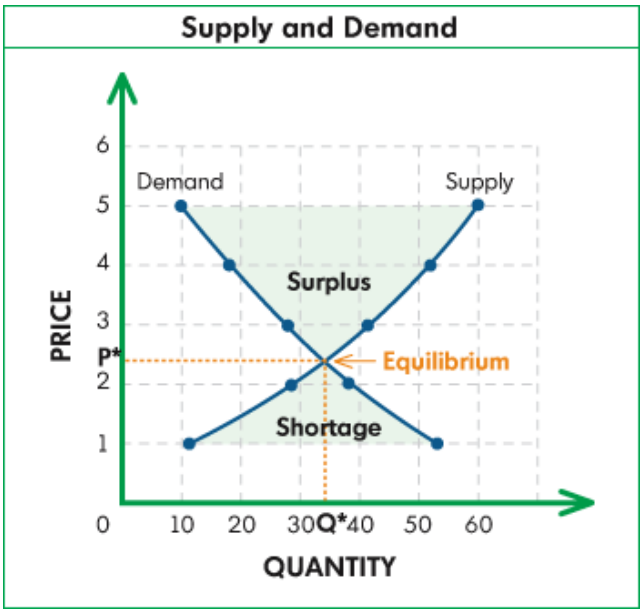
Estimate of the Situation

Critical Information for Critical Times, Edition of Wednesday, December 17, 2014



The Market: Primary Care's Downside Risk!

Clinicians are trained to think of health care as a physical need. The second and third order consequences of socializing the provision of that care has typically not been seriously considered by policy makers and that failure fueled the explosion of health care costs from 1965 on.

Changes in reimbursement are squeezing the bottom line of physicians and community hospitals. Patients are now beginning to bear the front-end costs of receiving care even as price transparency drives home the financial consequences of the consumption decision. The result is an absolutely predictable fall-off in demand.

The Third Party Payer System from the very beginning created a significant amount of clinically unnecessary demand for primary care, in large part because patients were not directly affected by service costs, thanks to insurance. Consider the supply and demand curve in the illustration at the top of this page.

Then contemplate the implications of this formula for calculating health care costs:

N x U = C, where:

N = Total demand for service
U = Unit cost
C = Total health care cost

When potential consumers of any highly desirable service are shielded from the financial consequences of the consumption decision, demand for that service will be virtually infinite. *Programs and plans that insulate patients from the real costs of medical care (especially Medicare and Medicaid) are the primary cause of exploding health care costs, not fee-for-service medicine.*

"The Patient Protection and Affordable Care Act" managed to worsen a very bad situation on both the demand and supply side of the total expenditure equation. It fuels service demand ("N") by expanding the number of "insured" people even as its resource-consuming regulations constrain health care delivery and drive up unit costs ("U") for hospitals and physicians. This situation is public policy insanity.

It also provides a fertile field for the emergence of cost-effective and market savvy non-traditional providers.

FJB

brady & associates

7667 N.W. Prairie View Road, Suite 204
Kansas City, Missouri 64151
(816) 587-2120
http://bradyinc.com