

The Greatest Challenge:

The US health care crisis and the complexities of reform

Austin Frakt, PhD

March 2011

Download these slides at tinyurl.com/GCtalk2

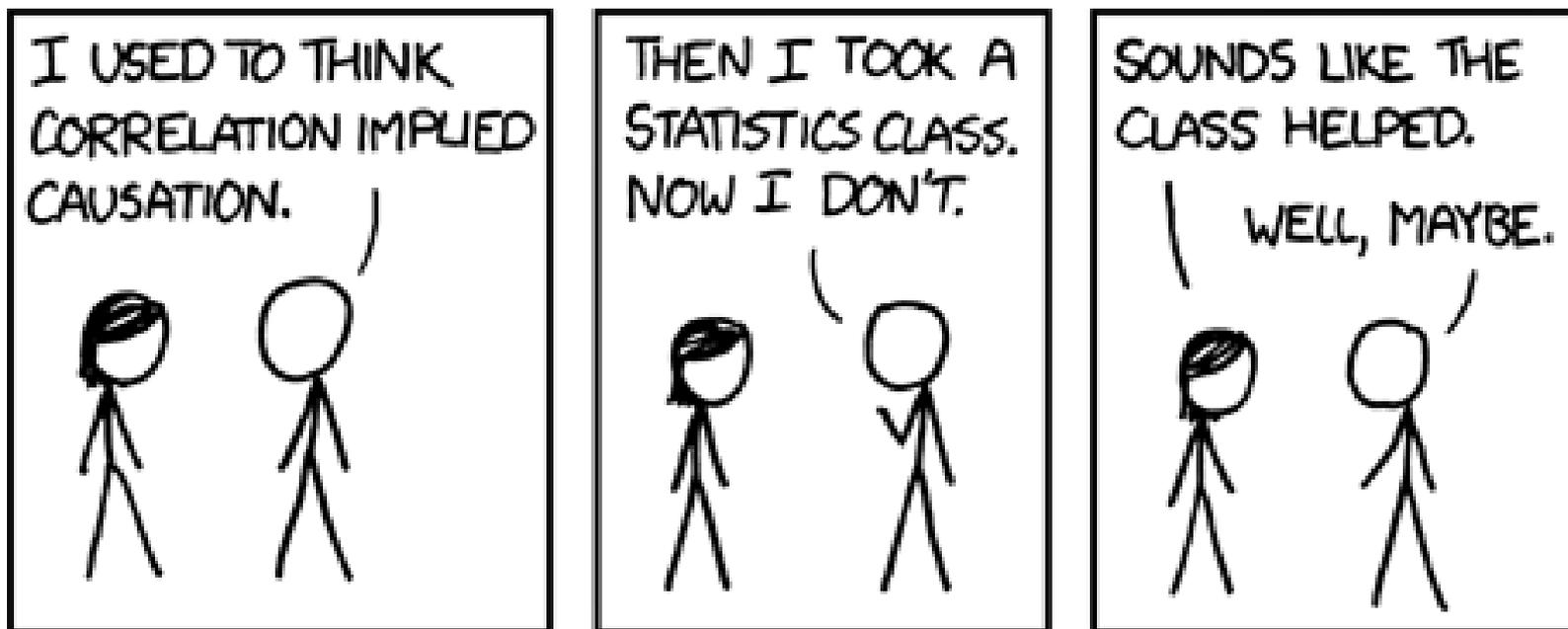
Boston University
School of Public Health

TheIncidentalEconomist.com

A focus on research, an eye on reform.

HCFE
Health Care Financing & Economics

This is supposed to help

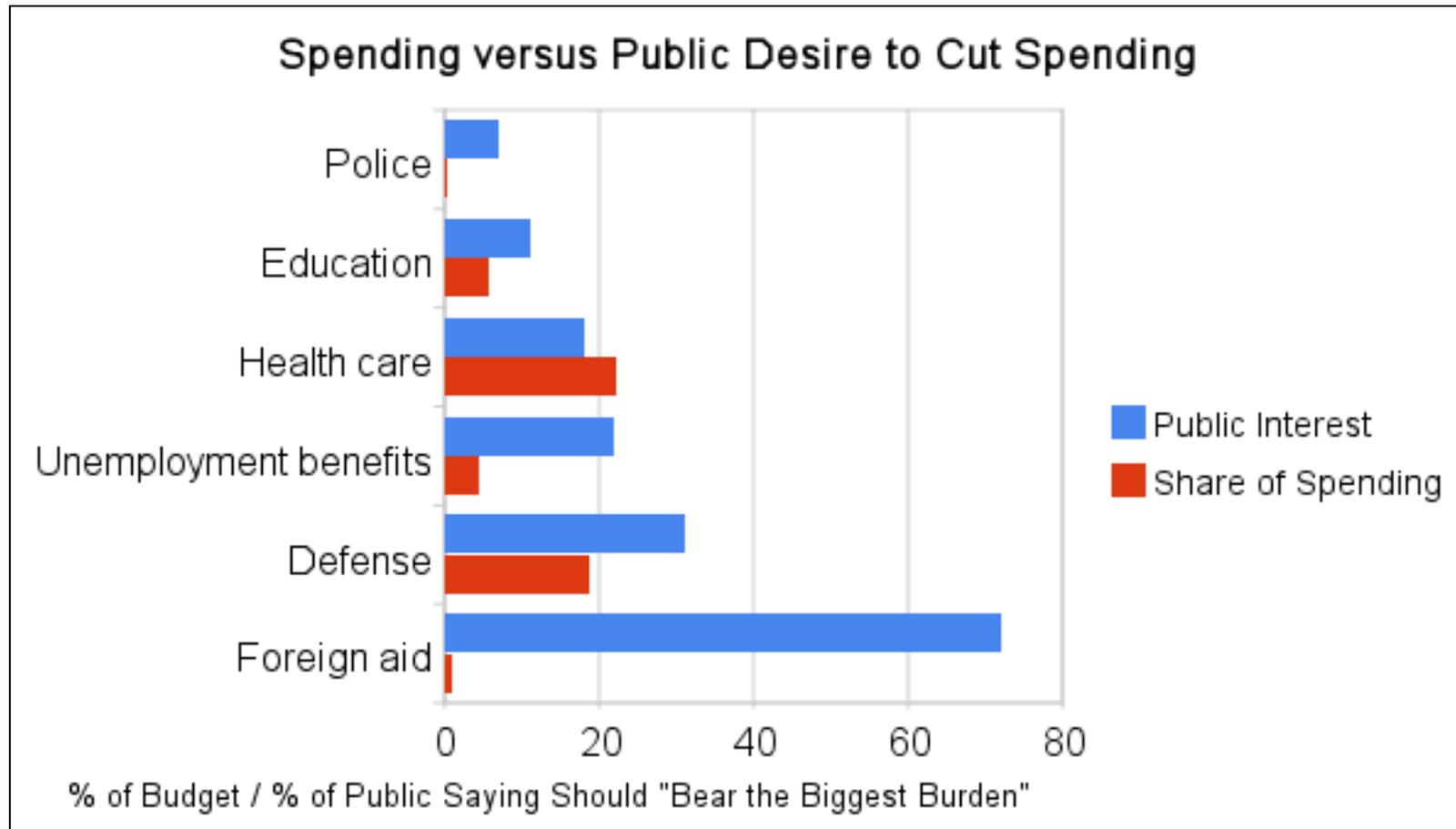


Source: [xkcd](#).

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

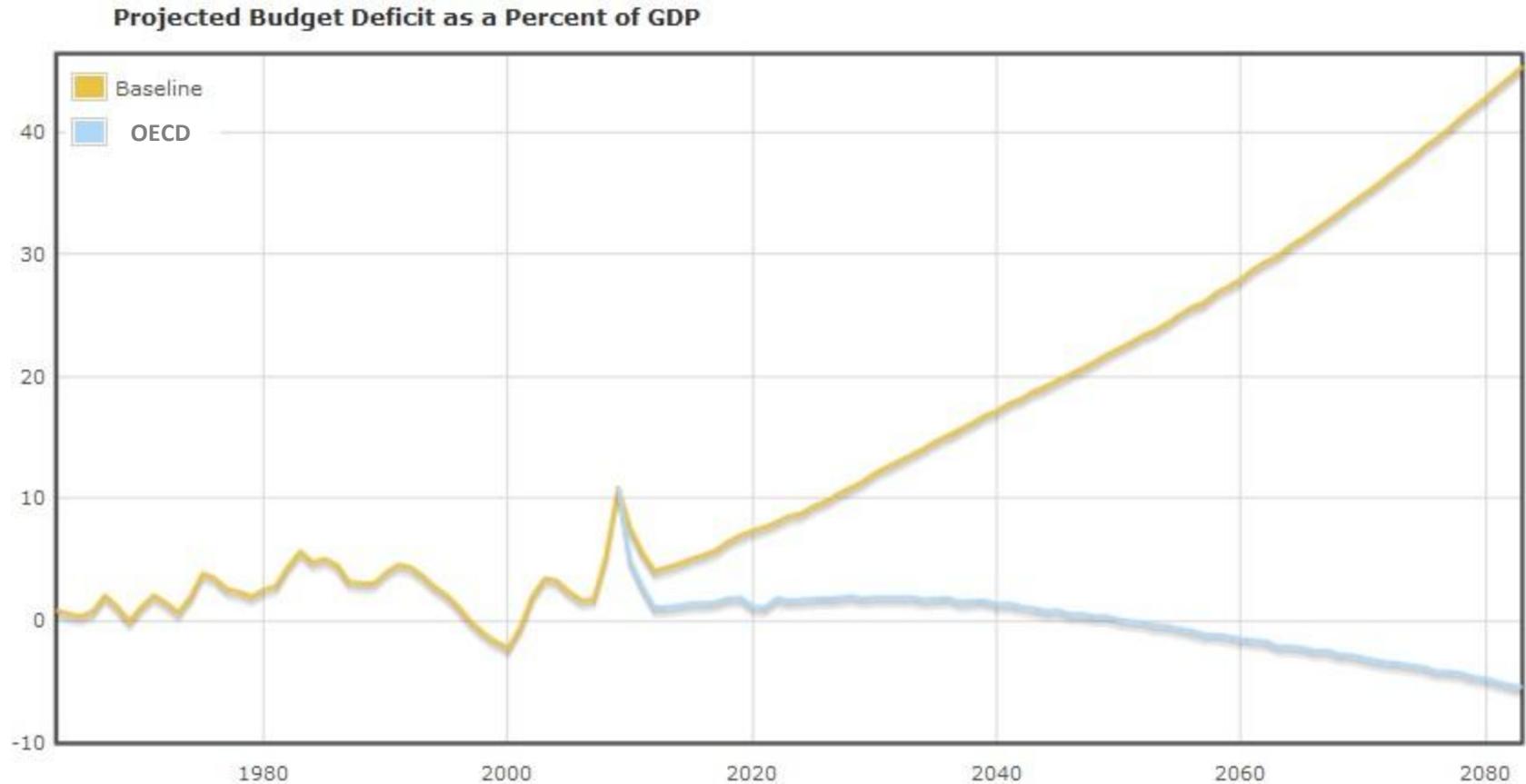


Source: [Ezra Klein](#), Washington Post, 7/14/10.

