

United States is Number 1

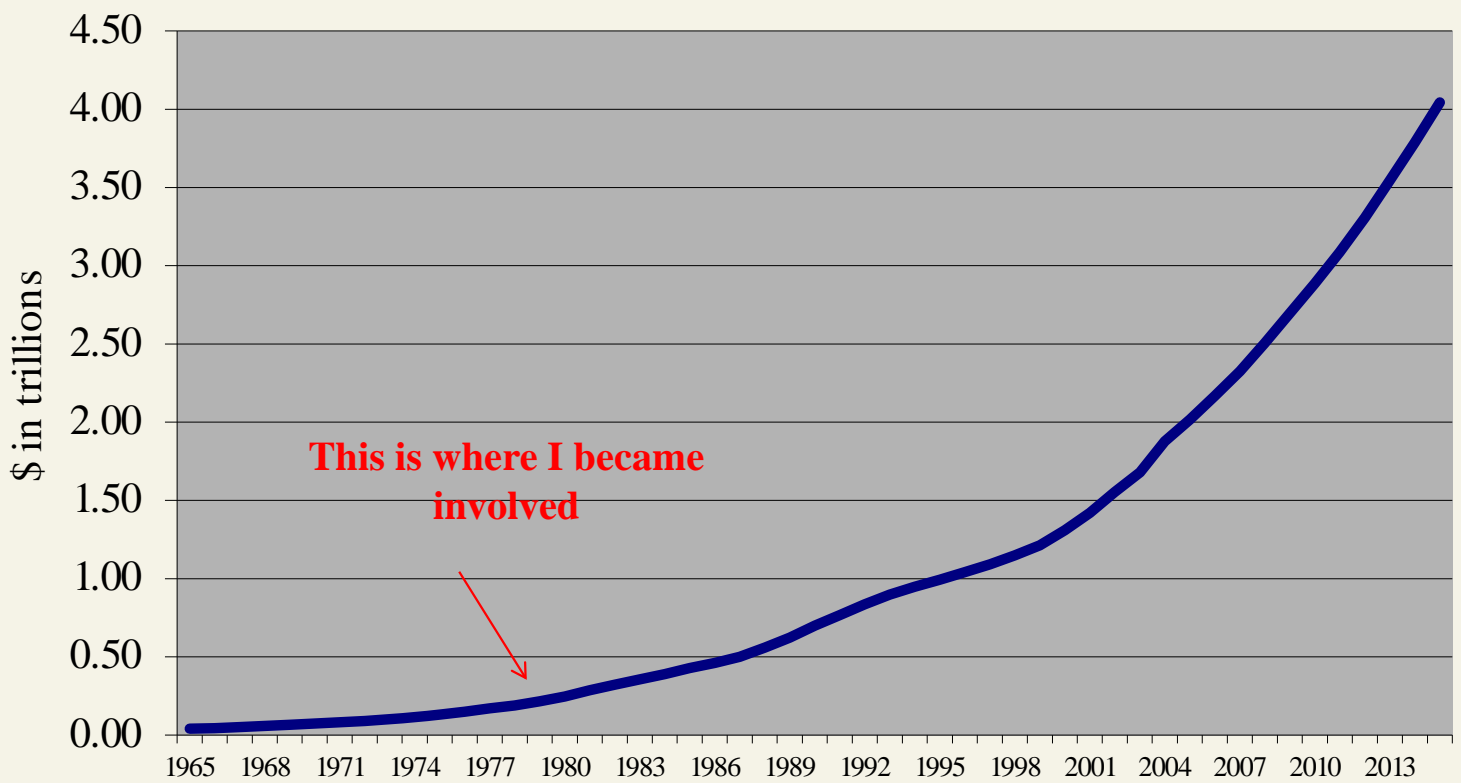
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Lets begin with a quote from the
new testament

