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Reform Proposals

Health Care Reform During the Obama Presidency: The Impact on Hospitals

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During the recent presidential campaign, health care reform was a centerpiece of the agenda of President-elect Obama and Republican nominee John McCain. Although the two candidates articulated quite different approaches, both put forth proposals to change significantly the existing system of health care financing and delivery. That the two major party candidates emphasized health care reform evidences the recent emergence of a consensus that the health care system is broken and in need of repair. Indeed, many of the diverse constituencies in health care—which have historically battled with each other to protect their own interests in the status quo—appear at this early stage interested in working cooperatively with the federal government to adopt change. Thus, even with the current need to address the economy and the war, the early years of the Obama administration may represent a unique opportunity to implement significant health care reform.

Although Obama described his health reform agenda during the presidential campaign, his plan is only a broad, general outline, leaving many of the specifics to be addressed later. It is likely that Congress will be heavily involved in shaping any reform plan. Already, Sen. Max Baucus (D-Mont.), chairman of the Senate Finance Committee, has released a lengthy paper describing his vision for health care reform, which includes many elements similar to Obama's. Also, Sen. Edward M. Kennedy (D-Mass.), who chairs the Senate Health, Education, Labor, and Pensions Committee, will be pushing a health reform agenda based on Obama's plan, and could be influential. And Sen. Ron Wyden (D-Ore.) is leading a bipartisan group of senators with its own proposal.

Much detail still needs to be developed, and surely many aspects will be debated before a comprehensive proposal emerges. At this juncture, therefore, it is not possible to predict with certainty how any health reform initiative will affect particular segments of the industry, such as hospitals. Nevertheless, by examining the various elements of Obama's health plan, one can identify some of the variables that will be important to hospitals.

Obama's plan includes initiatives in two broad areas—increased access to health insurance coverage, and health care delivery and payment changes. Ultimately, both areas could affect hospital revenue and expenses. This article touches on some of the initiatives in each of these areas that could impact hospitals.

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Access to Coverage

About 46 million Americans are uninsured and the number is growing due in part to the increasing cost of health insurance. Most of the uninsured are low- to

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moderate-income individuals who would be unable to pay for much of their health care needs. Many hospitals experience the consequence of a high uninsured population through the provision of uncompensated care and bad debts.

Obama's plan would reduce the uninsured population in two ways. First, it would ensure that children have insurance coverage by extending and expanding Medicaid and the State Children's Health Insurance Program and mandating health insurance for all children. The temporary reauthorization of SCHIP is set to expire in March 2009, so Congress will have to deal with this issue soon.

Second, Obama would require employers, other than small businesses, to furnish health insurance to their workforce. To enforce this mandate, financial penalties would be levied on employers that fail to supply insurance. A new governmental health plan, modeled after the plan available to federal employees, would be available to individuals not receiving insurance through their employers.

Also, a new national health insurance exchange of private health plans would be established to enable small businesses to purchase employee health coverage and for individuals to purchase insurance for themselves. The benefits package for the national health plan and the plans participating in the exchange would provide guaranteed coverage, including restrictions on denying coverage due to pre-existing conditions.

Small businesses may be entitled to a tax credit to offset some of their insurance costs, or may be exempt from the mandate altogether. Small businesses not wholly exempt from the mandate may be entitled to a tax credit to offset some of their insurance costs, and low income individuals would receive a subsidy toward their purchase of individual insurance.

The magnitude of the reduction in the uninsured population will depend on features of health care reform plan that will likely be subject to much refinement. Unlike the plan offered by Sen. Hillary Rodham Clinton (D-N.Y.) during the Democratic primary, and the framework in the recent Baucus paper, the Obama plan would facilitate broader coverage, but does not mandate that all individuals obtain health insurance.

Individual Mandate: A Pivotal Issue

A pivotal issue will be whether the plan ultimately developed will include such an individual mandate, which would surely result in a greater reduction in the uninsured. If an individual mandate is not included in a final reform plan, the extent of a reduction in uninsured patients will depend on the essential details, such as the level of the financial penalties on employers that fail to provide insurance coverage, and the amount of the subsidies and tax credits available to offset the insurance costs of small businesses and individuals.

To the extent that health care reform reduces the uninsured population, hospitals could benefit through a reduction in uncompensated care and bad debts. In addition, hospitals may see increases in patient volumes with the reduction in the uninsured.

To the extent that health care reform reduces the uninsured population, hospitals could benefit through a reduction in uncompensated care and bad debts. In addition, as the insured population tends to utilize health care services to a greater extent than the uninsured, hospitals may see increases in patient volumes with the reduction in the uninsured.

Hospitals having higher proportions of uninsured patients in their service areas will, of course, be affected more greatly by both of these consequences. Whether hospital revenue outpaces new capital and operating expenses that will need to be incurred to accommodate the increased volumes will depend on the payment rates for the new patients.