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

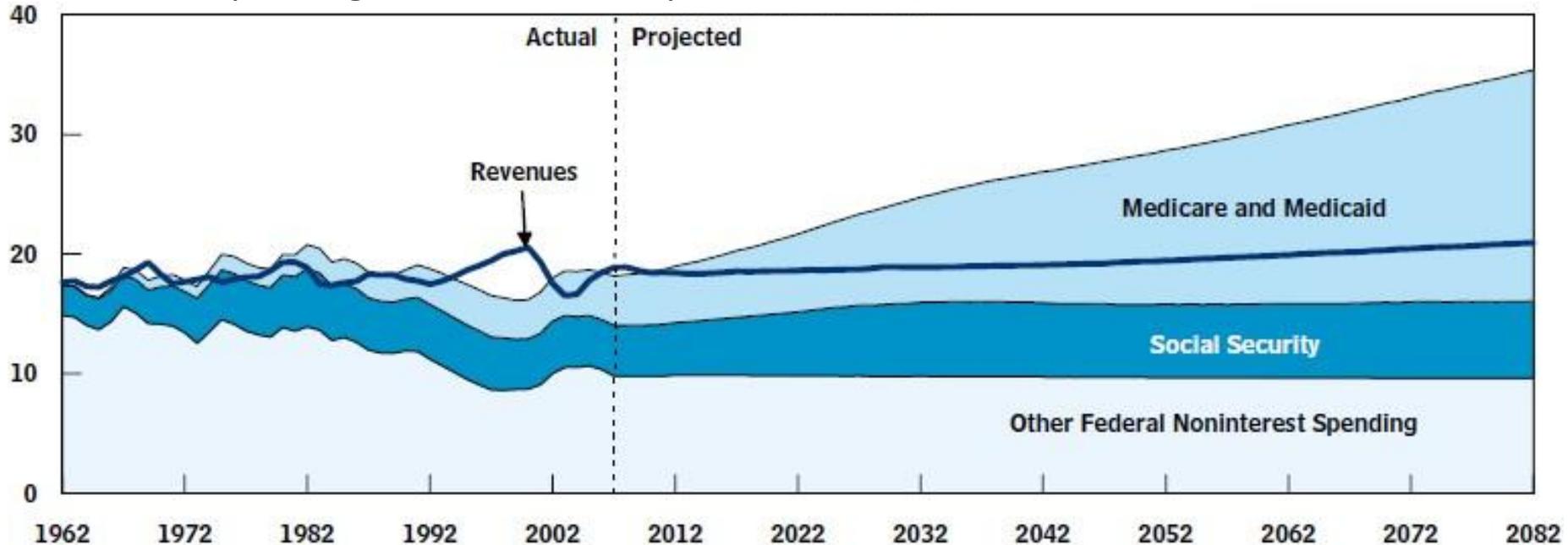
Health and the federal budget



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.

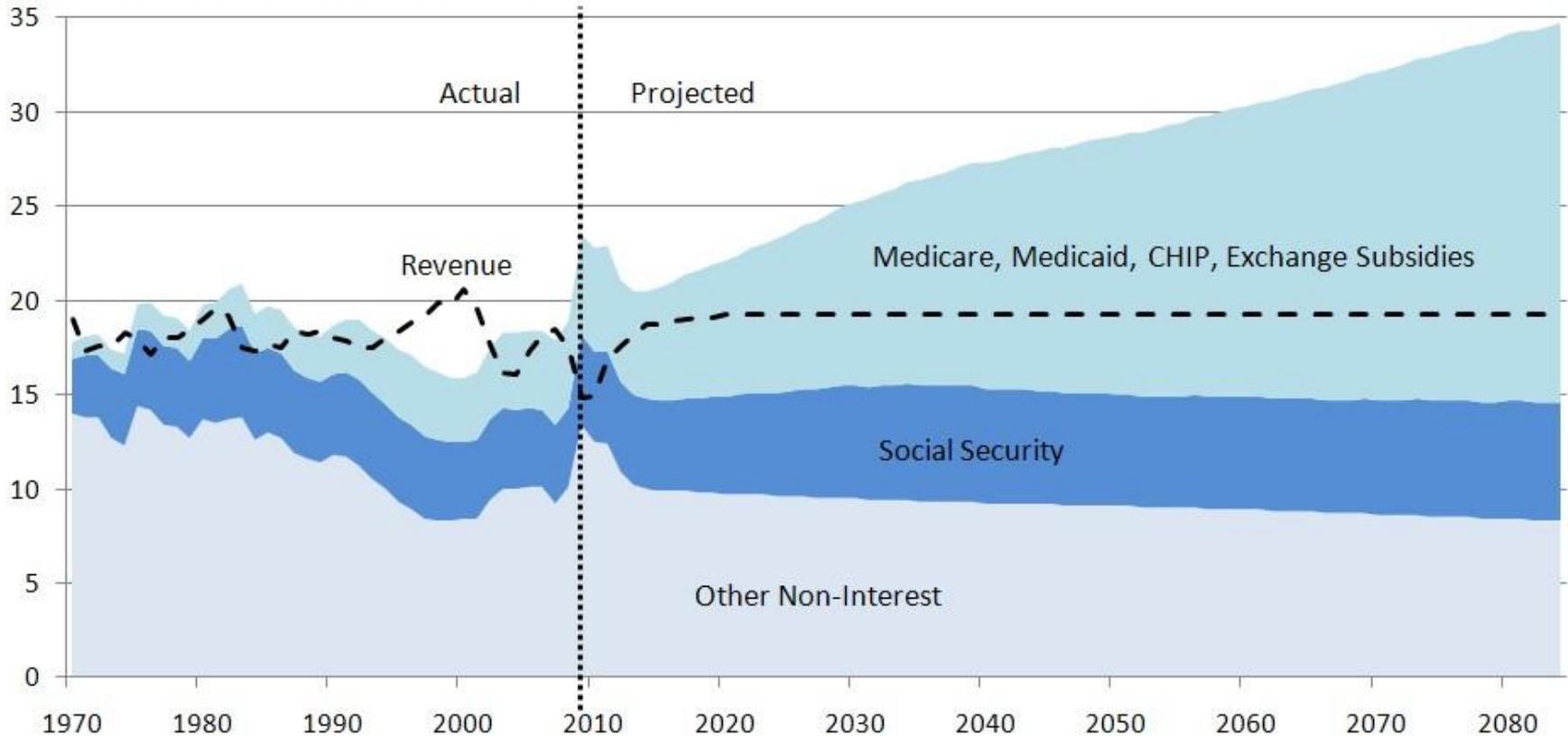


Source: [Peter Orszag](#), CBO, 6/17/08.

Fed. spending & revenue: Post-reform

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

Alternative Fiscal Scenario

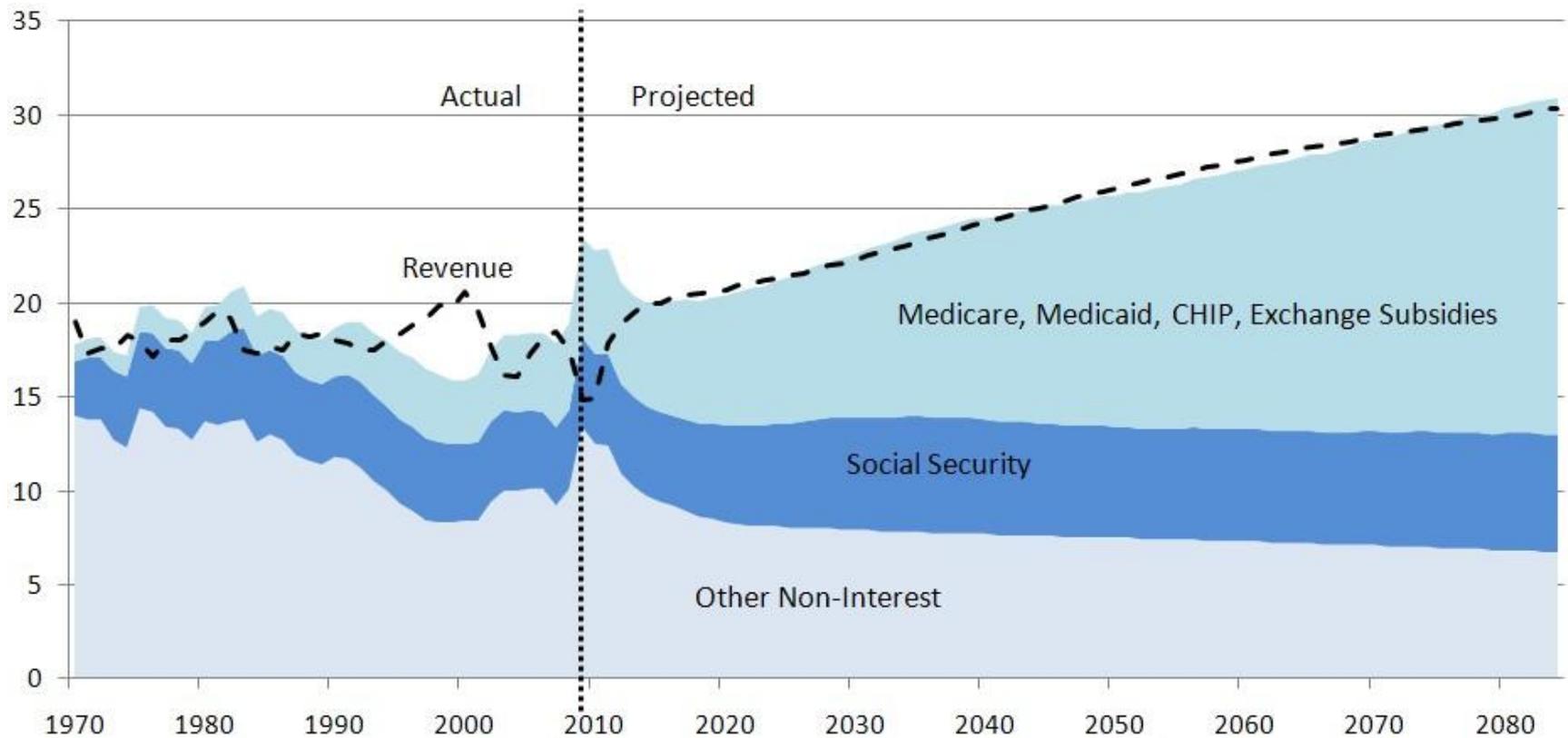


Source: [CBO](#), 8/10.

