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SENATE Public Health
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Feds Spent Millions of Dollars to Find Data That Was Publicly Available and Free

Matthew Feeney | Apr. 9, 2013 6:30 pm

Reason

It turns out that the government department tasked with promoting economic growth and job creation has been charging government agencies millions of dollars for data that could have been found on Google. According to the Government Accountability Office, "The source that most often had the reports GAO was searching for was another website located at http://www.Google.com."

From *The Washington Times*:

> Congress's top auditor said Tuesday that the Commerce Department has been charging other government agencies millions of dollars for reports that the other agencies could just as easily have gotten online, for free.

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3

Oklahoma Doctors vs. Obamacare

Jim Epstein Nov 15, 2012|

Three years ago, Dr. Keith Smith, co-founder and managing partner of the Surgery Center of Oklahoma, took an initiative that would only be considered radical in the health care industry: He posted online a list of prices for 112 common surgical procedures. The 51-year-old Smith, a self-described libertarian, and his business partner, Dr. Steve Lantier, founded the Surgery Center 15 years ago, after they became disillusioned with the way patients were treated at St. Anthony Hospital in Oklahoma City, where the two men worked as anesthesiologists. In 1997, Smith and Lantier bought the shell of a former surgical center with the aim of creating a for-profit facility that could deliver first-rate care at a fraction of what traditional hospitals charge.

The major cause of exploding U.S. heath care costs is the third-party payer system, a text-book concept in which A buys goods or services from B that are paid for by C. Because private insurance companies or the government generally pick up most of the tab for medical services, patients don't have the normal incentive to seek out value.

The Surgery Center's consumer-driven model could become increasingly common as Americans look for alternatives to the traditional health care market—an unintended consequence of Obamacare. Patients may have no choice but to look outside the traditional health care industry in the face of higher costs and reduced access to doctors and hospitals.

The Surgery Center demonstrates that it's possible to offer high quality care at low prices. "It's always been interesting to me," says Dr. Jason Sigmon, "that in any other industry, tons of attention is devoted to making systems more efficient, but in health care that's just completely lost." Sigmon, an ear, nose, and throat surgeon, regularly performs procedures at both the Surgery Center and at Oklahoma City's Integris Baptist Medical Center, which is the epitome of a traditional hospital. It's run by a not-for-profit called Integris Health, which is the largest health care provider in Oklahoma serving over 700,000 patients a year.

Sigmon says he can perform twice as many surgeries in a single day at the Surgery Center than at Integris. At the latter institution, he spends half his time waiting around while the staff struggles with the basic logistics of moving patients from preoperative care into the operating room. When the patient arrives, Sigmon will sometimes wait even longer for the equipment he needs.

Except for the clerical staff, every employee at the Surgery Center is directly involved in patient care. For example, both human resources and building maintenance are the responsibility of the head nurse. "One reason our prices are so low," says Smith, "is that we don't have administrators running around in their four or five thousand dollar suits."

In 2010, the top 18 administrative employees at Integris Health received an average of $413,000 in compensation, according to the not-for-profit's 990 tax form. There are no administrative employees at the Surgery Center.

Because bills charged by Integris are paid primarily by insurance companies or the government, the hospital gets away with gouging for its services. *Reason* obtained a bill for a procedure that Dr. Sigmon performed at Integris in October 2010 called a "complex bilateral sinus procedure," which helps patients with chronic nasal infections. The bill, which is strictly for the hospital itself and doesn't include Sigmon's or the anesthesiologist's fees, totaled $33,505. When Sigmon performs the same procedure at the Surgery Center, the *all-inclusive* price is $5,885.

The Integris bill for the same nasal procedure went to Blue Cross of Oklahoma, so the patient had no compelling reason to question its outrageous markups. They included a $360 charge for a steroid called dexamethasone, which can be purchased wholesale for just 75 cents. Or the three charges

3

totaling $630 for a painkiller called fentanyl citrate, which all together cost the hospital about $1.50.

While patients and their insurance companies rarely pay the full price on a hospital bill, the bigger the bill, the more the hospital gets. Uninsured patients at Integris generally get a 50 percent discount, while private insurance companies pay closer to 60 percent of the full bill, which is still greater by orders of magnitude than what the Surgery Center collects.

Integris Health declined to make a spokesperson available to be interviewed for this story. But in a statement, the company defended its outrageous bills on the grounds that it needs a way to cover losses on services offered free. Whatever the merits of that argument, Integris must also cover overhead costs and bureaucratic inefficiencies that the Surgery Center has managed to abolish.

