



Written by [Steven J. DuBord](#) on July 8, 2009

Hospitals Make Healthcare Reform Deal

The hospital associations agreed to receive about \$100 billion less in Medicare and Medicaid payments, and about \$40 billion less in compensation for treating the uninsured. The source of the remaining \$15 billion in reductions was not specifically explained. It would take several years for enough people to enroll in a public health insurance plan before the reduced rates would kick in, and hospital officials have been assured that the public plan would pay more than Medicare or Medicaid.



“We have concerns about a new public program where you have Medicare rates,” the *Post* quoted one industry representative as saying. “That would not be part of the plan.” The Milliman actuarial consulting firm has data supporting these concerns.

According to their December 2008 [Hospital and Physician Cost Shift report](#), “the total annual cost shift in the United States from Medicare and Medicaid to commercial payers is approximately \$88.8 billion.” By cost shift, Milliman means that, since Medicare and Medicaid paid \$88.8 billion less than private insurance would have paid for the same care, providers transferred this cost to those with commercial coverage by charging them more.

The shift is substantial. Lower payments from government-run programs resulted in the commercially insured paying 12 percent more for physician services and 18 percent more for hospital care. Looked at another way, Milliman estimates that “the cost shift adds \$1,512 annually, or 10.6%, to the premium of a family of four.”

“If Medicare and Medicaid paid higher rates, commercial payers could pay lower rates with healthcare providers still achieving the same overall reimbursement,” Milliman noted. “As it is, commercial payers subsidize the cost of Medicare and Medicaid, essentially through a hidden tax.” Yet even with this surreptitiously imposed taxpayer support, Medicare and Medicaid are on path to fiscal insolvency as they drive the United States deeper and deeper into debt.

President Obama himself admitted this during the June 24 ABC TV special [Prescription for America](#): “Medicare and Medicaid are the single biggest drivers of the federal deficit and the federal debt — by a huge margin. And at the pace at which they’re going up,... Medicare and Medicaid are going to be



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broke.” Given these statements, one wonders how the three hospital associations can be so naive about their deal with the administration.

Not only are these hospitals agreeing to receive less compensation from the already under-compensating Medicare and Medicaid programs, they are supposedly taking it on faith that the administration will somehow find a way to pay more under a new public plan than it pays now under Medicare. But if the new “Medicare for the rest of us” pays more, how can it have the lower costs that are supposed to justify its existence as a way to keep private insurance companies honest? The public option has no reason to exist if it is not cheaper.

Then again, the public plan could achieve initial lower costs while paying hospitals more because taxpayers would be supporting it through direct taxation, such as if the tax break for employer-provided coverage were eliminated, and indirect taxation from the cost-shifting effect noted by Milliman. Those with private insurance would pay higher premiums as more individuals and businesses went with the public option, though if this happened, hospitals would be shooting themselves in the foot by reducing the number of people to whom they can shift the cost.

The commercially insured would find the cost-shifted burden increasingly unbearable and would eventually be forced into the public plan. At that point, hospitals would have no one left to shift the cost to, and they would be stuck with whatever the government pays. Hospital bailouts and government ownership would be conceivable, though the [sorry state of VA hospitals](#) make this a frightening prospect.

The American Hospital Association, the Federation of American Hospitals, and the Catholic Health Association have refused to learn their lesson from Medicare and Medicaid and have thrown their support behind *another* government insurance plan. They have only the administration’s promise that “Medicare for the rest of us” will somehow be better. Their illogical reasoning is either baffling in its shortsightedness or stunning in its collusion to bring full-blown socialized medicine to America. These associations claim to be acting in good faith, but they are certainly not acting with good sense.



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