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Funding Healthcare: A Vote for Individuals Paying the Way

### MEDICARE'S UNFUNDED LIABILITY AND HOW WE CAN KEEP MEDICARE SOLVENT

Our presidential election is only days away. Forty-eight million people in America are uninsured and how care costs are rising 2 to 3 times faster than our nation's GDP. Where will America's healthcare system be in 5 years?

Welcome to ReachMD's monthly series focus on public health policy. This month, we explore the many questions facing healthcare today.

Despite all the king's horses and all the king's man, what major government program may never be put together again? You are listening to ReachMD XM 157, the channel for medical professionals. Welcome to the clinicians roundtable. I am Dr. Bill Rutenberg your host and with me today is Dr. Thomas Saving.

Dr. Saving is the University distinguished professor of Economics and Director of the Private Enterprise Research Center, both at the Texas A&M University. Dr. Saving has been a trustee of the social security and the Medicare Trust Fund since the year 2000. He is coauthor of the book, the Diagnosis and Treatment of Medicare. If your answer to my question was Medicare, as they say in Chicago you can put it on the board because today we are discussing Medicare's unfunded liability and how we can keep medicare solvent.

**Dr. BILL RUTENBERG:**

Welcome Dr. Saving, it is great to have you joining us at the Clinician's Roundtable.

**Dr. THOMAS SAVING:**

Well, it is great to be here.

**Dr. BILL RUTENBERG:**

How big is this liability and what projections have you in the Trust Fund made for the future?

**Dr. THOMAS SAVING:**

We can have simple kind of numbers that say what is the long run obligation of the system. The trustees are estimating it like 86 trillion dollars and if you see the old estimates, they would say 122 trillion dollars.

**Dr. BILL RUTENBERG:**

And that is in my lifetime.

**Dr. THOMAS SAVING:**

Yeah, in your lifetime. This is the amount of money that that you have set aside today. Now, you have to remember the whole gross domestic product is only 13 trillion and if you set all that aside today, then you could actually pay for what is being forecast to happen to healthcare in this country as we go forward and the problem is the costs of healthcare arising much more rapidly and it is not just cost, it is the amount of it that we are consuming more rapidly than the economy as a whole, which is perfectly okay. There is nothing wrong with that because that may be true for computers or other things that people are choosing to do on their own, but here they are not paying for it.

**Dr. BILL RUTENBERG:**

I mean, I did a simple calculation. Took the population of America and the 3 trillion dollar healthcare budget and came out to about 7000 dollars an individual. I am currently paying about 12,000 dollar, so in my mind 7000 dollar is a pretty good deal. Is there something wrong with that idea?

**Dr. THOMAS SAVING:**

No, there is nothing wrong with the idea, but where it is going to go? It is going to be as a share of budget. CDO will be projecting that in 75 years half of the gross domestic product of this country is going to be in the healthcare industry. That is going to be paid for by taxation or something else and it is going to be interesting to see what happens. Of course, whether it is paid for by taxation or something else will actually impact on what that number is going to be.

**Dr. BILL RUTENBERG:**

Can taxation handle that burden?

**Dr. THOMAS SAVING:**

Well, I think the taxation can handle if we are willing to go on to have to the increase in taxes that it would take to do that.

**Dr. BILL RUTENBERG:**

What would you project that to be?

**Dr. THOMAS SAVING:**

In the order of 60% increases in total taxation. There would be payroll taxes of 50% and there will be just general increases in taxation that are significant, something like 137% increase in taxation over the 75 years and imagine that as you are taxing this much more that individuals are not going to work as hard. They would not have incentives and the whole issue is going to become untenable. The issue is not just the United States issue. Even though we like to go over and we like to say how wonderful things are in Canada or how wonderful they are in Europe because they are consuming less of their gross domestic product than healthcare than we are. The issues are the future of healthcare and every developed country in the world is dramatically affected by to the demographics, that is the share of the population that are elderly, that are not working and are consuming healthcare. It is going to be rising from current levels of 20% or so to 40% of the population or in some cases in Japan, 50% of the population. You will have 1 worker for every person who is retired and consuming healthcare.

