Choosing the Future

Critical Information for Critical Times, Edition of Wednesday, October 14, 2015

Third Party End Game

Entropy is defined in systems theory as "a measure of the amount of energy unavailable for useful work in a system undergoing change." Readers may recall our frequent observation that energy consumed in the hospital's organizational maintenance is not available to do the hospital's work.

Entropy has also been defined as "a process of degeneration marked variously by increasing degrees of uncertainty, disorder, fragmentation, and chaos. It is the inevitable, terminal stage in the life of a social system or structure." That description perfectly describes the condition of the decades-old Third Party Payer System in which most hospitals and physicians find themselves operating today. It also confirms the inescapable nature of entropy. Entropy always increases and available energy diminishes in any closed system.

Any component of a business system that adds financial and other costs to the purchaser but does not add value will ultimately be rejected by the purchaser. The Third Party Payer System is a classic example of such a component. In aggregate, for most people, the still-growing costs imposed by the System significantly outweigh the financial benefit. In any given year, only one in four Americans will incur medical expenses equal to or greater than insurance costs. For 75% of the population in any given year, buying health insurance is a bad bet. Having said that, catastrophic coverage remains a necessity for all.

Even before passage of the *Patient Protection and Affordable Care Act* in 2010, expense resulting from participation in the Third Party Payer System accounted for more than 40% of hospital and medical costs. After the ACA's enactment, mandated organizational maintenance expenses associated with mandates designed to control Third Party Payer System's cash outflows skyrocketed. The costs of mandate compliance were outsourced to hospitals and physicians.

Thus far, the costs of the mandated Electronic Health Record have reached absurd levels and customer satisfaction has been less than stellar. Recent reports indicate that as many as 60% of hospitals are dissatisfied with the performance of their EHR and are looking for alternatives. On a pure cost vs. benefit basis, it's hard to imagine how the large hospital systems that have paid $700 million and up for their Electronic Health Records, some of which have not yet attained "meaningful use" certification, will ever recoup their investment. Similarly, although the federally-mandated conversion from ICD-9 with 14,000 codes to ICD-10 with 69,000 codes will make it necessary for to employ more coders (increasing costs) and provide Third Party Payers with five times more claims rejection opportunities (reducing revenue), it will have virtually no positive effect on the delivery of primary medical care that is required by most patients most of the time. Future oriented physicians and hospitals as well as non-conventional organizations such as Wall-Mart and CVS are increasingly moving out of the Third Party Payer system into lower cost and more efficient concierge medicine, retail clinic, direct pay, and other market-based hospital and medical care delivery systems. A new day is dawning.

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