Bending the HealthCare Cost Curve: Challenges and Opportunities

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Also see Background Chart Pack - Online

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Confronting Cost while Improving Access and Health Outcomes

• US highest costs in the world
  – Yet, often poor access and quality/safety concerns
  – Rising prices, not use, have driven spending increases
  – Evidence of wasteful spending & high administrative costs

• Costs a shared concern
  – Despite 4 years of slow growth, up faster than income
  – Projected to accelerate without targeted policies

• Potential for State action
  – Purchasers; Market oversight; and Regulatory authority
  – Opportunities and examples

• Aim: Lower costs with better access & outcomes
National Health Expenditures by Source Actual and Projected to 2025

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal government</th>
<th>State and local government</th>
<th>Private employers (+ other private)</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>27%</td>
<td>16%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>2012</td>
<td>26%</td>
<td>17%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>2014</td>
<td>28%</td>
<td>17%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>2025</td>
<td>30%</td>
<td>17%</td>
<td>25%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Projected $5.6 Trillion

Note: GDP = gross domestic product. Source: Centers for Medicare and Medicaid Services, Office of the Actuary. Historic and projected National Health Expenditure data as of July 2016. Table 16.
# U.S. Prices Higher: Total Hospital and Physician Costs, Selected Countries, 2012

<table>
<thead>
<tr>
<th>US Dollars</th>
<th>AUS</th>
<th>FRA</th>
<th>NETH</th>
<th>NZ</th>
<th>SPA</th>
<th>SWIZ</th>
<th>UK</th>
<th>US (avg)</th>
<th>US (95th %ile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendectomy</td>
<td>$5,467</td>
<td>$4,463</td>
<td>$4,498</td>
<td>$5,392</td>
<td>$2,245</td>
<td>$4,782</td>
<td>$3,408</td>
<td>$13,851</td>
<td>$28,426</td>
</tr>
<tr>
<td>Hip Replacement</td>
<td>27,810</td>
<td>10,927</td>
<td>11,187</td>
<td>14,390</td>
<td>7,731</td>
<td>9,574</td>
<td>11,889</td>
<td>40,364</td>
<td>87,987</td>
</tr>
<tr>
<td>Bypass Surgery</td>
<td>43,230</td>
<td>22,844</td>
<td>14,061</td>
<td>26,432</td>
<td>17,437</td>
<td>17,729</td>
<td>14,117</td>
<td>73,420</td>
<td>150,515</td>
</tr>
</tbody>
</table>

US High Administrative Costs
Insurance and Providers

- Insurance overhead adds at least $100 billion per year*

- Billions more in provider administrative costs
  - Variation benefits, payment, reporting
  - Time and people expense for doctors and hospitals


Spending on Health Insurance Administration per Capita, 2011

Source: 2013 OECD Health Data (June 2013)
Medicare and Employer Health Spending Per Beneficiary

Total Medicare Spending Per Beneficiary, 2011

Total Private Spending Per Beneficiary, 2011

Correlation of Public and Private Total Spending Per Beneficiary: 0.140

Note: Data on Medicare from the Dartmouth Atlas. Spending on private enrollees includes all inpatient, outpatient, and physician claims. HCCI data.
Colonoscopy facility prices 3-6 fold variation within markets

Denver, CO
Min/Max Ratio: 3.33
Gini: 0.199
CoV: 0.370

Atlanta, GA
Min/Max Ratio: 5.76
Gini: 0.232
CoV: 0.449

Manhattan, NY
Min/Max Ratio: 3.50
Gini: 0.186
CoV: 0.406

Columbus, OH
Min/Max Ratio: 4.50
Gini: 0.230
CoV: 0.441

Philadelphia, PA
Min/Max Ratio: 5.03
Gini: 0.180
CoV: 0.339

Houston, TX
Min/Max Ratio: 4.41
Gini: 0.159
CoV: 0.320

Note: Each column is a hospital. Prices are regression-adjusted, measured from 2008 – 2011, and presented in 2011 dollars. © Cooper, Craig, Gaynor, and Van Reenen
Confronting Costs

- Excess prices
- Broad evidence of waste and inefficiency
- Poorly coordinated, duplicative, unsafe care
- Administrative complexity =
  - Overhead costs for providers
  - Paperwork, time, hassle for patients
Wide Spectrum of Potential Targeted State Actions

Insurance Design
- Value-based cost-sharing design
- Narrow networks
- Consumer protection: surprise bills

Market reforms
- Transparency
- Anti-trust: market power
- Multi-payer
  - Administrative costs
  - Payment rates+
- Licensure
- Convene to collaborate

Purchasing Power
- Bundled payment with accountability
- Medicaid
- Public employee health plans
- Multi-payer initiatives
Community Care of North Carolina

Multiple Models of “Medical Homes” and Teams

Cambridge Health Alliance

GroupHealth

JOHNS HOPKINS

GUIDED

CARE

DENVER

HEALTH

Level One Care for ALL

Legend
- AccessCare Network Sites
- AccessCare Network Counties
- Access II Care of Western North Carolina
- Access III of Lower Cape Fear

Massachusetts General Hospital

Partners Healthcare

Alaska Native Medical Center
Examples Bundled Payment Initiatives

Where: Arkansas

What’s New: Medicaid and state’s two largest private insurers pay per “episode of care”

• Incentive for better quality at lower costs

What’s New: Medicare bundled payment demonstrations; Mandatory for hip/knee joint in 67 metro areas April 2016

Examples: Albuquerque, Oklahoma City, Tulsa, San Antonio

• Bundled payment for hospital and physician services for inpatient orthopedic and cardiovascular procedures

• Share savings with providers and beneficiaries
States with State Innovation Model (SIM) Testing Awards (17) as of 2014

Source: CMS https://innovation.cms.gov/initiatives/state-innovations/
Focus on High-Cost Patients - Care Continuum

Sickest 10% of United States account for two-thirds of total costs

Distribution of health expenditures for the U.S. population, by magnitude of expenditure, 2009

U.S. population

Health expenditures

Annual mean expenditure

$90,061

$40,682

$26,767

$7,978

Source: Agency for Healthcare Research and Quality analysis of 2009 Medical Expenditure Panel Survey.
States Can Contribute to Bending the Cost Curve with Better Health Care and Health

- Market-wide policies
  - Address market power and prices
  - Oversight providers and insurers
    - Licensure, anti-trust, other regulatory authority
- Leverage own purchasing power
- Partner with other payers, including Medicare
  - Standardize to reduce administrative costs
- Support transparency and information systems
- Combine public health and care system innovation
- Convene and build consensus
For Further Information


- Commonwealth Fund Scorecards
  - State Scorecard, 2015, Released Dec 2015.

- CMS Tracking Federally Supported Initiatives and Medicare
  - Medicare bundled payments and primary care
  - State innovations: https://innovation.cms.gov/initiatives/State-Innovations/