Fed. spending & revenue: Post-reform

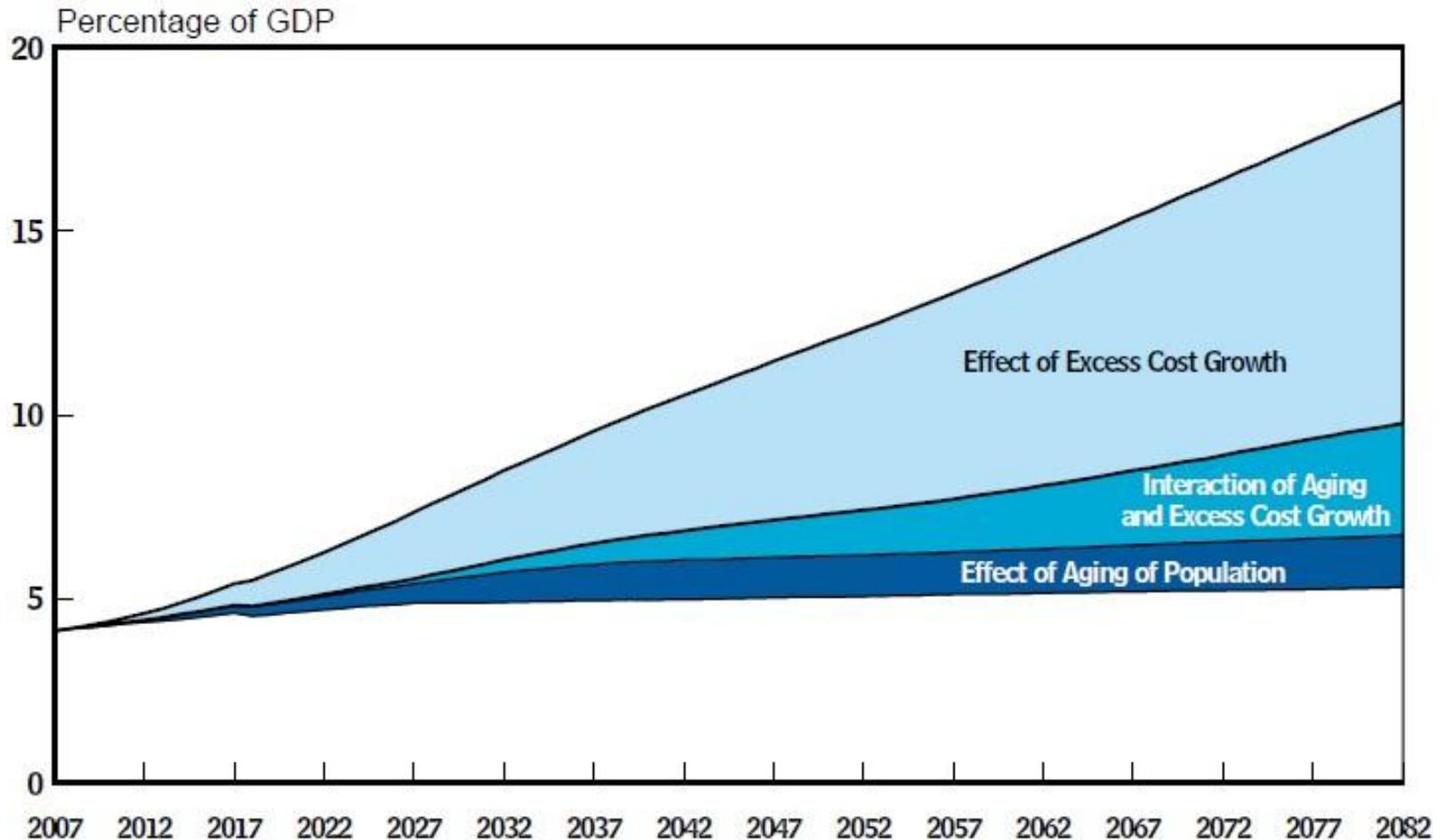
Federal spending and revenue as a percent of GDP, 2010 est.

Baseline Scenario



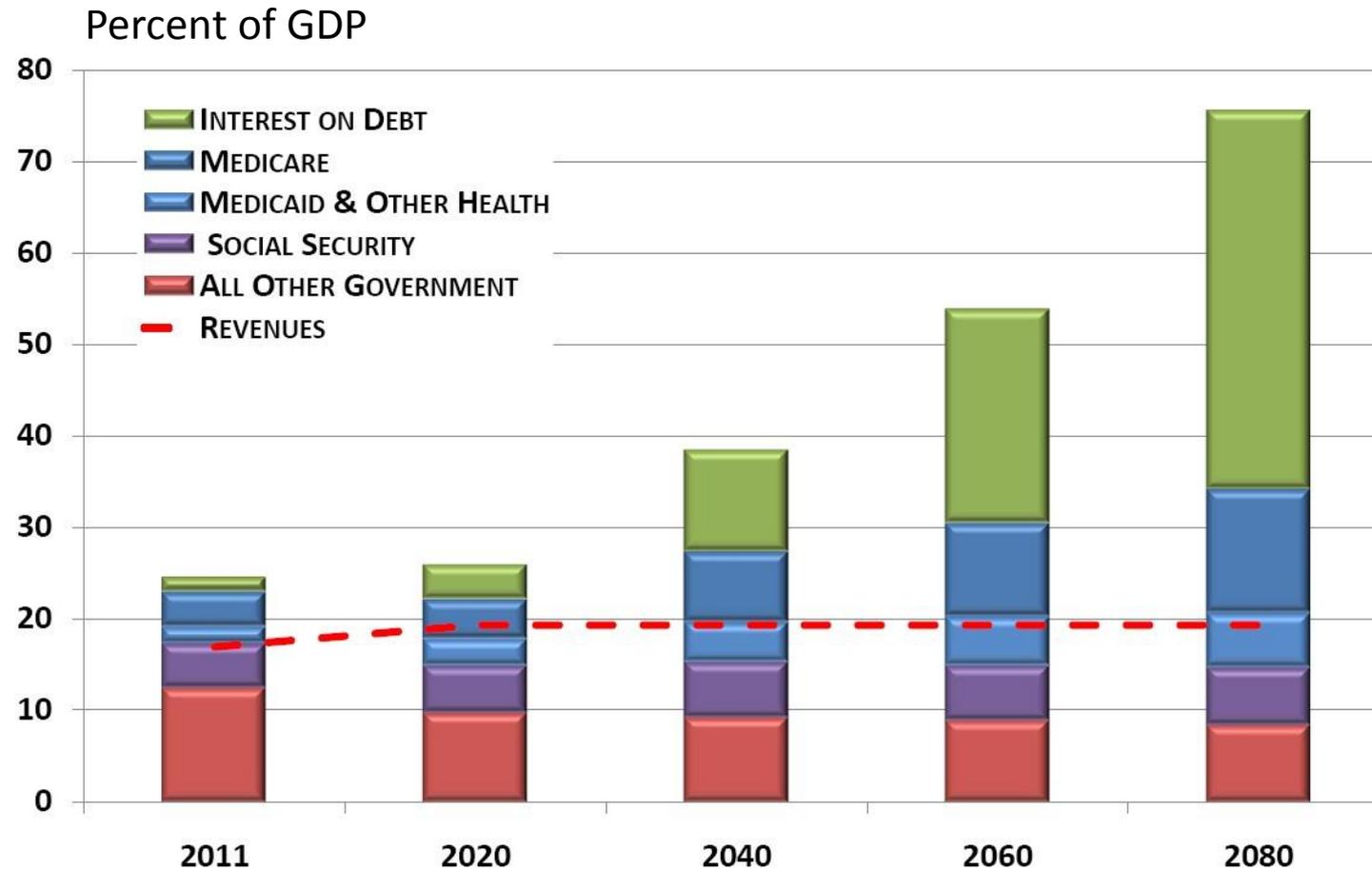
Source: [CBO](#), 8/10.

M'care spending: It's not about aging



Source: [Peter Orszag](#), CBO, 3/12/08.

Interest on the debt

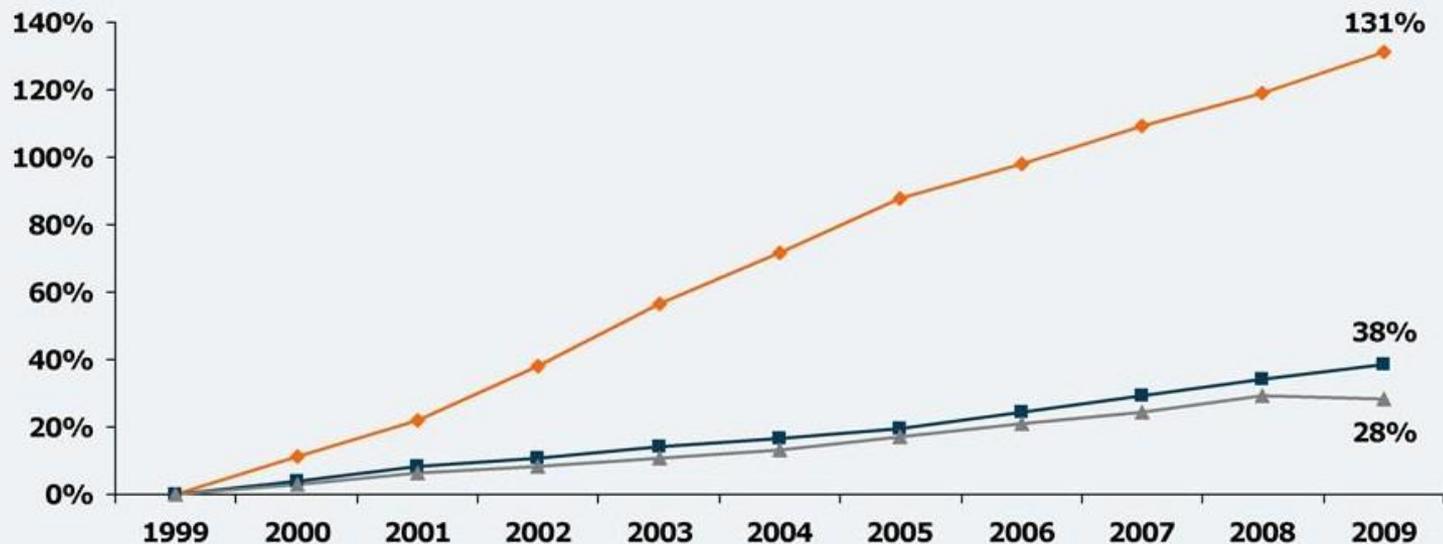


SOURCE: OMB /CBO

Source: [House Budget Committee](#), March 2011.

Not just a public-payer problem

Cumulative Changes in Health Insurance Premiums, Inflation, and Workers' Earnings, 1999-2009



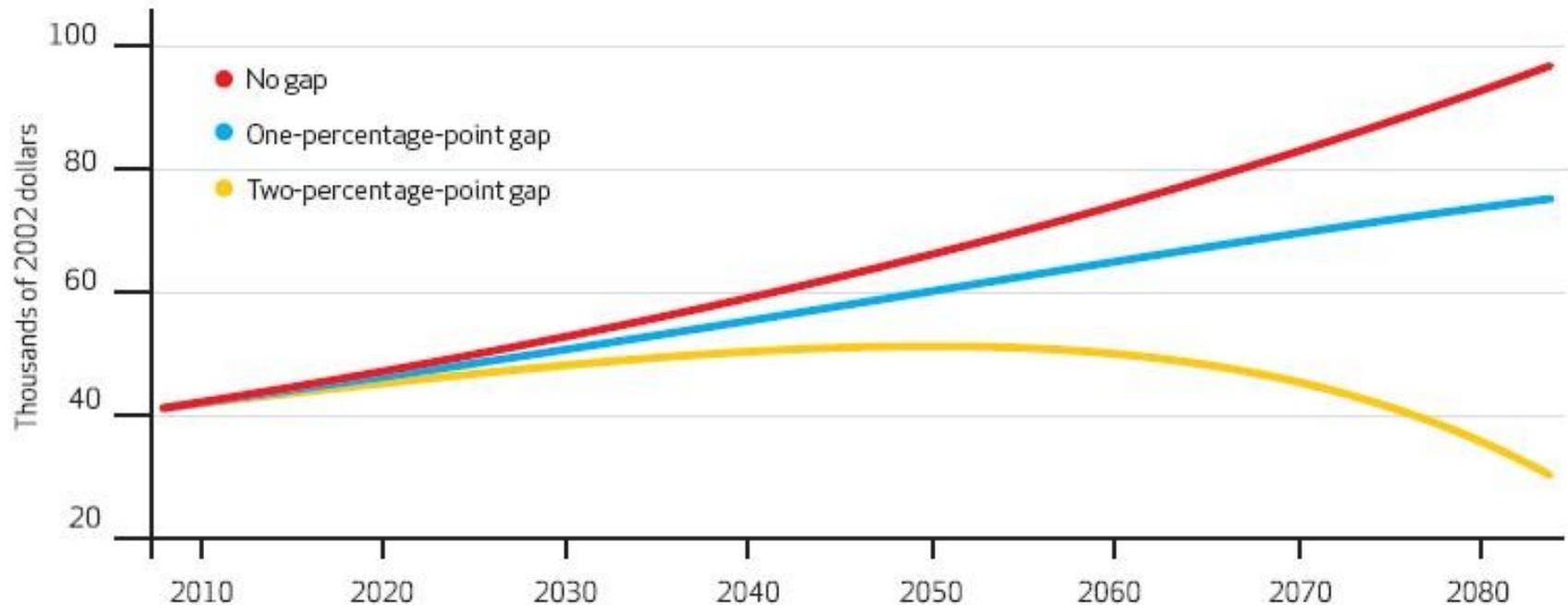
Note: Due to a change in methods, the cumulative changes in the average family premium are somewhat different from those reported in previous versions of the Kaiser/HRET Survey of Employer-Sponsored Health Benefits. See the Survey Design and Methods Section for more information, available at <http://www.kff.org/insurance/7936/index.cfm>.

