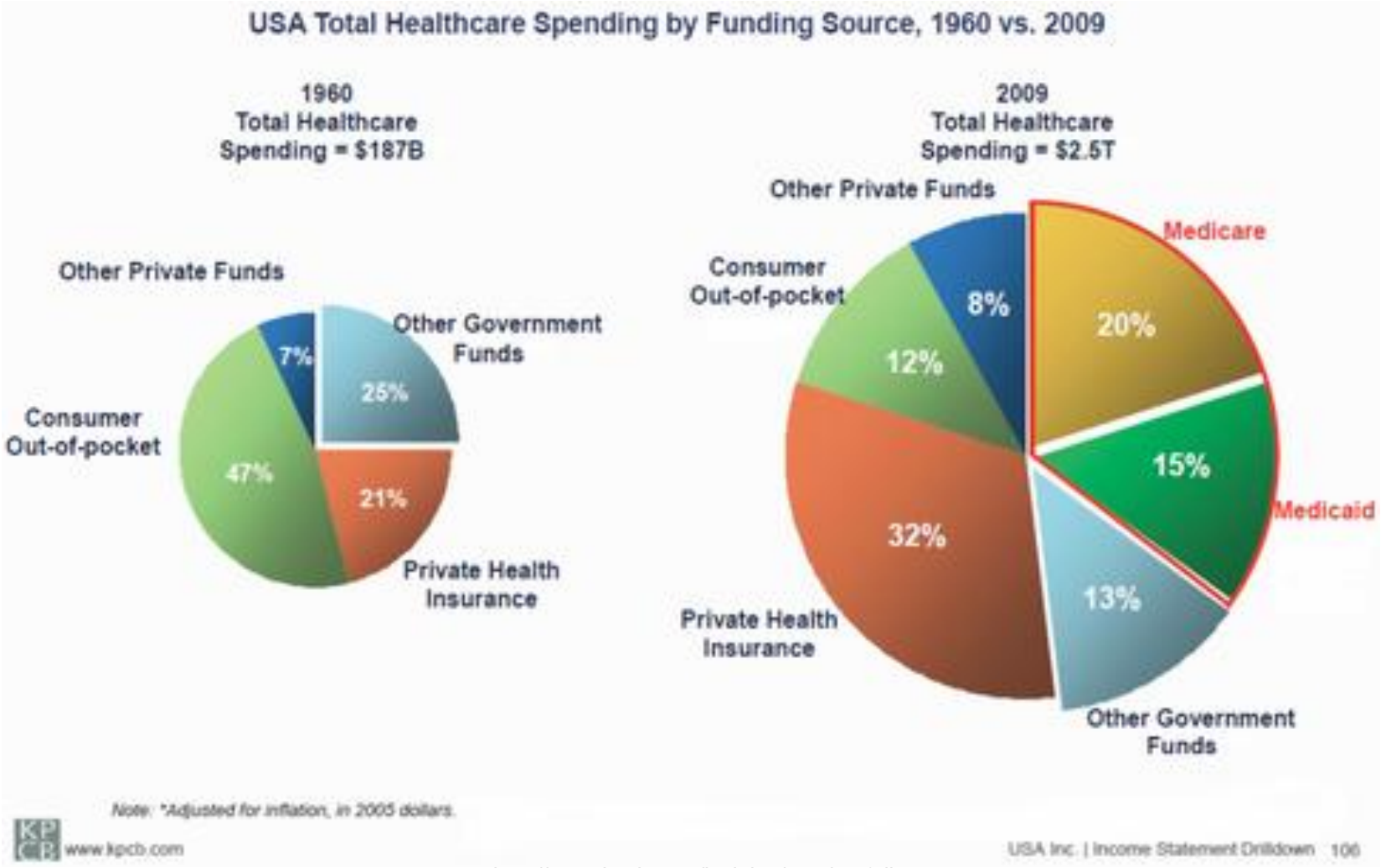
Health Care Forum

State Representative Tom Conroy

February 1, 2012

Historical Health Care Cost Growth

