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NEW DIRECTIONS IN HEALTH CARE POLICY: THEIR POTENTIAL IMPACT ON LONG ISLAND

U.S. health care spending totaled \$2.4 trillion in 2008. This was equivalent to 16.6 percent of the nation's gross domestic product. The United States spends almost twice as much per person on health care as other industrialized nations. Despite this spending, the World Health Organization ranked the U.S. 37th globally in terms of health care outcomes. This article discusses the flaws in our current health care system, what can be done to fix them, and how proposed changes will affect Long Islanders and their health care institutions.



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The Problem of Escalating Health Care Costs

Health care spending in this country is increasing at twice the rate of inflation. It is projected to reach \$4.3 trillion by 2017, almost double current levels. The government share of these expenditures could exceed \$2 trillion. By 2017, health care spending could absorb 20 percent of the nation's GDP, crowding out other essential expenditures. Therefore, there is an urgent need to rein in health care expenditures while providing quality health care for everyone.

Studies have shown that a third of U.S. health care spending may be wasted on treatments, drugs, and tests that don't measurably improve health outcomes. At the same time, many adults fail to receive recommended treatments for their illnesses. Moreover, almost 100,000 Americans are killed each year by preventable medical errors and more than 1.5 million are hurt by preventable medication errors. Using electronic prescriptions, evidenced based medicine and electronic medical records could significantly reduce these errors. Electronic medical records allow health care providers to store medical histories and lab reports and send alerts and reminders to their patients as needed. Such records also give physicians access to concise, evidence-based medical infor-

mation to help them determine which treatments are most effective for given patients. Evidence-based medicine utilizes treatments that have been validated by outcomes. In essence, it involves practicing medicine in a quantitative fashion. This not only reduces health care costs but also increases the quality of care.

Electronic medical records are costly to implement, with the cost ranging from \$25,000 to \$45,000 per physician. E-prescribing is less costly, about \$500 to \$2,500 per physician. E-prescribing allows doctors to transmit prescriptions via a secure Internet network directly to pharmacies using a computer or a digital handheld device. This reduces prescription errors and cuts costs for consumers and health-care providers. E-prescribing software automatically checks a patient's drug history for potential hazards such as improper dosages, medication allergies and adverse interactions with other drugs. The number of physicians prescribing medicines electronically has more than doubled in the past year but only 12 percent of office-based doctors currently prescribe electronically. The recently passed economic stimulus bill contains \$19 billion to improve health care information technology and an addi-

tional \$1.1 billion for research concerning the effectiveness of medications and medical devices. Moreover, Medicare has begun to offer bonuses to health care providers who e-prescribe. Starting in 2012, Medicare will penalize providers who don't e-prescribe. Some private health plans have also begun offering physicians in their networks extra payments and free equipment, such as digital handheld devices, to encourage them to e-prescribe. However, much remains to be done to make e-prescribing universal within the medical community.

The Problem of the Uninsured

An even more intractable problem is the problem of the uninsured. An estimated 46 million Americans lack health insurance coverage and their numbers are growing as newly laid off workers lose their employer-provided health insurance. The economic stimulus package will help some of these workers retain their coverage under Cobra, the Consolidated Omnibus Budget Reconciliation Act of 1986. The legislation provides \$21 billion for a 60 percent subsidy of Cobra coverage for the unemployed for up to nine months. Otherwise Cobra payments would absorb 30 percent

Health Care Employment and Payrolls by Sector, Nassau and Suffolk Counties

Sector	Employment, Dec. 2008	% Change, 2000-08	Wages, Q1 2008	% Change, 2000-08
Ambulatory Health Care Services	71,200	16.3	\$ 3,230,061,272	34.0
Hospitals	49,000	31.3	\$ 2,809,932,628	82.7
Nursing & Residential Care Facilities	33,000	30.4	\$ 1,102,824,012	57.4
Total	153,200	23.7	\$ 7,142,817,912	53.7

Source: New York State Labor Department

of total unemployment benefits for individual coverage and 80 percent of benefits for family coverage.

The problem of the uninsured predates the current economic crisis. The ranks of the uninsured have grown by almost 20 percent since 1999 in part because many employers, particularly small businesses, have dropped health care coverage for their employees. Today, 6 in 10 non-elderly Americans are insured through their jobs. However, only 62 percent of businesses with fewer than 200 workers offer health insurance benefits primarily because they can no longer afford the premium costs. The average annual premium for employer-based family coverage was \$12,680 in 2008; the comparable cost for individual coverage was \$4,704. Health insurance premiums have been rising much faster than inflation or earnings. Average earnings rose by 34 percent and inflation increased by 29 percent since 1999 but health insurance premiums increased by 119 percent during this period.

The lack of health insurance imposes severe economic burdens on patients, health care providers and governments. The uninsured incurred out-of-pocket medical expenses totaling \$30 billion last year.