The rising cost of health insurance has been driving companies to look for ways to cope with the third-party payer system. Health maintenance organizations, or HMOs, have been one approach. Today, a growing number of firms are dumping their health insurance providers and becoming "self-funded," meaning they pay their employees' health care costs directly out of their revenues. This model was virtually nonexistent 30 years ago, and today an estimated 60 percent of Americans work for "self-funded" companies.

Self-funded companies, like individual patients, can negotiate directly with hospitals for lower prices. Recently a handful of self-funded Fortune 500 companies struck deals directly with major hospitals to care for their patients for a negotiated fee.

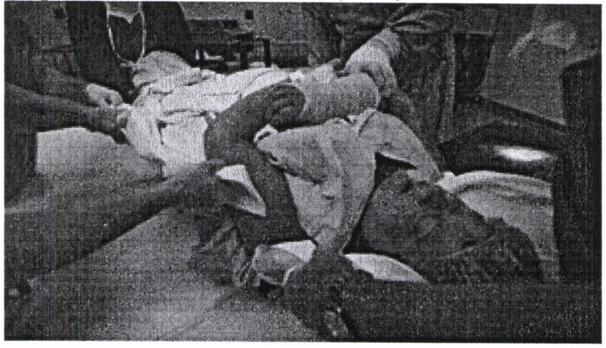
In Oklahoma City, there's an alternative health care market taking shape in which hospitals offers competitive flat fee prices to self-funded companies. And it's all modeled after the Surgery Center.

This was the brainchild of Jay Kempton, who is the president of The Kempton Group, which administers health care plans for self-funded companies. When Kempton met Keith Smith, he had been looking for a way to help his clients deal with their exploding health care costs. "Cutting edge procedures are justifiably expensive," Kempton concedes. "But what we also see are soaring increases in relatively garden-variety procedures, like a knee resurfacing or a carpal tunnel release. Those things should not be experiencing 10 or 15 percent inflation every year."

So Kempton and Smith came up with a cost-saving arrangement: If their employees agreed to be treated at the Surgery Center instead of a traditional hospital, they would be spared the cost of all co-pays and deductibles.

Almost immediately, Kempton was approached by other surgical centers and hospitals. There are now four health care facilities participating in his flat-fee consortium, and more are on the verge of coming onboard.

June Wietzikoski is a typical patient benefiting from this alternative health care market. She works as a loan officer for a community bank in Groesbeck, Texas, which is a client of the Kempton Group. She had carpal tunnel release procedure done at the Surgery Center for the all-inclusive price of $2,775, which was covered by her employer. Had she gone to a traditional hospital run by Integris the discounted bill would have come to about $7,452 and she would have been personally responsible for the first $5,299, since she hadn't met her deductible.



"It makes me mad that people are bankrupted by our current health care system when many times the costs are completely unjustified," says Smith.

Is Kempton's model replicable in other places? There are obstacles. Oklahoma has an unusually entrepreneurial health care sector, which stems from a 1989 decision to roll back the state's Certificate of Need (CON) laws. CON laws, which are still on the books in 35 states, require all medical facilities to get permission from a planning board before opening, which in practice provides a way for traditional hospitals to use political influence to keep new entrants out of the market.

A new provision buried in Obamacare effectively prohibits doctors from starting their own hospitals or expanding the hospitals they already own, which has been widely interpreted as a give-away to the American Hospital Association.

The Surgery Center is exempt from this statue, since it's technically not a hospital and it doesn't accept Medicaid or Medicare. So Smith and Lantier are considering expanding to accommodate their growing clientele.

Smith believes that despite the obstacles, market-driven facilities like his will thrive and proliferate as consumers catch on to costly collusion between big government and big health care.

Says Smith: "Everyone can see what the prices are at the Surgery Center, and that affordable health care is possible. So the jig is up."

3

The Obamacare Revolt: Physicians Fight Back Against the Bureaucratization of Health Care

Jim Epstein | Mar. 13, 2013 9:00 am

Dr. Ryan Neuhofel, 31, offers a rare glimpse at what it would be like to go to the doctor without massive government interference in health care. Dr. Neuhofel, based in the college town of Lawrence, Kansas, charges for his services according to an online price list that's as straightforward as a restaurant menu. A drained abscess runs $30, a pap smear, $40, a 30-minute house call, $100. Strep cultures, glucose tolerance tests, and pregnancy tests are on the house. Neuhofel doesn't accept insurance. He even barters on occasion with cash-strapped locals. One patient pays with fresh eggs and another with homemade cheese and goat's milk.