**Dr. BILL RUTENBERG:**

Are there any new sources of revenue that economists are looking at?

**Dr. THOMAS SAVING:**

There are not a lot of other sources other than taxation or making the elderly pay for more of what they consume and most reformed suggestions are exactly that. They are benefit cuts. Sometimes when we will ask how are these reform work, can you say benefit cut because that is where it has to come from. Somehow, we have to cut benefits. Does that mean less healthcare or does it just mean who pays for it. That is the important question. For you physicians, it is the important question. Are we going to actually have you deliver less healthcare or are we just going to make a different way that we are going to pay for healthcare?

**Dr. BILL RUTENBERG:**

Is not there waste in the system that we could at least get back some of the cost. I mean, today the United Press reported a hospital in Missouri has to pay back 60 million dollars. I know, compared to 32 trillion, it is not a lot of money, but that is a huge number of vaccines against influenza. There is a lot that can be done. Is not it time that we get the waste and the fraud out of the system.

**Dr. THOMAS SAVING:**

There is no doubt that there is waste and fraud in every system that you have. Wal-Mart stores have waste and fraud, medicine has waste and fraud. The real issue is what does it cost you to discover it and in the year 2001, I think it was the general service administration the government went after up-coding, where physicians were coding 1 thing and actually delivering something else. In the next year, Medicare expenditures were lower than we expected and everything else in my point to them was first this cost a lot of money to do that and physicians were much more conscious the next year. All that went away, but the question I would always have for everyone, why is that here we had the government looking over your shoulder to see what you are doing. Why you think that was necessary. Why did not the customer look over your shoulder because they were paying for it. In the grocery store, we do not need any government people sitting at the checkout counter, checking to make sure whether the people are charging it too much. Why do not we

need that because you are doing it and if the customer was paying and you tried to charge them, say for a pneumonia shot instead of an influenza shot, they would say "wait a minute Bill, this is not what you gave me." That is what we have to have. If the customers do not care, we are going to have fraud and then we have to have this enforcement procedure, which may not even pay for itself. So, we are not going to be able to solve this problem by going around and eliminating waste. We are not going to find the healthcare placement, say the Mayo Clinic, which you are aware a lot of people say if everyone went to the Mayo Clinic, healthcare cost will be lowered and I said first why if it is so inefficient why would you run a clinic in which you were doing things inefficiently if you can make more money by doing it efficiently. Well, in the current payment system, you do not make anymore money by doing it efficiently and that is because the people do not care what it costs and the other issue with Mayo is they do an awful lot of cash business because the Canadians whose wonderful healthcare system we would like to talk about, they come to the Mayo to get care and that is true of all of the border clinics, the Cleveland Clinic, you have got the mail and all of those people have a huge amount of cash business and I think that affects how efficient they are.

**Dr. BILL RUTENBERG:**

Do they pay taxes on that cash business?

**Dr. THOMAS SAVING:**

Well, I feel that is another question whether that is tax exempt or not, you are not right?

**Dr. BILL RUTENBERG:**

No.

**Dr. THOMAS SAVING:**

But I think, Mayo probably is.

**Dr. BILL RUTENBERG:**

I got a thought because you said people need to care about. Why do not we allow balance billing, then you can have some real negotiation because Dr. A can say I am going to balance bill you 100%, Dr. B says I am only going to ask for 50%, and Dr. C says I will take whatever Medicare will pay me and I think that is the same problem in the manage care companies as well. People walked into my office, it is 20-dollar co-pay, and they do not care about anything else. They do not even appreciate the discounts that they are getting and if I could balance bill them, you know I would be in a competitive market with other doctors who can make their own decisions on what percentage they are going to collect back and then people really would have to start thinking about their healthcare decisions.