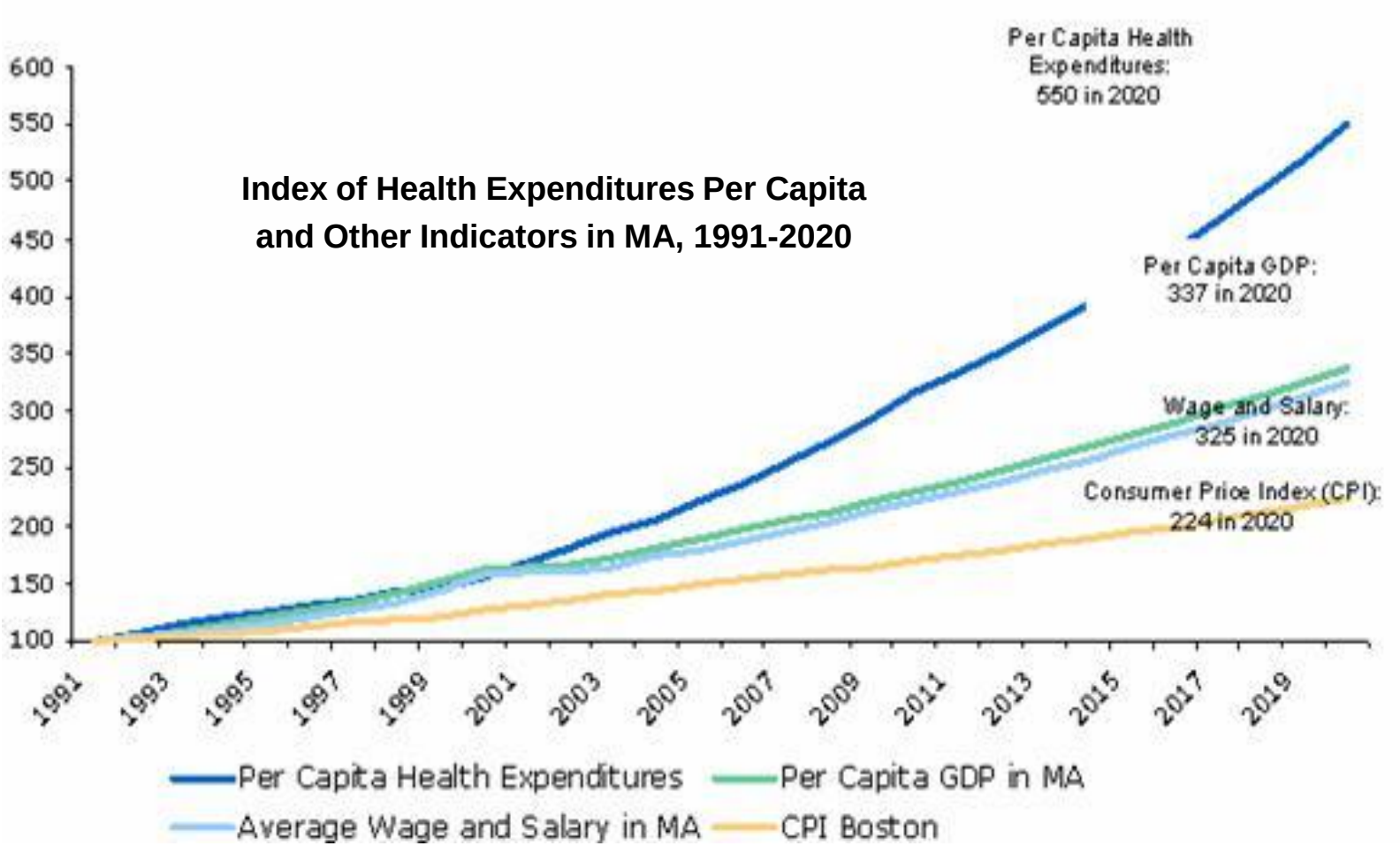
U.S. healthcare spending has risen dramatically over the past fifty years.