**"So the last will be first,
and the first will be
last."**

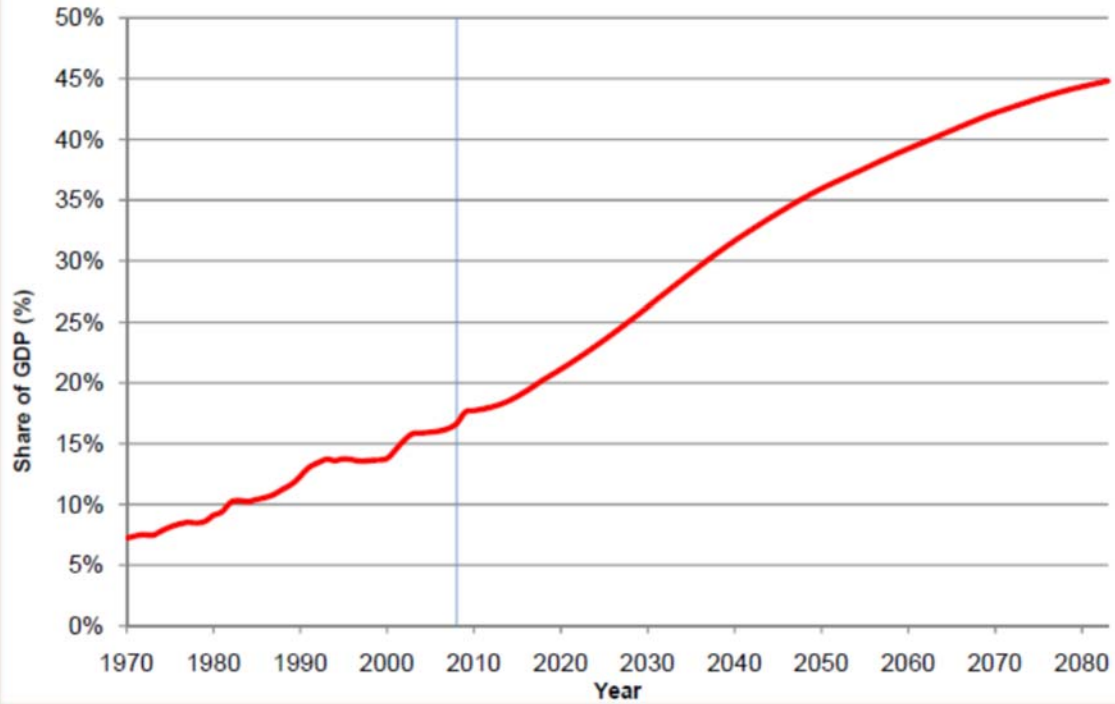
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U.S. Healthcare Spending, 1965-2015



Long Term Spending Projections

**Chart 4 - National Health Expenditures (NHE) as a Percentage Share of GDP
1970-2083**



Who Cares About Spiraling Health Care Costs?

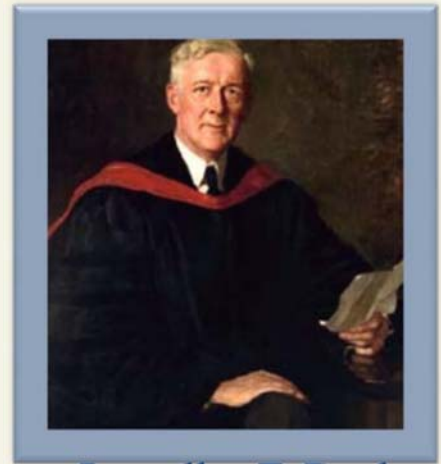
- The US has been number 1 in health spending since 1960 (maybe before)
- It is a major topic of political conversation and lots of academic inquiry in US
- And yet the US remains Number 1 on nearly all health spending indicators
- **WHY?**

Committee of Five

- The AMA established a 5 person committee in 1926 designed to investigate and attempt to solve the organizational problems leading to the rising level of spending for medical care.