Credit: Tara Higgins/Fosse Photography

"Direct primary care," which is the industry term for Neuhofel's business model, does away with the bureaucratic hassle of insurance, which translates into much lower prices. "What people don't realize is that most doctors employ an army of people for coding, billing, and gathering payment," says Neuhofel. "That means you have to charge $200 to remove an ingrown toenail." Neuhofel charges $50.

He consults with his patients over email and Skype in exchange for a monthly membership fee of $20-30. "I realized people would come in for visits with the simplest questions and I'd wonder, why can't they just email me?" says Neuhofel. Traditional doctors have no way to get paid when they consult with patients over the phone or by email because insurance companies only pay for office visits.

Why did he choose this course? Neuhofel's answer: "I didn't want to waste my career being frustrated."

This model is growing in popularity. Leading practitioners of direct primary care include Seattle, Washington-based Qliance, which has raised venture capital funding from Jeff Bezos, Michael Dell, and comedian (and Reason Foundation Trustee) Drew Carey; MedLion, which is about to expand its business to five states; and AMG Medical Group, which operates several offices in New York City. Popular health care blogger Dr. Rob Lamberts has written at length about his decision to dump his traditional practice in favor of this model.

"Since I started my practice, I seem to hear about another doctor or clinic doing direct primary care every other week." says Neuhofel.

Direct primary care is part of a larger trend of physician-entrepreneurs all across the country fighting to bring transparent prices and market forces back to health care. This is happening just as the federal government is poised to interfere with the health care market in many new and profoundly destructive ways.

Obamacare, which takes full effect in 2014, will drive up costs and erode quality—and Americans will increasingly seek out alternatives. That could bring hordes of new business to practitioners like Neuhofel, potentially offering a countervailing force to Obamacare. (One example, the Surgery Center of Oklahoma's Dr. Keith Smith, profiled for Reason TV in September, is doing big business offering cash pricing for outpatient surgery at prices about 80 percent less than at traditional hospitals.)

Health "insurance" is more than just insurance; it's also "a payment plan for routine expenses," as University of Chicago business school economist John Cochrane puts it in a superb recent paper. The late free-market economist Milton Friedman pointed out that we insure our houses against fire and our cars against major damage, but we don't also insure ourselves against cutting the lawn and buying gas. That's the main reason innovation almost never makes health care cheaper. Most patients never see the bill for an ingrown toenail removal or a glucose tolerance test, so doctors have little incentive to seek ways to offer their services for less. For simple consultations, why bother with Skype when insurance will pay full price for an office visit.

Insurance plans that cover everything, a situation that came about largely because of a quirk in our tax code, have also led to the "bureaucratization of medical care," Friedman wrote in a 2001 essay, in which "the caregiver has become, in effect, an employee of the insurance company or...the government."

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Before adopting direct primary care, Davidson was unhappy working at the practice she had built because the insurance system imposed a way of doing business that resembled an assembly line. "It's true that in 2014, many more people will have insurance, so there will be a profound need for primary care doctors," says Davidson. "You might say I've done a disservice by dramatically cutting the size of my practice. However, if we make it desirable again to be a primary care physician more people will want to do it."

Under Obamacare, more and more doctors are becoming employees of large hospitals, where there will be more control over how they practice medicine. Hoover Institution Senior Fellow Dr. Scott Atlas fears this will cause a brain drain in medicine. "Really smart people want autonomy, and when you take that away it's naive to think you're going to get really bright people becoming doctors," says Atlas. "The best doctors could excel at any profession, so why go into medicine if they won't have the opportunity to be their best?"

When she was operating a traditional practice, Davidson witnessed firsthand how our "payment plans for routine expenses" drive up prices and block innovation. She recalls that one insurance company paid $118 for a routine PSA test. Now that her patients pay the bill directly the cost is $18. Insurance used to pay $128 for a bag of IV fluid. Now Davidson doesn't bother passing on the cost of IV bags because they run $1.50 each.

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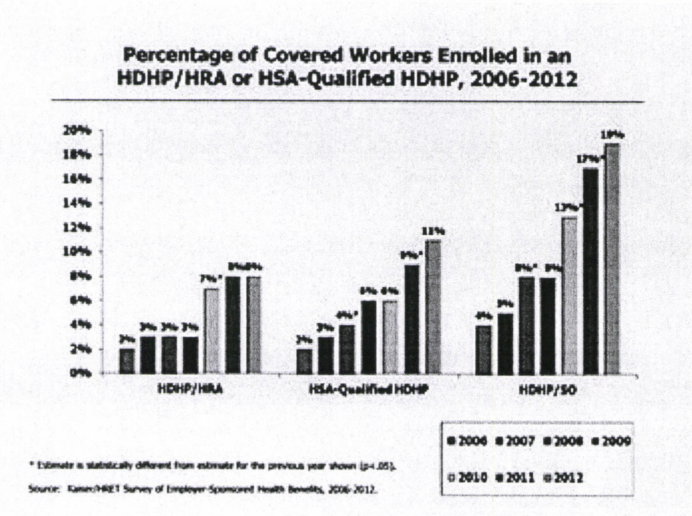
According to Bricker, this horse-trading method provides an opportunity for hospitals to earn windfall profits: If the hospital gets $2,000 for MRIs, it will start encouraging patients to get more MRIs.