—◆— Health Insurance Premiums
—■— Workers' Earnings
—▲— Overall Inflation

Source: [Kaiser Family Foundation](http://www.kff.org).

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



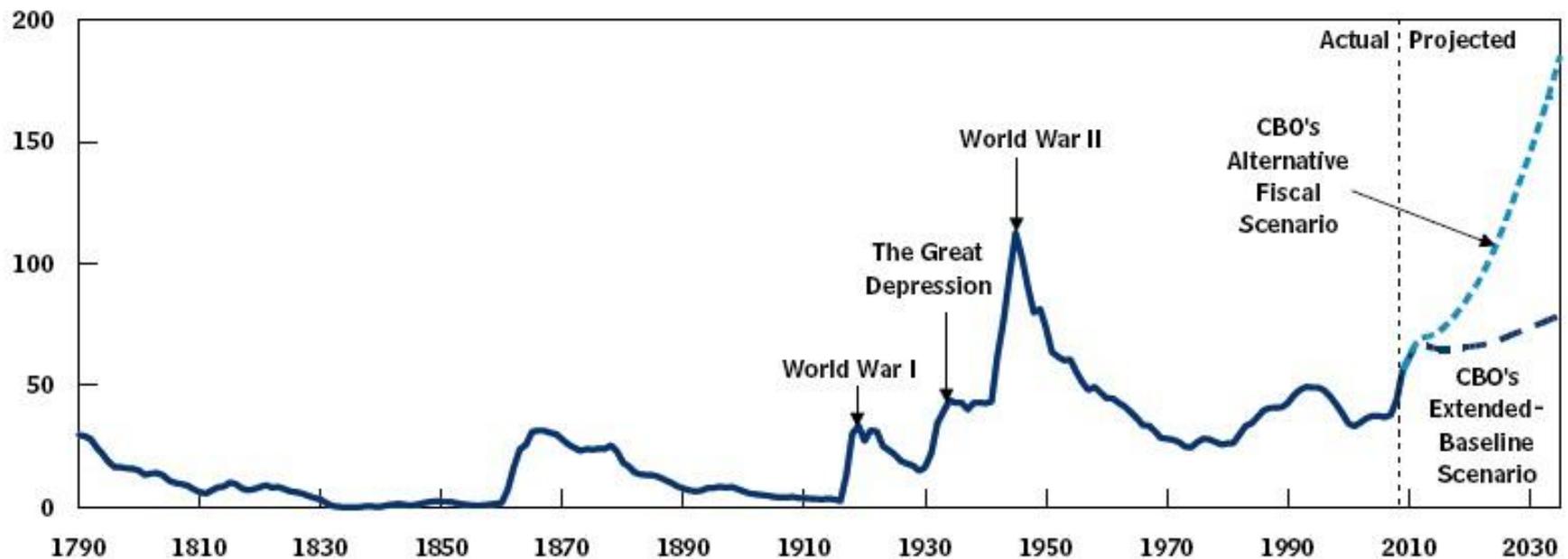
Source: [Joe Newhouse](#), Health Affairs, 7/22/10.

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

Taking on more debt not the answer

Federal Debt Held by the Public, 1790 to 2035

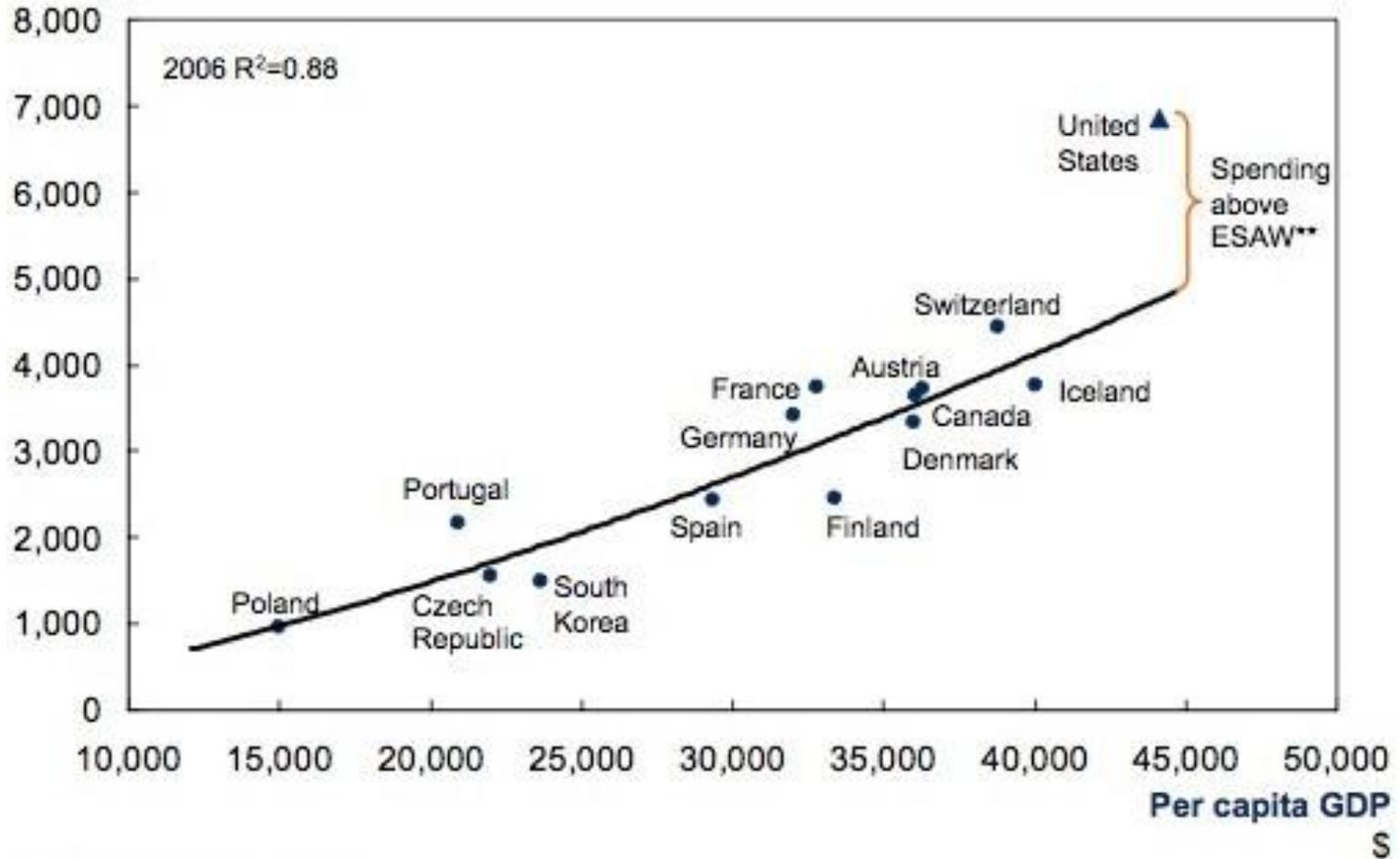
(Percentage of gross domestic product)



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

Way out of line

Per capita health care spending, 2006
\$ at PPP*

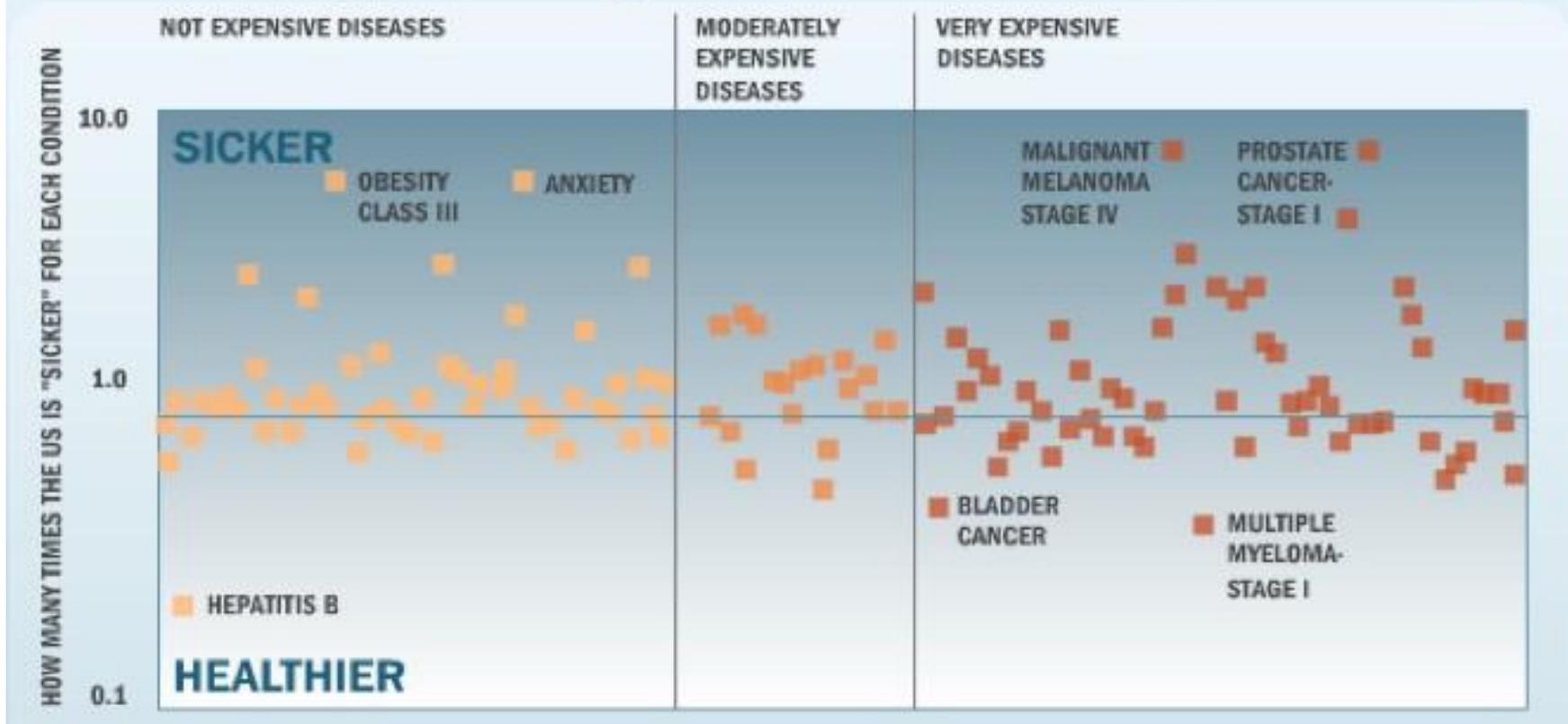


Source: OECD, via [McKinsey & Company](#), 11/08.

