Estimate of the Situation

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Where Are We?

That's a very good question.

In fact, for hospital decision makers, it should be the very first question as they contemplate the hospital's future direction. Developing an agreed-upon "estimate of the situation" for your hospital is the pre-requisite foundation for strategic activity.

The twin elephants in the room are Medicare (officially projected to move into a negative cash flow position not later than 2026) and the implications of state fiscal conditions for Medicaid. Although one should never underestimate the official capacity for accounting "creativity", the numbers are stark and 2026 is only twelve years away. It is time to begin thinking about the unthinkable: *What would health care look like in a post Medicare/Medicaid world?* Those who take comfort in believing that program reimbursement failure is impossible might find it profitable to visit with their Illinois colleagues. First, read the Trustees' Medicare report and then consider these state numbers:

Ranking of States by Fiscal Condition (Fiscal Year 2012)[1]

Rank	State	Fiscal condition index	Rank	State	Fiscal condition index
1.	Alaska	8.80	26.	New Mexico	−0.34
2.	South Dakota	2.79	27.	Kansas	−0.40
3.	North Dakota	2.75	28.	Georgia	−0.45
4.	Nebraska	2.53	29.	Arkansas	−0.47
5.	Wyoming	2.23	30.	Michigan	−0.51
6.	Florida	1.99	31.	Arizona	−0.51
7.	Ohio	1.71	32.	Oregon	−0.57
8.	Tennessee	1.71	33.	North Carolina	−0.57
9.	Montana	1.66	34.	Louisiana	−0.60
10.	Alabama	1.25	35.	Minnesota	−0.87
11.	Utah	1.03	36.	Maine	−1.00
12.	Oklahoma	0.93	37.	Delaware	−1.14
13.	Idaho	0.70	38.	Vermont	−1.17
14.	Missouri	0.60	39.	Rhode Island	−1.18
15.	Indiana	0.53	40.	Kentucky	−1.26
16.	Nevada	0.49	41.	West Virginia	−1.30
17.	Wisconsin	0.12	42.	Pennsylvania	−1.31
18.	Iowa	0.09	43.	Hawaii	−1.46
19.	Mississippi	−0.14	44.	Maryland	−1.59
20.	Texas	−0.18	45.	New York	−1.78
21.	South Carolina	−0.19	46.	California	−2.01
22.	New Hampshire	−0.21	47.	Massachusetts	−2.23
23.	Washington	−0.23	48.	Illinois	−2.42
24.	Colorado	−0.24	49.	Connecticut	−2.48
25.	Virginia	−0.28	50.	New Jersey	−2.81

[1]The fiscal condition index is the sum of the cash, budget, long-run, and service-level solvency indices weighted as follows: (0.35 × cash solvency score) + (0.35 × budget solvency score) + (0.2 × long-run solvency score) + (0.1 × service-level solvency score). Source: Mercatus Center, George Mason University

To put these rankings in perspective, the combined populations of the bottom seven states accounts for approximately 30% of the total U.S. population. Their fiscal conditions have tremendous implications for the condition of the general economy and for national solvency.

As one who has worked in health care for more than four decades, I can fully appreciate that some will recoil from the ideas contained in the questions which follow, finding them literally "unthinkable" at the moment. I understand that reaction because I have stood where you are standing. However, I most respectfully suggest that you withhold judgment until you've had an opportunity to read and reflect upon the content of the linked articles embedded in the text below.

1. What would happen to your hospital's cost structure if it did not participate in the Medicare/Medicaid programs? Is it not the case that the costs and associated complexity of participation have reached truly insane levels? Does anyone truly think that American health care can be improved by making it even more complicated?

2. Consider the cost vs. benefit of the Electronic Health Record.

3. Consider the cost vs. benefit of mandated ICD-10 implementation. Does anyone really believe that increasing the number of ICD codes from 13,000 to 68,000 will do anything meaningful beyond increasing the possibility of payment denials for "incorrect coding"?

4. What would happen to your hospital's cost structure if it began accepting cash instead of insurance?

5. What would happen to your hospital's price structure? Price transparency and the rapid development of alternative care settings make this more than an academic question.

6. Consider the cost vs. benefit of traditional health insurance for the average American family? Catastrophic coverage makes sense. The "standard" model of coverage does not.

Three government insurance programs (Medicare, Medicaid, and the Children's Health Insurance Program) accounted for $772 billion in 2013, or 22% of the federal budget. In 2013, "improper payments" for Medicare and Medicaid services were officially estimated at $50 billion. It should be understood that the $50 billion improper payment figure grossly understates the magnitude of the insurance-model's explosive contribution to the total cost of health care. To cite just one example, a patient was prescribed a certain type of medical device. The "insurance price" was $6,000. The cash price was $4,000. Payment to the vendor of $6,000 would not be considered an "improper payment."

The trajectory of events has led me to conclude that the answers to questions like those above contain the potential to benefit everyone.

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