# The Greatest Challenge:

## The US health care crisis and the complexities of reform

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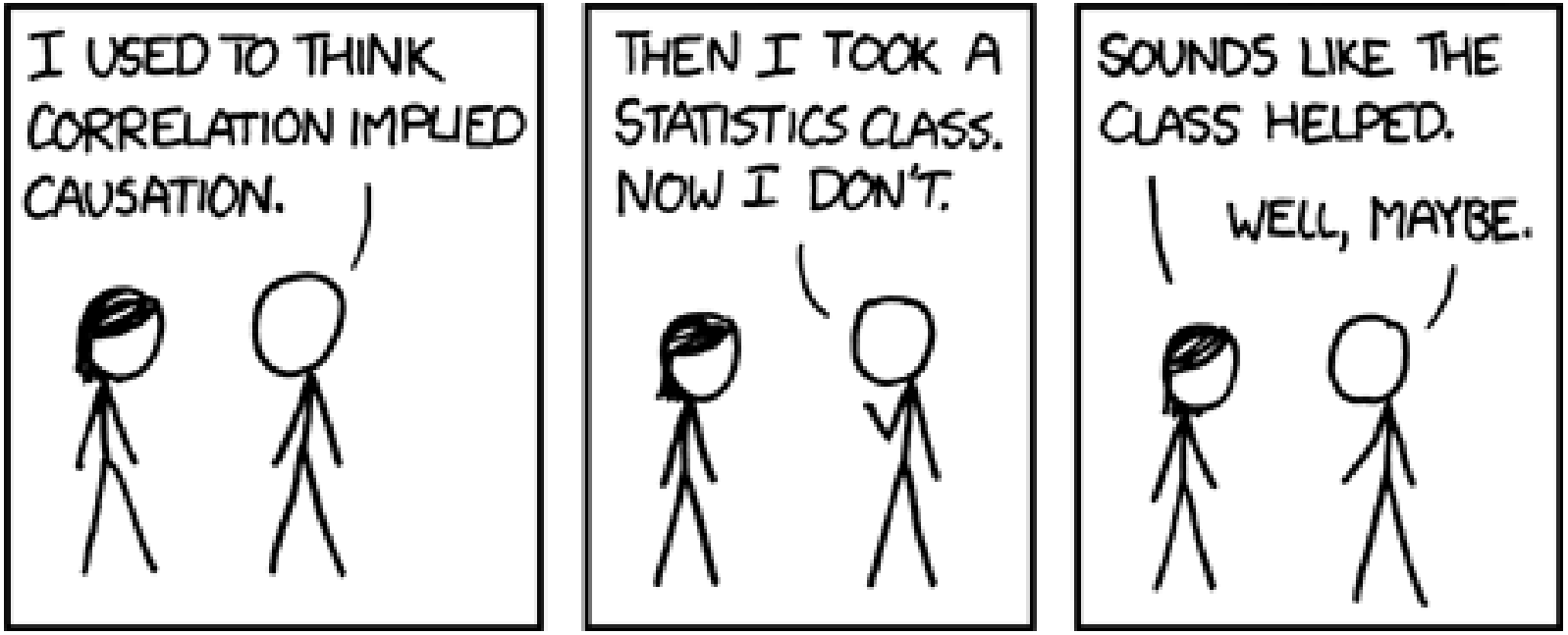
*Download these slides at [tinyurl.com/GCtalk2](tinyurl.com/GCtalk2)*

Boston University
School of Public Health

TheIncidentalEconomist.com
*A focus on research, an eye on reform.*

HCFE
Health Care Financing & Economics

# This is supposed to help

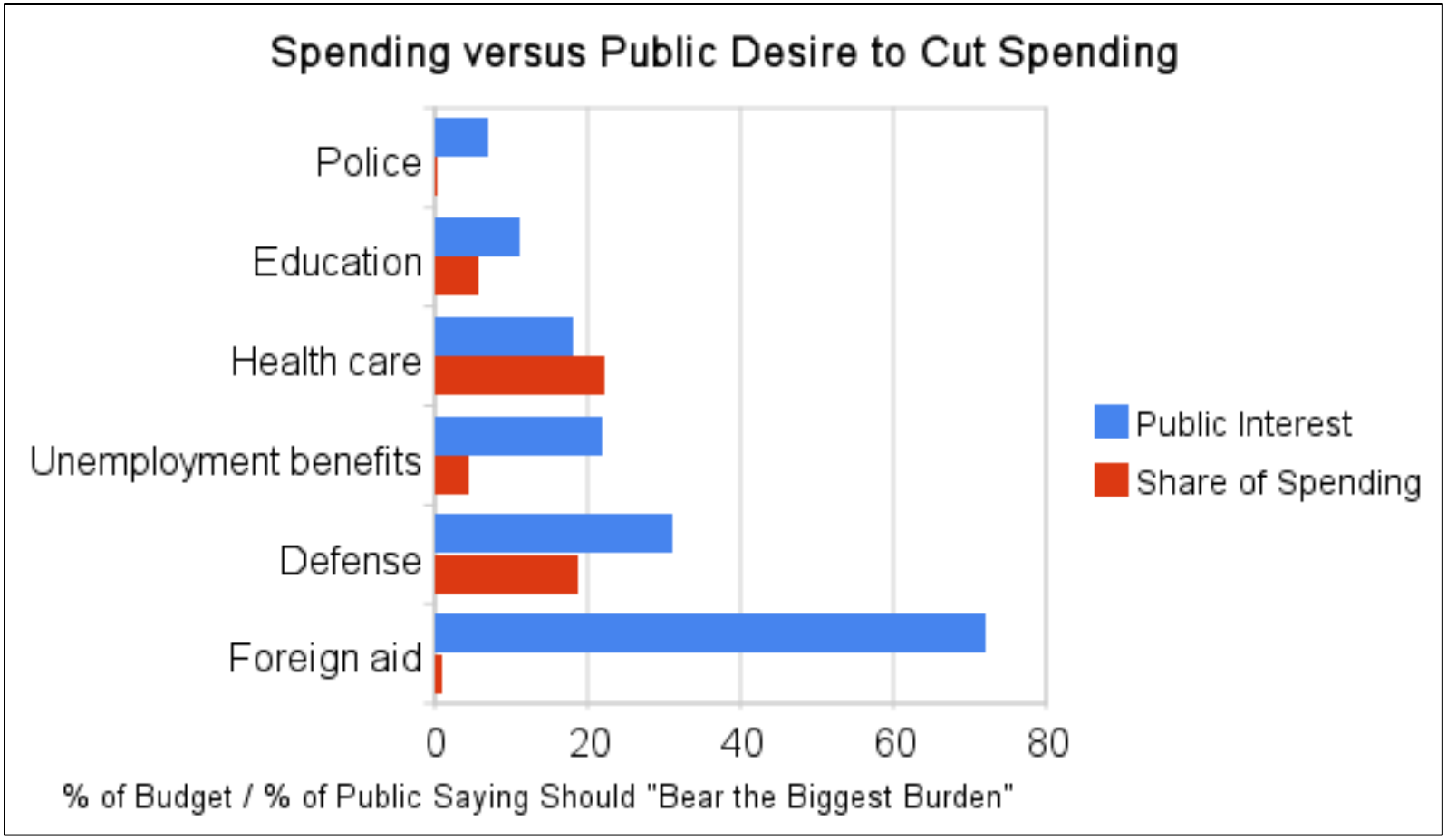



Source: xkcd.

# What would you cut?

- We have a budget crisis
- The President asks you to select one thing to cut. Which do you choose?
  - Police
  - Education
  - Health care
  - Unemployment benefits
  - Defense
  - Foreign aid

# Budget priorities

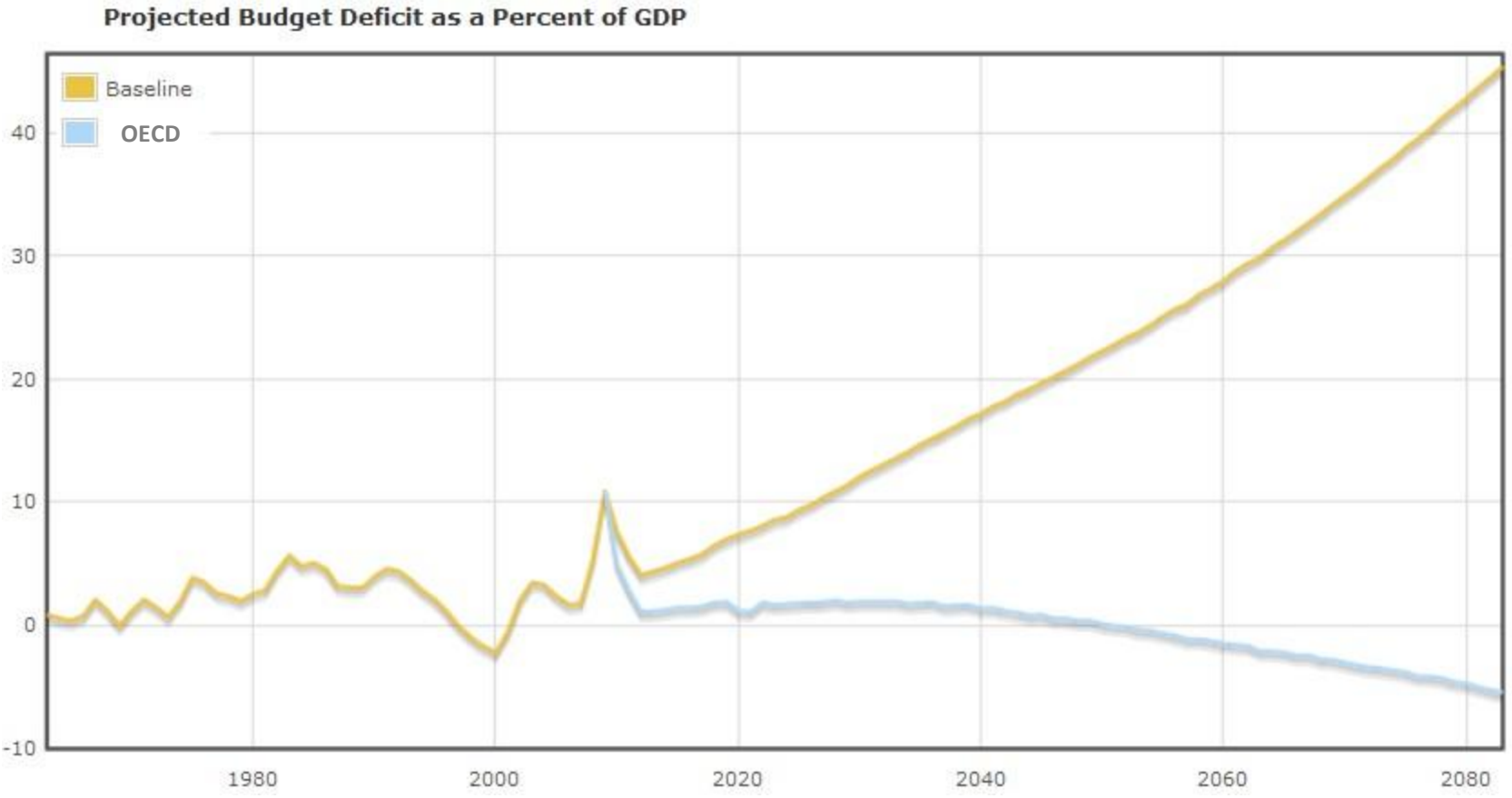



Source: Ezra Klein, Washington Post, 7/14/10.