We're sicker

The United States has a slightly sicker population
...approximately \$25 billion in extra costs

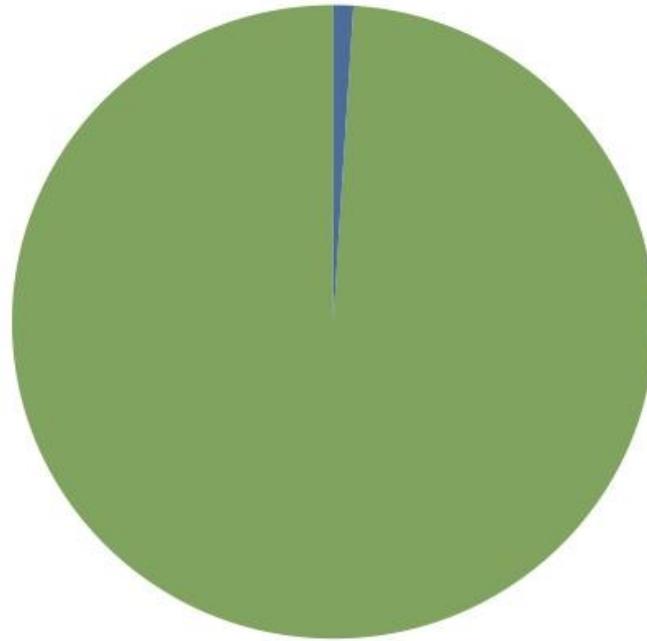
◀ BACK



Source: MEPS, Decision Resources, via [McKinsey & Company](#), 1/07.

But it doesn't explain spending

Health care spending in the US

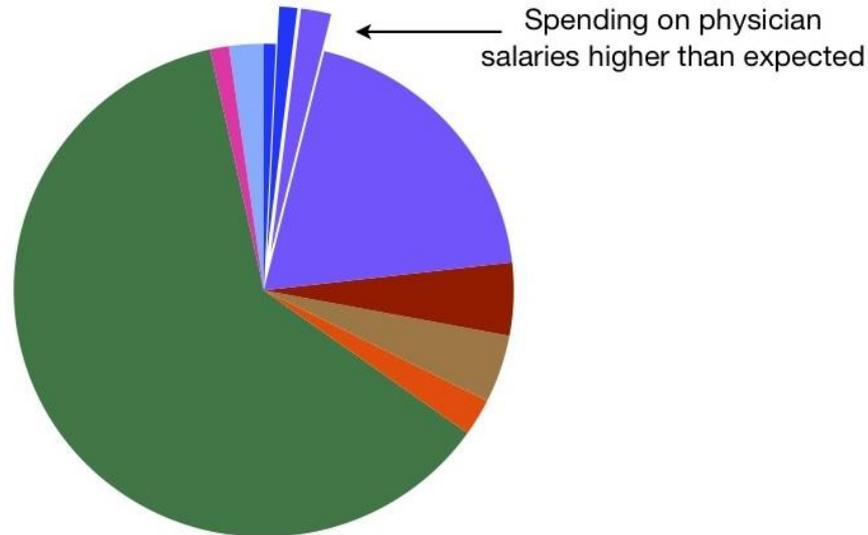


- Health care spending that can be blamed on disease prevalence
- Health care spending that can't

Source: [Aaron Carroll](#), The Incidental Economist, 9/10/10.

Excess spending: On what?

Where is the spending higher than you'd expect given our wealth?



- Spending on inpatient care higher than expected
- Spending on outpatient care higher than expected
- Spending on drugs higher than expected
- Spending on administration and insurance higher than expected
- Spending on investment in health higher than expected
- Remaining health care spending
- Spending We Can Blame on Disease Prevalence
- Spending We Can Blame on Defensive Medicine

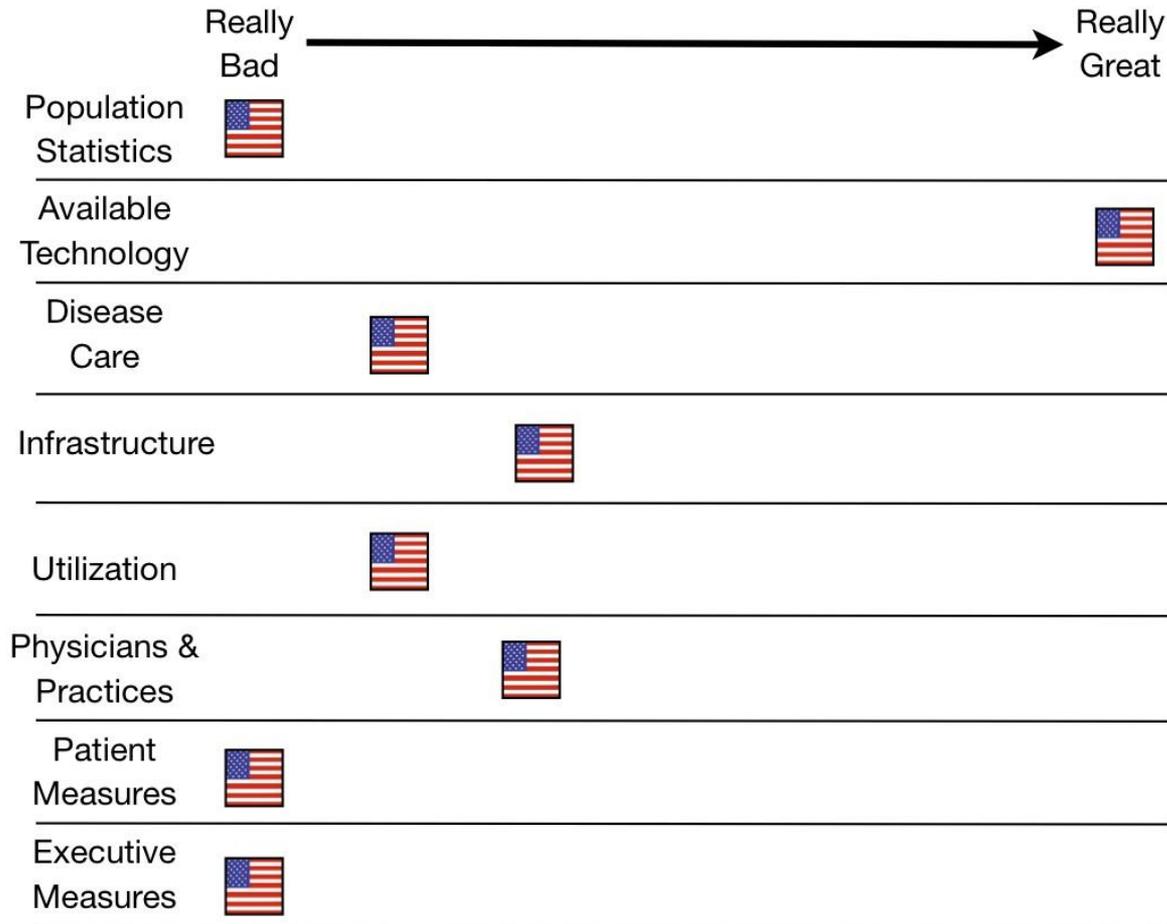
Source: [Aaron Carroll](#), The Incidental Economist, 10/1/10.

