

VIALE SOLUTIONS TO HIGH HEALTHCARE COST

By J. Owen R. Diaz, CFP

According to National Healthcare Trends published by BCBS Association, U.S. healthcare spending was nearly \$1.7 trillion in 2003 and is expected to almost \$2 trillion in 2005. About 45% of it was paid by Medicare, Medicaid and other public sources. Healthcare expenditures are expected to account for more than 17% of the Gross Domestic Product by 2010, up from 13% in 2000. Our healthcare system continues to grow at a rate much faster than the rest of the economy, including food, wages and other costs of living.

The unwillingness of businesses to continue to absorb health insurance cost increases is widespread. According to a recent study by human resources consultant Hewitt Associates, employers expect a 15% premium increase this year but say they can absorb only 8%. For many businesses, that means they simply can't afford to continue with their previous insurance offerings.

As most CPAs already have observed, employers are making benefit changes in an attempt to bring insurance costs back in line. According to Jean A. Moore, Fellow of the Society of Actuaries, principal and director of actuarial issues for Towers Perrin in Denver, 2003 is the first year some employers finally were willing to pass on a portion of the increasing costs to employees. They're doing so by raising deductibles and co-pay levels and shifting more of the premium cost to employees. Moore adds, "What some employers have been doing to keep costs down is no longer working.

Just this month (March 2006), the city of Detroit projected that a third of their operating budget will be consumed by health care. The State of Michigan's senate proposed an 11.2 billion dollar budget for community health services, which is about a fourth of the state's expenditures.

A recent forum on our nation's health care issues held at the Henry Ford library at U of M campus this month (March 2006), talked about a health care that works for all Americans. It was mentioned that "Whatever Congress does on health care, if they do not focus on prevention and health-risk reduction, they are simply rearranging deck chairs on the Titanic." I have stated the same last year to the governor and to our state legislators in my healthcare cost containment proposal.

Suggestions about moving to a National Health Care System that's administered by the government is slowly gaining support. Of course, there are things that are not good in it either (according to a New York Times article, Britain, France and Germany are all being forced to limit access to care. Rationing, already extensive, is increasing)... Before we throw in the towel on our current health care system, we should try a workable solution that will reduce cost shifting. Cost shifting occurs when hospitals and other health care providers must raise rates to compensate for revenue lost when they provide care and do not receive full reimbursement from the government programs such as Medicaid and Medicare... Cost shifting creates an indirect tax on the business community.

A workable solution that is friendly to employers, patients, medical providers and to the state's budget are the following:

Preventive Health Care Education - The number one and most important thing in controlling health care cost is prevention. When people take care of themselves they have fewer health problems, thus fewer trips to the doctor and miss fewer days of work. Fewer missed days at work improves productivity, which translates to higher Gross Domestic Product and tax revenue for the government. These can be achieved through Preventive Health Care. Every insurance covered person except for the very young ones, should be required to attend a preventive health care workshop/seminar at least once a year. Those who do not attend will pay a higher premium contribution, but those that do will get a coupon, which is redeemable in cash (small amount compared to possible expensive medical procedures). Those that are physically incapable of attending the workshop/class should be given instructions by some other means.

Health Screening - It is a must to prevent expensive medical procedures that could be prevented or cured at an early stage. A University of Michigan physician who lectures on strokes said that there are about 700,000 Americans who suffer stroke every year, and it could have been cut to about 350,000, if they had health screening. You could just imagine the medical cost, the physical rehabilitation, lost earnings for both the patients and their caregivers.

One elected state official found out from her constituents that "Medicaid patients find it impossible to find a doctor (outside of the emergency room) who will see them." One possible way to alleviate this shortage, is for the state to consider instead to exempt from income tax (total state income tax from physician revenue from Medicaid is about \$22 Million) the meager Medicaid reimbursement to the medical provider. It might not be a considerable amount compared to the cost of providing medical services, but it is a goodwill and a show of gratitude to the practicing physicians who are making sacrifices in serving our under-privileged citizens. This should help maintain, if not increase the number of physicians who participate in Medicaid. It will make it easier for Medicaid patients to

access medical care outside of the emergency rooms. These endeavors will decrease the number of expensive Emergency Room visits and alleviate overcrowding in the ER.

