

The Benefits of Not For Profit Health Care

The Winnipeg Free Press and Straightgoods – November 2, 2004

Winnipeg Free Press Headline – HMOs Drive up U.S. Health Costs

By Dr. Gordon Guyatt

American lawmakers have recently been outraged to find that recruiting large corporations to deliver publicly funded health services to the elderly has substantially increased costs.

They shouldn't have been surprised.

Medicare is the name of the US health care program for seniors. It operates very similarly to our Medicare, paying health-care providers for delivering services to the program's beneficiaries. Also similar to Canada, those providers have until recently been hospitals and small groups of physicians receiving fee-for-service payments.

But recent changes in Medicare have opened the market to large investor-owned private for-profit Health Maintenance Organizations (HMOs) that have gained about 10% of the market. Their promise was the same one we often hear from advocates of private for-profit care in Canada: better service for lower cost.

Unfortunately, that's not the way it worked out. The Medicare Payment Advisory Commission, an independent federal panel, has informed congress that the companies are costing the system an average of 7% more than the existing system. That would add up to \$50 billion of extra payments over the next 10 years.

The American experience illustrates the importance of getting beyond knee-jerk reactions to private health care delivery, and asking "what kind of private"? Your family doctor, and any specialists you need to visit, probably work in a practice setting with a few other doctors. These practices are usually "private" and some might characterize them as "for-profit". Certainly, the doctors need to pay their own salaries, and those of their administrative and nursing staff. The physicians, however, are in control of the practice decisions and have direct relationships with their patients.

When practices are investor-owned, the dynamic changes. Managers of health care corporations are responsible to the investors, not the patients. Their first responsibility is to deliver a profit margin, typically about 10%.

In health care, for-profit firms also have much higher administrative costs than centrally administered public programs. For instance, American HMO Medicare companies have 15% overhead, in comparison to 3% in traditional fee-for-service Medicare. The investor-owned firms' have a final additional burden. Their executive salaries and bonuses are approximately 10 fold higher than the not-for-profit health care organizations. Independent physician practices needn't worry at all about paying executives.

No wonder corporate health care delivery costs more.

These latest developments in the US are consistent with a series of studies produced by our research team at McMaster University. The first two studies showed higher death rates in investor-owned private for-profit hospitals compared to private not-for-profit hospitals, and in outpatient for-profit dialysis clinics compared to not-for-profit clinics. The results of a third study, published this summer, showed that health care costs payers 19% more at for-profit versus not-for-profit hospitals.

These results come from the U.S., but are likely applicable to the Canadian scene. Investigators conducted the original studies over a period of more than 20 years in which the U.S. health care system changed radically. The consistency of the findings suggests that they apply to a wide variety of administrative and reimbursement structures. Many of the studies focus on publicly funded programs. In this way, they mimic the Canadian situation: our choice is whether to invest our public dollars in for-profit or not-for-profit delivery. Finally, the same large corporations that were studied in the U.S. will be moving into Canada if we expand for-profit health care.

Roy Romanow, whose Commission report remains the most authoritative overview of the Canadian health care system, has endorsed the McMaster findings. Since he released his report in November 2002, Romanow has continued to criss-cross the country seeking evidence that investor-owned for-profit delivery is less costly, or delivers better care. He keeps

coming up empty, and his worries about for-profit delivery continue to grow.

Indeed, when examined critically, Canadian experiments with for-profit care have not brought good news. A for-profit clinic for cancer radiation therapy cost \$500 more per patient than the not-for-profit alternative. Winnipeg's Pan Am sports medicine clinic reduced costs when it moved from for-profit to not-for-profit status.

While we still have relatively little investor-owned private for-profit care, the sector is growing. It includes nursing homes and, in some provinces, home care companies, for-profit MRI facilities, and surgical facilities. Governments in several provinces are enthusiastic about expanding investor-owned for-profit delivery.

Will we continue with this foolish experiment until we face the American lawmakers' situation: a Canada-based study telling us that investor-owned for-profit health care costs more and delivers less? And then face the enormous challenges of moving back to not-for-profit delivery. Hopefully, we will choose to avoid the waste, and poorer health outcomes, of investor-owned for-profit care.