In the U.S. Health Care System, Cash Is Not King… But It Should Be
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While the old adage "cash is king" certainly still applies to consumer and business spending, the current health system does not adhere to the "cash is king" philosophy. I fear such failure creates distance between the physician and their patient and ultimately leads to an unsustainable economic system. A health care system which will have fewer physicians, fewer hospitals, fewer medical advancements, reduced access, and eventually lower quality health care.

Despite recent public opposition both the House and the Senate health care reform bills include a public plan provision. And, in his September speech to Congress, President Obama expressed interest in a public insurance option. Yet, President Obama did not address one of the principal fears held by those opposing such a plan – that a government plan will create unsustainable cost shifting and ultimately crowd out private options. Today, all physicians that accept payment assignment are required to accept the Medicare or Medicaid rate as payment in full. This reimbursement rate is established by the government and is lower than any other rate that a provider charges. In many cases this rate is below that which is economically sustainable. As nearly all physicians accept and all hospitals must accept assignment they charge their private paying customers (insurance companies, self-insured employers, consumers, and the uninsured) more in order to maintain their financial viability.

As a result of such cost-shifting, the global consulting and actuarial firm Milliman, in its report, "Hospital & Physician Cost Shift; Payment Level Comparison of Medicare, Medicaid, and Commercial Payers" indicates that insurance costs are 15 percent higher for private payers. Milliman indicates that commercial payers, and subsequently employers, employees and individual consumers, are paying $88.8 billion more for their health insurance as a result of this cost shift. In other words, insurance premiums for a family of four are $1,788 higher than they would be without the shift.

Adding another public program that also pays providers the lowest rates will increase the demand for an already limited supply of providers who accept the lower reimbursement that Medicaid and Medicare provide. Increasing the number of patients whose care is reimbursed at Medicaid/Medicare rates will exacerbate the cost-shift and further increase the relative cost of private insurance options. Medicaid payment rates are 40 percent less than the overall average payer rate received by physicians. Medicare payment rates are approximately 89 percent of the overall average payer rate received by physicians. Many fear that, should a price differential such as that of Medicaid be applied to a larger population, hospitals and physicians may not receive sufficient income to maintain their facilities, recruit competent professionals and improve efficiency. This could ultimately lead to lower quality health care, with rural and inner-city communities suffering most because of their lower concentrations of private payers. Quality would be reduced as providers exit the market and our young see less reward associated with entering the medical profession.

As an actuary, I believe a highly feasible, easy-to-implement solution, is to assure that providers charge all cash paying consumers the lowest rate they charge, even if the cash paying consumer is eventually reimbursed by insurance. Seems only fair that those paying cash at the time of service, where the physician cannot suffer a bad debt expense and where cash flow is improved, should get the lowest rate. Non-Medicare patients are charged higher rates than that paid by Medicare patients, regardless of whether they pay cash or not. Clearly, cash is not king. Is it any wonder that the economic system for health care isn't working?

If cash were king cash-paying individuals would receive better rates than insurers, the government, or any other payor. If cash were king, patients would know the value of the services they receive and would regain power over the financial incentives that motivate provider decisions. Giving cash payers the lowest rate would maintain the balance between the payer and the service provider, empower the consumer, prevent significant cost-shifting, and permit private insurers to be competitive and profitable.

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