# Outline

- Convince you health care is *the* problem (parade of horrifying charts)
- Describe problem/solution components
- Focus on cost
- Discuss how cost and cost risk might be reduced and shifted

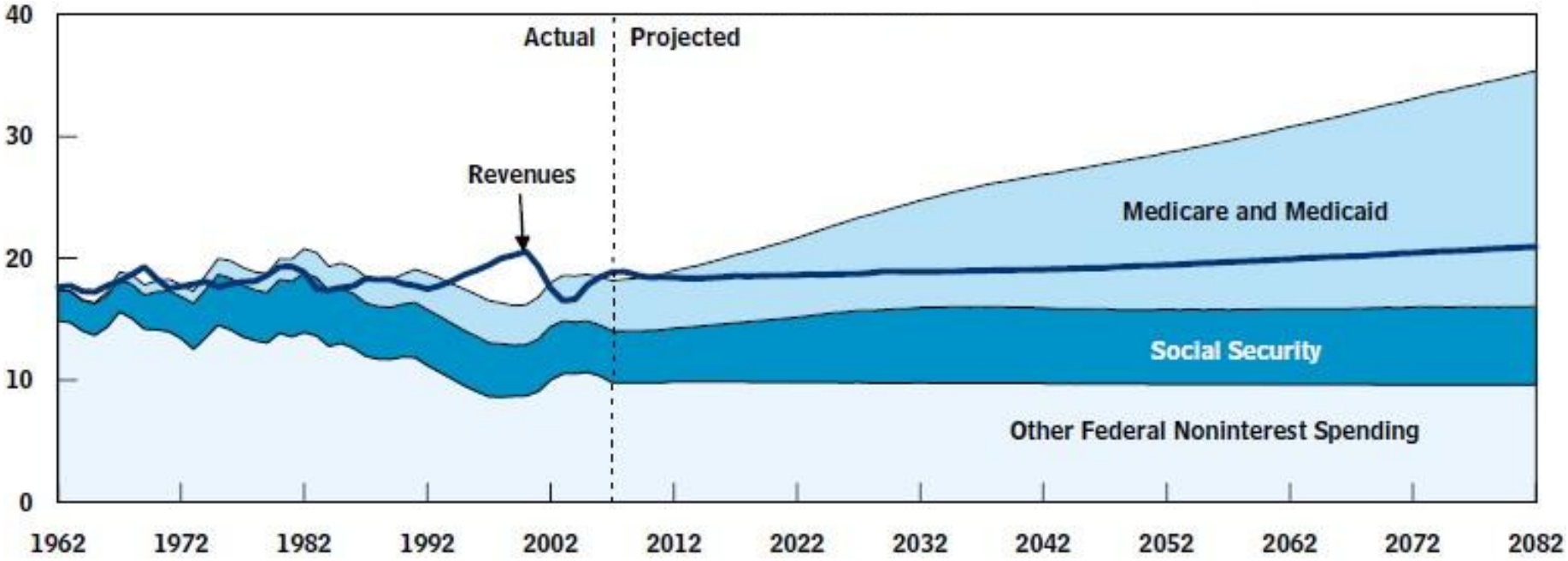
# Health and the federal budget




Source: [Health Care Budget Deficit Calculator](), Center for Econ. and Policy Research, 9/15/10.

# Fed. spending & revenue: Pre-reform

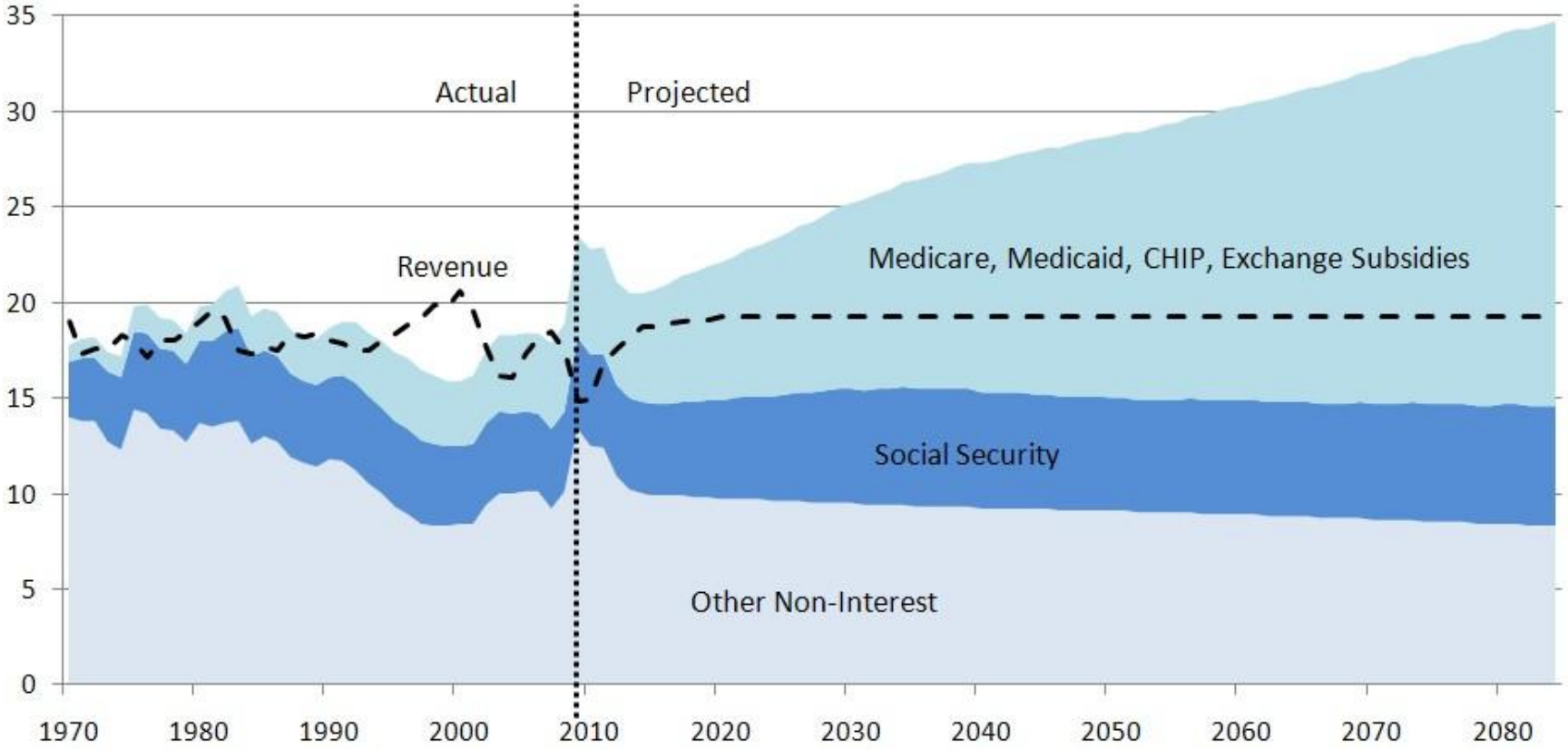
Federal spending and revenue as a percent of GDP, 2008 est.




Source: Peter Orszag, CBO, 6/17/08.

# Fed. spending & revenue: Post-reform

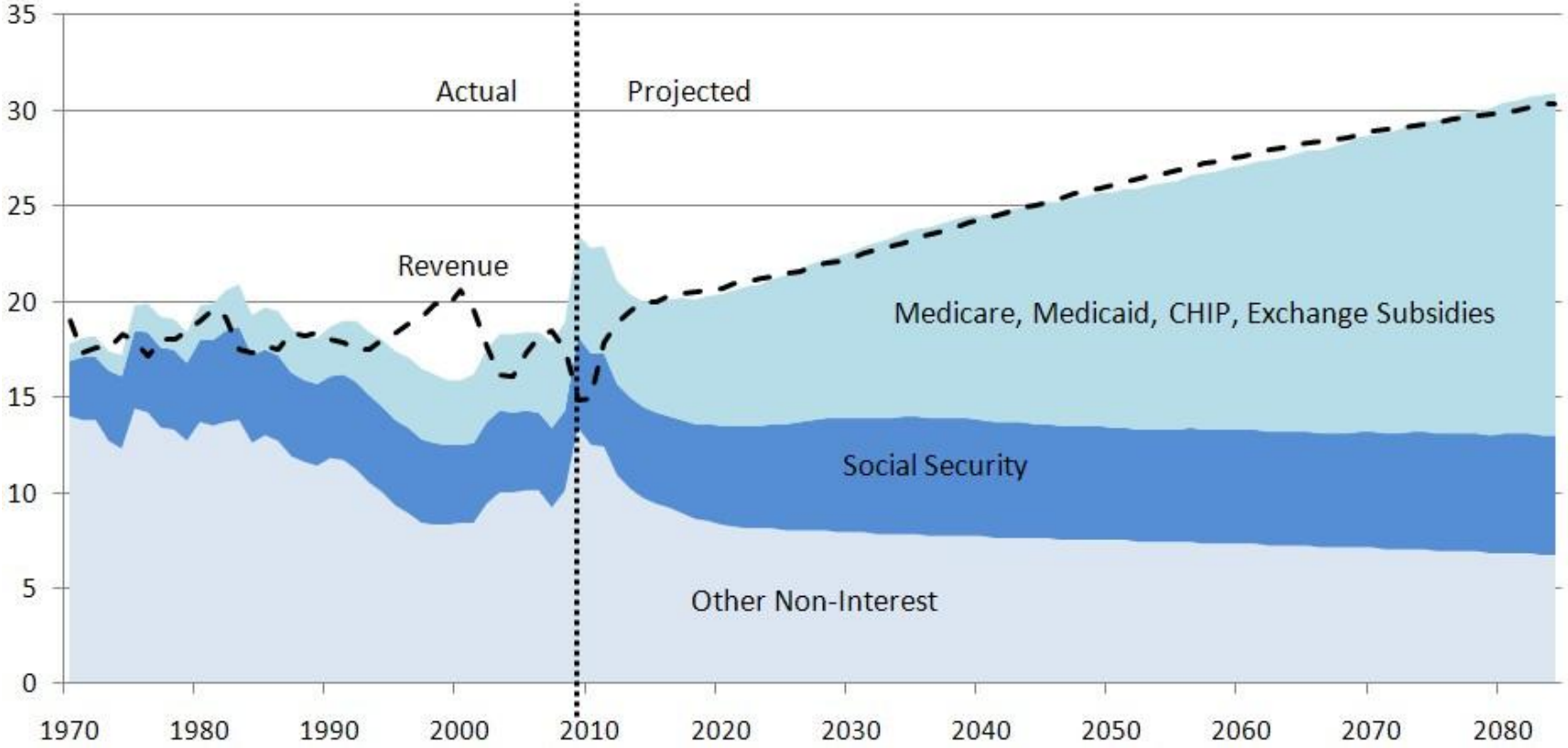
Federal spending and revenue as a percent of GDP, 2010 est.
Alternative Fiscal Scenario




Source: CBO, 8/10.

