



The Case Against Health Care Reform



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IN JANUARY, the Senate Health Committee drove the final nail in the coffin of the Schwarzenegger/Núñez medical insurance proposal. The plan would have required Californians to hold private insurance and would have subsidized the premiums for those who

could not afford them.

Even though financing of the current health care system is crumbling, there are a number of sound reasons for the Senate's rejection of the reform proposal. Some important lessons can be applied as the debate moves to the national level. "Universal" health care is a major Democratic issue in the presidential campaign.

The cost for a massive new health care obligation is both unknown and problematic
It became evident during the California debate that state funds would not match the growth in program costs. This painful fact has also been our experience with Medicare.

According to the recently released report by the Medicare Trustees, the program's unfunded liability has grown to \$74 trillion - five times that of Social Security. According to the Congressional Budget Office, health care spending for Medicare is on a course that will crowd out all other government programs. This represents a catastrophic miscalculation of future costs.

Furthermore, Medicare is progressively failing to financially protect existing beneficiaries. Retiree out-of-pocket expenditures for premiums, deductibles and co-pays for parts B and D of Medicare will consume 29 percent of the average Social Security benefit check this year.^{1,2}

Poorly designed reform does more harm than good.

The health reform legislation closely resembled the far-reaching (and disastrous) energy "deregulation" scheme of 1996. The bill was worked out in private negotiations and dropped into the hopper near the close of the session. The Assembly Appropriations Committee conducted a pro forma hearing and gave party-line approval, even though few on the committee or those in the Assembly knew the contents of the bill.

There was no financing component for the \$14.4 billion expansion of health care coverage called for in the Assembly bill. It was highly likely that requiring employers to pay 1 percent to 6.5 percent of their payroll to fund this initiative violates long-standing federal law, as courts have held in other states.

Furthermore, the \$14.4 billion price tag by the Schwarzenegger administration was not credible. The Massachusetts mandated universal health-care plan is generating costs 20 percent over budget. The tab will likely run \$619 million for the current fiscal year, \$150 million over budget, and could increase \$350 million next year. Massachusetts has learned

it costs twice as much to insure people than paying for the sick who show up in hospitals.

The "universal" promise of the Massachusetts initiative is also in question. That state has exempted almost 20 percent of uninsured adults who don't qualify for subsidies from mandated coverage, because it is too expensive.

The board overseeing the plan has approved cuts of 3 to 5 percent in reimbursements for healthcare providers caring for those in the subsidized plan. The suggestion is the cuts will bring reimbursement in line with Medicaid. So, one might reasonably ask, why all the hoopla about reform? Just expand Medicaid. Unfortunately, as reality dawns, we would discover that this approach would provide the uninsured with coverage but no providers to care for them.³

Dan Walters, political writer for the *Sacramento Bee*, observed in a column last December that it is inexplicable "that the governor and the speaker would push an incomplete, unclear and legally questionable health plan, especially when they face a budget deficit of over \$14 billion."

Despite political posturing and misleading polls, the electorate is not ready for reform

On its face, revamping health care should be a political winner. Voters see two fundamental problems with health care. First, it costs too much: 74 percent in a recent Democracy Corps poll say they are dissatisfied with the cost of health care, a number matched in a Kaiser Family Foundation poll from 2006 (80 percent). Second, 70 percent of voters believe the number of uninsured people is a very serious problem, according to a *New York Times* poll.

A strong majority believes health care is a top domestic priority - 55 percent, according to the *Times* poll - and 64 percent believe the federal government should guarantee health care for all Americans.

This appears to create an environment for sweeping reform that state and national politicians have consistently misread. Their interpretation is based on the fact that 90 percent of Americans say the health care system as a whole needs change - 54 percent say "fundamental change" is necessary, and 36 percent say the system should be "completely" rebuilt. Just 8 percent believe the system needs "minor changes."

But the picture changes dramatically when questions shift from the systemic to the personal. Americans are generally satisfied with the care they currently receive. In the *Times* poll, 77 percent of Americans are satisfied with the quality of their care; 82 percent say the same in the Democracy Corps poll, compared with 89 percent in the Kaiser poll.

Why this seeming contradiction? As was the case in 1993, reforms face a backlash if they threaten - or *appear* to threaten - the health plans of insured Americans (who generally vote and pay the taxes for government programs as opposed to the uninsured, who do not).