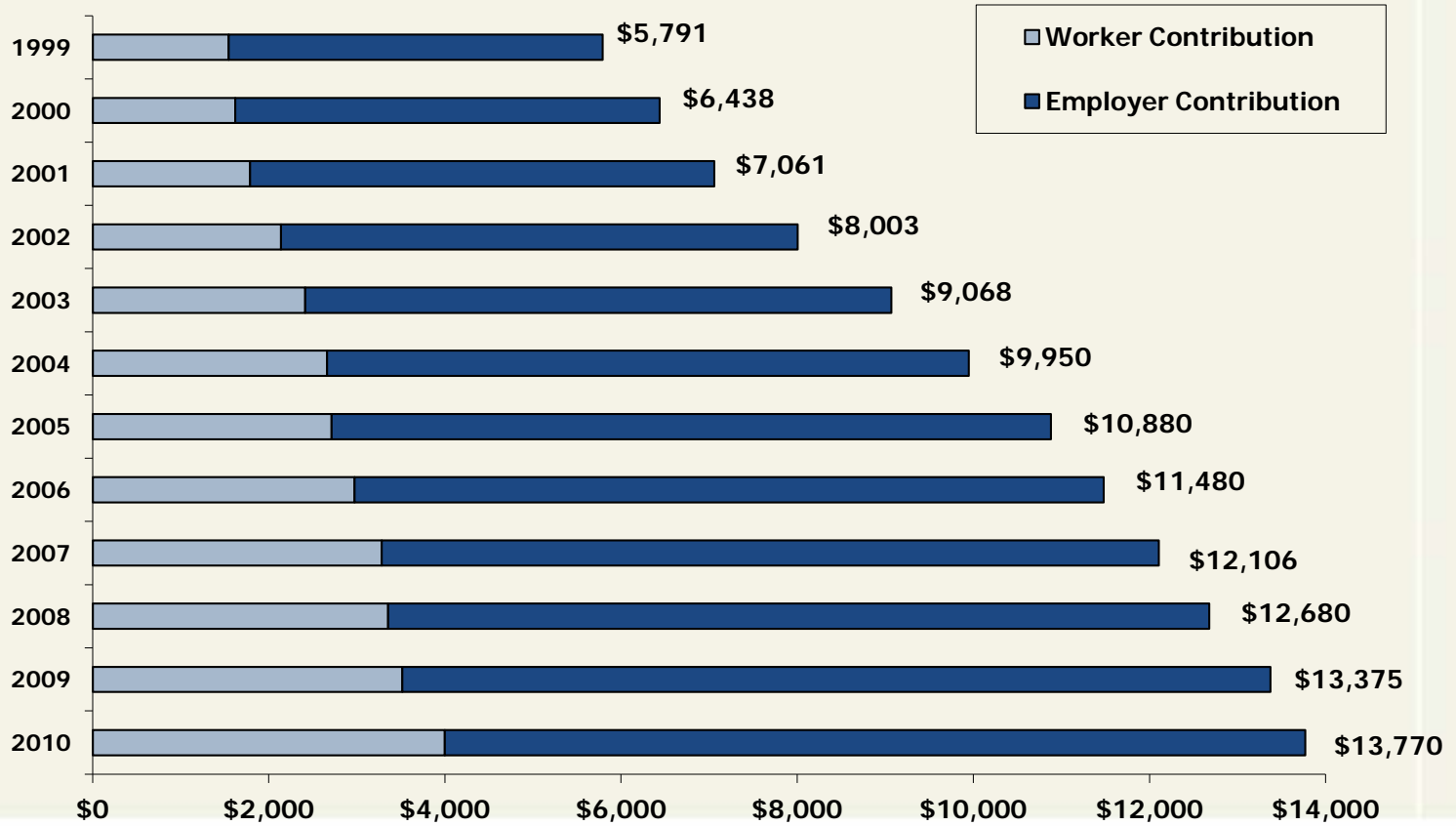


Winford H. Smith
Director of Johns Hopkins
Hospital



Lewellys F. Barker
Johns Hopkins Medical
School

Premiums for Workers with Family Coverage



No Free Lunch

- Employers care about total compensation (take home wages plus fringe benefits)
- Fringe benefits are an ever increasing component of total compensation
- Therefore most people should care about how much health insurance costs