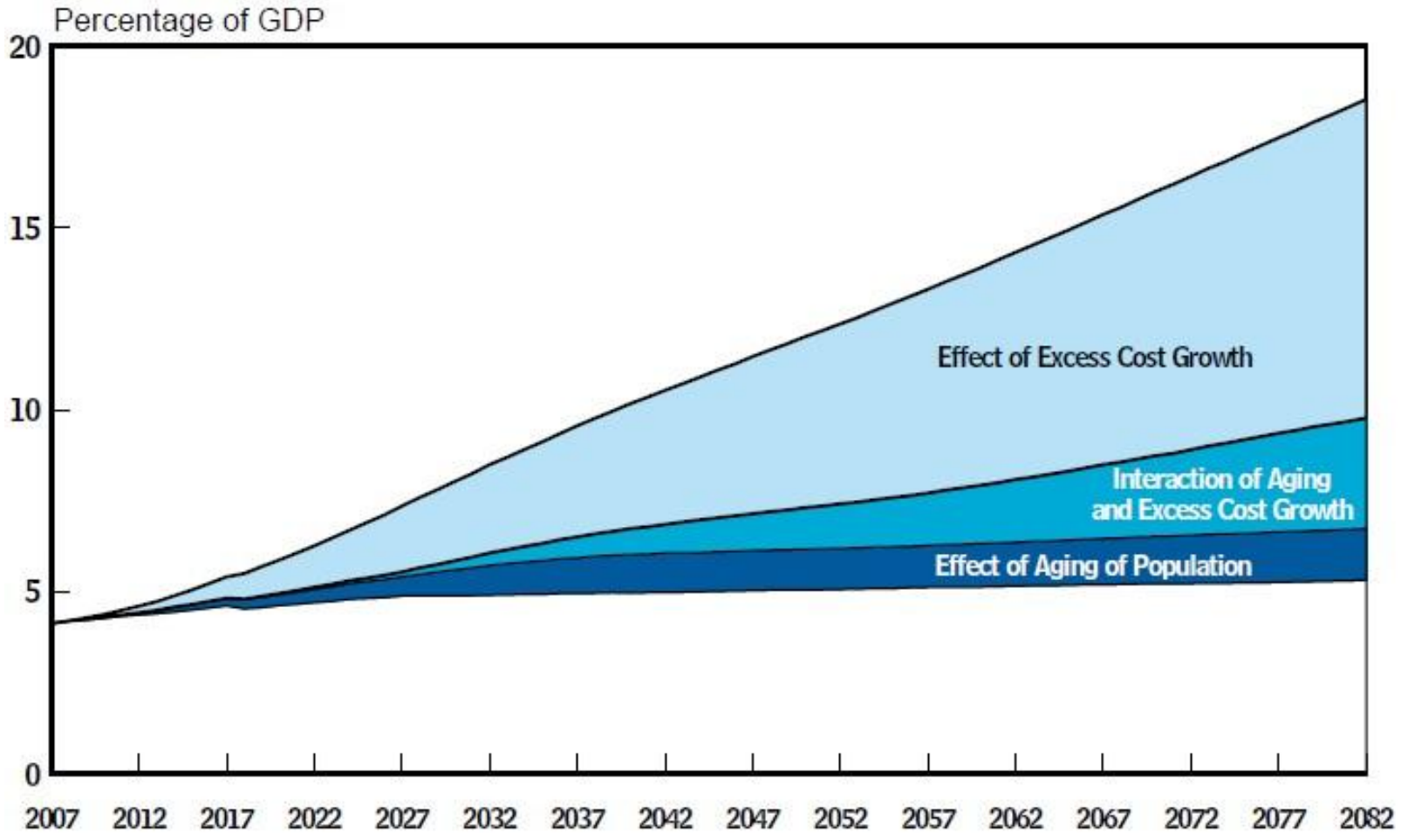
# Fed. spending & revenue: Post-reform

Federal spending and revenue as a percent of GDP, 2010 est.
Baseline Scenario



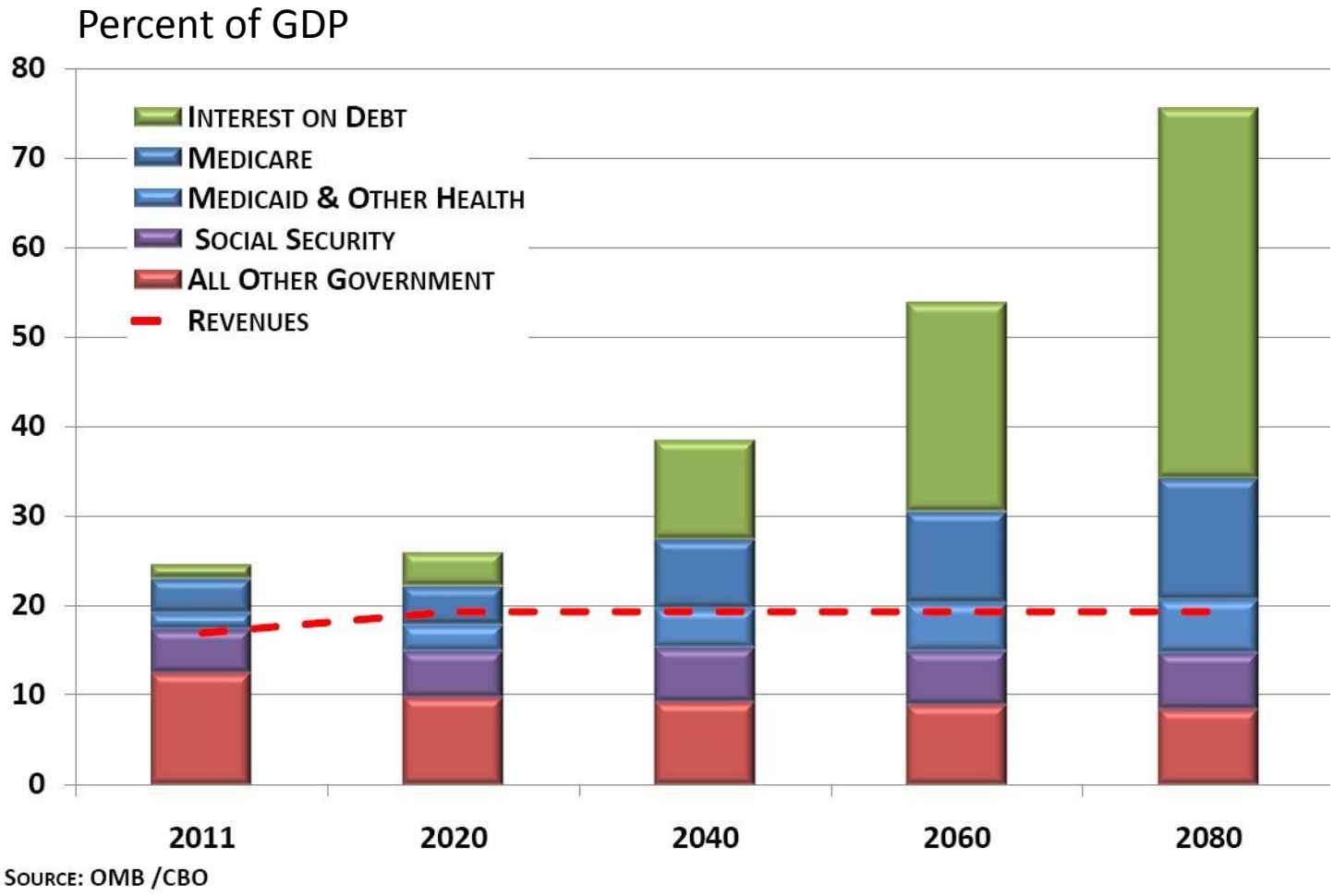

Source: CBO, 8/10.

# M'care spending: It's not about aging



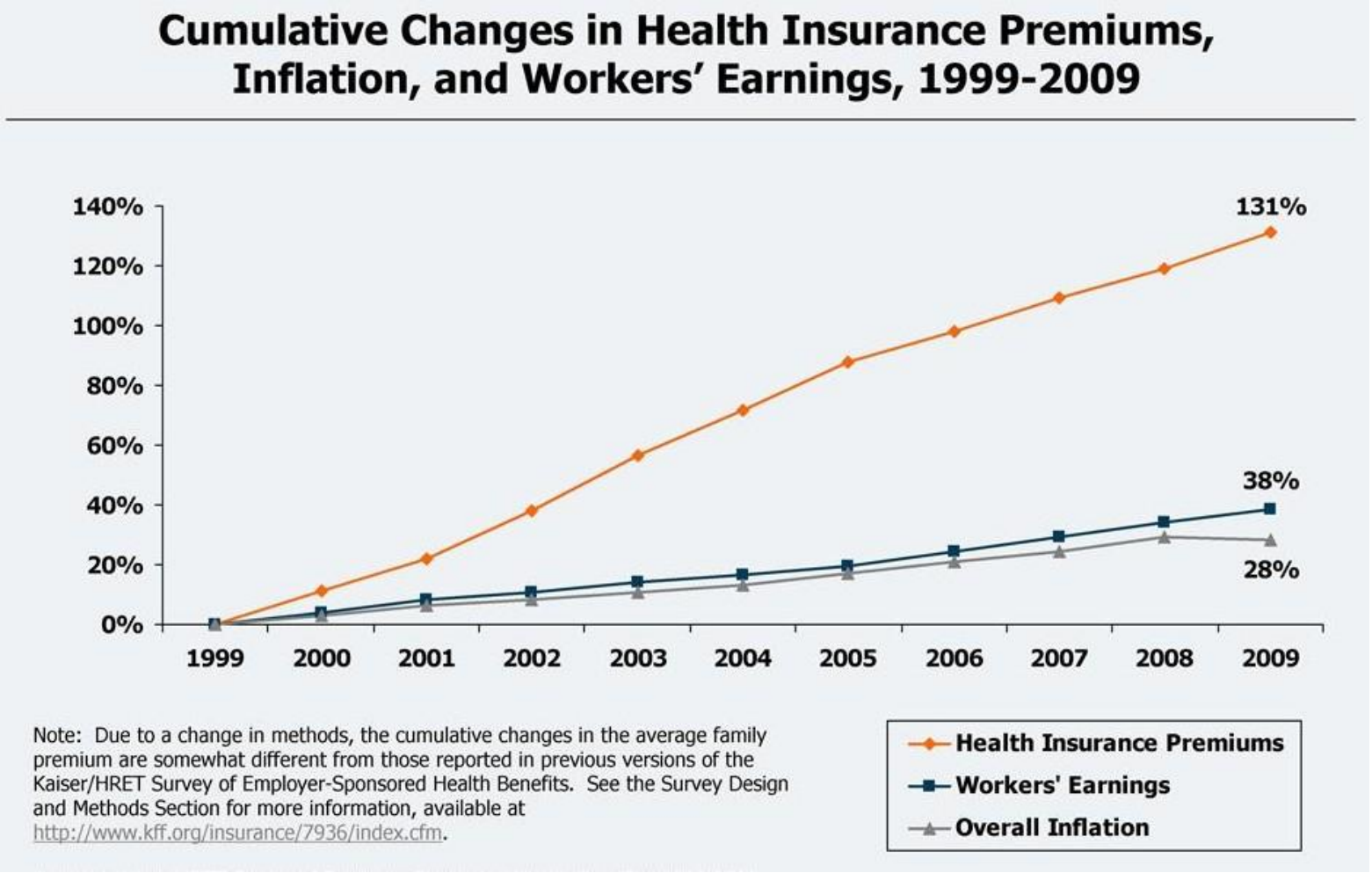

Source: Peter Orszag, CBO, 3/12/08.

# Interest on the debt




Source: House Budget Committee, March 2011.

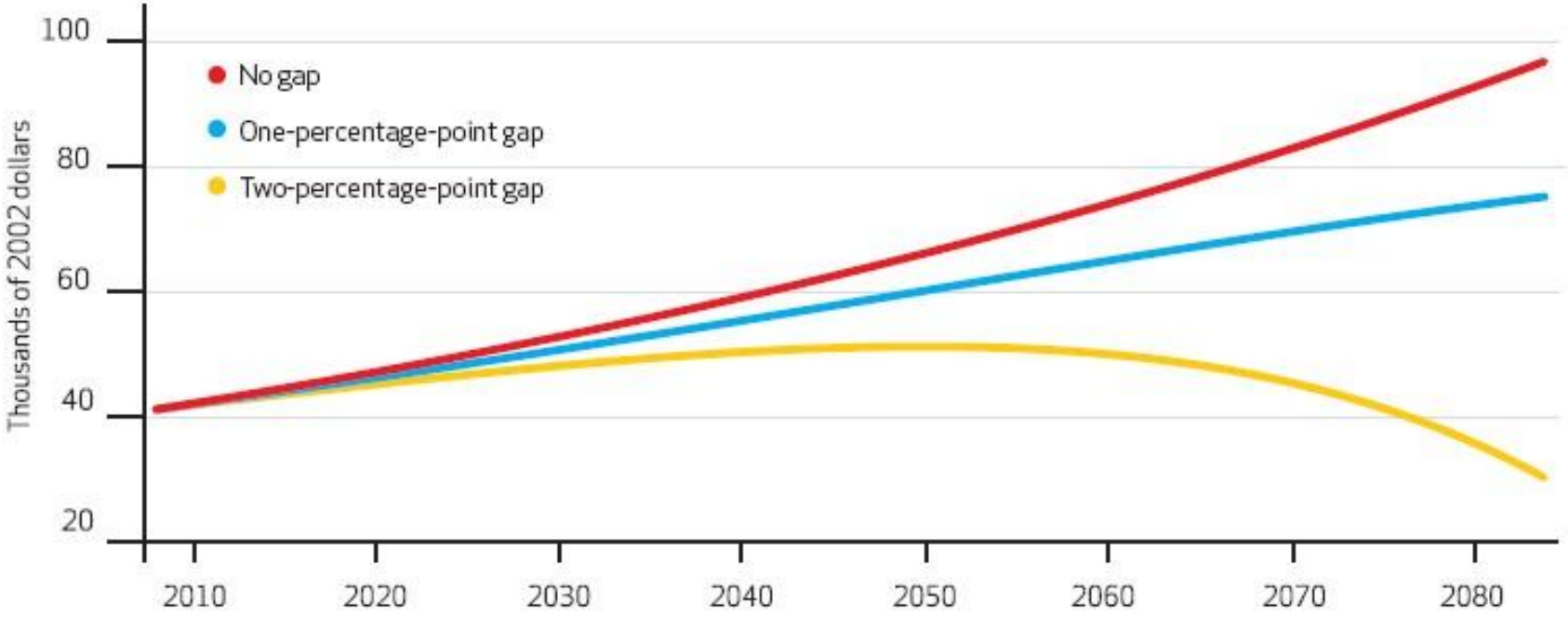
# Not just a public-payer problem




Source: Kaiser Family Foundation.