Superiority complex

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

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

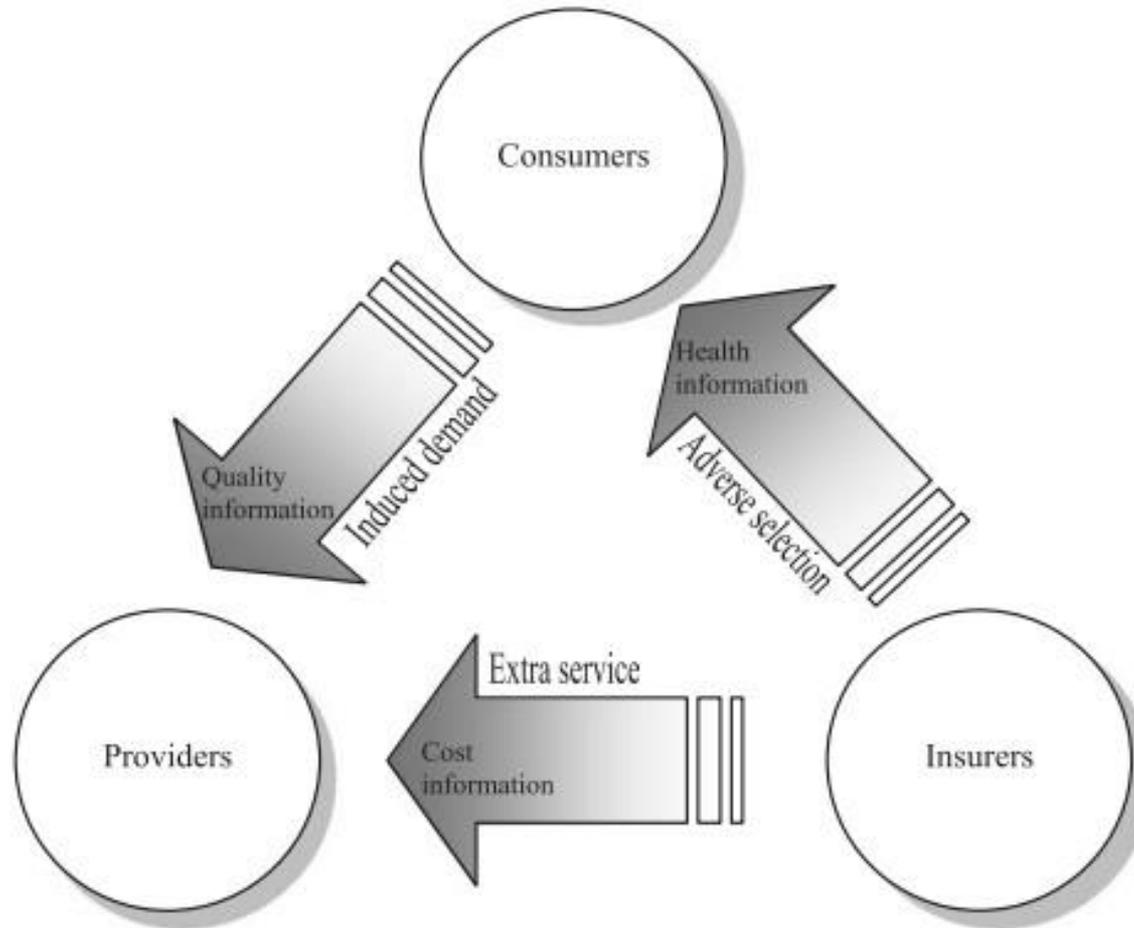
Focus (mostly) on costs

- 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

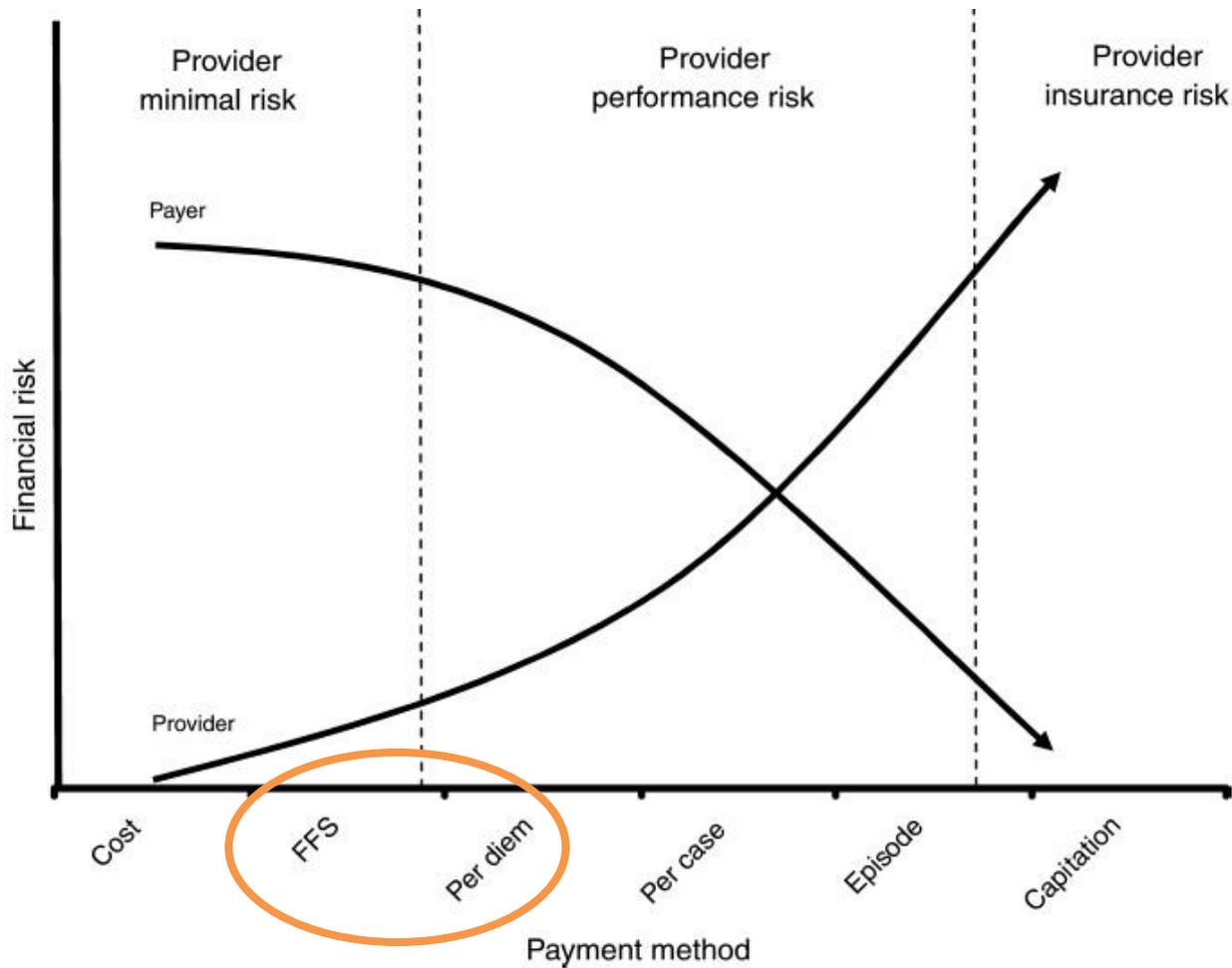


Source: [Wang et al.](#), Health Economics, 11/24/10.

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

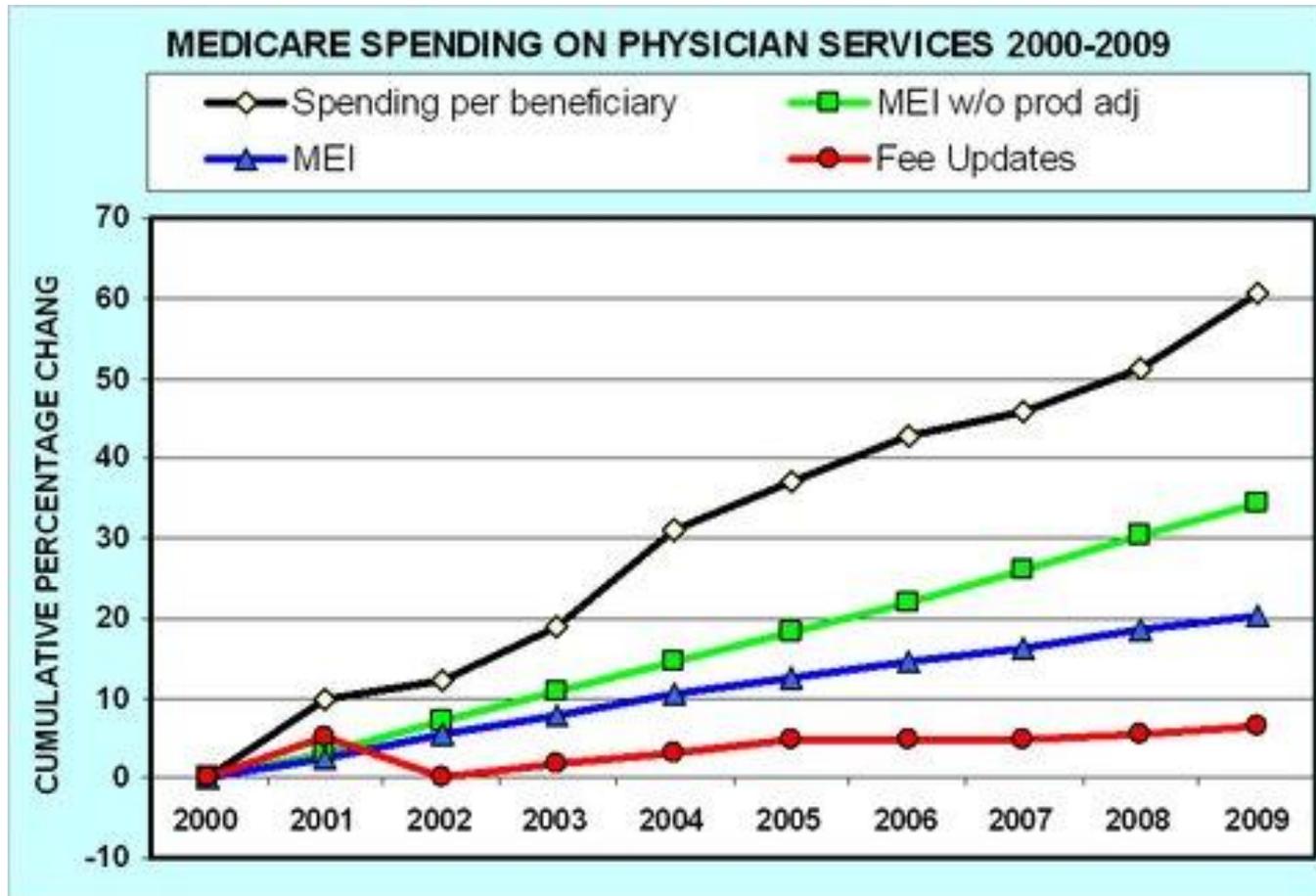
HOSPITAL PAYMENT TYPE	CLEVELAND	INDIANAPOLIS	LOS ANGELES	MIAMI-SOUTH FLORIDA
Per diem	48%	3%	84%	50%
Discounted Charges	18	62	10	24
Diagnosis Related Group	34	35	6	26

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

FFS

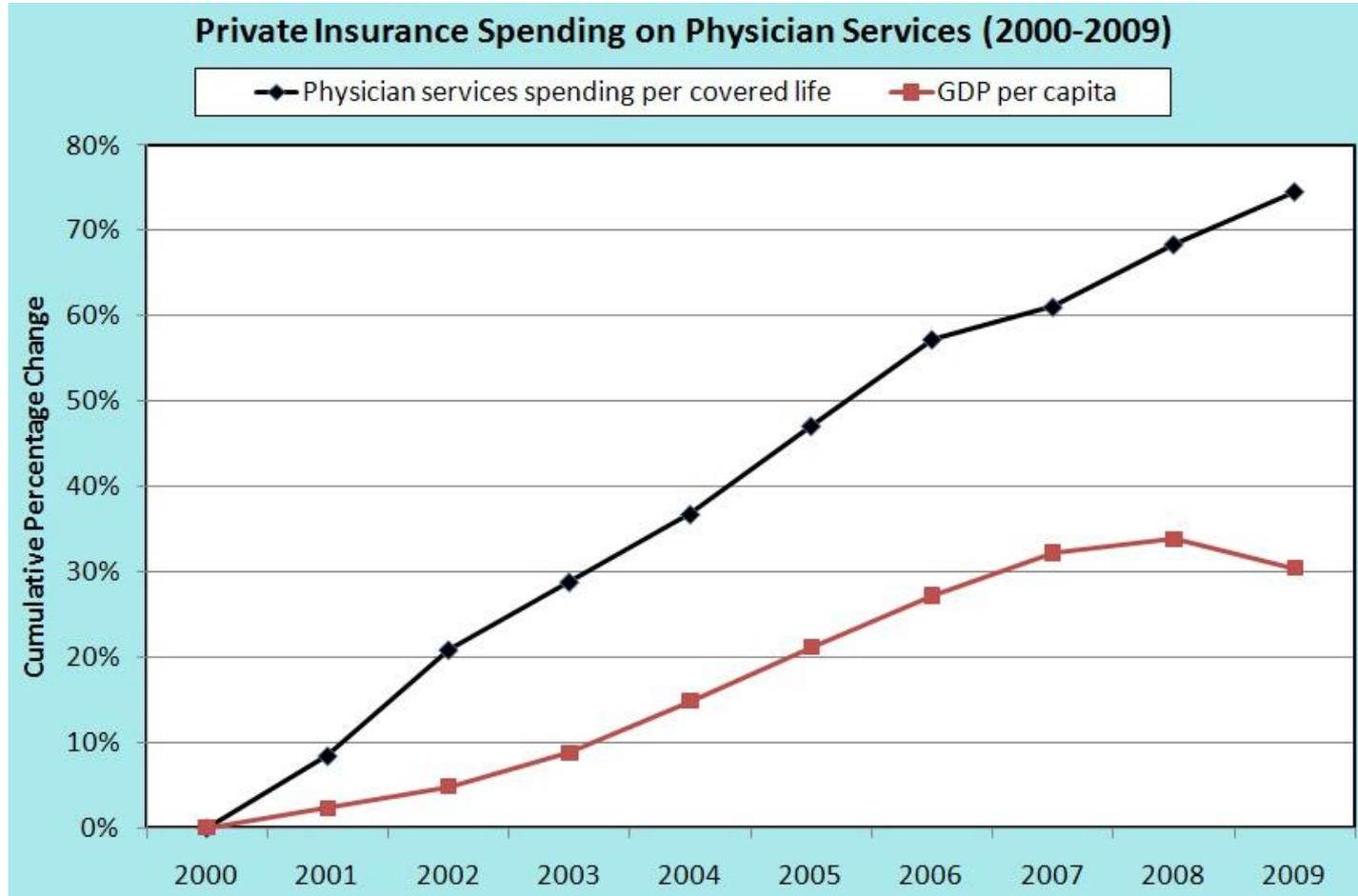
Source: [Paul Ginsberg](#), Center for Studying Health Systems Change, 11/10.

