



March 30, 2008

It's The Costs Stupid

By Gregory Schneider

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 started by Crawford County native Dr. Joseph Galichia, 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.

However, in their favor, 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. Galichia has shown a possible path other providers may want to emulate.

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Circulation: 8,000
Pittsburg Morning Sun

March 30, 2008
Opinion