# Government does other things

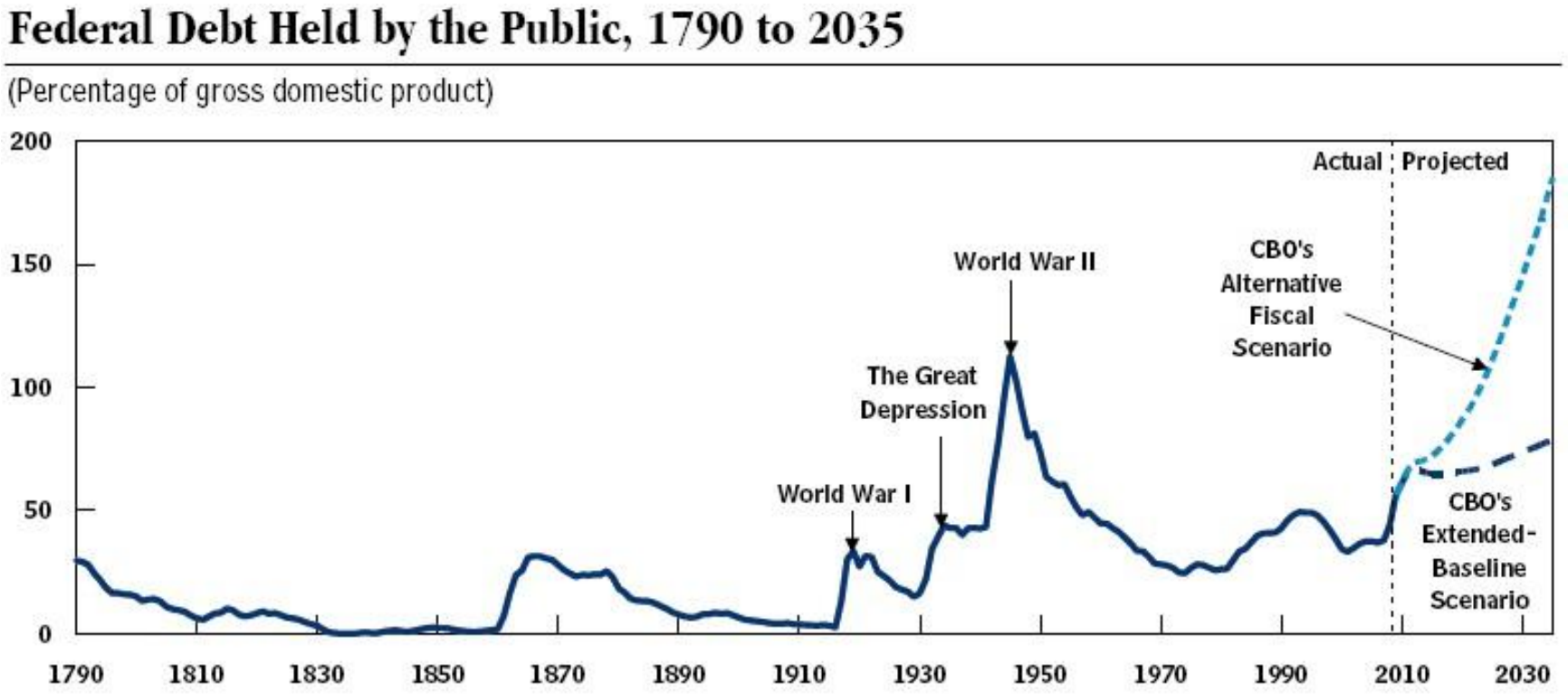
**Income Available For Nonhealth Goods And Services, Under Different Gaps Between Growth Rates Of Health Spending And Gross Domestic Product (GDP) Per Capita (Projected), 2008–2084**




Source: Joe Newhouse, Health Affairs, 7/22/10.

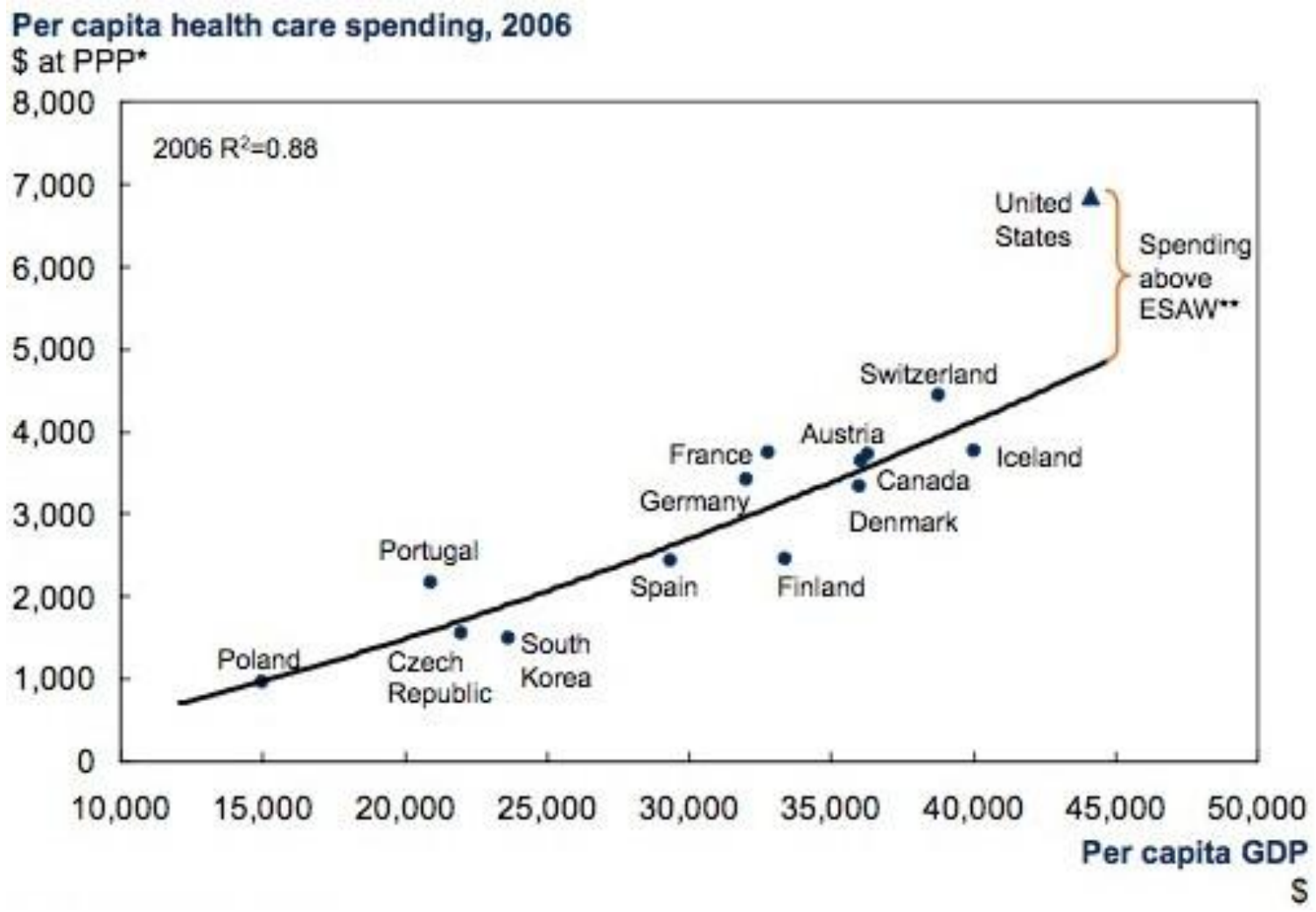
- To close the gap, tax rates would have to more than double

# Taking on more debt not the answer



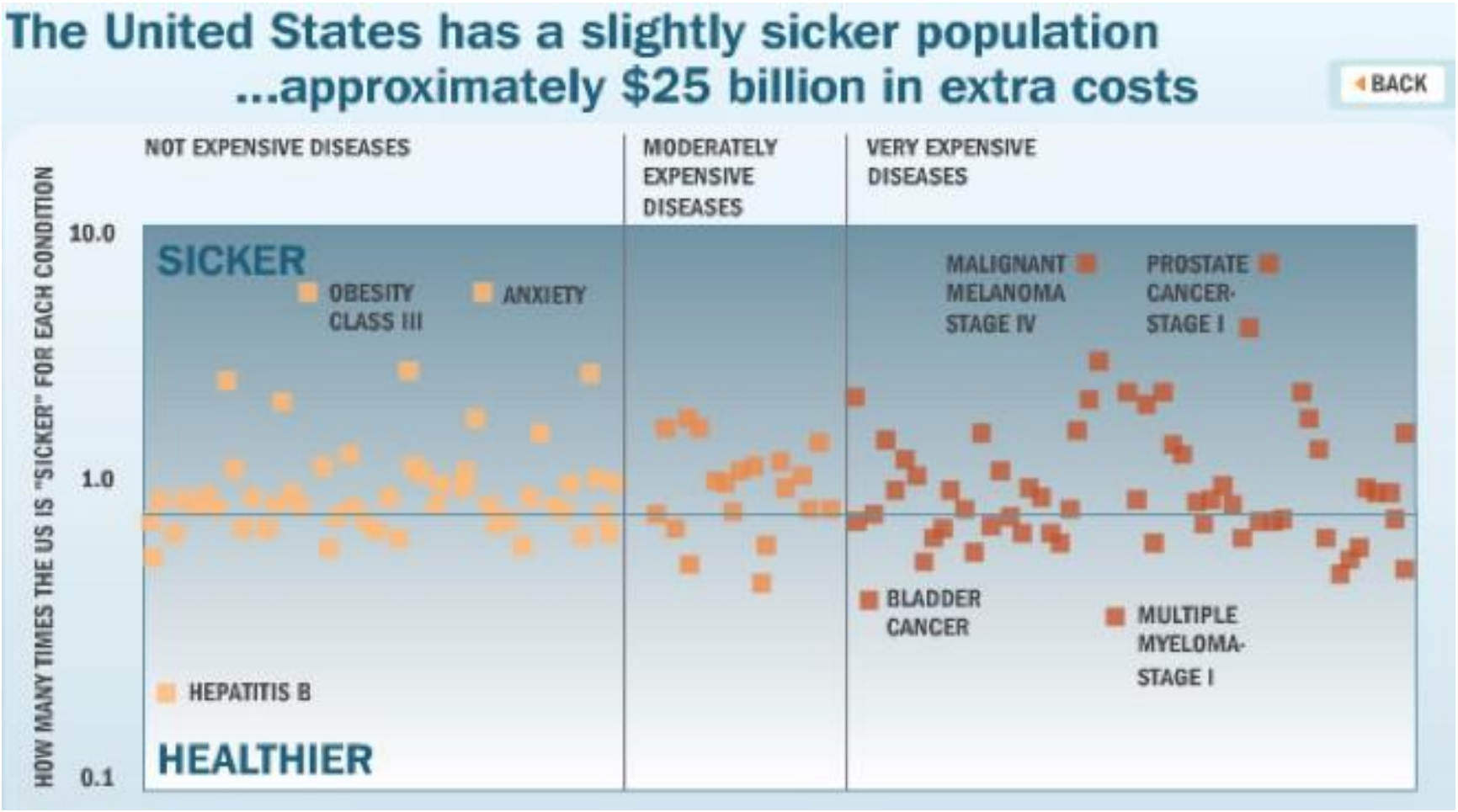

Source: CBO, 7/27/10. (***Yes, after health reform!***)