For example, some fraction of the population currently insured through commercial insurance offered by employers will switch to the new national health plan or private insurance offered through the new exchange.

The rates at which hospitals will be paid under these new programs likely will be lower than the rates paid by commercial insurers, which historically have paid hospitals at rates better than government plans. Additionally, various existing government programs that aid hospitals serving the uninsured, such as state charity care funding programs, may be reduced or eliminated.

Further, commercial insurers and even the Medicare program may seek to reduce (or not increase) their payment rates since hospitals will be less in need of shifting the costs of care for the uninsured to these payers. Obviously, the extent of the mitigating effects of these consequences will depend on the details of the reform plan and responses to the plan.

Delivery and Payment

In addition to reducing the uninsured population, the Obama plan calls for major changes in the way in which health care services are delivered and paid. These changes are aimed at improving the effectiveness of health care delivery and increasing efficiency. Many of these changes have been discussed only in broad strokes. How hospitals will be affected will depend on whether and how these changes will be implemented.

The wider use of health information technology (IT) has been touted as a means to improve quality and reduce health care costs. Many hospitals already have begun investing in and implementing electronic health records systems, although physicians—particularly those in small private medical practices—have been slow to invest in this technology. Obama's plan contemplates a government investment of $10 billion in each of

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the next five years in health information technology, including electronic medical records. Exactly how that investment will be made is not clear, however. The Baucus paper envisions direct grants, loans, and financial incentives through Medicare pay-for performance initiatives, to be followed by mandatory use of health IT. The details surrounding the health IT initiative will determine whether and how hospitals can benefit from any such investment.

Obama's plan also calls for adjusting economic incentives in health care delivery. Obama notes that providers are motivated to increase the volume of services rather than improve quality or effectiveness of care. Although the Obama plan lacks specifics, a central theme of Baucus's paper is to refocus payment incentives, and includes such elements as increased performance reporting and a phase-in of value-based purchasing for inpatient hospital services. Ultimately, these kinds of pay-for-performance initiatives could benefit hospitals that are able to meet whatever quality and outcomes benchmarks will be established, and could adversely affect hospitals that cannot meet specified benchmarks.

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Both the Obama plan and the Baucus proposal identify the lack of coordinated care among the fragmented elements in the health care delivery system as a contributor to inefficiency and inadequate care. The Obama plan would mandate the use of disease management programs to guide care for patients with chronic conditions who are covered by government health programs. The Baucus plan goes further, advocating the development and testing of various approaches to coordinate care and limit unnecessary services.

First, the Baucus plan would address unnecessary hospital readmissions by sharing comparative data concerning hospital and physician resource utilization, and create financial disincentives to readmissions by reducing payments for hospitals with readmission rates in excess of benchmarks. Second, it would test various models that would create incentives to reduce costs for hospitalized patients, including (1) bundled or global payments that include physician, hospital, and post-acute care; (2) incentive payments to ''accountable care organizations'', such as integrated delivery systems, academic medical centers, and physician-hospital organizations, that are able to reduce spending below a target rate; and (3) ''gainsharing'' programs aimed at allowing providers to share savings achieved from improved efficiency and quality. These projects could lead to new opportunities for hospitals that are willing and able to manage the cost of care of their patients.

Increased Transparency

The trend in recent years toward increased ''transparency'' in health care is likely to continue. The Obama proposal would require hospitals to collect and publicly report data concerning medical errors, nurse staffing ratios, hospital-acquired infections and disparities in health care. This could increase the administrative burden on hospitals and provide ammunition for plaintiffs' lawyers pursuing malpractice cases against hospitals.

The Obama plan recognizes malpractice insurance costs as a contributor to high health care costs, but unlike the McCain plan, which advocated tort reform, Obama merely suggests a strengthening of antitrust laws, presumably to increase competition in the liability insurance market. The Baucus plan notes the impact of potential liability on not only insurance premiums but also the costly practice of defensive medicine, and calls for development of alternatives to litigation to address disputes involving errors and injury compensation. Whether such changes would meaningfully reduce hospital costs is unclear.

The Obama plan does not specifically mention fraud and abuse enforcement, but the Baucus paper supports greater efforts and more spending to fight fraud and abuse. It seems unlikely that the administrative burdens on hospitals to maintain compliance with the complex government rules will ease. This is particularly true as other aspects of health care reform will change compliance requirements, forcing hospitals to exert efforts to stay on top of these changes.

Conclusion

The circumstances in the early years of the Obama presidency may create a rare occasion for enacting significant changes to health care payment and delivery, despite the need for government attention to the economy and the war. The changes suggested by many of the elements of the Obama health care reform plan could impact hospitals, both on the revenue side and the expense side. As the details of the plan emerge, hospitals will have a better idea of the opportunities and risks that health care reform will create for them.