Polling shows how quickly opinion can turn. The 64 percent majority in the *Times* poll that believes the government should guarantee health insurance for all shrinks to 48 percent if a universal program were to raise their own health insurance cost. The 60 percent willing to pay higher taxes to insure everybody shrinks to 49 percent when a \$500 price tag is attached to it.

In the Kaiser poll, 56 percent say they prefer a universal plan - covering everyone with a system like Medicare - over the current system. However, that number drops dramatically if it includes higher premiums or taxes (35 percent), waiting lists for nonemergency treatment (33 percent), limited choice of doctors (28 percent), or if it excludes certain treatments (18 percent).

An evolving crisis of uninsured is a myth⁴

Despite claims of a health insurance crisis, the proportion of Americans without health coverage has changed little in the past decade. In the past decade, the number of people without insurance increased by 3.5 million, while the number of Americans with insurance increased by nearly 25 million. Approximately 75 percent of uninsured spells last one year or less.

Although immigrants (including naturalized U.S. citizens) make up slightly less than 12 percent of the population, they make up 27 percent of the uninsured. Overall, the total number of uninsured rose slightly, from 15.3 percent of the population in 2005 to 15.8 percent in 2006.

In 2006, according to Census Bureau data, more than 84 percent (250.4 million) of U.S. residents were privately insured or enrolled in a government health program, such as Medicare, Medicaid and the State Children's Health Insurance Programs. Up to 14 million uninsured adults and children qualified for government programs in 2004 but had not enrolled, according to the BlueCross BlueShield Association. Nearly 18 million of the uninsured live in households with annual incomes above \$50,000 and could likely afford health insurance.

Here is reality - over the past 10 years, the ranks of the uninsured in households earning \$50,000 to \$75,000 increased by 49 percent, while households earning above \$75,000 increased by 90 percent. Nearly 18 million uninsured Americans live in households with annual incomes above \$50,000, and could likely afford health insurance.

So, who are the uninsured? For the most part they are young; almost half are between the ages of 18 and 34. Nearly three-quarters of the uninsured describe their health as "excellent" or "very good." More than two-thirds have at least some college education and about half earn middle-class incomes. Mandating coverage for this non-utilizing group represents a massive transfer of wealth from the working young to pre-retirement boomers.

Rushing to replace the current system with a new government-led initiative based on a crisis myth is ill advised.

The focus is on shortcomings of the current system; a "universal" system is presented as glorious and problem-free

The death of 17-year-old Nataline Sarkisyan is a classic example of damming the current system. She died on December 20, 2007, after Cigna initially denied her coverage for a liver transplant, citing insufficient evidence that the procedure would be safe or effective. Jeffrey Kang, Cigna's chief medical officer, observed that "it is highly unlikely that any health-care insurance system, nationally or internationally, would have covered this procedure."

After her death, candidate John Edwards advocated a government-run health plan open to all Americans, rather than the current system in which insurers decide on patient eligibility. Implicit was a government system that would have paid for this and all other experimental procedures. But no government-based plan anywhere in the world lives up to such a grandiose promise. Comparing an imperfect present system with a "perfect" future system is populist demagoguery at its worst.

Reforming the way we *pay* for health care is infinitely easier than actually reforming the health care *delivery* system. Implying that an expensive new health care entitlement program can be financed by increasing taxes only on the wealthy does not compute. The government, from the national to the local levels, is bankrupt and will be unable to meet existing health and retirement benefits. The private sector is evolving new and more efficient systems for health care financing that would only be impeded by a massive new entitlement program.

At some point, candidates running for office need to pay heed to what we have learned. To ignore that will be a grave mistake.

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1. A baby born this year can expect the same costs to absorb nearly 70 percent of future Social Security benefits at age 65.
2. Since Social Security benefits will have to be cut 25 percent by 2041 unless taxes are increased, today's newborns are facing a future in which the cost of health care will have gobbled up the entire Social Security program.
3. The recent withdrawal by Sutter Roseville from the MediCal program is an example.
4. Source: Devon Herrick, "Crisis of the Uninsured: 2007," National Center for Policy Analysis, Brief Analysis No. 595, September 27, 2007.

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