# Way out of line



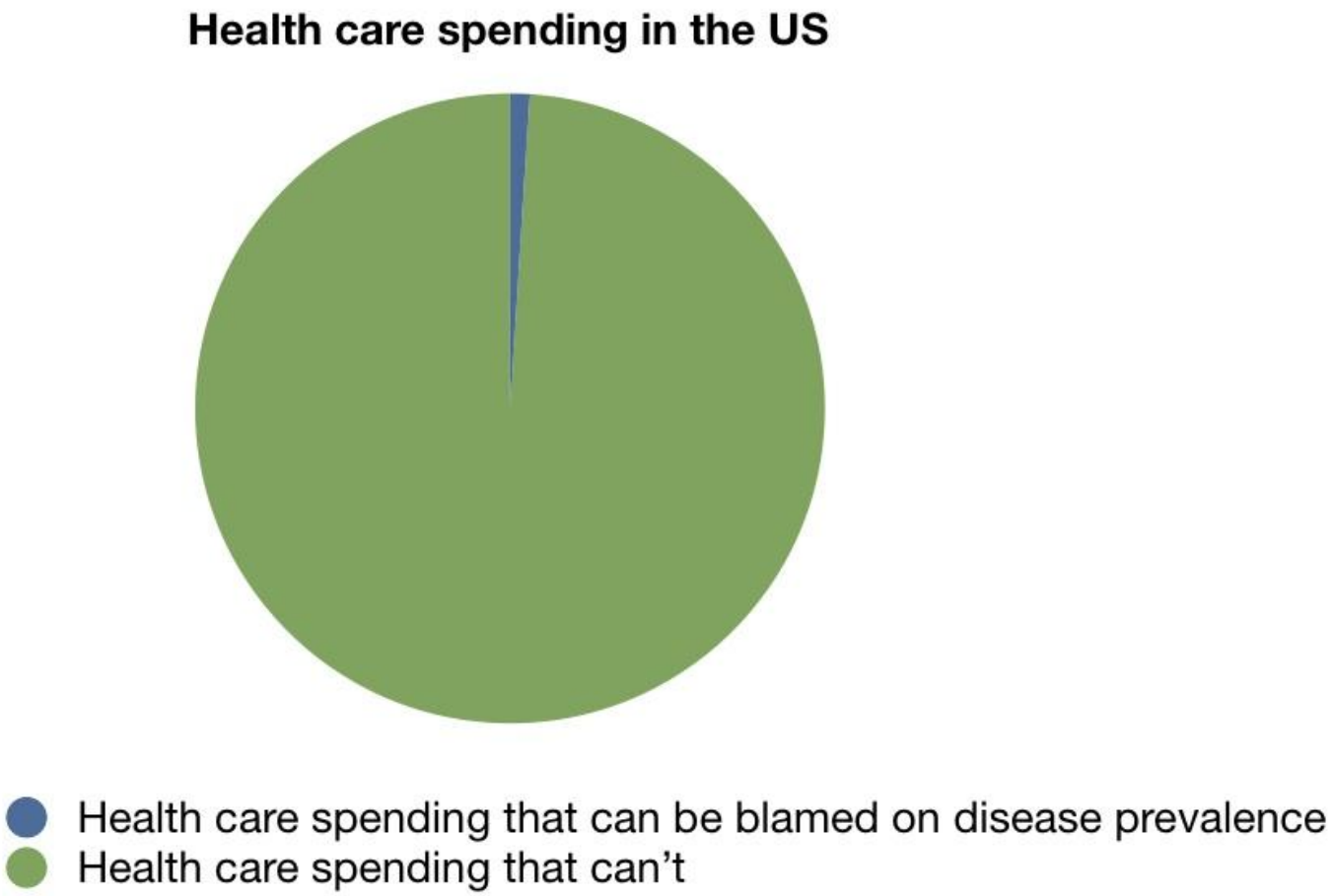

Source: OECD, via McKinsey & Company, 11/08.

# We're sicker



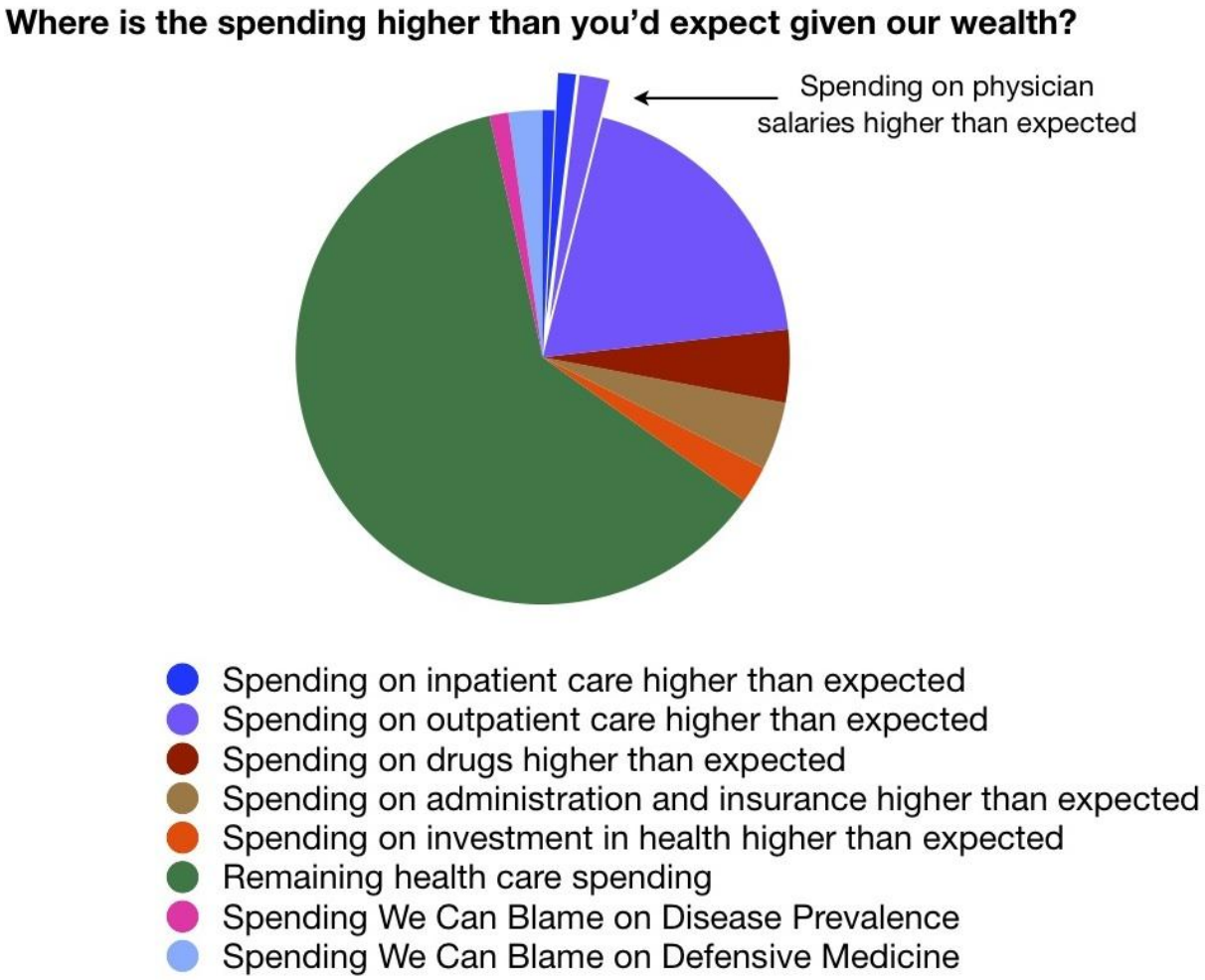

Source: MEPS, Decision Resources, via McKinsey & Company, 1/07.

# But it doesn't explain spending




Source: Aaron Carroll, The Incidental Economist, 9/10/10.

# Excess spending: On what?



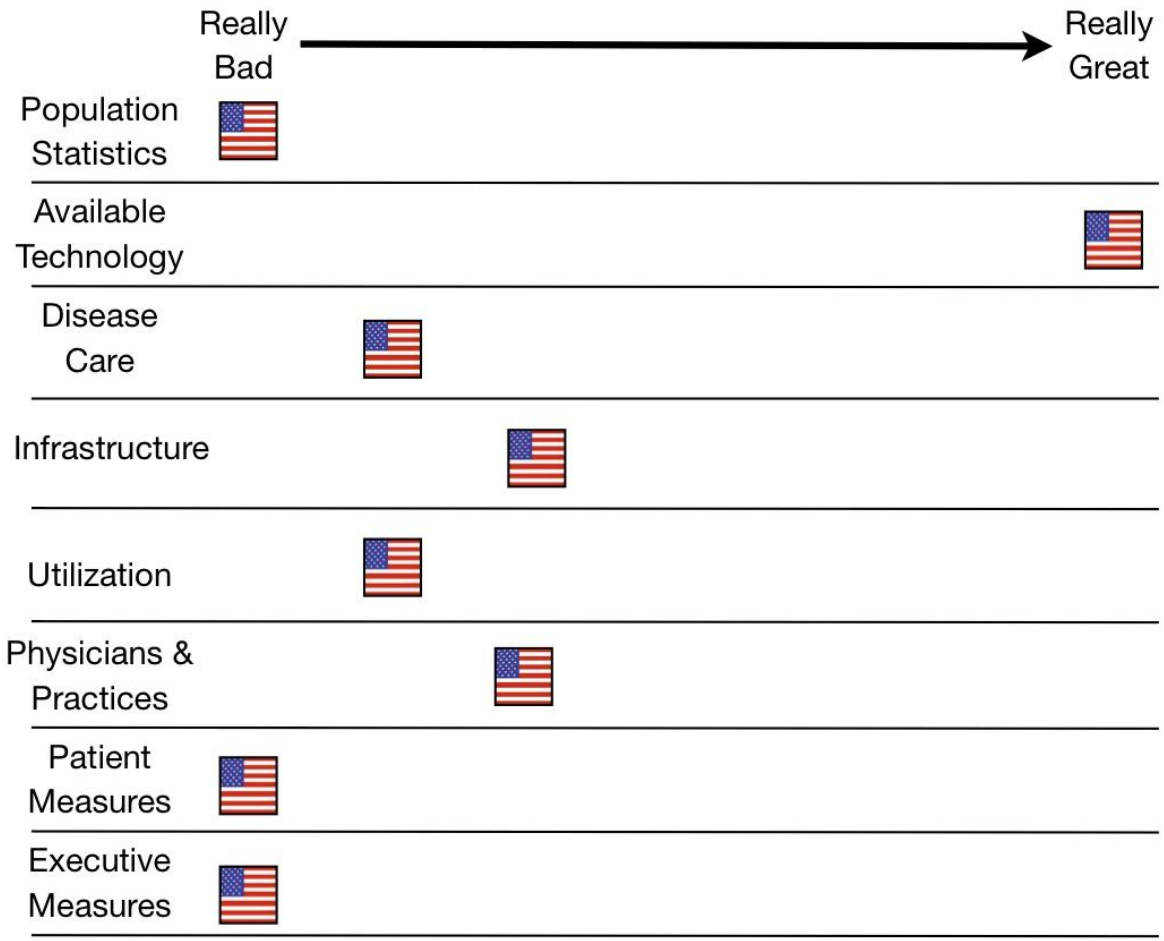

Source: Aaron Carroll, The Incidental Economist, 10/1/10.

# Superiority complex

| | U.S. | |
|---|---|---|
| | Grade | Ranking |
| **Overall health*** | D | 16th |
| Life expectancy | D | 17th |
| Self-reported health status | A | 2nd |
| Premature mortality* | D | 16th |
| Mortality due to cancer* | B | 8th |
| Mortality due to circulatory diseases* | D | 13th |
| Mortality due to respiratory diseases* | C | 14th |
| Mortality due to diabetes* | C | 15th |
| Mortality due to musculoskeletal system diseases* | C | 13th |
| Mortality due to mental disorders* | B | 9th |
| Infant mortality | D | 17th |
| Mortality due to medical misadventures** | C | 10th |

Source: The Conference Board of Canada, 9/09.

# Another look at “quality”




Source: Aaron Carroll, The Incidental Economist, 10/29/10.

# We've got a big problem

- Too much spending, growing too fast, unexplained by health status, poor outcomes
- This is a cost problem and a quality problem
- The new health reform law largely avoids them, focusing on access (also an issue)
- Three legged stool: cost, quality, access

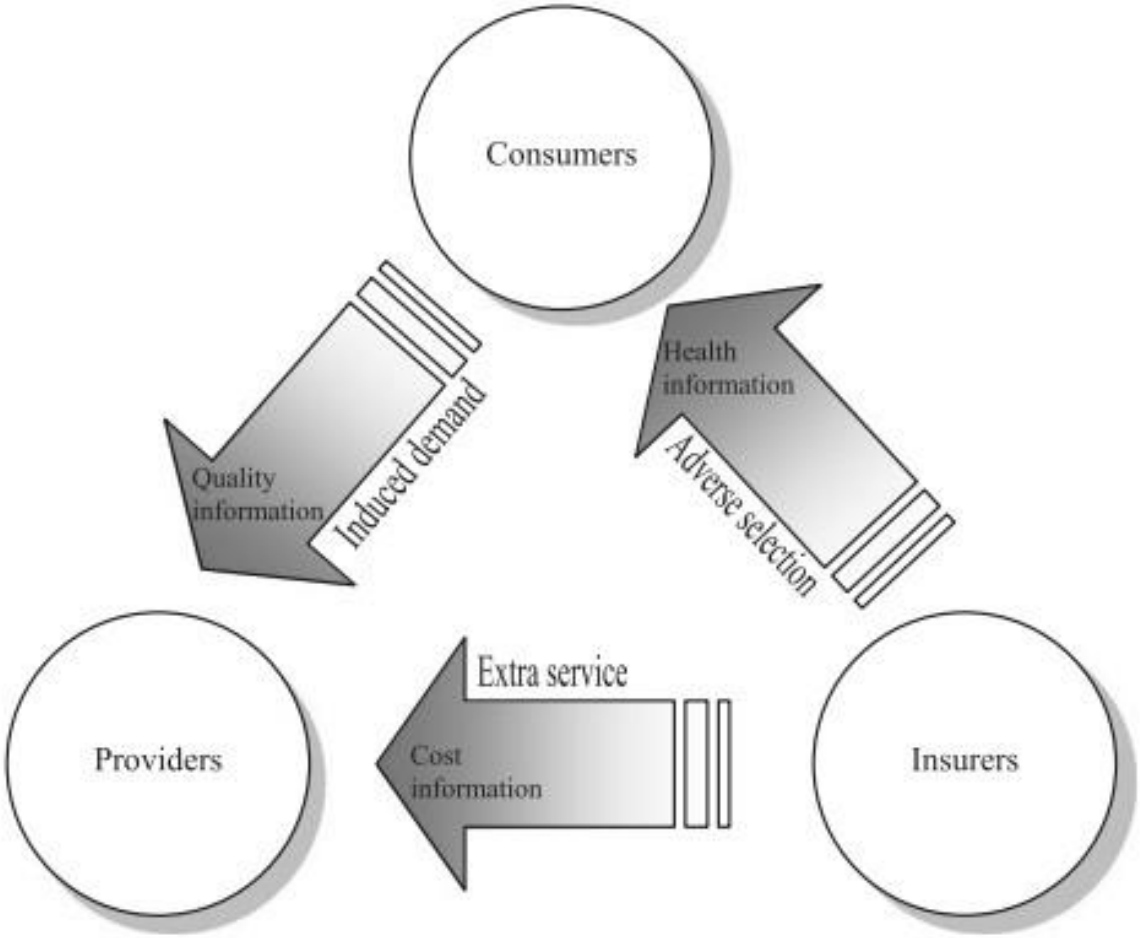
# Focus (mostly) on costs

- Prism of risk: who should pay for your expensive surgery?
  - You?
  - Your insurance company?
  - The government (taxpayers)?
  - Your doctor?
- They're not mutually exclusive
- Assumption of cost risk changes behavior

