

# PREFACE

**B**eing an economist, I believe an economic approach is very useful, not only for understanding the forces pressing for change in healthcare but also for explaining why the health system has evolved to its current state. Even the political issues surrounding the financing and delivery of health services can be better understood when viewed through an economic perspective—that is, the economic self-interest of participants.

For these reasons, I believe an issue-oriented book containing short discussions on each subject and using an economic perspective is needed. The economic perspective used throughout is that of a “market” economist—namely one who believes markets (in which suppliers compete for customers on the basis of price and quality) are the most effective mechanisms for allocating resources. Of course, at times markets fail or lead to outcomes that are undesirable in terms of equity. Market economists generally believe that government economic interventions—no matter how well-intentioned or carefully thought out—can neither replicate the efficiency with which markets allocate resources nor fully anticipate the behavioral responses of the economic agents affected by the intervention. In cases of market failure, market economists prefer solutions that fix the underlying problem while retaining basic market incentives rather than replacing the market altogether with government planning or provision.

Healthcare reform has been an ongoing process for decades. At times, legislation and regulation have brought about major changes in the financing and delivery of medical services. At other times, competitive forces have restructured the delivery system. Both legislative and market forces will continue to influence how the public pays for and receives its medical services. Any subject affecting the lives of so many and requiring such a large portion of our country’s resources will continue to be a topic of debate, legislative change, and market restructuring. I hope this book will help to clarify some of the more significant issues underlying the politics and economics of healthcare.

## Changes in the Sixth Edition

For this sixth edition, both the chapters and the exhibits have been revised and updated with newer data and references. Most important, specific aspects or provisions of the Affordable Care Act (ACA) are discussed in chapters whose subject matter is directly affected by the ACA. Because the ACA has widespread implications for the entire healthcare industry, I have decided to explore this legislation throughout the book, instead of presenting only its general essence in one large chapter.

The following chapters describe, discuss, and analyze specific parts of the ACA:

### **Chapter 1: The Rise of Medical Expenditures**

This chapter discusses whether the ACA contributed to the slowdown in rising health expenditures. Additionally, it proposes four criteria for evaluating the ACA to be considered when reading other ACA-related chapters.

### **Chapter 6: How Much Health Insurance Should Everyone Have?**

This chapter addresses the higher individual taxes and the “Cadillac” tax (on expensive health plans) imposed by the ACA. These taxes help finance the subsidies provided to states for expanding the eligibility to state Medicaid programs and to finance those qualifying for subsidies on the health insurance exchanges.

### **Chapter 7: Why Are Those Who Most Need Health Insurance Least Able to Buy It?**

This chapter describes many of the changes the ACA made to the health insurance market. These include establishing state and federal health insurance exchanges, providing subsidies to eligible persons buying their insurance on the exchanges, eliminating the preexisting condition exclusion, instituting an individual mandate to buy insurance, specifying the four types of health plans to be purchased on the exchanges, requiring insurers to have minimum medical loss ratios, requiring community and gender rating, adding essential benefits in health plans, and allowing adult children up to age 26 years to remain on their parent’s policy. The likely consequences of these new health insurance rules on the uninsured, the newly insured, and others—as well as the response by health insurers, such as rising premiums and why insurers are using narrow provider networks—are analyzed.

### **Chapter 8: Medicare**

This chapter highlights the ACA’s changes to Medicare—including accountable care organizations, the Independent Payment Advisory Board, and the reductions in Medicare hospital payments (assumed productivity increases)—

and their implications for hospitals. The ACA's closing of the "donut hole" in Medicare Part D and the increase in Medicare payroll and income taxes to finance the ACA are also discussed.

### **Chapter 9: Medicaid**

This chapter discusses the ACA's changes to Medicaid—particularly the expansion of eligibility to an additional 16 million low-income people. A new study presents results contrary to the ACA's expectations that emergency department visits would decline as more of the uninsured enroll in Medicaid. Factors affecting a state's decision to take advantage of ACA funding for expanding state Medicaid eligibility are explored. A reform proposal to convert Medicaid by using block grants to the states is included.

### **Chapter 11: The Impending Shortage of Physicians**

This chapter examines how the ACA's expanded coverage (increased Medicaid eligibility and subsidies to eligible persons buying insurance on health exchanges) will cause an increase in demand for primary care services, making the shortage of physicians more severe.

### **Chapter 12: The Changing Practice of Medicine**

This chapter analyzes the likely effects of the ACA on physician payment, the size of medical practices, and the role of the accountable care organization in the growth of hospital employment of physicians.