The problem is that most people don't really care

- Conflict of interest - at 18% of gross domestic product (GDP) many people (or family members) are working in health care industries
- Hard to make a convincing argument to the public that we are spending too much on health care
 - People value health care
 - People do not understand why it is so expensive
 - People do not pay for most services directly
- Not a groundswell of public opinion about health spending

Private Industry

- Private industry complains about health care spending, but most Fortune 500 companies have a large health care component
- Of the top 25 Fortune companies, 18 have a substantial interest in healthcare.
 - E.g. General Electric
 - 4 are solely health care companies
 - The 7 others are auto, oil companies, and Freddie Mac and Sallie Mae
- Not surprising that many companies have not been pushing cost containment

Unions

- Union members care - Most of the recent increases in employee compensation have gone to health insurance premiums and not for wages
- However, what is cost containment to one person is a job to another.
- Second largest union is Service Employees International Union (mostly health care workers)



Private Health Insurers

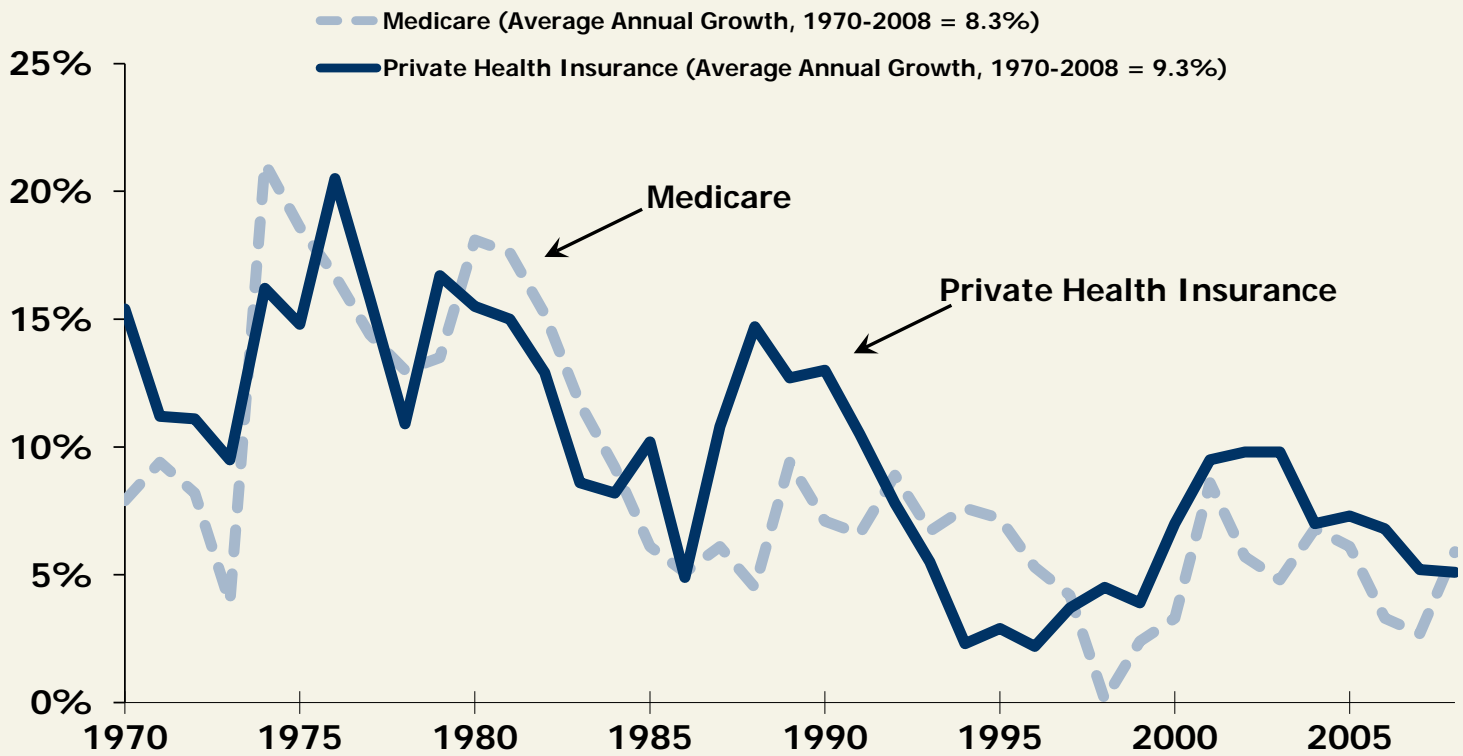
- Many insurers are paid administrative services only and so have little concern about cost containment
 - In fact, the higher the costs the higher the administrative services fee
- Conflict of interest - Most private insurers want to insure hospitals and other providers and so they cannot negotiate too aggressively with the provider community or they will lose their insurance business

