, these other countries spend \$0.63.
- The Institute of Medicine and a comprehensive study by Dartmouth University estimate that as much as one-third of all medical care is wasted – expensive drugs that work no better than older drugs or provide few benefits; high tech diagnostic equipment that is over-used to pay for its existence; diagnostic tests performed to avoid possible law suits and boost revenue for doctor- or hospital-owned laboratories; excessive expenditures to prolong the final few days or weeks of life; and even outright fraud.
- We have the highest administrative costs in the world. As much as 85% of our excess administrative healthcare costs are attributed to our highly complex private insurance system. One study estimated that in 1999, Americans spent \$1,059 per person on administration costs compared to \$307 in Canada. Another study found that administration costs ate up about 25% of total health care spending.

The people who seem to bear the greatest administrative burden are the doctors. One doctor complained he spent as much time dealing with insurance paperwork as he did treating patients. One of my doctors said his practice has five administrative people for every physician and the vast majority of those people spent their time filling out paperwork for billing insurance companies and justifying treatment for their patients.

The figures vary on estimates of administration costs, but everyone seems to agree they offer a significant cost-cutting opportunity. Unfortunately, no one appears to be doing anything about it from a system-wide perspective.

- Healthcare costs have grown faster than our economy and wages for many years. According to the Kaiser Family Foundation, from 1999 – 2009, overall inflation was 28% and workers' earnings increased 38%, but health insurance premiums increased 131% according to a survey of employer-sponsored health benefits. During this same period medical costs increased 40-50%, so what justifies insurance premiums increasing 131%?

I just received a notice from Blue Cross Blue Shield that my monthly premium for drug coverage was increasing 44% in 2010. This is bad enough, but the co-pay for preferred drugs is also going up 17%, making the net increase about 50%! Did drug prices increase 40-50% in the past year? What justifies increases of this magnitude? Explanations anyone?

Other analyses produce different figures for cost increases, but they all conclude insurance costs have increased much faster than medical costs, which, in turn, have grown faster than wages.

- Insurance companies consume 10-20% of every dollar spent on healthcare according to the *Washington Post*. Most other estimates put the figure at 20%. Funneling every healthcare transaction through an insurance company is like using a credit card that tacks a service fee of 10-20% onto your purchases.
- Our healthcare system suffers from high overhead and administrative costs. Some estimates put them at 30% of total costs.
- There are huge variations in healthcare spending between different areas of our country, but more spending does not produce better outcomes. Considerable evidence suggests the more doctors, drugs, tests, and therapies given to patients, the worse they fare – and the unhappier they become.
- Employer-funded health insurance has hidden costs to employees besides their share of the costs. Rising healthcare costs have clearly suppressed real wage growth since 1995. As employers have had to pay more, real wage growth has slowed even as insurance costs to employees have increased.
- Taxes are a moot point when it comes to paying for healthcare. Assuming an equitable distribution of costs (as if anyone would agree on what that is), what really matters is the cost-effectiveness of the system. Any government-run system will increase taxes, but if you are paying \$1000 per month for medical insurance today and that is replaced by an increase in taxes of \$700 a month, you are money ahead.
- Probable root causes for our high healthcare costs and spending. We are wealthier as a whole, so we are charged more; we are less healthy, particularly with regard to obesity; lack of competition enables insurance companies and providers to employ lock-step pricing; fragmented markets and systems cause high administrative costs; poorly aligned incentives for providers encourage providing more services to increase revenue; there are no benefits for consumers to seek lower costs when insurance pays for everything and evaluating costs versus benefits is not usually part of making medical treatment decisions; and as new drugs, equipment, and procedures are developed, they are requested by doctors and patients despite high prices and possible marginal benefits.

Another cause of higher costs is that today we have access to diagnostic and treatment methods that didn't exist years ago, but many of these services are much more expensive. In effect, we have been moving in the direction of higher costs and diminishing returns for the population as a whole.

## **Insurance**

- Insurance companies make money by taking in as much as possible and paying out as little as possible. They have strong incentives to deny or limit care and although improving the cost-effectiveness of healthcare is in their interest, they have little reason to try to do so as long as they can pass the costs along to their customers – and they have been very good at that. It's also difficult to see how insurance companies have the ability to impose changes in healthcare delivery processes other than by denying payment for treatments they consider ineffective.
- Consumers are poorly equipped to understand and compare insurance policies. The *Wall Street Journal* recently published an article about a lawyer who couldn't figure out which alternative was best for her and had to get outside help. Whether by accident or

design, I recently found comparing policies and options nearly impossible because the relative advantages of the options offered were not apparent.