According to a recent study by The Commonwealth Fund, 21.3 million adults under age 65 had out-of-pocket health care expenditures exceeding 10 percent of their incomes in 2007. The government paid another \$56 billion to care for the uninsured. The uninsured often use hospital emergency rooms for their primary care, imposing severe financial burdens on these institutions. Medicaid pays approximately \$95 for the typical ER visit while the actual cost is typically \$400. The financial squeeze on hospitals not only reflects the increase in uncompensated care but also the decline in paying patients, who tend to defer treatment in today's challenging economic environment.

Efforts to Fix the System

Efforts to fix the system range from implementation of consumer driven health insurance plans to attempts by individual states to provide universal health care coverage.

Consumer Driven Plans. Consumer driven health insurance plans, first introduced in 2001, have been growing in popularity because they involve lower premium costs for businesses and individuals. The LIA Health Alliance offers a full menu of con-

sumer-driven health insurance plans. These plans typically combine high-deductible coverage with a tax-advantaged account that can be used to pay deductibles. Companies may choose to set up health reimbursement accounts (HRAs) or health savings accounts (HSAs), through which employees are reimbursed for all or part of the deductibles. However, there is 100 percent coverage for physical checkups, well-child care and immunizations, flu shots and cancer screenings even before the deductible amount is reached. Today, some 12 million workers and their families are covered by high-deductible plans, which account for 18 percent of all corporate-based health insurance coverage.

Corporate-Based Preventive Care. In the latest attempt to motivate workers to adopt more healthful lifestyles, some employers have begun to offer wellness coaching to employees and their families at on-site clinics. These clinics offer health screenings and immunizations as well as pharmacy services. They educate workers about healthful lifestyles, direct them to wellness programs and offer urgent care. With the average cost of providing health care to an employee at about \$10,000 a year, some of the larger businesses have

The Secondary Economic Impact of Health Care Jobs on Long Island

Sector	Direct Health Care Jobs	Employment Multipliers	Direct & Indirect Jobs	Indirect Jobs
Ambulatory Health Care Services	71,200	1.5902	113,222	42,022
Hospitals/Nursing/Residential Facilities	82,000	1.6856	138,219	56,219
Total	153,200		251,441	98,241

Source: RIMS II Input-Output Model

The Secondary Economic Impact of Health Care Payrolls on Long Island (\$000)				
Sector	Direct Health Care Payrolls	Earnings Multipliers	Direct & Indirect Payrolls	Indirect Payrolls
Ambulatory Health Care Services	\$3,230,061	1.7754	\$ 5,734,651	\$2,504,590
Hospitals & Residential Care Facilities	3,912,757	1.7636	6,900,538	2,987,781
Total	7,142,818		12,635,189	5,492,371

Source: RIMS II Input-Output Model

begun to realize that they can achieve big savings by offering one-stop on-site health and wellness facilities.

Universal Health Care Coverage.

Massachusetts was the first state to attempt to provide universal health care for its citizens. Enacted two years ago, the Massachusetts program requires all citizens to have health insurance or suffer a tax penalty. It requires employers to offer coverage or pay a small assessment. Low-income residents can enroll in an expanded state-federal Medicaid program or opt for a state subsidy to purchase private health care insurance. Those earning more than 300 percent of the federal poverty level, about \$63,000 for a family of four, are not subsidized but can buy private policies through a new insurance exchange at significantly reduced cost. More than 439,000 people, or about two-thirds of the uninsured, acquired health care insurance since the program began. Of these, 40 percent purchased unsubsidized commercial policies. Since the program was implemented, the cost of uncompensated care in Massachusetts declined from \$166 million to \$98 million. However, state-financed health care costs have risen substantially.

Obama Health Care Reform Proposals

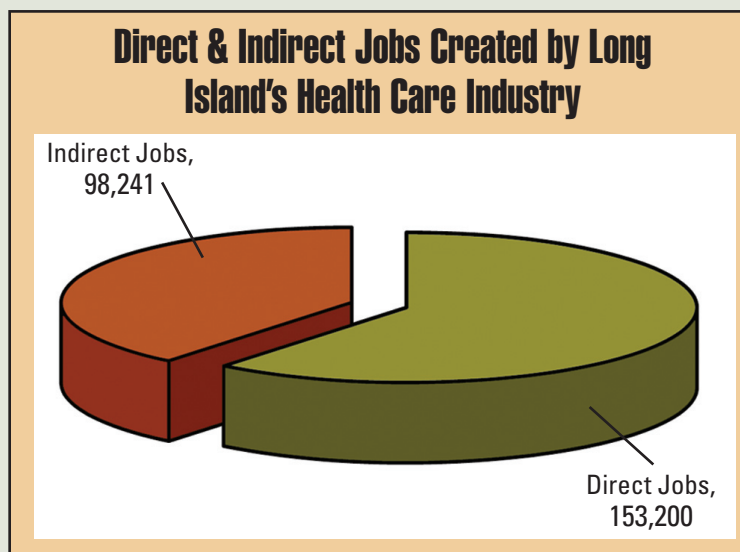
Current deficiencies in today's health care system coupled with the fact that the nation's baby boomers will begin to turn 65 in 2010, imposing added burdens on the Medicare system, have created a promising political environment for reform. The Obama administration wants to retain the

