



Plop, Plop, Fizz, Fizz



By David J. Gibson, MD

The author's family just joined Kaiser — and, as that old jingle goes, "Oh, what a relief it is!"

FEW SACRAMENTO RESIDENTS APPRECIATE the fact that that they now live in a "company town."

Last month, CALPERS dumped all for-profit health plans (HealthNet, PacifiCare, etc.) and kept only Kaiser¹ and Blue Shield. Before this event, Kaiser anticipated 779,356 members in the Sacramento region over the next few years. That projection now looks as though it will be unrealistically conservative.

Last month Kaiser sold \$500 million in revenue bonds and has expansive plans for Sacramento and Northern California. Kaiser plans to spend \$1.6 billion on regional capital projects in 2002, up from \$1 billion in 2001.² Overall, Kaiser has announced plans to spend roughly \$10 billion over the next five years to upgrade its facilities and services in the region.

Sacramento projects include: new medical offices in Folsom that will house 75 physicians; Kaiser Roseville Medical Center plans to open 50 new general medical/surgical beds; new medical offices in Elk Grove; expansion of the Sacramento Medical Center emergency room; and expanding the South Sacramento Medical Center Radiology Department.³

The consumer's perspective

The decision to join Kaiser was not even a close call for me. The factors influencing this decision can be classified as follows: economic factors, product quality and consumer service.

Economic factors:

The table below shows how selecting a health insurance product in an employer-provided benefit package looks to the employee.

For most working families, this pricing structure significantly influences the decision to purchase the Kaiser product. It would be interesting to find out how many physicians in private practice have also chosen the Kaiser option through their spouse's benefit plan.

Product quality:

When all the talking heads finish blowing smoke over quality, there is little evidence that either Kaiser or for-profit commercial HMOs deliver better quality outcomes. Kaiser consistently ranks at the top of such independent quality ratings as the National Committee for Quality Assurance (NCQA) and Health Employer Data Information Set (HEDIS) performance measures, though no one knows what to do with this data.

Consumer service:

The quality of service is now hard to differentiate. The soonest my wife could get an

appointment with an internist under our previous health care insurance, the Blue Cross PPO product, was three months. Dr. Whitelaw documents a case⁴ in the Sutter Medical Group in which a child who fractured his arm on a Thursday could not be cared for until after the weekend — such was the shortage of orthopedic surgeons.

Kaiser once had a reputation, deserved or not, for poor customer or patient service. Unfortunately, instances of poor quality service now range across all of health care. Among insured patients who report problems getting medical care, the percentage that cite barriers that are "health-system related" jumped from 54 percent in 1997 to 62.4 percent in 2001. No other industry, not even the airlines, would tolerate such a service performance.

For some time, the number of practicing physicians in this area has not kept pace with population growth. According to published data⁵, the number of doctors active in private practice in Sacramento and El Dorado counties dropped 13.4 percent between 1995 and 2000. The total number of physicians per 100,000 people in the region dropped to 165 in 2000 from 205 in 1995, a 19.6 percent decline.

Conversely, the Permanente Medical Group (PMG) now receives four applications for each position it fills. PMG'S turnover rate is 6 percent, well below the national range of 10-15 percent.

During the past year, 428 physicians were hired and another 261 will start work some time this year. Young physicians seem to find PMG a desirable employer. These young physicians are very attractive in the market. Many are women — highly sought after by female patients. Some are minority, which gives a cultural comfort zone to young families moving to Sacramento's relatively strong economy.

Fortunately, the type of health care delivery that existed when I graduated from medical school in the early 1970's has largely disappeared. My peers are now, sad to say, mostly middle-aged, Caucasian male, disillusioned curmudgeons. Personally, I want a young doctor who still has the fire and the idealism many of us have lost over the years.

Hospitals are killing private practice in Sacramento

The differences in product pricing will only increase over time. Now that hospitals have lost contact with their local communities and consolidated into regional oligopolies, they have the market strength to dictate high prices to the for-profit HMOs. The Justice Department and Federal Trade Commission tried in the 1990s to deter the move toward local hospital oligopolies, arguing they would raise prices. But a series of federal-court rulings in the second half of the decade rebuffed Clinton administration antitrust officials and gave a green light to greater consolidation. The explanation — judges displayed hostility toward managed care and this animus has translated into misguided sympathy for hospitals.

