

Estimate of the Situation

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Demystifying Health Care Finance, Part II

"Accidents are built into the road."— Marty Rubin

Eric Banfield's insightful 1970 book, [The Unheavenly City](#), describes the often negative unintended consequences of large scale social policy changes. For example, Social Security did achieve its goal of improving the financial condition of the elderly upon retirement, but at a cost. In Banfield's view, it also destroyed the extended American family as an institution and spawned the nursing home industry. Similarly, President Eisenhower's Interstate Highway System, funded as a "defense program", achieved its real goal of facilitating business transportation and shipping between cities. However, as

Banfield observes, it also made it easier for people to leave the cities, facilitating urban sprawl and white flight leading to the creation of largely segregated inner-city ghettos.

In addition to the devastating impact on health care costs discussed in the last issue, the Third Party Payer System's unintended consequences are at least as socially corrosive as those cited by Banfield. Consider just these two examples (there are many others).

- Medicaid routinely requires recipients to impoverish themselves in order to obtain the benefit of coverage, a policy that demeans many elderly people and often deprives their children of what would otherwise have been an inheritance.
- The Medicare Trustees' 2014 report forecasts that Medicare (already technically bankrupt) will experience negative cash flow starting in 2026, twelve short years from now. This prospect has already led the Medicare program to engage in pre-emptive belt-tightening. According to one study (Banarto, McClellan, Kagy and Garber, 2004), 30% of all Medicare expenditures are attributed to the 5% of beneficiaries that die each year, with one-third of that cost occurring in the last month of life. While this is undoubtedly true, the need to provide medical care to the elderly in their "sunset years" was advanced as justification for enacting Medicare in the first place. With the gigantic rapidly-aging baby-boomer age cohort threatening to overwhelm Medicare's cash flow, Washington's budget cutters now have the "newly elderly" in their crosshairs. Whether supervised by a "death panel" or an "Independent Payment Advisory Board", end of life care poses significant ethical issues in the Third Party Payment System world. We cannot allow a human life's value to be determined by its cost to the State. From there it is but a short step to euthanasia of the elderly and others. Many dying Medicare patients have no qualms about employing heroic measures to the bitter end, even when those measures are virtually certain to fail, because the costs are going to be largely absorbed by the System. Absent that System, many patients might instead opt for palliative care in a hospice environment to shield their families from the cost of expensive and ultimately futile care. The decision whether or not to employ heroic measures should be an individual, not a bureaucratic, decision.

The Third Party Payment System's financial, social, and moral costs greatly outweigh its alleged benefits and that is a very big deal.

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