current employer-based system of health insurance while remedying current inequities in health care coverage. It proposes an exchange that would allow individuals and small businesses to buy coverage from private companies at reduced rates. They would also have the option of purchasing insurance from a new government-run Medicare-type plan. Insurance companies would be required to cover pre-existing conditions so no one would be denied coverage. Tax credits for families and small businesses would help to subsidize the cost of health insurance premiums. Large employers not providing meaningful health insurance coverage would be required to contribute a percentage of their payrolls to a national fund. Small employers that offer health care benefits to their employees would receive a tax credit. The Obama administration estimates that the plan would increase federal government

spending by about \$100 billion annually.

The Obama administration also wants to change the current reimbursement system that pays providers for every procedure and service rendered. Studies have shown that this system leads to unneeded or ineffectual medical services. Instead, payments to providers would be based on the quality of care and on outcomes rather than on the volume of services provided. The administration's plan also puts more emphasis on preventive care and on promoting wellness rather than treating illness.

The new business model in health care involves a continuum of care that follows patients wherever they go within an integrated health care system. It is based on evidence that large group practices containing multiple specialists who share information and keep comprehensive electronic records are more efficient and effective than traditional small fee-for-service prac-



tices. Such integrated systems allow physicians to share information and to focus on the most effective preventive measures and therapies for given patients. In such a system there are fewer duplicative tests and conflicting medications prescribed by different physicians.

These health care reform proposals are certain to generate intense debate. One issue is the viability of the current employer-based health care system, which was introduced 60 years ago as a way of circumventing World War II wage and price controls. At that time, employers couldn't offer higher wages to attract workers so they offered benefits such as health insurance instead. Today, U.S. businesses compete in a global economy and their higher health care premium costs put them at a competitive disadvantage vis-à-vis their foreign competitors. Moreover, the system tends to be relatively inefficient. According to a study by the McKinsey Global Institute, the fact that each employer purchases health insurance separately adds more than \$75 billion in underwriting, marketing, sales, billing and other administrative costs to the system without benefiting patients. Also, the current employer-based system does not allow workers to retain their current health care coverage when they change jobs, a liability given that few workers spend their entire career with one employer.

Dimensions of the Health Care Industry on Long Island

The health care industry is a significant part of the Long Island economy. The availability of top-notch health care facilities and services also contributes to the quality of life of residents throughout the New York metropolitan region.

According to the New York State Labor Department, Long Island's health care sector employed more than 153,000 persons and accounted for 12 percent of all payroll jobs as of December 2008. Ambulatory care services accounted for the preponderance of health care jobs, approximately

71,200. Long Island hospitals employed an estimated 49,000 persons and 33,000 jobs were attributable to nursing and other residential health care facilities. In the first quarter of 2008, health sector payrolls on Long Island exceeded \$7.1 billion. This was equivalent to more than 12 percent of total Long Island payrolls of approximately \$58.3 billion.

Whereas most Long Island industries are losing jobs in response to the deepening national recession, the health care sector has continued to expand. Health care employment on Long Island increased by almost 24 percent between 2000 and 2008, driven by an aging population and new medical treatments. Payrolls attributable to the health care sector increased by almost 54 percent during this period.

Much of this health care spending remains on Long Island. Health care workers spend their wages in local supermarkets and at local shopping malls. They pay taxes, patronize local restaurants and attend local sports and entertainment events. These expenditures create a ripple or multiplier effect so that the ultimate impact of health care spending is a multiple of the original expenditure. This ripple effect can be estimated by using an input-

output model of the Long Island economy. Such a model portrays the linkages between industries in a given area.

In the following analysis, health care multipliers from the RIMS II input-output model of the Long Island economy, developed by the U.S. Bureau of Economic Analysis, were applied to the foregoing employment and payroll figures. The results indicate that the more than 153,000 health sector jobs on Long Island support more than 98,000 additional jobs in a broad array of Long Island industries. These are jobs that would not exist were it not for the health care sector. The more than \$7.1 billion in direct payroll spending by Long Island's health care sector supports almost \$5.5 billion in secondary payrolls throughout the Long Island economy.

Since these multipliers work downward as well as upward, any contraction in Long Island's health care sector would cause a loss of jobs and payrolls throughout the Long Island economy. Some elements of Long Island's health care system face cuts in state aid, as the state works to eliminate its projected budget deficit for the next fiscal year. These cuts could increase the tenuous financial position of a significant segment of Long Island's health care sector, particularly its hospitals.

Direct and Indirect Payrolls Created by Long Island's Health Care Industry

