US Medicare, Medicaid cuts threaten health care

Kate Randall
7 July 2009

Congress returns this week from its Fourth of July break with the health care issue at the top of the agenda. Three different versions of legislation are working their way through Congressional committees. In the name of "reform," medical services in all of these versions would be subject to "evidence-based" analysis, leaving intact the profits of the insurance giants, pharmaceutical companies and health care conglomerates.

The three sets of legislation—from the Senate Finance Committee, the Senate Committee on Health, Education, Labor and Pensions (HELP), and the House Tri-Committee (Ways and Means, Energy and Commerce, Education and Labor)—have placed cost-containment as their central goal. President Obama has repeatedly stressed that any challenge to delivery of health care in America based on private profit would be "disruptive" to the free-enterprise system.

The Senate Finance Committee, while currently still supporting a "public option" component—insurance coverage managed by the federal or state governments—is reportedly considering junking it altogether in favor of some form of health care "cooperatives."

As one of its chief cost-cutting measures, the Obama administration plans to slash $317 billion through Medicare and Medicaid "efficiencies ... such as reducing Medicare overpayments to private insurers," according to Obama budget director Peter Orszag. Obama's stimulus package includes a paltry $268 million in funding for public hospitals.

These cuts come on top of another $313 billion in cuts from the two programs, "including a proposal that will generate about $106 billion in savings over 10 years by reducing payments that help hospitals with the cost of treating patients without insurance," says Orszag.

The White House is seeking to justify these cuts by claiming that under any new health care reform, these funds will be less needed. According to Nancy-Ann DeParle, director of the White House Office of Health Reform, the number of uninsured will be "reduced dramatically as we move to cover everybody," and there will be "less of a need for hospitals to get the payments."

Such predictions are not substantiated by the current state of affairs at hospitals across the country, which have seen a significant decline in revenues, particularly due to the impact of the recession. In recent months, this has led to the shutdown of departments, rationing of care and significant cutbacks in vital medical services.

These conditions are likely to worsen—not improve—as the recession deepens. Even with the inclusion of a "public option," cut-rate care, high deductibles, and penalties imposed for not purchasing insurance will still leave millions without quality health care or the means to pay for it.

According to a survey released this spring by the 5,000-member American Hospital Association (AHA), since the onset of the recession one in five hospitals have reduced services that "communities depend on". These cuts have come in such areas as behavioral health, post-acute care and outpatient services. These cutbacks have come despite consolidation of medical services at nearby facilities. Nine in ten facilities have trimmed their budgets in response to the economic conditions.

The AHA also reports more patients delaying "non-emergency" elective procedures, such as knee or hip operations, or surgery to remove heart blockages. Untreated, the latter could lead to preventable cardiac arrest.

At the most fundamental level, reductions in services are motivated by hospital administrations' efforts to protect their bottom lines, even at so-called community hospitals. AHA senior vice president Rick Wade told the *Chicago Tribune*, "When you look to the future, all of those programs going away are from hospitals that are going to be constrained for resources as far as the eye can see. Coming out of [health-care] reform, there is going to be a lot of belt-tightening."

In comments to Forbes.com, David Seaman, executive vice president of the Michigan Health and Hospital Association representing the state's community hospitals, notes that as more cash-strapped patients skip visits and under-compensated cases increase, hospital revenue has plummeted.

In 2008, Michigan hospitals spent $879 million subsidizing services for those patients unable to pay, and that figure is expected to rise to $1 billion in 2009.

Hospital administrations have responded by implementing staff cuts and curtailing new projects. Facing a projected $52 million deficit in the coming year, St. Joseph Mercy Health in Ann Arbor plans to cut 350 jobs. Beaumont Hospital in Royal Oak, which lost nearly $30 million last year, has postponed a $159 million project to build a cancer radiation facility.

Urban areas have been particularly hard-hit. In the Chicago area, St. James Hospital and Health Centers will be moving most elective surgery procedures from its Olympia Fields campus to its Chicago Heights facility this week. Just a few years ago, St. James also consolidated its obstetrics department at Chicago Heights.

About 14 percent of the patients who come to St. James Hospital's two campuses are uninsured, more than double the Illinois state average. Commenting on the consolidations, St. James President Seth Warren told the *Tribune*, "We have been suffering losses over the last 12 years. We feel that the decisions we are making are long-term because we don't expect there is going to be a huge windfall coming our way."

In the Washington, DC area, hospitals are experiencing sharply increased demand from uninsured patients, combined with plummeting revenue from declines in investment income, charitable giving and elective surgery.

If the economy continues to tumble, the impact of Obama's proposed reductions in hospital reimbursements could result in "ugly scenarios that would require wrenching changes and scaling back of services," Chris Bailey, senior vice president of the Virginia Hospital and Health care Association, told the *Washington Post*. "There will be a loss of hospitals that won't survive," he added.

Both public and for-profit hospitals in the DC area have responded by freezing workers' salaries and delaying construction projects and equipment purchases. At the National Rehabilitation Hospital in Northwest Washington, investment losses and reduced federal reimbursement for elderly patients have led to a $1 million deficit. One-third of full-time staff has given up three vacation days, while equipment purchases for stroke victims have been put off.

Hospitals in South Florida have also faced huge losses. In fiscal year 2008, the Baptist Health system lost $71.7 million while Miami Children's lost an equally high amount—$72 million. Holy Cross lost $25 million; Mercy, $34.8 million.

Linda Quick, president of the South Florida Hospital and Health care Association, told the *Miami Herald*, "It's going to a particularly tough year, more so for the public-financed facilities." She pointed to a survey that showed for every 1 percent increase in the national unemployment rate, there are 100,000 new Medicaid-eligible patients.

This is particularly significant as unemployment rates continue to rise sharply. Unemployment figures rose to a 26-year high of 9.5 percent last month, as US employers cut another 467,000 jobs. All evidence points to a protracted recession with increasing numbers of jobless workers. (See "US unemployment rate for June at 9.5 percent")

The Obama administration's claims that its massive cuts to the Medicare and Medicaid programs will be offset by decreasing numbers of uninsured and underinsured patients under new health care legislation are belied both by these economic indices and the present perilous state of the nation's hospitals and health care facilities.