# Cost risk and behavior

- Do you know in advance which service or procedure will help? Does your doctor?
- Who knows more? Who "wins" if you use more? Who "loses"?
- Is all (or more) health care "good"?
- The greater the unit price, the more provided
- The less something costs, the more you buy

# Information asymmetry

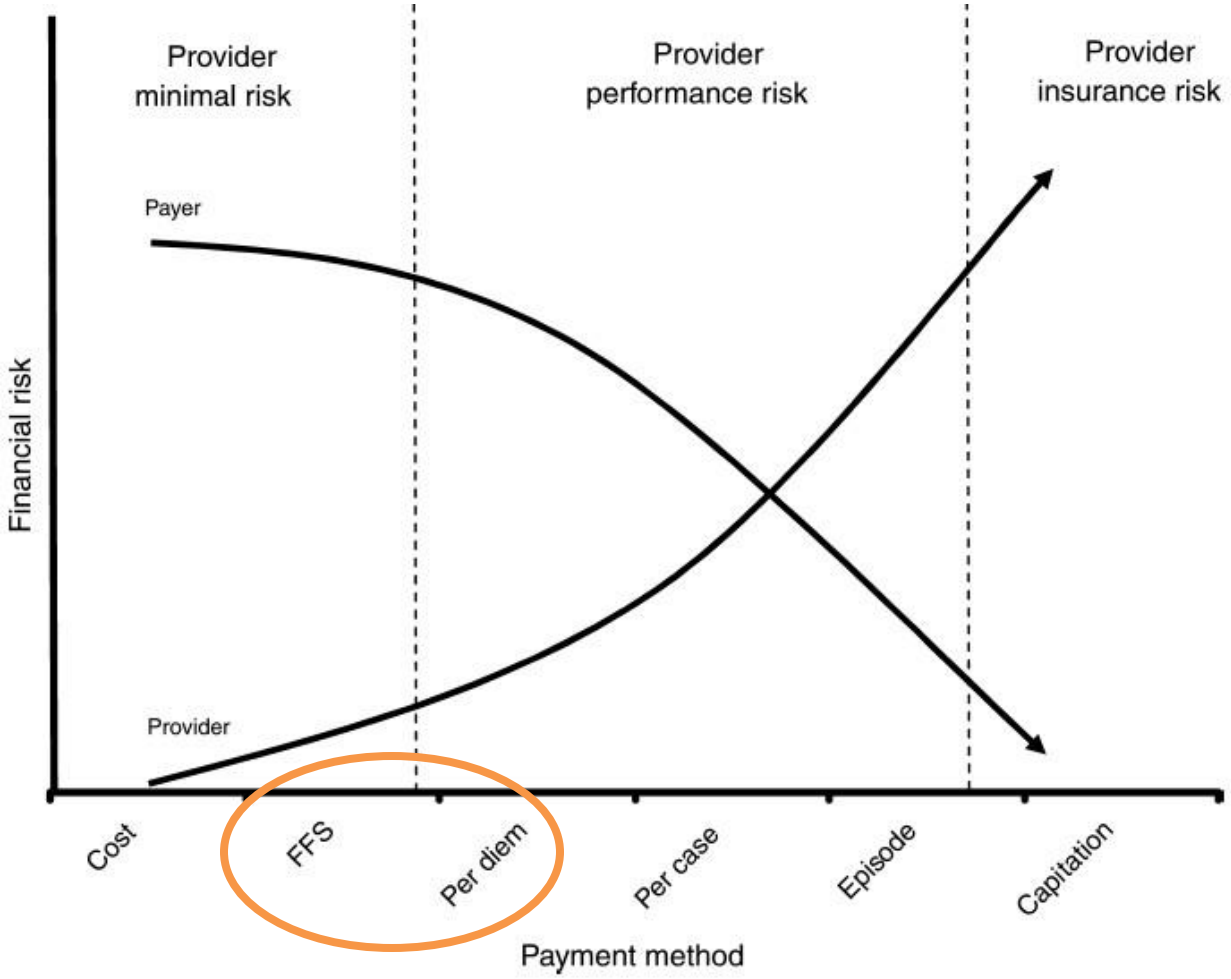



Source: Wang et al., Health Economics, 11/24/10.

# A lot hinges on how care is financed

- Are insurers at risk for health care costs? *Yes*
- Does the government pay for some care? *Yes*
- Do you pay a deductible or copay? *Yes*
- Are doctors and hospitals at risk? *Not much*

# Cost risk




Source: Averill et al., Journal of Ambulatory Care Management, 3/10.

# Hospital payment systems

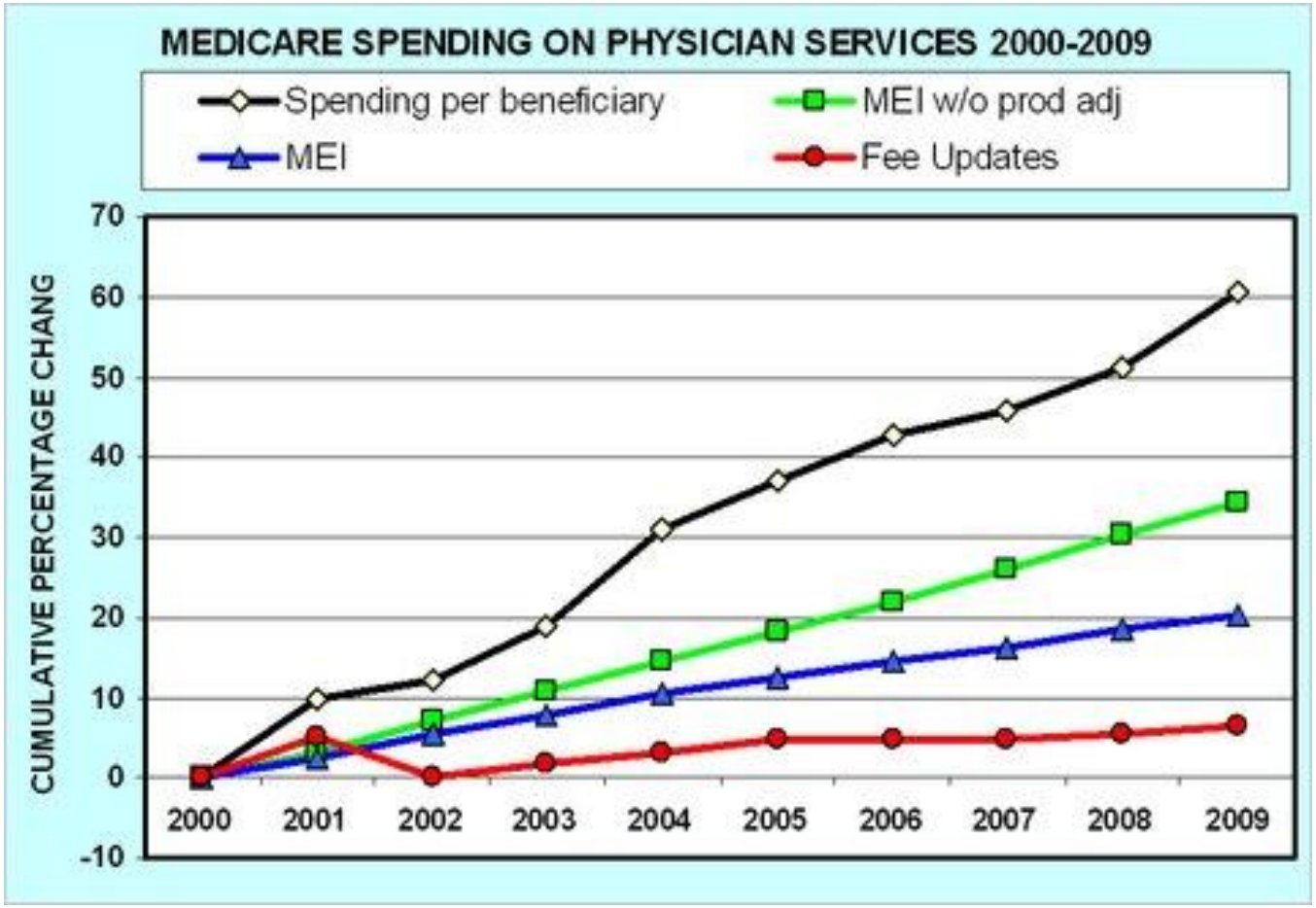
| Hospital Payment Type | Cleveland | Indianapolis | Los Angeles | Miami-South Florida |
|---|---|---|---|---|
| Per diem | 48% | 3% | 84% | 50% |
| Discounted Charges | 18 | 62 | 10 | 24 |
| Diagnosis Related Group | 34 | 35 | 6 | 26 |

FFS

| Hospital Payment Type | Milwaukee | Richmond, Va. | San Francisco | Rural Wisconsin |
|---|---|---|---|---|
| Per diem | 8% | 56% | 77% | 3% |
| Discounted Charges | 48 | 16 | 14 | 68 |
| Diagnosis Related Group | 44 | 28 | 9 | 29 |

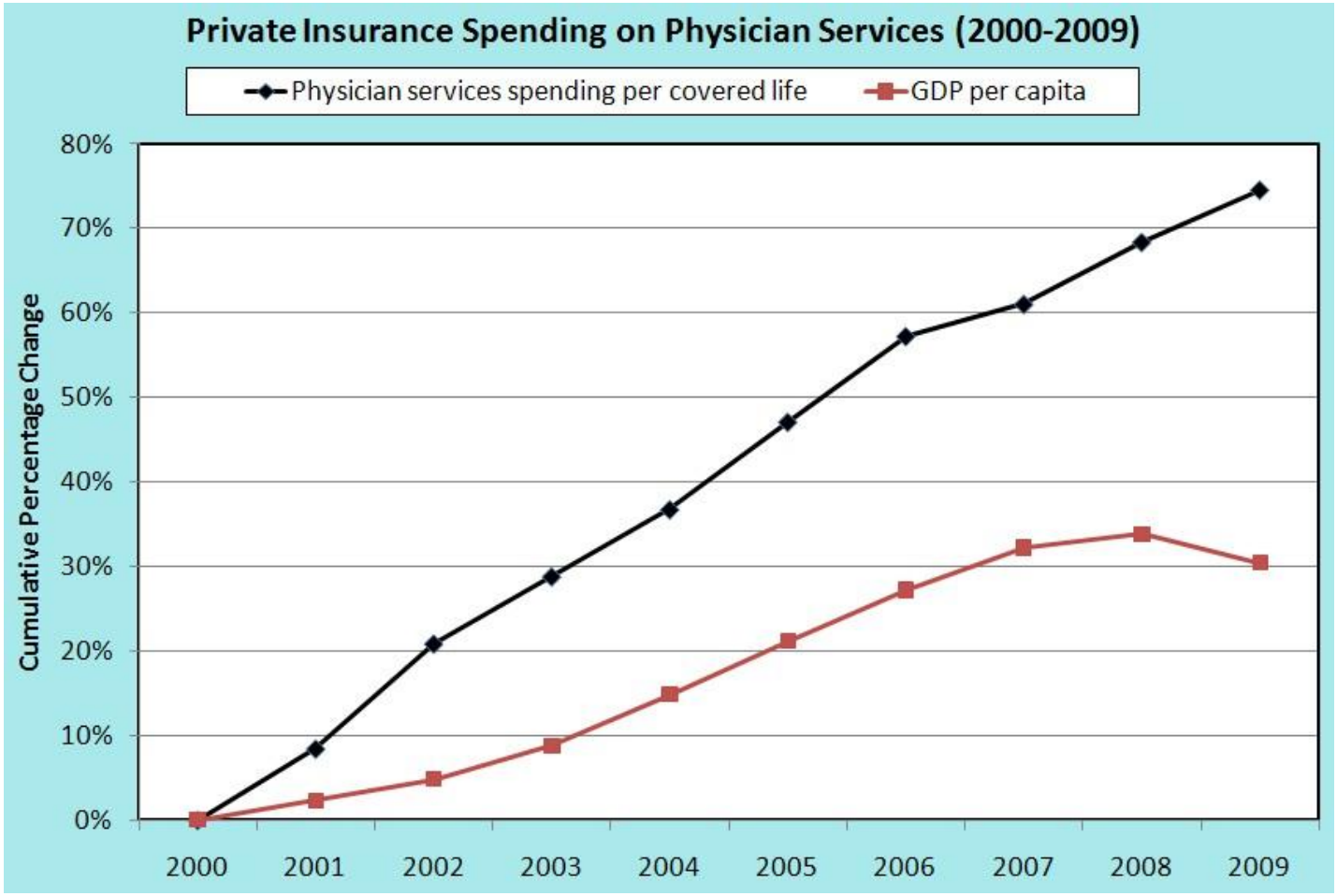
Source: Paul Ginsberg, Center for Studying Health Systems Change, 11/10.