Inflationary trends for hospital services are now the primary driver in health care inflation nationally.⁶ (Some would contend the increase in drug costs and consumer demand is also responsible, but hospital cost trends are clearly the major driver.) When factored into the cost for services in a commercial HMO product here in Sacramento, the differential cost for the Kaiser product will increase compared with hapless Blue Shield's products.

What is amazing about all of this is that Kaiser is not the best buy for the consumer. Absent a specific interest in preventive care, when purchasing individual health insurance coverage with after tax dollars, a high deductible major medical product is the best buy.

For example, earlier this year I was able to purchase a \$4,000 annual deductible PPO policy from Blue Shield for \$229 per month for our family. This compares quite favorably with the Kaiser product at \$438.42 (\$250 employer contribution — \$188.42 employee contribution per month). Unfortunately, I learned that the risks inherent in such a policy in Sacramento are unacceptably high.

Earlier this year an article ran in the *Sacramento Bee*⁷ illustrating, the financial risk middle class patients expose themselves to in this market with high deductible insurance products. A patient went to a local ER during the night with severe pain and was treated, after waiting five hours, for an abscessed tooth. Thereafter the patient was presented with a bill for \$5,099. That's \$5K for a toothache!

Such billing practices, which are unfortunately the norm, are generating real human misery here in Sacramento. Unbudgeted medical expenses now produce the leading cause of bankruptcy for the middle-class.⁸

These billing practices victimize the uninsured and the private pay patient with high deductible insurance. These fee-for-service patients that are being driven away represent the essential business core of the private practice market.

Medical care from an independent physician is now an unreasonable financial risk for middle class families in Sacramento. As a result, they are either shunted into contracted network structures that consistently work against the interest of independent physicians in Sacramento, or they select the Kaiser option.

Good news or bad news?

Wall Street is predicting that we will see continued and accelerating erosion of the private pay market to Kaiser. Blue Shield's dependence upon the private hospitals in this market will preclude their effectively competing on price in the future.

In fact, my bet is that Kaiser will be unable to build facilities fast enough to accommodate its market growth in Sacramento. A more likely scenario will involve Kaiser's purchase of existing hospitals that are already financially weakened by this market shift (such as the Mercy System) at fire sale prices to accommodate this growth.

One would think that all this is good news for Kaiser — wrong. There is a point where market dominance by a single entity becomes a liability under federal anti-trust law. Market penetration that exceeds 50 percent within a given sector will begin to draw attention from the Justice Department. Remember Standard Oil, AT&T and Microsoft?

Under such circumstances, after Kaiser has "won" in Sacramento, it may be forced to divest. In short, Kaiser could soon suffer from too much of a good thing.

Medical Plans

(Employer has contributed \$250 per month in advance)

Tier	Kaiser	Blue Cross HMO*	Blue Cross PPO*	Blue Card (Non-CA)*
employee only	\$33.80**	\$42.83	\$59.49	\$65.56
employee plus 1	\$188.29	\$160.61	\$223.08	\$245.84
employee plus family	\$188.42	\$256.99	\$356.93	\$393.35

* Represents the lowest cost commercial product (HN, PC, CIGNA, etc.) in each class.

** Employee out-of-pocket monthly contribution.

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1. Kaiser Health Plan, Kaiser Hospitals & The Permanente Medical Group.
2. East Bay Business Times; May 3, 2002.
3. The Sacramento Business Journal; March 8, 2002 print edition.
4. CMA's new chief says improving patient-doctor connection is vital; Lisa Rapaport; Sacramento Bee, Business Section, March 31, 2002.
5. SSVMS; Active Physicians – Sacramento and El Dorado Counties, 1995 – 2000; January 2001.
6. "After an Era of Dominant HMOs, Hospitals Are Turning the Tables;" WSJ; April 12, 2002.
7. "Hospitals battle bill aiding uninsured;" The Sacramento Bee; Aurelio Rojas; Page: A3; April 20, 2002.
8. Institute for Policy Research – Northwestern University; Volume 18, Number 2. "If the average household's debt rises to the level of the typical Chapter 7 bankruptcy filer, and the household has medical debt in excess of 2% of income, such an increase in debt makes that household nine times more likely to file for bankruptcy, compared with a six-fold jump in the absence of medical debt.

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