

## Hospitalization Program

Right now, hospitals all over the country are billing patients for services rendered but because Medicare and managed care programs have agreements on reimbursement rates, those hospitals are functioning with approximately 54% of those billed revenues. One way hospitals have dealt with the issue is to have patients spend less time in the hospital. I will not say that hospitals are discharging patients that should still be in the hospital, but I bet it is happening.

With one in five of its elderly hospital patients re-admitted within a month of discharge, the federal Medicare program plans next year to reduce how much it will pay hospitals for certain preventable re-admissions.<sup>1</sup>

Using information on hospitals in Washington State (<http://www.doh.wa.gov/>), I looked at expenses and patient distribution (mix of inpatient and outpatient emergency).<sup>2</sup> Given its general good outcomes, I looked at the actual expenses per patient day (a mixture of case and patient types), how many patients were being seen, the number of beds and the population size that the hospitals serve. The type of hospitals and communities they serve cover rural and urban settings. Generally, Washington is in the middle of most medical spending/outcome metrics. Using the information available, including the number of hospitals and beds per state and averaging the expenses, I came up with an alternative to Medicare funding.

Eliminate Medicare funding<sup>3</sup>? Right now, hospitals are functioning on 54% of the revenues they bill. If hospitals could replace their current billing system and all the administrative expenses associated with Medicare and managed care cost shifting and at the same time have a steady source of income, the net savings could replace the entire contribution of Medicare and state Medicaid funding.

By offering the following and managing an 80% consumer participation rate, hospital systems would receive approximately the same revenue as their average expenses.

- On average, each adult pays \$140.39, and each child pays \$46.80 per month (varies from state to state – See Appendix B).
- Premium payment is made to the hospital of the adult's choice and could vary from hospital to hospital (allowing for competition).
- All hospital care, either outpatient or inpatient, is covered 100% for plan members.
- Hospitals establish a fixed daily cost for non-plan patients (same for inpatient or outpatient).

However, plan participation is not mandatory and no matter how good the deal is, there will be people that won't, or can't, pay the premiums. The Plan includes a Medicaid grant from the Federal Government set at 25% of the 2010 total expenses for each hospital. The grant requires that **the STATE** reach an average 75% participation rate to qualify, and the grant does not go down if the participation rate is higher. So, the hospitals and the states will have an incentive to increase participation rates as high as possible - the grant money can be used to cover unemployed or chronically ill patients. The

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<sup>1</sup> "Don't Come Back, Hospitals Say", Wall Street Journal, June 7, 2011, <http://online.wsj.com/article/SB10001424052702304474804576369452547349050.html>

<sup>2</sup> Washington ranks 5<sup>th</sup> in preventable re-admission care, 15<sup>th</sup> overall in health rankings by United Health Foundation's America's Health Rankings, <http://www.americashealthrankings.org/ALL/2011>

<sup>3</sup> There is an exception, of course there's an exception, details follow.

grant will cost about \$117 billion a year. A realistic goal is that on average, participation will be between 80 and 85%. Currently 83.1% have some form of insurance.<sup>4</sup>

## **Provider Plan**

Like the Hospitalization plan, doctors and other general health service providers could begin offering a similar plan to their patients. The cost might be as low as \$7.25 per month per person<sup>5</sup>. By creating a plan similar to the Hospitalization Plan, doctors could institute programs to manage illnesses within their practices and to stabilize costs. A family of four could have a doctor and hospitalization plan for \$475 a month. The average premium paid for individual health insurance coverage in the United States in 2011 was \$2,196 per year, \$183 per month; families paid an average annual premium of \$4,968 or \$414 per month.<sup>6</sup> Because the average health insurance plan has a deductible, an individual would pay \$183 a month for the insurance and could still face hospital bills of up to \$2,935, or another \$245 per month.

The Plan creates incentives for people to participate, for hospitals to manage costs and focus on patient retention and for both parties to manage health care. Consumers have the ability to change hospitals and doctors that fail to live up to their standards or who don't manage costs well. Because the cost of seeing a doctor or going to the hospital is fixed, patients will have an incentive to see the doctor or go to the hospital before situations become critical. Hospitals and doctors would have incentives to offer wellness programs to lower utilization needs.

As for patients with chronic illnesses, the hospital costs determined above were based on the total of the annual expenses based on their inpatient/outpatient mix. It includes patients that are treated and released and those that spend significant time as inpatient. Because payment for services is not based on specific length of stays, hospitals and doctors can manage their patient's care for the best outcome rather than billable limits.

For people that do not participate in a plan, the hospitals will offer a fixed cost for outpatient or inpatient care. Insurers may offer plans based on the fixed cost rate, but no one will be able to offer it less expensively than the hospitals. In general, the annual cost would be less than a single day as inpatient or a single trip to the Emergency Room.

For individuals or families that opt only for the Hospitalization Plan, their occasional trip to the doctor would be out-of-pocket as would everyone's prescription costs. Walmart's prescription plan has driven the cost down for many people but new, name brand drugs can still be extremely costly. Hospitals and doctors could form purchasing groups for specific drugs that handle chronic illnesses. By putting patients back in control of their medical spending dollar, market forces can help alleviate some of the costs.

We don't have insurance for oil changes, or replacing tires, bulbs, filters or painting the siding. We

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<sup>4</sup> If premiums were set to cover the hospital expenses entirely with a 75% participation rate, participation rates higher than that plus the Medicare grant would cover the hospital cost of just about everyone. The average would be \$187.19 per individual and \$62.40 per child, a 33% additional cost.

<sup>5</sup> The Ideal Medical Practice Model: Improving Efficiency, Quality and the Doctor-Patient Relationship, L. Gordon Moore, MD, and John H. Wasson, MD, *Fam Pract Manag.* 2007 Sep;14(8):20-24. <http://www.aafp.org/fpm/2007/0900/p20.html#fpm20070900p20-bt2>

<sup>6</sup> According to the 'Cost & Benefits of Individual and Family Health Insurance Plans' report, released by eHealth, Inc. (NASDAQ: EHTH), the average premium paid for individual health insurance coverage in the United States in 2011 was \$2,196 per year (\$183 per month); families paid an average annual premium of \$4,968 (\$414 per month). The report also found that the average deductible for individually-purchased health insurance plans in 2011 was \$2,935 for individuals and \$3,879 for families. <http://news.ehealthinsurance.com/pr/ehi/how-much-does-health-insurance-218305.aspx>

maintain our homes and autos, provide the fuel and energy needed to run them. We have car (and homeowners) insurance to protect us from the rare events that cause their destruction or loss. Health insurance that does not consider the age of a person or pre-existing conditions is the same as insurance purchased after the accident or home fire. It is an attempt to share the cost of events, exactly as Medicare does now. The result would be the same under Obamacare except that it mandates, requires, everyone to buy insurance. This is still cost sharing but spread over everyone.