# Physician payment: Medicare




Source: Uwe Reinhardt, New York Times, 12/17/10.

# Physician payment: Private plans




Source: [Austin Frakt](), The Incidental Economist, 3/8/11.

# Alternatives to FFS

- Putting providers at risk?
- Bundled payments
  - Package deals
- Accountable care organizations
  - *Integrated* health systems responsible for care for a defined population
  - Shared *savings* for high quality, low cost

# What could possibly go wrong?

- Bundled payments
  - Withholding necessary care
- Accountable care organizations
  - Integration increases market power
  - Not a problem for Medicare
  - A big problem for private plans

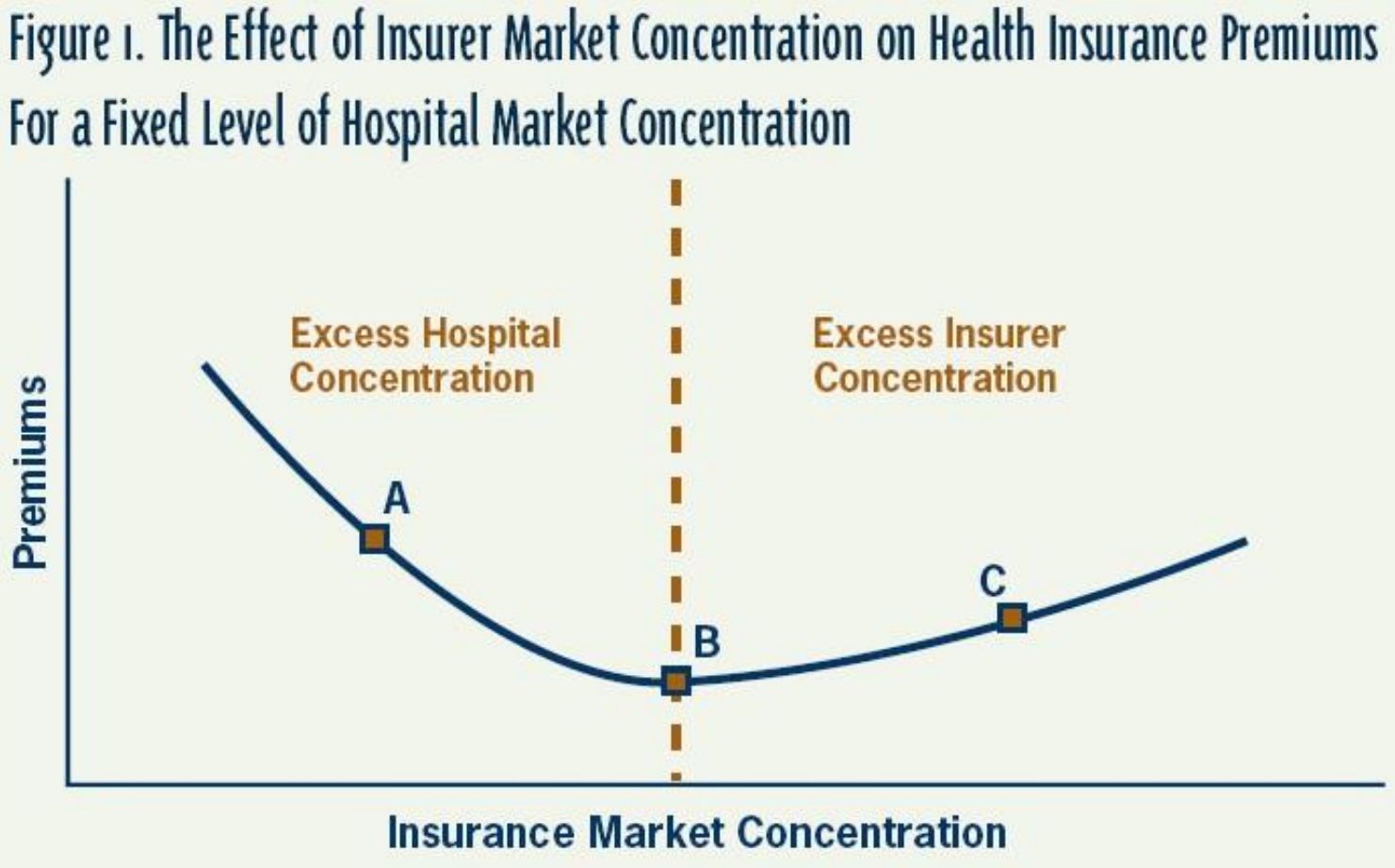
# Market power

- The ability to negotiate a favorable price
  - Higher as a seller
  - Lower as a buyer
- Sources of market power:
  - Market concentration
  - Product differentiation
  - “Must-have” status
  - Capacity constraints

# Plan-hospital bargaining

- Sources of plans' market power
  - Popular (market concentration, branding)
  - Selective contracting (establishing networks)
- Sources of hospitals' market power
  - Low levels of competition (market concentration)
  - Must have status
  - Capacity constraints

# The balance of (market) power



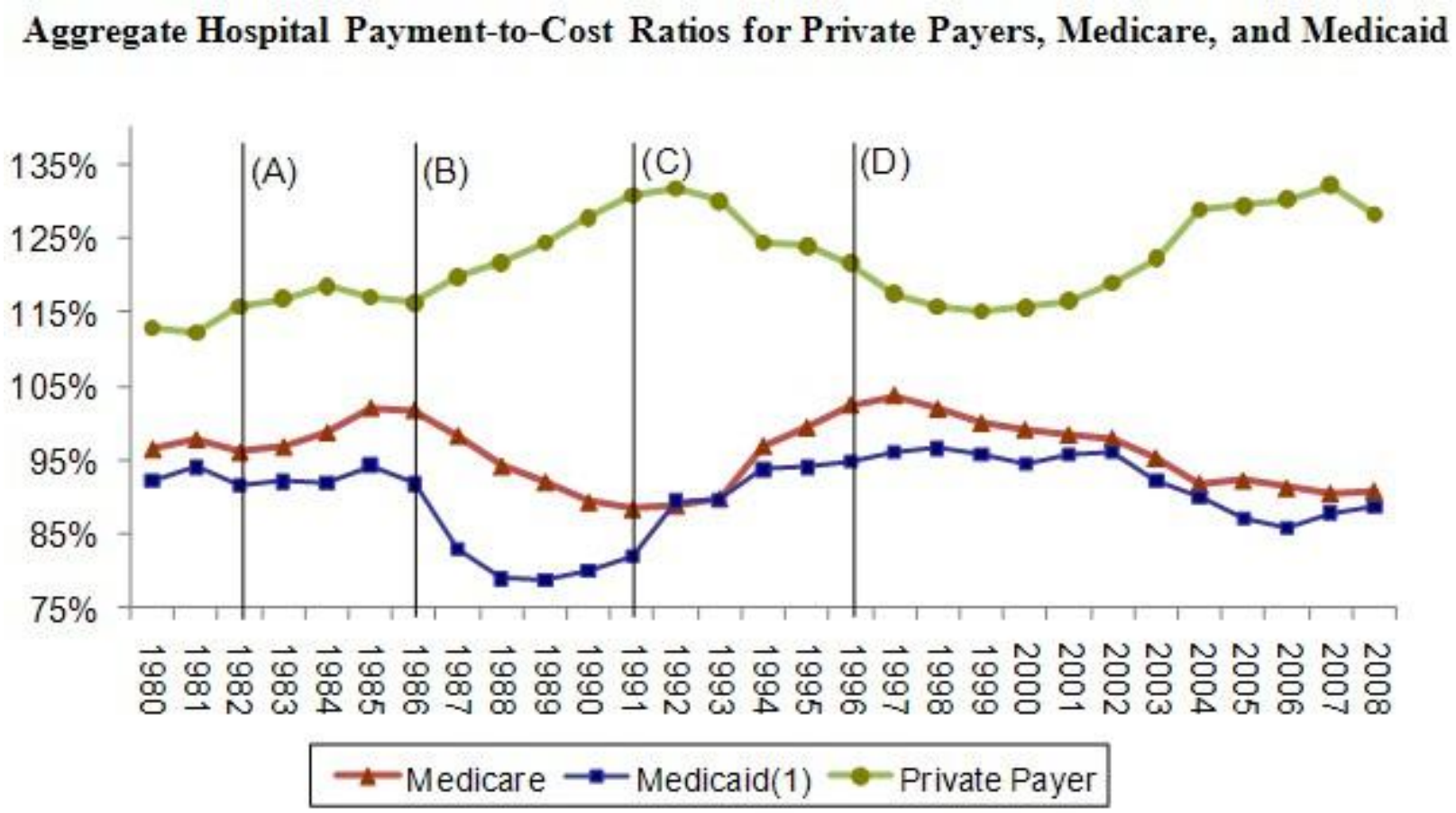

Source: Austin Frakt, NIHCM, 11/10.

# Anticipating ACOs

# Health reform and hospital payments

- Lower annual updates of Medicare payments
- Lower Medicare payments for preventable readmissions and hospital-acquired infections
- CBO scored Medicare hospital savings at $113 billion (2010-2019)
- Additionally, Medicaid eligibility will expand

# A return to cost-shifting?




Source: Austin Frakt, The Milbank Quarterly, 3/11.

# Any solutions?

- All-payer rate setting
  - One price for each service
  - Can vary by hospital
  - Retains price signals
- Single-payer
  - No price competition
- I've heard of nothing else

# What about consumers?

- So far, focused on payers, providers
- Consumers play a role too

# Third-party payment

- Health insurance is like a fixed-price, all-you-can-eat buffet
- Third-party payment encourages more use and use of lower quality or unnecessary care
- One of many failings of health care markets
- Cost sharing can help, but not always
- Does it reduce costs? Does it harm health?