There should be a considerable co-pay, if a visit to the ER is diagnosed as non-emergency. This will remind patients that ER services are available but not to be abused.

I estimate that these measures could save the state Medicaid budget by about five percent or more, which translates to about over \$350 Million on the first year alone, and will be more the following years. The *\$350 Million minus \$22 Million (tax exemption on physicians' Medicaid revenues) equals a net savings of \$328 Million or more savings (budget reduction)*. These will produce a lasting "multiple-win" situation for the employers, patients, medical providers, hospitals and the State. We can do it! Imagine how much money and increased productivity can be achieved by the State of Michigan and the other forty-nine states (about \$17 billion) for that matter. YES, WE CAN DO IT!!!

Can we further reduce the cost of healthcare? YES! ... Drugs are the fastest-growing part of the health care bill—which itself is rising at an alarming rate. The increase in drug spending reflects, in almost equal parts, the facts that people are taking a lot more drugs than they used to, that those drugs are more likely to be expensive new ones instead of older, cheaper ones. In 2002, the average price of the fifty drugs most used by senior citizens was nearly \$1,500 for a year's supply. Paying for prescription drugs is no longer a problem just for poor people. As the economy continues to struggle, health insurance is shrinking. Employers are requiring workers to pay more of the costs themselves, and many businesses are dropping health benefits altogether. Since prescription drug costs are rising so fast, payers are shifting costs to individuals. The result is that more people have to pay a greater fraction of their drug bills out of pocket. Many of them simply can't do it. They trade off drugs against home heating or food.

The prices drug companies charge have little relationship to the costs of making the drugs and could be cut dramatically without sacrificing Research and Development. New drugs have been brought to market in recent years, and they were mostly based on taxpayer-funded research at academic institutions, small biotechnology companies, or the National Institutes of Health (NIH). The great majority of "new" drugs are not new at all but merely variations of older drugs already on the market. These are called "me-too" drugs.

The top companies average 4,000 representatives to sell to primary-care physicians and 850 representatives for specialists, each backed by an average field force budget of \$875 million. The top-spending firms currently pour more than \$1 billion each into their sales forces every year. (BCBS Association Website – "Getting Doctors to Say Yes to Drugs"). Each of the top ten pharmaceutical companies has an average budget of about \$1 billion dollars for what is called marketing and education of physicians and legal. There should be a better way to achieve the introduction of new drugs and education of prescribing medical professionals, that will cut cost.

Yes, we can cut the cost of prescription drugs with the following measures:

The state licensing board can require the medical professionals to have pharmaceutical continuing education online in their respective specialties to satisfy some of their C.E. credit requirements. This will assure that the medical professionals are not only knowledgeable on the few drugs that pharmaceuticals are trying to market, but also on older or generic drugs but effective and less expensive. Pharmaceutical companies should be asked to contribute to the administrative expenses of this online pharmaceutical education. Prescribing medical professionals can request samples of drugs through the mail. These actions or process should curb the enormous marketing expense by pharmaceutical companies, which should reduce the prices of drugs.

- 1) Another factor that contributes to the prices of drugs is the possibility and reality of product liability suits. I, Owen Diaz, if elected in the Michigan Senate will push for legislation that limits or prevents legal suits on FDA approved drugs in order to lower its price, unless there was misrepresentation or fraud during the approval process.

By Owen R. Diaz, CFP - His educational background is in electronics technology, economics and finance, worked in the financial industry and is a licensee of the College for Financial Planning. Involvement in the health care industry where he was the regional director of the Michigan State Medical Society Alliance, S. E. Region, hospital medical auxiliaries and in medical office management, where he oversees a mental health clinic and an urgent care clinic. He was also an elected official as Mayor of the City of Milan, Michigan. Owen wanted to help address these health care challenges, that is why he ran for the Michigan Senate 17th district last August 2006, unfortunately, he came short.

Sources: How Medicaid Cost Affect You (Cooperative Extension Allegany and Cattaraugus Counties), MSMS Website, ACAP (Association for Community Affiliated Plans), HVPA (Huron Valley Physicians Association) website, National Association of State Officers Budget report, Blue Cross and Blue Shield Medical Cost Reference Guide, The Truth About Drug Companies, American Medical News, Medical Cost Reference Guide and the Ann Arbor News.