PERSPECTIVE

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Health Watch USA

Frankfort Didn't Tell Whole Story on CON Details

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Summary
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The State of Kentucky by Using Hospital Revenues Instead of Charges to Judge Hospital Cost Effectiveness Grossly Under Estimates the Cost of Hospital Care to the Consumer.

I found the front page news story in Sunday's paper concerning the new Kentucky Certificate of Need regulations to be misleading and inaccurate. The overall premise of the story, that Frankfort feels it is OK for any county to pay 49.9% more in healthcare costs, is ridiculous. After all, would anyone like to pay over a $1.25 more per gallon in gas before another gas station is let in? What's misleading is that the story leaves out that the regulation requires all hospitals in the surrounding counties to also be out of compliance before a CON can be issued. That's virtually impossible to meet. But most importantly the regulation does not address price, but addresses revenues. Here is where the devil is in the details.

The revenues in the regulation are from all payer sources. Since revenues include Medicare and Medicaid payments and these payments are similar to all hospitals in the State, the regulation has the effect of diluting and averaging the monitored revenues.

If healthcare was gasoline, I feel in our region the regulation would require one to have to pay an additional $5 dollars per gallon in gas (a total of $7.50 per gallon) before Frankfort allowed another gas station to be built. Here is why:

I believe that in our area approximately 75% of patients have their bills paid by Medicare and Medicaid. For this example let's assume this to be the case: The remaining 25% would then have private insurance or would be uninsured. It is this 25%, which would have to generate excess payments to meet this criterion. Thus, if a hospital has 75% of its patients that have Medicare and Medicaid, my calculations indicate that the remaining 25% of patients would have to generate revenues of 200% above the norm to trigger this criterion.

That some hospitals in Kentucky exceed the State's revenue criterion lets one see just how bad the crisis in healthcare is. According to the Institute for Health and Socio-Economic Policy using 2003 to 2004 data, there is one hospital in eastern Kentucky that has a charge to cost ratio over 600%, well above the national average. Since it is located in a county surrounded by multiple hospitals in other counties a CON could still not be issued even in this case.

This is why I believe that the economic model of for-profit hospitals is flawed and eventually will fail. Investors want a return on the money invested, but as the percentage of Medicare and Medicaid patients continues to grow, the profit has to be obtained from a smaller and smaller group of patients. If you are the patient you feel you are charged too much, if you are the investor, you want a better return on your money.

The cost of healthcare in Kentucky is rapidly growing out of control where fewer and fewer Kentuckians can afford health insurance.   Health savings

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accounts have been touted as the answer but for health savings accounts to work, insurance contract discount prices need to be known to the consumer and competition has to be promoted.

By the Cabinet for Health and Family Services using revenues in their regulation this tends to hides the true cost of healthcare to the consumer. By the Cabinet for Health and Family Services requiring the criterion to be met by all hospitals in the surrounding counties they are protecting those hospitals that have charges which are excessive.

If healthcare was gasoline, I feel in our region the regulation would require one to have to pay an additional $5 dollars per gallon in gas (a total of $7.50 per gallon) before Frankfort allowed another gas station to be built.

Anyone applying for a CON under these draconian regulations would just be throwing their $25,000 application fee out the window. Mr Barnett, Kentuckians are smart and educated and know a bad regulation when they see one.

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