# RAND health insurance experiment

- The only long-term, *experimental* study of cost sharing
- Arguably, most influential health policy study
- Conducted between 1971 and 1982.
- 2,750 families (7,700 *non-elderly* individuals), participating from 3-5 years
- *Randomized* to health insurance plans with various levels of cost sharing (0% to 95%)

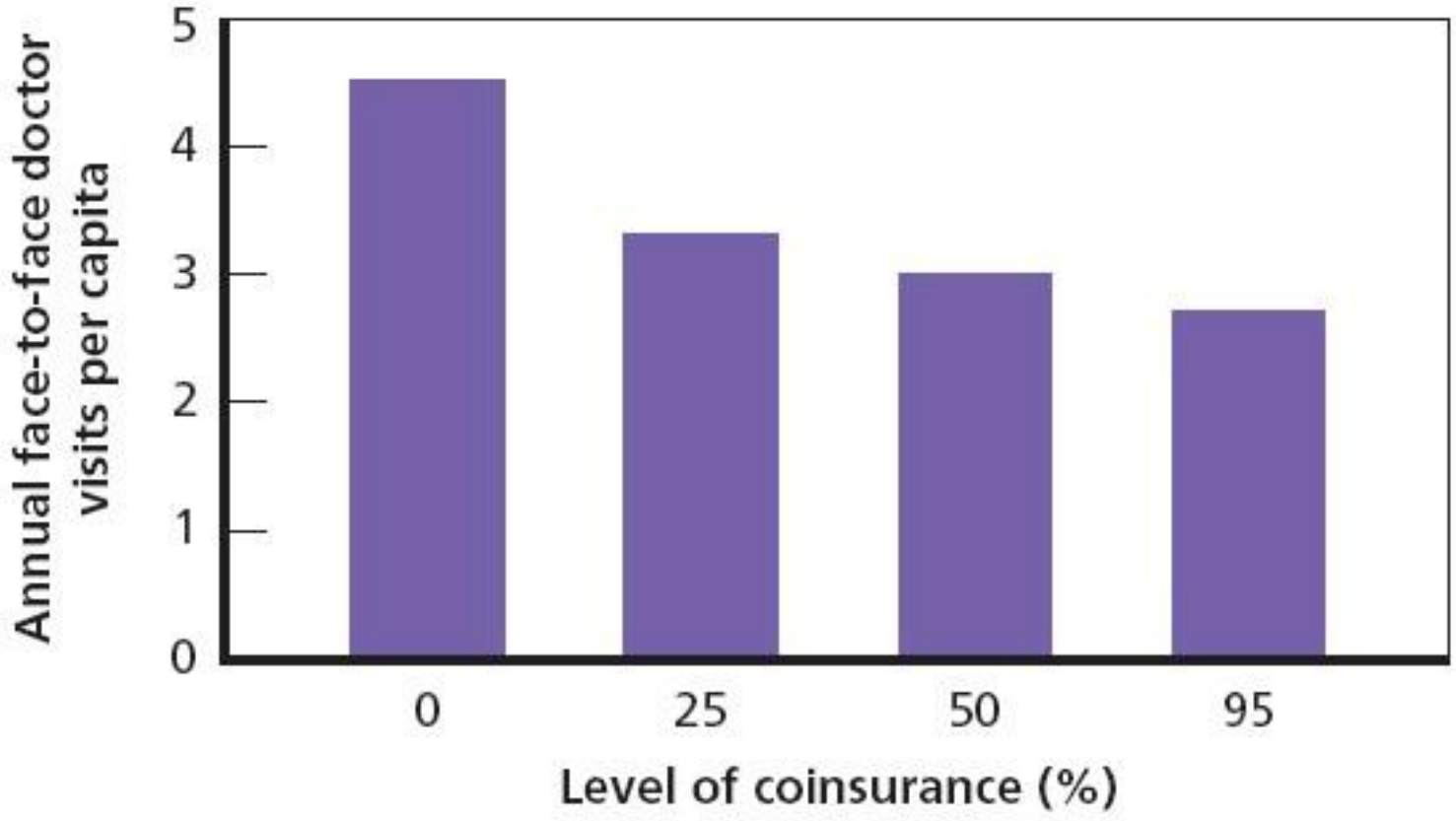
# What's special about RAND HIE

- Experimental design = random assignment
- Without random assignment, what plan would you expect the sickest to enroll in? Why?
- In that case, what might be the observed relationships between cost sharing, utilization, and outcomes?
- Randomized trials in social science are important, rare, difficult, and costly

# RAND HIE study questions

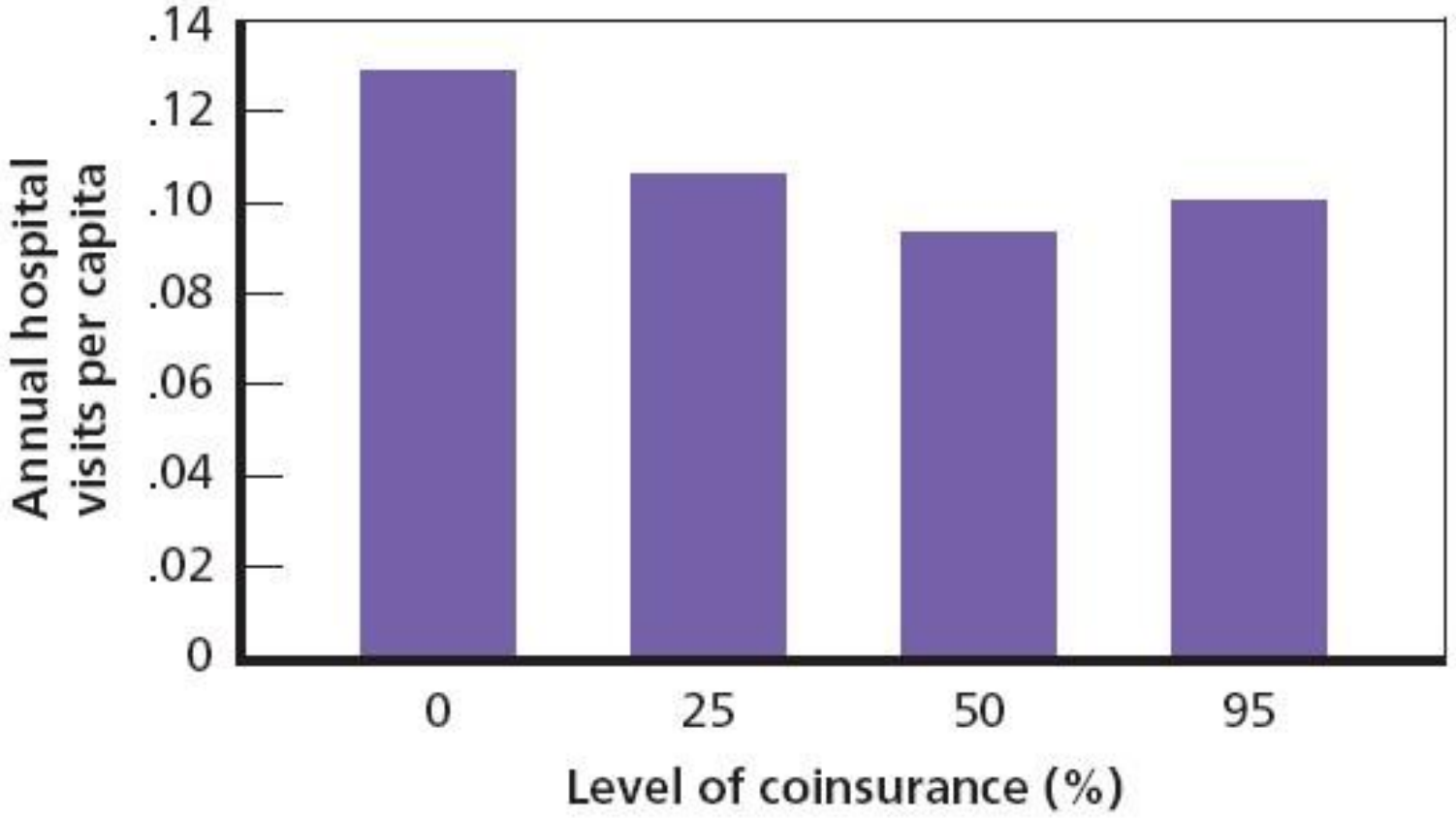
- How does cost sharing affect health care use?
- How does it affect appropriateness and quality of care?
- What are the health consequences?

# RAND HIE: Doctor visits



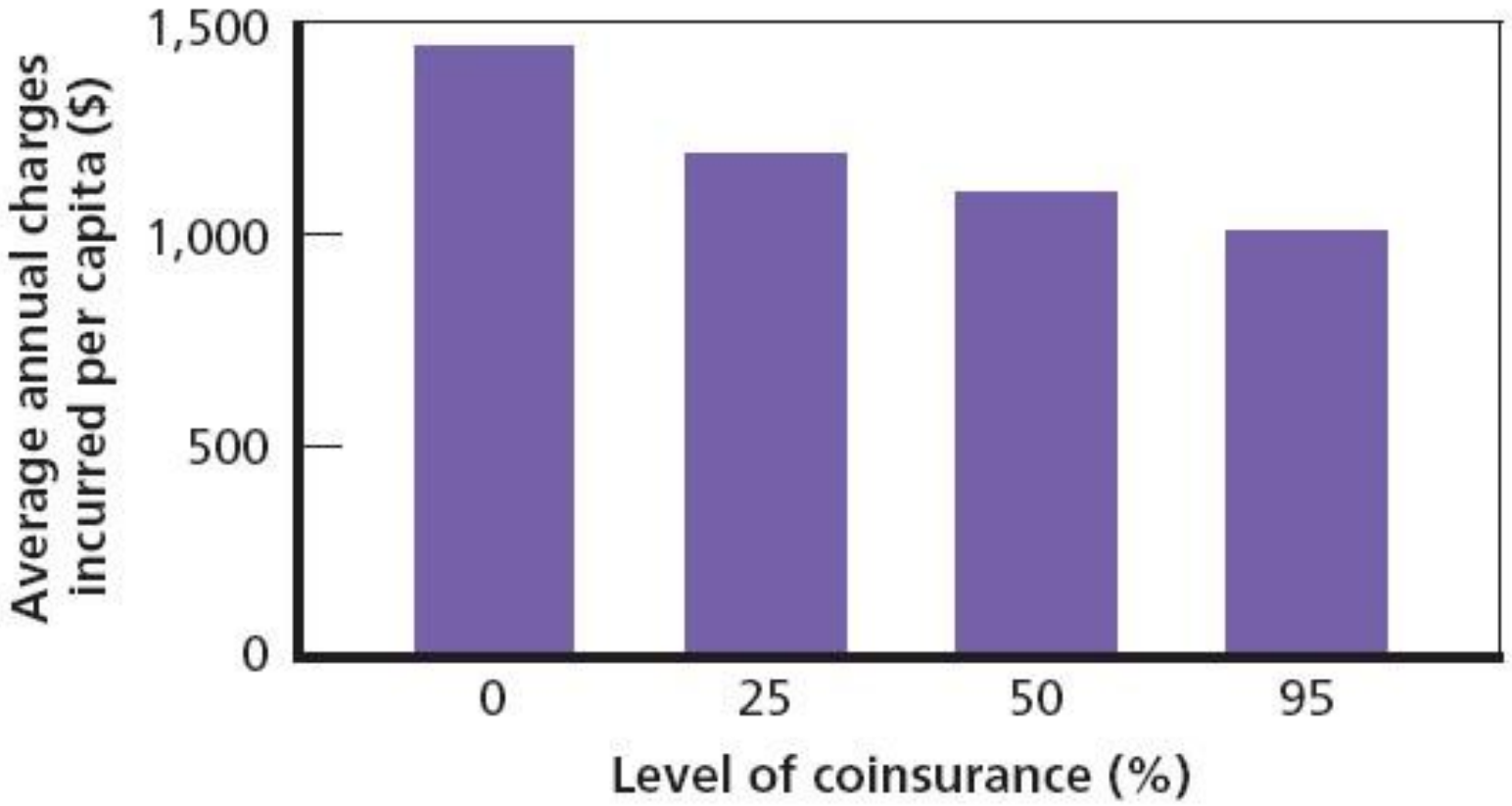

Source: RAND, 2006.

# RAND HIE: Hospital visits




Source: RAND, 2006.

# RAND HIE: Spending




Source: RAND, 2006.

# RAND HIE: Other encouraging findings

- Cost sharing, relative to free care, did not alter quality of care
- On average, no adverse effects on health were attributable to cost sharing
- Cost sharing led to fewer restricted-activity days
- A lot of good things happen when people pay more directly for their care. Why?
  - Prudent shopping?
  - A lot of care isn't useful?

# RAND HIE: Discouraging findings

- Cost sharing reduced *effective* and *ineffective* hospital and drug use *in equal amounts*
- Cost sharing led to *worse* outcomes for the poorest and sickest participants
  - Higher mortality for those with high blood pressure
  - Worse vision
  - Less dental care
  - More "serious symptoms"
- Risky behavior (like smoking) was unaffected by cost sharing

# RAND HIE: There's more

- The study did not include elderly
- A later "natural experiment" found higher doc visit cost sharing for elderly leads to increased hospital use (Chandra et al., *AER* 2010)
- The RAND HIE "paid for itself"
  - Cost $227 million 2009 dollars
  - The increased hospital cost sharing it (potentially) inspired reduced that much spending in two weeks
- Hundreds of RAND HIE papers

# Relevance today

- High-deductible plans are growing
- Popularity doubling from 6% to 13% between 2008 and 2010 (PWC, 2010)
- Recent trend in cost shift from employer to employee (i.e. reduction in compensation)
- Winners and losers?
- Will consumers accept increased cost sharing long-term?

# There's so much more!

- This was quick look at a few facets of the health cost/quality/access problem
- Aaron Carroll and I study health care and write about health policy research every day

**TheIncidentalEconomist.com**

*A focus on research, an eye on reform.*

# This is perfectly normal


Source: Jungmin Joo.