

## Our Healthcare System Is Failing

*J. Douglas Yarbrough, MBA*

What do we think when we hear about someone who has no health insurance coverage? Our first thought is that they may not get the care they need. Then we wonder if they could lose their savings and/or incur massive debts if they or someone in their family has a catastrophic illness. This should concern us, but this is not the whole picture. In reality, providing medical care for the uninsured is an even greater problem for our healthcare delivery system. In fact, it is crippling our system; and if left unresolved, it will destroy our system. Nationally, there are approximately 44 million people without medical coverage. Another 38 million have inadequate coverage. That means approximately 28% of the United States population is without adequate healthcare coverage.<sup>1</sup>

With some exception, uninsured people pay very little of the cost of providing their healthcare at the hospital level. For years, we in the hospital industry have referred to the uninsured as “self-pay.” For financial purposes, we classify our patient receivables as Medicare, Medicaid, other government, commercial, or self-pay. We informally refer to self-pay as “no-pay.” That is because we collect a very small percentage of what we charge the uninsured. Many of them are classified as charity care, and a large portion of their care is written off. Some uninsured patients have the ability to pay, but decide not to, and their balances become bad debts. Some fall into a monthly payment category where they make very small monthly payments (without interest). How do hospitals deal with the cost of the uninsured? Like any business, we pass it on to the paying customers. It becomes a piece of overhead. Call it what you want, but it is a part of the total cost, and somebody has to pay for it.

From a financial perspective, accounting for healthcare is much like accounting for any other type of service. We must have enough revenue to cover our costs. If we cannot make a profit, we cannot replace worn out plant and equipment or invest in the latest technologies. However, there is one difference

unique to the healthcare field. That is the enormous amount of free care and under-paid care we deliver. We must charge each patient more to recover the unreimbursed cost of care provided to the uninsured and “government payers.” As a result, hospitals write off 40-50% of what they charge.

### Hospitals Are Underpaid by Medicaid and Medicare

Let me explain why government payers present another unique problem for healthcare providers. Earlier I referred to the classification of patients as Medicare, Medicaid, other government, commercial, or self-pay. In North Carolina, hospitals are not receiving enough payments from government payers to cover the cost of treating government-pay patients. Medicare payments to hospitals are not based on what hospitals charge, and, in most cases, do not cover the true cost of providing the care. Imagine owning a business where your customers walk in, take your product or service, and then tell you what they are

willing to pay. Why can Medicare do this? Medicare covers half of the patients that come to our hospitals. Medicare is the number one payer by far; they can virtually enforce any payment system they choose, and hospitals have no choice but to accept. Historically, the Medicare program has grown much

more than government estimates, and they had to come up with payment systems that allow them to meet their budget. For the first 18 years of Medicare’s existence, the program paid hospitals for the “cost” of the care provided. However, since 1983, the payments have been slowly declining in relationship to the actual cost of providing care, and now hospitals are receiving less in payments than the actual cost of the care. How do hospitals recover this shortfall? Simple: they pass it on to other payers.

Unfortunately, Medicaid, the second largest payer for many

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**J. Douglas Yarbrough, MBA**, is President and CEO of Duplin General Hospital, Inc. He can be reached at [dyarbrough@dgh.org](mailto:dyarbrough@dgh.org) or PO Box 278, Kenansville, NC 28349. Telephone: 910-296-0941.

hospitals, has been doing the same thing as Medicare. They are paying less to hospitals than the cost of providing care to Medicaid patients. Hospitals are burdened with yet another class of payer that does not cover the cost of care provided. What do hospitals do to cover that short fall? Obviously, the same remedy is to pass that on to other payers. Unfortunately, the only payers remaining are commercial insurance carriers. Insurance companies have historically paid hospital bills based on billed charges rather than a government imposed payment scheme.

## Insurance Companies Demand Deep Discounts

In recent years the number of commercially insured patients has dwindled. With factories closing and workers attracted to jobs with little or no insurance coverage, the problem is exacerbated. Employers have reached the boiling point with health insurance costs, and they are beginning to increase employee deductibles and coinsurance, passing the cost on to their employees. The insurance companies are tired of paying the shortfall for all the other payer classes. Consequently, insurance companies are beginning to negotiate deep discounts and alternative payment systems. This creates a great dilemma for hospitals. There is no one left to absorb the cost of the uninsured.

## Hospitals Are Left with Few Acceptable Business Options

Many hospitals in North Carolina have run out of ways to recoup the cost of providing free care, and they are now losing money on their bottom lines. Where does the money come from to fund those losses? Like any business, losses come out of surplus—surplus that should be used to replace worn out plant and equipment and purchase new technologies. Hospitals operate in a high-tech, labor-intensive environment, and they cannot survive without the latest technologies. When a hospital uses its surplus to fund losses from operations, sooner or later, they have either to cut services drastically or close. Unfortunately, we have some hospitals in North Carolina that are now in that situation. We also have many hospitals that are currently losing money and will be in that situation if nothing is done to break the cycle.

How do we break the cycle? If hospitals were like other businesses, they would simply discontinue unprofitable services, add profitable lines, lay off employees, and certainly stop giving away their services. As we all know, none of these solutions will work for hospitals, particularly the not-for-profit community hospitals. We are not here simply to make a profit. The services we provide are essential to the community. Our mission is to improve the health of our community, regardless of patients'

ability to pay, regardless of how profitable or unprofitable the service is. We are the last place for many patients to go. We are their "safety net." Our emergency rooms are full, and we will continue to take care of them as long as we can. Unfortunately, under the current system, our days are numbered.

## Suggestions for Change

So, what are we going to do? I will share a few of my suggestions. First, we, meaning all of us, providers of care, insurance companies, Medicare, Medicaid, etc., must quit playing the blame game. We are in this fix because we have spent the last four decades blaming each other for these problems. Our problems will continue until we all come together and take equal responsibility for fixing them. Hospitals and healthcare providers should not be the fall guys in the system. The enormous burden of the uninsured must be borne by all of us.

Second, we need meaningful reform on the legal side of healthcare. Regardless of who is right or wrong about tort reform, the legal climate is terrible. At one time in this country, many of our physicians came from physician families. Now, physicians are encouraging their kids to go into other fields. The fear of malpractice suits, complicated billing and payment systems, and government regulation is discouraging new physicians from going into private practice. In order to have enough physicians in rural areas, hospitals are forced to contract with physicians as employees or guarantee them a fixed income. This further depletes hospital resources and puts them at financial risk.

A very large hidden cost in our system is the increasing volume of unnecessary diagnostic testing. Fear of being sued is the number one reason why physicians order so many tests. The number of MRIs, CT scans, x-rays, etc. are growing each year, simply because physicians are afraid not to order them. One lawsuit can destroy a physician's livelihood. Most physicians feel trapped in a system where sensible, conservative medicine can no longer be practiced. Defensive medicine is costing us a fortune.

Last, we must educate our communities. Not only do we all need education on healthier lifestyles and preventive medicine, but also we must learn to make wise choices about our care. We must also learn to form reasonable expectations about our healthcare system. Everyday, I am amazed at the level of dedication exhibited by our healthcare workers. They are compassionate and caring. They work around the clock to be here whenever we need them. But, medicine is not an exact science, and people are not perfect. We need to take the profiteering out of our legal system. **NCMJ**

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## REFERENCES

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