### **Chapter 16: The Future Role of Hospitals**

This chapter covers the multiple effects and likely implications of the ACA on hospitals. Topics include the different approaches to reducing hospital payments—such as the Independent Payment Advisory Board, assumed hospital productivity increase, preventable hospital readmissions, and Medicare Disproportionate Share Hospital. Also discussed are new hospital payment systems—such as accountable care organizations and episode-based charges. The increase in hospital admissions as a result of Medicaid eligibility expansions and health insurance exchange subsidies is addressed.

### **Chapter 18: Can Price Controls Limit Medical Expenditure Increases?**

This chapter presents the Independent Payment Advisory Board (IPAB) established by the ACA. The IPAB has the authority to use price controls (reduce provider payments) to decrease Medicare expenditures when they exceed the rate of growth in per capita GDP plus one percent. Also discussed are the ACA's reduced payments to Medicare Advantage plans and the likely consequences of such actions.

**Chapter 19: The Evolution of Managed Care**

This chapter contains a section on the effect of the ACA on managed care. Included topics are health exchanges, limited provider networks, and accountable care organizations.

**Chapter 25: The High Price of Prescription Drugs**

This chapter addresses ACA's reduction of the Medicare Part D "donut hole."

**Chapter 31: Medical Research, Medical Education, Alcohol Consumption, and Pollution: Who Should Pay?**

A footnote in this chapter describes the penalty imposed by the ACA for failure to buy health insurance under the individual mandate and the penalty's likely consequences.

**Chapter 33: Employer-Mandated National Health Insurance**

This chapter explains the ACA's employer mandate—how it is designed, how it is financed, and what its likely consequences are for employers and employees at different income levels. Also discussed are the health insurance exchanges, the subsidies available, age-rated premiums, and reasons that insurers use narrow provider networks on the exchanges.

**Chapter 34: National Health Insurance: Which Approach and Why?**

Part of this chapter spotlights the different types of taxes used to finance the ACA and their effects on efficiency and equity. An exhibit summarizes each type, including income tax, sin tax (alcohol and cigarette), sales tax (medical devices and insurers), payroll tax (employer mandate), and user tax (individual mandate). Also covered are the ACA's individual mandate, the required essential benefits to be included in health plans, and the Cadillac tax on expensive health plans.

**Chapter 35: Financing Long-Term Care**

This chapter describes the ACA's CLASS Act, a voluntary long-term care program that the Obama Administration determined unworkable and thus was never implemented. Congress subsequently repealed it. The problem with the CLASS Act was that it violated certain insurance principles, which are discussed.

**Chapter 36: The Politics of Healthcare Reform**

This chapter provides a comprehensive treatment of the political and economic interests behind the passage of the ACA. The various interest groups involved as well as their healthcare reform objectives and agendas are discussed. Also covered are how the Democratic Senate was able to achieve the necessary 60 votes to reject a Republican filibuster and pass the ACA, how the surprise

election of a Republican newcomer (Senator Scott Brown) changed the legislative process and affected the outcome of the legislation, and what problems plagued the ACA implementation.

The policies and implications of the ACA, as well as other content, are repeated (although not verbatim) in related chapters. The reason for this is twofold. First, instructors are not likely to assign all 36 chapters to their students, given that not all topics in the book will be covered in class; thus, to ensure that students do not miss out on the discussion, the relevant materials appear in a few chapters that address similar issues. Second, some chapters would be considered incomplete if a particular aspect or impact of the ACA, or some other vital topic, is not included. For example, the ACA made changes to how Medicare pays hospitals; these changes and their likely consequences are discussed in both the chapter on Medicare and the chapter on the future of hospitals—as the changes affect not only Medicare patients' access to care but also hospitals' financial sustainability. Finally, an Appendix provides a brief summary of the ACA.

For the book as whole, note that some overlap between chapters occurs because of the large number of chapters (not all of which will be assigned or read) and the interrelated nature of the topics covered. To help the reader focus on the important points discussed, a list of discussion questions appears at the end of each chapter. A list of exhibits and a glossary are also included.

## Teaching Tools

For instructors, a test bank, an Instructor's Manual, and PowerPoint slides are available. The Instructor's Manual includes a brief overview of each chapter and a list of the key topics covered. Also included are discussion points related to the Discussion Questions that appear at the end of each chapter. Additional questions and answers have been provided for instructor use. The test bank, Instructor's Manual, and PowerPoints reside in a secure area on the Health Administration Press website and are available only to adopters of this book. For access information, e-mail [hapbooks@ache.org](mailto:hapbooks@ache.org).

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