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

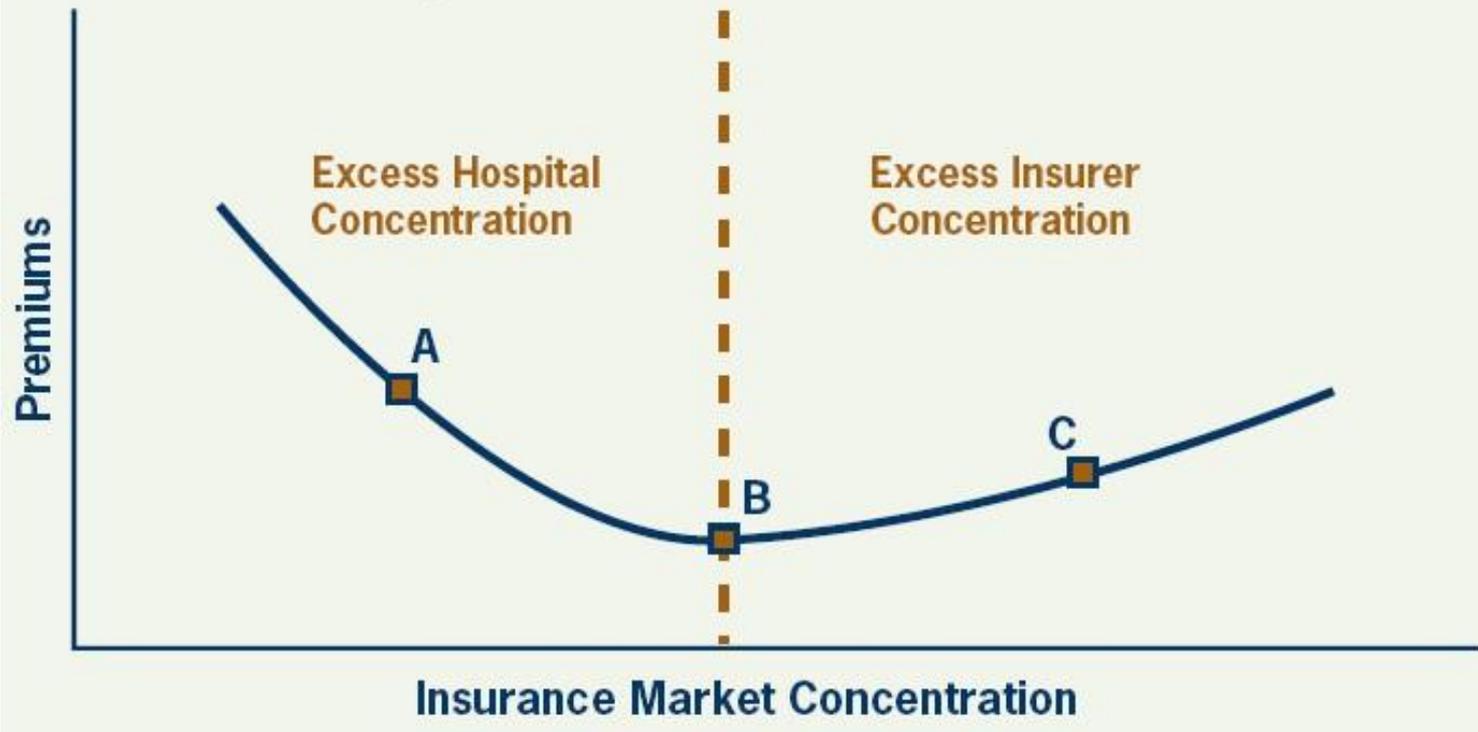
- The ability to negotiate a favorable price
 - Higher as a seller
 - Lower as a buyer
- Sources of market power:
 - Market concentration
 - Product differentiation
 - “Must-have” status
 - Capacity constraints

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

Figure 1. The Effect of Insurer Market Concentration on Health Insurance Premiums For a Fixed Level of Hospital Market Concentration



Source: [Austin Frakt](#), NIHCM, 11/10.

Anticipating ACOs

Delnor, Central DuPage Hospitals to merge

By Bruce Japsen

Posted **Ann Arbor's IHA finalizes merger with Saint Joseph**

Mercy Health System

**Private practice doctors: Another
Medicare casualty?**

Busy Month For Chicago Hospital M&A Activity

Written by Molly Gamble | December 20, 2010

Health organisations in the US will undergo a strategic makeover in 2011 as they react to the pressures from new rules and payment methods.

**Big medical merger on Staten Island signals a new
strategy in health care**

Published: Sunday, December 19, 2010, 7:42 AM

**Hospital Merger Mania: The
Rationale Is Market Power, Not
Healthcare Reform**

**Rush To Merge Doctors And
Consumers' Concerns**

Chicago Tribune

You are here: ChicagoTribune.com > Collections

**Wyoming Valley Health Care System acquires group
practices**

Hospitals jockey for position

Partnerships, expansions, renovations to accelerate as new law takes effect

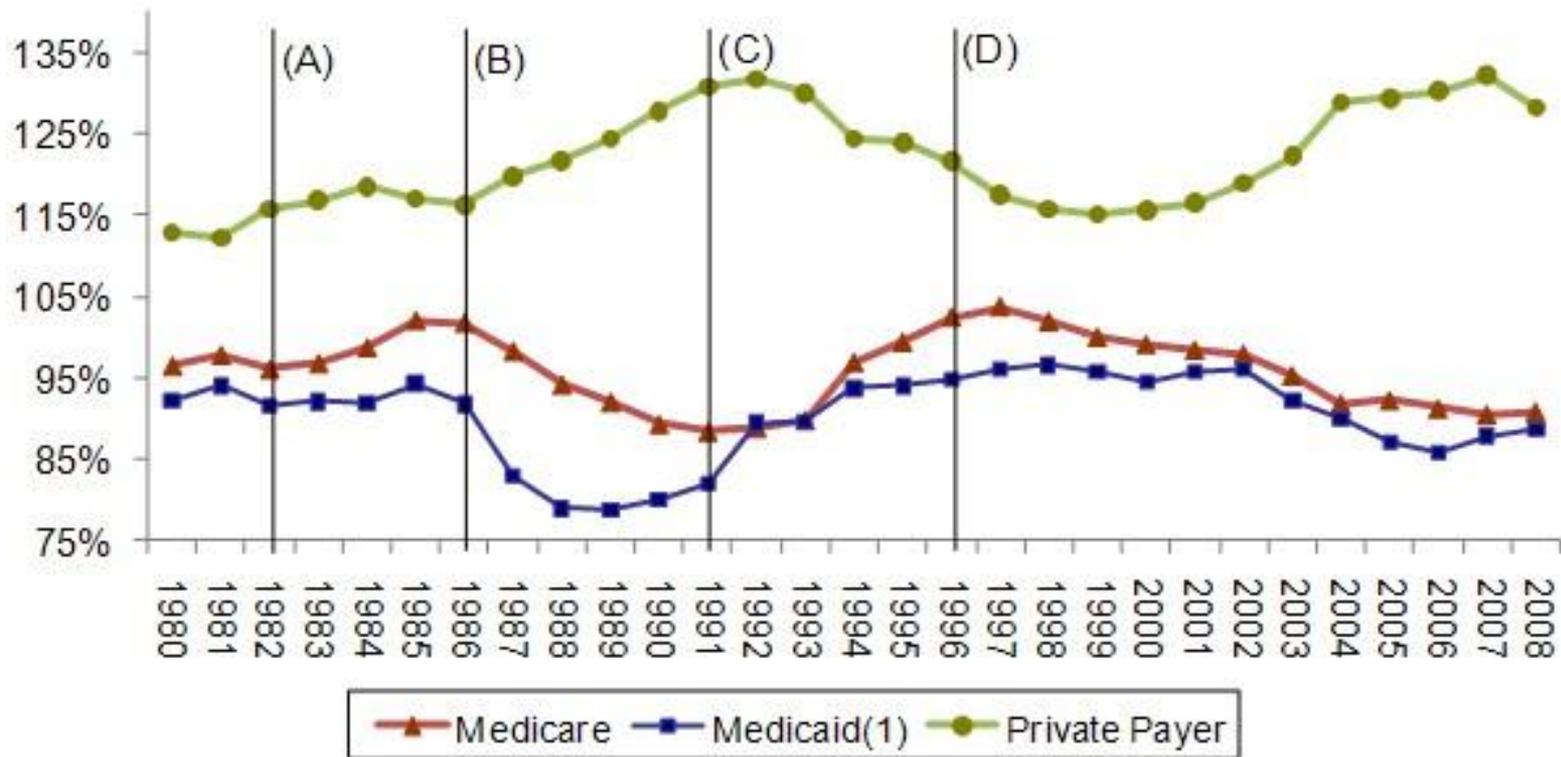
Mergers Among Hospitals And Doctors Spur Consumer Concerns, The NY Times Reports

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?

Aggregate Hospital Payment-to-Cost Ratios for Private Payers, Medicare, and Medicaid



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%)

