
THE KANSAS CITY KANSAN

It's the Costs Stupid

A recent story in the Wichita Eagle may point the way towards health care reform in the future. With costs for procedures growing due to an archaic pricing structure set by government programs like Medicare and by the power of private insurance companies to provide discounts to providers, few individuals have any idea of what health care costs.

Go into your doctor's office and ask the price of an office visit. They may be able to tell you what they charge for an office visit (that is, what the discounted price of a visit is after the insurance company is billed for services). The doctor doesn't set the price for services—the third-party payer establishes the price. If you were paying cash or using a health savings account—in other words paying for services rendered at the time of service—a doctor may be able to negotiate a price with you, saving expenses and hassles by not dealing with the paperwork required by Medicaid, Medicare or insurance companies.

One way to lower costs of health care would be to rearrange the stacked deck in favor of third-party payers and free up individual consumption of health care. Health Savings Accounts are a powerful tool to do this as is the rewriting of the federal tax code to allow individuals the ability to deduct their health care expenses to the levels businesses are currently allowed.

But another way to reduce costs was discussed in the February 24, 2008 story in the Wichita Eagle. Galichia Heart Hospital, a private hospital specializing in heart-related diseases, has decided to charge a flat fee of \$10,000 for a common open heart procedure. Galichia CEO Steve Harris said, "We're very serious about presenting cost-effective products and options for our community. . . .This isn't just a good rate. It's a world-class rate."

Indeed it is. Consider that the two largest hospitals in Wichita, which have exclusive contracts with insurance providers, charge as much as \$35,000 for open heart surgery. Galichia is hoping to attract individuals without insurance, to reach out to those who are cost-conscious and to attract medical tourists from abroad, particularly England and Canada where waiting lists for surgeries in their socialized medical systems are the norm.

Galichia as a private surgical hospital has some advantages over other providers when it comes to offering the lower rate. They are outside the Medicare and private insurance pricing structure. They don't have to see Medicare patients as other hospitals are required to do. They also are not required to charge for services based on the provider-insurance company contract. This gives them the advantage to be able to charge what they want for a service.

Regular hospitals are required by law to accept all patients, regardless of ability to pay. Galichia is not. As a private surgical heart hospital they accept the patients they want and base their acceptance on the ability to pay.

By reducing the costs of the basic open heart surgery procedure they have opened up a necessary discussion in the pricing of health care. If Galichia can do this much more efficiently and at a lower cost, why can't the government and private insurance systems promote a more price sensitive, consumer-driven health plan which promotes lower costs, price transparency and allows individuals to choose for themselves where they go for procedures? If Medicaid patients could be included in such a reform of the basic way health care is funded and individuals are insured, costs would go down.

The recognition that cost is the main concern of most Americans when it comes to health care, especially when it comes to costs of health insurance, is a positive outcome of the national discussion on health care that has raged in the past year's presidential campaign. Too often, however, the perceived solution is that we need more government run health care. Universal health care funded by the government (or a reform of the mixed system which currently exists with greater government inducements for individuals to purchase health insurance) has been the proposed solution.

The solution may be much simpler. Reduce the costs providers and insurance companies charge, empower individual consumers, create price transparency, reform the tax code to allow individual purchasers of health care to receive the full deduction corporations receive for offering health benefits—all of these are ways in which to reenergize health insurance and to prevent increased costs from bankrupting Americans and hurting the competitiveness of American business.

Even Canadians recognize the benefits outlined above. According to Canadian Rick Baker, who connects clients in Canada with surgical hospitals in the United States, "The solution to America's health care problems is (for) people to find a way to negotiate good prices." It would be nice to have more American politicians recognize this as a solution rather than focusing on universal coverage. Costs come first and they can come down, but it will take a major restructuring of our health care system. Galichia has shown one way to do this; let's see if other providers can follow.

Gregory L. Schneider is a Senior Fellow with the Kansas-based Flint Hills Center for Public Policy. A complete bio on Dr. Schneider can be found at <http://www.flinthills.org/content/view/24/39/>, and he can be reached at greg.schneider@flinthills.org. To learn more about the Flint Hills Center, please visit www.flinthills.org.