**Dr. THOMAS SAVING:**

I think that is exactly right and 1 way of reforming is to make individuals pay a lot more of their own healthcare. Even if what you do is give them the money and I had an experience here during the last recession. The Health and Human Services people in Taxes called me. I had done some work for them, helped them on some things and they said what are we going to do with the Medicaid patients who

when they have a cold, they go to the ER and we get to pay all this Medicaid and I said what we are going to do is we are going to charge him for it, that is the way to do this and they told where will we get the money and I said we will give it to them. At the beginning of the year, we will give them 80% in the health saving account of what they are spending and I said trust me when they have a cold, they are not going to call 911 to get an ambulance to take them into ER. They are going to get a neighbor to take them to a little clinic somewhere and they would not spent anywhere near the amount of money that is spending now and the other issue is to the ER prices are all fiction.

**Dr. BILL RUTENBERG:**

Oh, right.

**Dr. THOMAS SAVING:**

If you come in for a cold, Medicaid is going to pay the full cost of running to ER. Even though, if this were operated as a private business and if you had a cold, they would make you wait for all the trauma patients and if the doctor is sitting around playing card as part of the time, they can take care of the people with a cold and they might very well do it more efficiently and cheaper than a little clinic in Wal-Mart does it. We do not know that because none of these prices mean anything, but if they actually meant something, if they were real prices, then we will discover how to do it efficiently and medicine would look a lot different and a lot of people perhaps you would be a lot happier with that world then the one you are in.

**Dr. BILL RUTENBERG:**

Could you get a grant to study that? It seems like that it will be the perfect, you know you are in the right place, you are at the University, you have graduate students, you have medical center. How could you not have a private project to prove this, so logical?

**Dr. THOMAS SAVING:**

Well, I think there is some number of projects sort of out there. I think what is happening is that we are freeing up some of this market and that is these little Wal-Mart Clinics somethings that are becoming more popular and they are not only in Wal-Mart I am bringing up because I know some of them are there and I think some of those started in Minnesota, I am not sure I think they started. Mayo is also in Minnesota, but I think those are the kind of things that we see happening and the question we are really asking is how can we expand that, how can we give people the option of going outside the system, but they have time and incentive to do that. If we give them health-savings account, then they will have an incentive to go outside the system.

**Dr. BILL RUTENBERG:**

No, that was I was asking. Could not you get a grant from someone to set up a pilot project with people and this group of a thousand are going to get a health-savings account that is funded by the Gates Foundation or something.

**Dr. THOMAS SAVING:**

As a matter of fact, there have been such studies done and they do show significant reductions. Most of them are too small to get a

significant supply side effect and that is an effect that you have discussed earlier. We the physicians and the healthcare providers are competing for these dollars because if the system is small, you would not get any of that effect. All you will get is the effect that demanders are going to shop and shopping matters because if you are paying for your own MRI and you are in a city with more than one and you will find that the prices are different, you will be able to find the cheapest MRI. As you pointed out, if you only have fixed co-pay, then you would not bother the shop at all and as a matter of fact there will be a different price. I remember once, I think my wife was getting some kind of a sonogram thing and I cannot remember exactly what that was, it may have been because of a gallbladder or something and the hospital said well if you pay for this, it is 220 dollars. If you are billing your insurance company, it is 520. Wait a minute. Therein is the problem.

Well, that is a new thought on which we can end today's discussion. I would like to thank Dr. Thomas Saving for being my guest and we have been discussing how to pay for Medicare's unfunded liability. I am Dr. Bill Rutenberg and you have been listening to the clinicians' roundtable on ReachMD XM 157, the channel for medical professionals. I invite you to listen to our on-demand library at [www.reachmd.com](http://www.reachmd.com), register with promo code "radio" and receive 6 months of free streaming audio. Please call us at 888MD XM 157 with your comments or suggestions. Thanks for listening. Until next time, I wish you good day and a good health.

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