Competition Among Health Insurers

- The market works when there is competition
- The three largest private health insurers in US are United HealthCare, WellPoint and Aetna. What is the difference between them?
- Now what is the difference between McDonalds and Burger King?

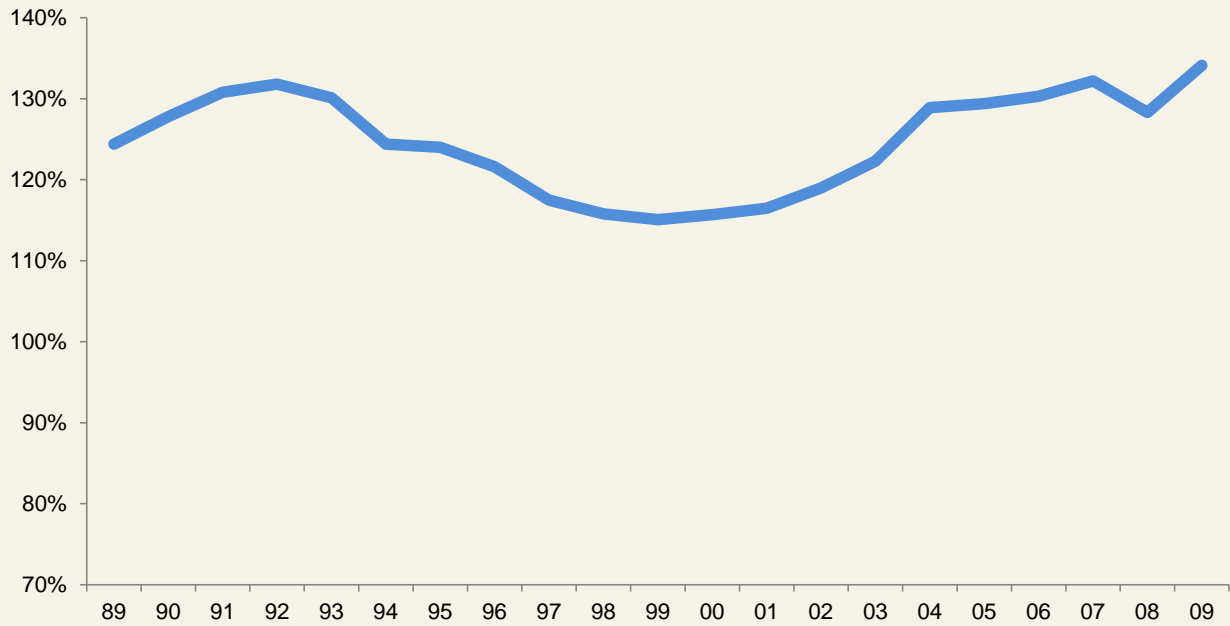
Private Insurers Per Capita Spending Slightly Increased Faster Than Medicare from 1970-2008

Annual Growth Rate:



SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group, 2010.