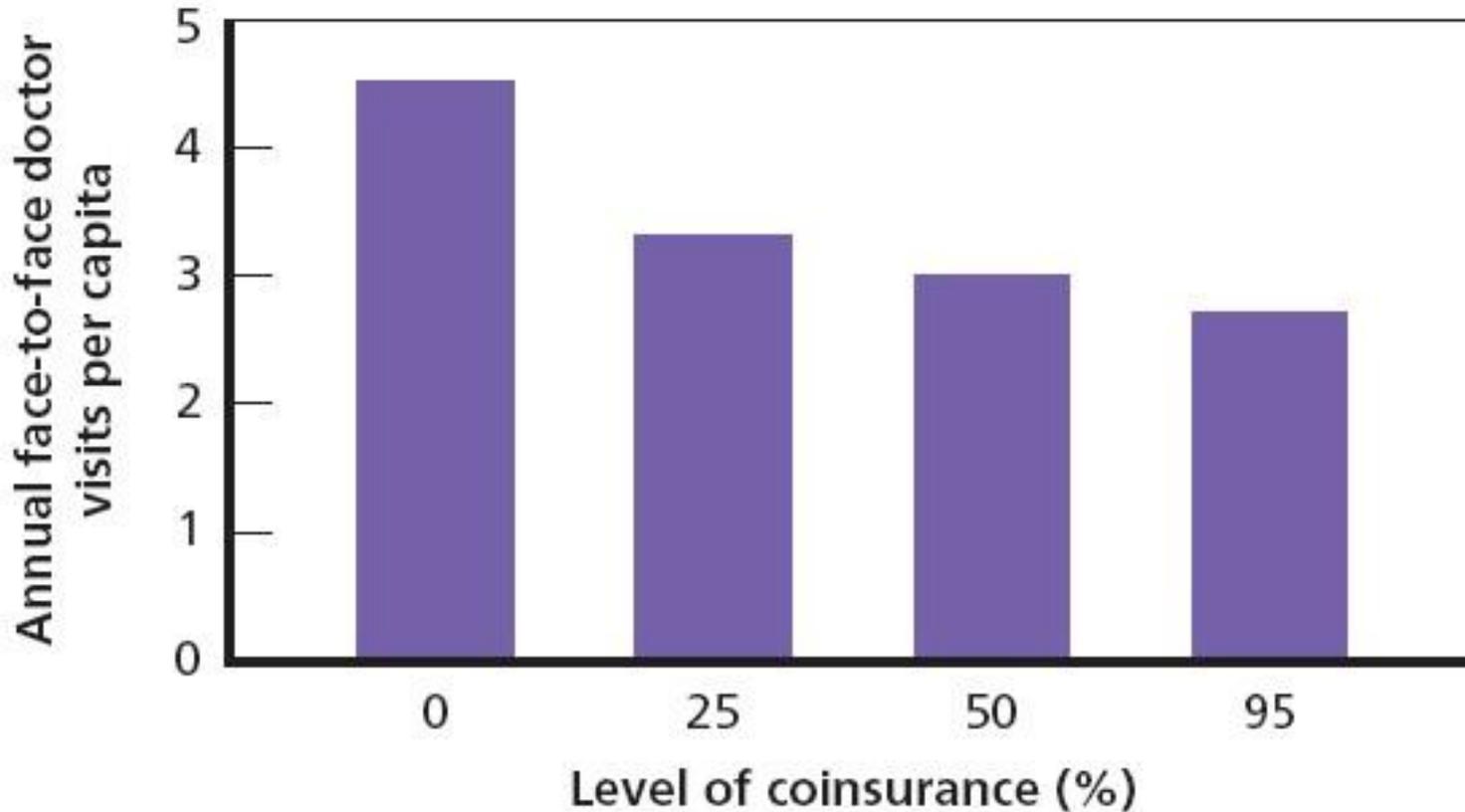
What's special about RAND HIE

- 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

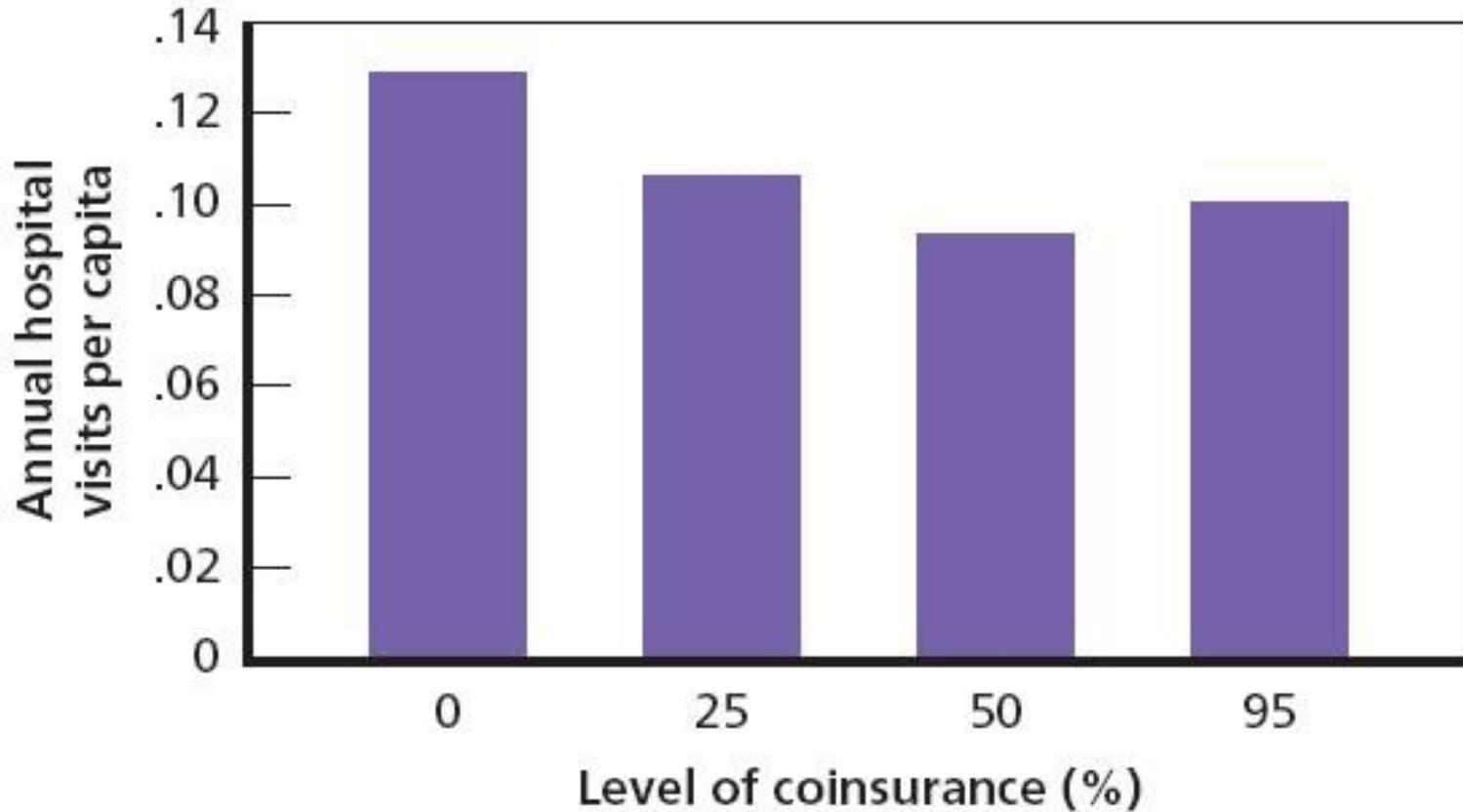
- How does cost sharing affect health care use?
- How does it affect appropriateness and quality of care?
- What are the health consequences?

RAND HIE: Doctor visits



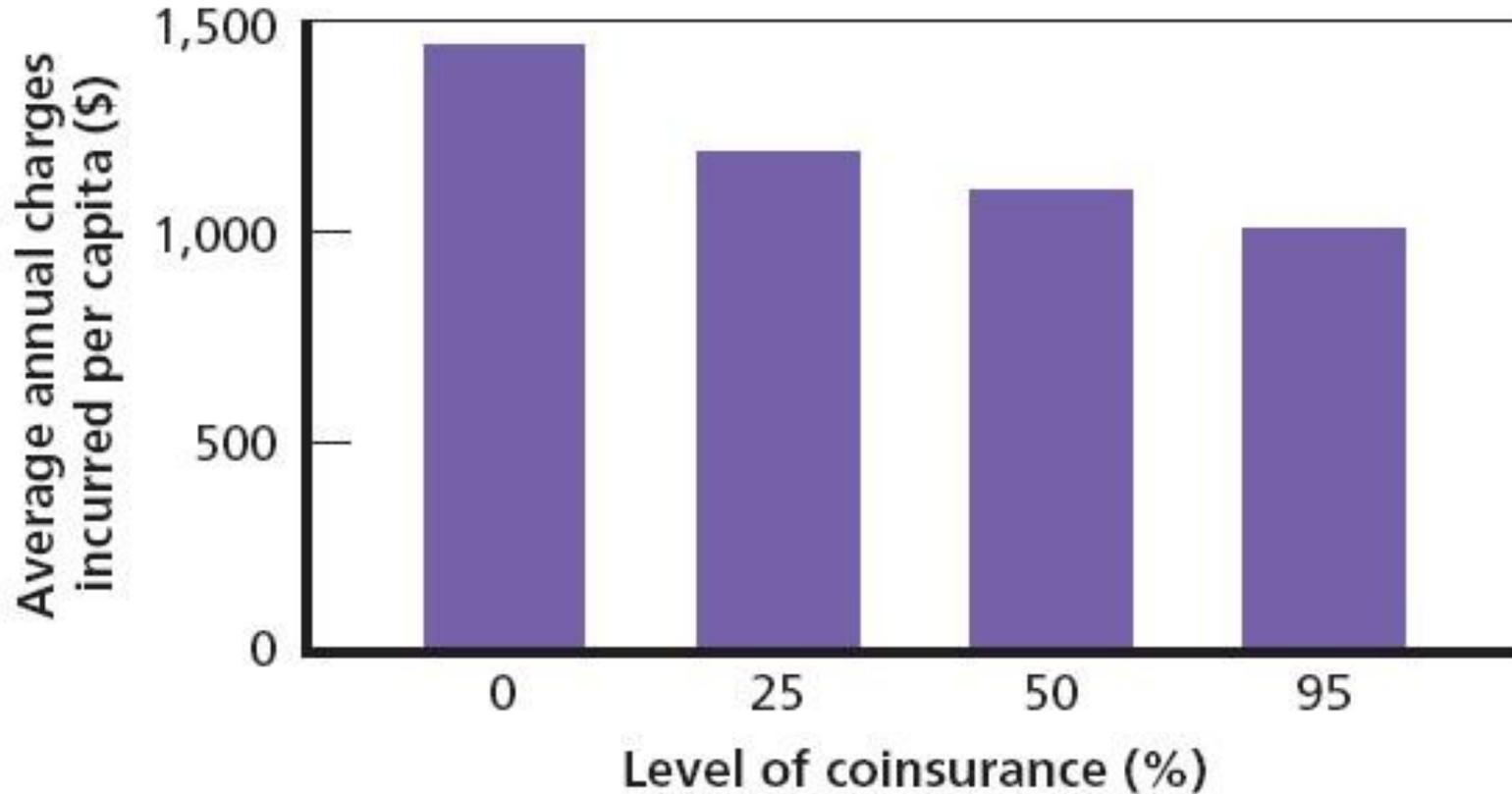
Source: [RAND](#), 2006.

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?

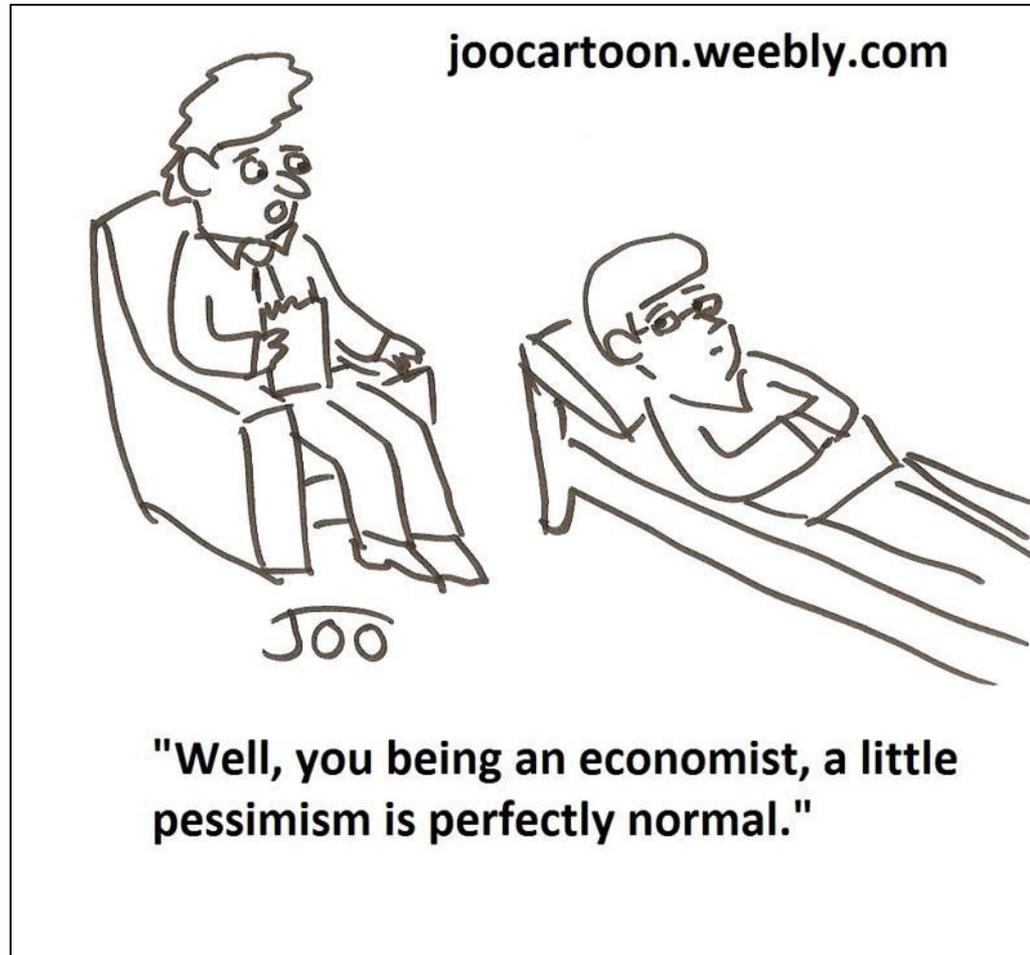
There's so much more!

- 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](#).