Given how prices are set, it's no mystery why in health care high costs often correlate with *low* quality. Bricker cites one facility in Dallas, where a 3-tesla MRI (the more teslas, the higher the resolution) can be had for $860, while a nearby facility offers a 1.5-tesla MRI for $2,500. The latter facility stays in business only because many of its customers don't know the difference. They pay the same $20 co-pay wherever they go for an MRI.

So Bricker co-founded Compass, which works with about 1,200 firms to guide their employees to those doctors and testing facilities that offer both high quality and low prices. These employees have an incentive to seek out value because they're responsible for paying a large portion of their own routine medical costs before their insurance coverage kicks in.

High-threshold plans are exploding in popularity, which is a promising trend. According to a 2012 report by the Kaiser Family Foundation, about 31 percent of firms now offer health plans in which patients pay most routine costs out of pocket, like a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), and 19 percent of covered workers have one of these plans. High-deductible plans go a long way towards unbundling our "payment plans for routine expenses" from the catastrophic coverage that should be the sole function of health insurance.

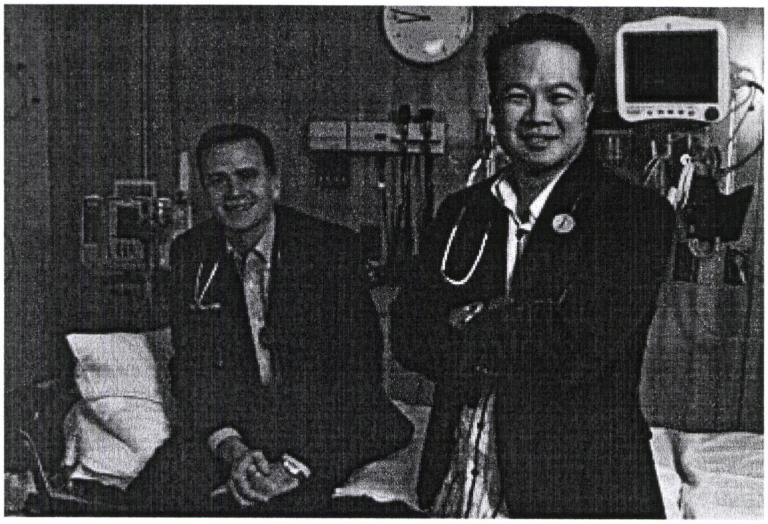


"These plans offer hope," says Scott Atlas, "because they drive patients to care about what things cost. High deductible policies also eliminate much of the administrative cost of insurance because there's no need to file claims for routine charges."

Obamacare imposes new mandates on high-deductible plans, but it doesn't outlaw them. "The most devastating thing Obamacare could have done is to say it's illegal to have a deductible of more than $200," says Bricker. "So within the existing confines we can still have a successful business and help people."

Americans with high-deductible policies still have the misfortune of shopping for services in a health care market dominated by traditional health insurance. Since insurance companies and the government still pay the vast majority of medical bills, it's nearly impossible to find doctors who offer competitive and transparent prices.

A Houston-based start up called Snap Health is trying to remedy that by signing up doctors to list their prices on its website. Currently, there are 290 tests and about 100 doctors to choose from. You can buy an EKG (about $35), have a kidney stone analyzed ($250), or get a heart check up (about $400). Patients choose the procedure they want, pay online with a credit card, and then show up for their appointments. Snap Health's CEO and Co-founder Dr. David Wong says the biggest obstacle to building up a menu of offerings is that doctors accustomed to getting paid by insurance companies have no idea how to price their services for direct-paying clients.



Credit: Brad Ottosen

Wong says he launched his business partly on the belief that Obamacare will drive up health care costs, causing more and more companies and individuals to drop out and start paying their own health care bills. Neuhofel agrees that Obamacare could be good for business. "I expect some real unintended consequences after Obamacare is implemented. There could be more uninsured people."

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