Private insurers pay 30% MORE than Medicare for hospital and physician care and have much higher administrative costs



Source: American Hospital Association Annual Survey data, 2009, for community hospitals.

Federal Government

- Much ado about nothing for many years
- Strong philosophical differences between parties
 - Republicans – competition and patients
 - Democrats – regulation and providers
- Obama – wanted enough savings to pay for ACA benefit expansion - not more
- Ryan – nothing substantial for many years
- Both Obama and Ryan have same short term savings from Medicare in their budgets

Will Health Reform Save Any Money?

- Yes, according to CBO – \$210 billion in federal deficit reduction between 2012 and 2021 (March 30, 2011)
- Some of these so called savings are actually tax increases on Medicare

Where will the actual spending reductions occur?

Reducing Medicare Advantage Differential

- Before health reform, managed care plans were paid 13% more than traditional fee for service Medicare
 - 13% was provided as inducement to create competition to traditional fee for service Medicare
- Health reform eliminates this differential over several years
 - Will produce an estimated \$132 billion in savings over 10 years
 - Not really savings but return to base line amounts.



IPAB: Independent Payment Advisory Board

- 15 Member Board will propose ways to control rate of increase in Medicare spending beginning in 2014
- Prohibited from altering Medicare benefit design
- Will do so primarily by limiting provider rates
- Expected savings - \$15 billion
 - Mostly from MDs, drug companies, and home health
- Medicare only- Does not address private sector
- No members have been appointed

Medicare Innovations Center

- Provides \$10 billion over 10 years for pilot programs that will work within Medicare, state Medicaid, and SCHIP programs
- Best opportunity for hospitals and MDs to recommend alternatives that will lower spending and improve outcomes
- ACO rules could save \$.5 to 1 billion

"For too long, health care in the United States has been fragmented - failing to meet patients' basic needs, and leaving both patients and providers frustrated. The Innovation Center will help change this trend by identifying, supporting, and evaluating models of care that both improve the quality of care patients receive and lower costs."

--Donald Berwick, CMS
Administrator

Accountable Care Organizations

- Entities like Johns Hopkins are able to devise a plan for a community that results in lower utilization and therefore less spending per person
- Johns Hopkins and Medicare share in the savings if per person spending is lower than expected
- Rationale is that both Johns Hopkins and Medicare will benefit if spending is reduced
- Fatal flaw in logic
 - If Johns Hopkins reduces utilization by 10% then it only gets to keep 5% if savings are shared equally
 - However, if it does not control utilization then it get all 10%

Other Cost-Containment Components

- Patient-Centered Outcomes Research Institute (PCORI)
- Electronic Medical Records
- “Cadillac tax” on health insurance benefits
- Administrative savings
- Reduced fraud and abuse

Most are expected to have small savings at least over the next 10 years



Some of the Policy Options Being Discussed

- Malpractice reform
- Comparative effectiveness
- End of life care
- Consumer cost-sharing
- Purchasing insurance across state lines
- Coverage limitations
- Defined contributions

Defined Contribution or Undefined Benefits



"I'll have someone come in and prep you for the bill."

- The Ryan plan indexes the voucher to increase at $GDP+0.5\%$ per year
- Much less than $GDP+2.5\%$ it has been rising
- By 2030, a defined contribution would pay only 32% of 65 year old health care costs according to CBO if spending increases remained at current levels

Follow the Money: Who is Responsible For The Most Health Spending in the US?

- People with multiple chronic diseases are responsible for 60 percent of all health care spending and often have the worst clinical outcomes
- Need to transform the health care system to meet the needs of this population
 - Research
 - Education
 - Payment systems
 - Delivery systems
 - Quality metrics

Prices

- The US typically pays the highest prices for
 - Brand name drugs
 - Hospital services
 - Physician services
 - Etc
- Problem is that our fragmented insurance system makes it difficult to obtain lower prices

Looking Forward

We will remain Number 1