- Insurance companies and/or brokers sometimes misrepresent policies, but there are no reliable statistics about how often this happens.
- Insurance companies regularly come between patients and their doctors, “rationing” care by specifying what treatments they will pay for. An insurance company can simply refuse to pay for a treatment or a claim, putting the burden of proof on the consumer and throwing up a bureaucratic barrier to even being heard. Consumers have limited ways of fighting a denial of payment, and being heard by an objective third party is very difficult.
- Non-relevant statistic: 80% - 85% of U.S. citizens are happy with their health insurance according to some polls of questionable origin. 85% customer satisfaction with any product or service is lousy performance in the first place, but a Kaiser Family Foundation poll suggested that the people who liked their health plans the most used them the least. If you haven’t used your insurance for any substantial claim, you are obviously going to be happier than someone whose claim was rejected. A much more relevant statistic would be the percentage of people who were satisfied with their coverage after they had made a significant claim. No such data could be found.

I was happy with my insurance too, until my claim for my son’s surgery was denied by the insurance company even though the company pre-approved the surgery! I won that case, but only by going to the state insurance commissioner.

My daughter was also happy with her insurance until her claim for treating Lyme disease was denied – first on the basis that there is no such thing as Lyme disease in North Carolina (wrong), then because the Lyme disease diagnosis could not be substantiated with lab tests (no such test existed at the time) and finally on the basis that the treatment was “experimental” despite the fact that the treatment had established an appreciable record of success.

Fortunately, the treatment was successful, but this didn’t make any difference because the insurance company simply didn’t want to pay the claim. As is typical in these situations, all the company had to do was deny the claim and throw up all kinds of barriers to getting any objective resolution.

Consumers apparently don’t care whether they get their healthcare from a private system, a government system, or some combination. All they care about is getting good care at the best possible cost and having insurance they can count on when they need it. Of course, there is no guarantee more government involvement will result in lower or higher costs, but the private sector’s record of reducing costs has been pathetic, partially because there are few incentives to reduce costs and there is virtually no free market in healthcare for consumers.

From my perspective as an operations/quality/productivity person, I see a fragmented, bureaucratic, inefficient healthcare system with high administrative costs that has made great medical progress, but falls short of producing the excellent results it could produce.

Our healthcare system (including insurance) still operates much the same way it did fifty years ago, apparently because there have been few incentives to improve efficiency, reduce waste, reduce costs and improve effectiveness. Four very important contributors to this unsatisfactory result are the lack of accountability, the lack of cost and performance transparency to consumers, a closed market, and the absence of incentives to improve performance (not just money).

As I state in my book ***Thin Ice – and Melting: Why Our Economy is Failing and How We Can Stop the Meltdown***, we need to re-engineer healthcare, not just apply a few patches. Even without any additional costs, we could provide better healthcare to more people than what

we are doing today. However, re-engineering our healthcare system is a very difficult and complicated task that will take years to accomplish. Unfortunately, taking a rational approach seems to be beyond the capabilities of Congress.

**But don't give up.** Send this report to your representatives in Washington and maybe we can get some attention. Also see "Stop the Healthcare Madness!" in the August 12 issue (available at [www.rstu.org](http://www.rstu.org)).

Those are the essential facts about healthcare. Interpret them as you wish, but please do what you can to get this report to as many people as possible – especially anyone on Capitol Hill.

**An offer you can't refuse?**

I will send a free copy of *Thin Ice – and Melting* to any member of Congress, any White House executive, or any government agency senior executive who asks for one. If you are one of these people, just send your mailing address to [service@rstu.org](mailto:service@rstu.org).

If you are not in the privileged class on Capitol Hill, but happen to have personal contact with any such people, I'll gladly send a book to you to pass on.

Our economy is in deep trouble and we are not doing what we must do to rebuild it. Despite decades of "stimulating" our economy with borrowed money, it has continued to decline. What didn't work then, won't work now, but no one in Washington will admit it or make the hard decisions necessary to turn our economy around.

**The fundamental strengths of our economy have been declining for at least forty years and this will not change unless the private sector reverses the trend through investment, innovation, and becoming competitive in the world marketplace. Anyone who expects the stimulus package to produce a remarkable recovery is going to be very disappointed.**

Please do your part to help get the word out. Everybody's financial future is in jeopardy.

***Work hard, play hard, help someone who needs it,  
and remember to count the day lost that you don't learn something new!***

Regards,  
Will Kaydos

**PS:** Please forward this report to everyone on your mail list who might be concerned about their economic future. Anyone who isn't very concerned about our economy should be.

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