

# Choosing the Future

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## The Other Shoe

Regular readers know that these pages often cover recurring and related themes. Here's the condensed or "Cliff Notes" version.

- The standard "Health care cost explosion" narrative is a deceptive misnomer. It conflates the cost of medical care to a patient, whether provided in a physician's office or the hospital, with the cost of insurance and public health services.
- This matters because the existence of the Third Party Payer System is responsible for more than 40% of what are routinely mislabeled as "health care costs" increases.

- The Third Party Payer System generates demand for primary care services that are not clinically necessary. It does this by shielding people from the financial consequences of presenting for patient care. Having created that demand, the Third Party Payer System then forces hospitals and physicians to protect its financial interests at the expense of their own by limiting care, a practice that imposes unnecessary financial and public relations costs on care givers.
- In economic terms, elasticity in demand for primary care services is much greater than policy makers and strategic planners have historically believed. As people continue to experience growing personal out-of-pocket costs, demand for primary care services will diminish and consumers of those services will increasingly seek out less expensive sources of care, a trend that price transparency requirements will accelerate.

## Strategic Implications for Primary Care Physicians and Community Hospitals

Managers generally and financial managers in particular have an understandable tendency toward "normalcy bias", a focus that downplays both the possibility of significant change and its effects. In stable times, this can be a good thing because it shields against precipitous overreaction. Unfortunately, during a paradigm shift, normalcy bias can have the effect of filtering out critically important information and preventing action in the mistaken belief that things will revert to their previous state.

We believe the facts support the following conclusions.

- There exists a significant overcapacity for primary care nationally.
- Purchasers of primary care physician practices and community hospitals that provide primary care should not assume that historic visit volumes and diagnostic and treatment service utilization levels based upon them are predictive.
- The combination of elasticity in demand for primary care and the impact of price transparency requires that hospitals and physicians position themselves accordingly.

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