

Estimate of the Situation

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What Really Caused the “Health Care” Cost Explosion?



*The Third Party Payer System
Bailing as Fast as It Can*

“Fee-for-service” medicine has been blamed for the “health care” cost explosion with sufficient frequency over the last several decades as to become the generally-accepted conventional wisdom. Consider these examples:

“There is widespread agreement among policymakers, payers, and health care leaders that the current fee-for-service method of paying for care is one of the drivers of the unsustainable growth in health care costs *Hospital Readiness for Population-based Accountable Care*, Health Research & Educational Trust, Chicago: April, 2012

“This antiquated model [fee-for-service] is the culprit behind exponential health-care cost growth.” Judith Barnes, Director of Health Policy, Bipartisan Policy Center, *The Atlantic*, “Moving Away from Fee-for-Service,” May 7, 2012

“The current fee-for-service system raises the cost of care by 20 to 30 percent for services that provide little or no health benefit.” Victor R. Fuchs, Professor Emeritus of Economics and Health Research and Policy, Stanford University, *The New York Times*, *Room for Debate*, “Competing for Better Outcomes and Lower Costs”, June 28, 2012

The “fee-for-service is the problem” “explanation” is incorrect by 180 degrees. The United States has a health insurance cost problem, not a “health care” cost problem. That reality explains why the Third Party Payer System urgently needs to divert attention from its real and undeniable responsibility. The Third Party Payer System is, in fact, the “culprit” (to borrow a term from Judith Barnes’ article). It is directly responsible for generating 40% of all health care costs.

The problem with conventional wisdom slogans is that they impede rational analysis and become a substitute for it. How much “health care” expense has been paid for on a “fee-for-service” basis in the last several decades?

On the hospital side:

- Medicare does not now nor has it ever paid on a “fee-for-service” basis.
- Neither does Medicaid.
- Neither do most “insurance” programs, including PPOs, HMOs, and other “negotiated rate” policies.

On the physician side:

- Primary care physicians derive no income from ordering hospital tests and exams.
- The most expensive examinations and treatments are delivered within hospitals which have no control over the order process.



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