Source: http://www.kpcb.com/insights/usa-inc-full-report

Future Healthcare Costs in Massachusetts

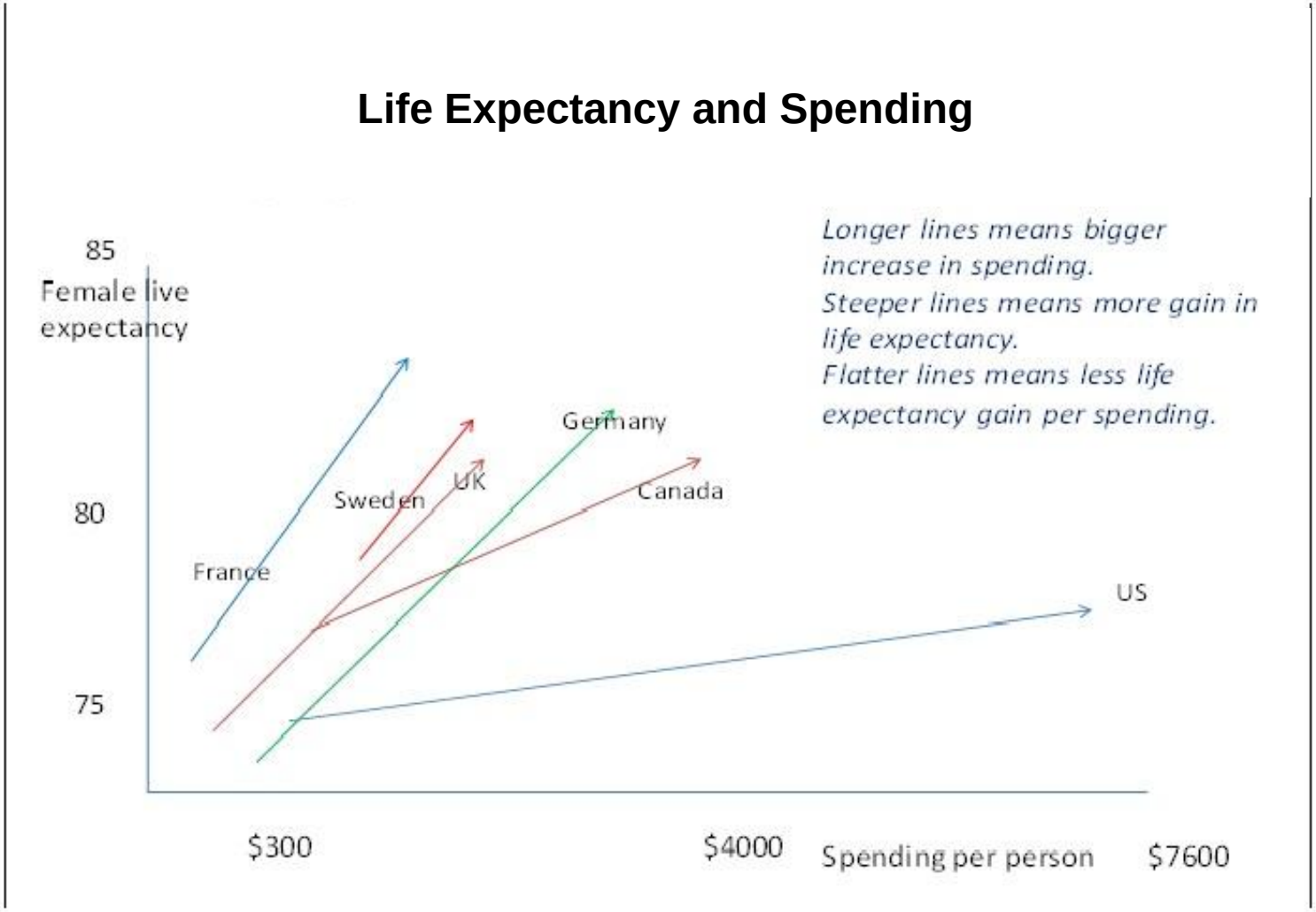
Healthcare costs are rising faster in MA than GSP, wages, or inflation.



Source: Massachusetts Division of Health Care Finance and Policy. Massachusetts Health Care Cost Trends - Historical (1991-2004) and Projected (2004-2020) November 2009

Cost and Quality Not Correlated

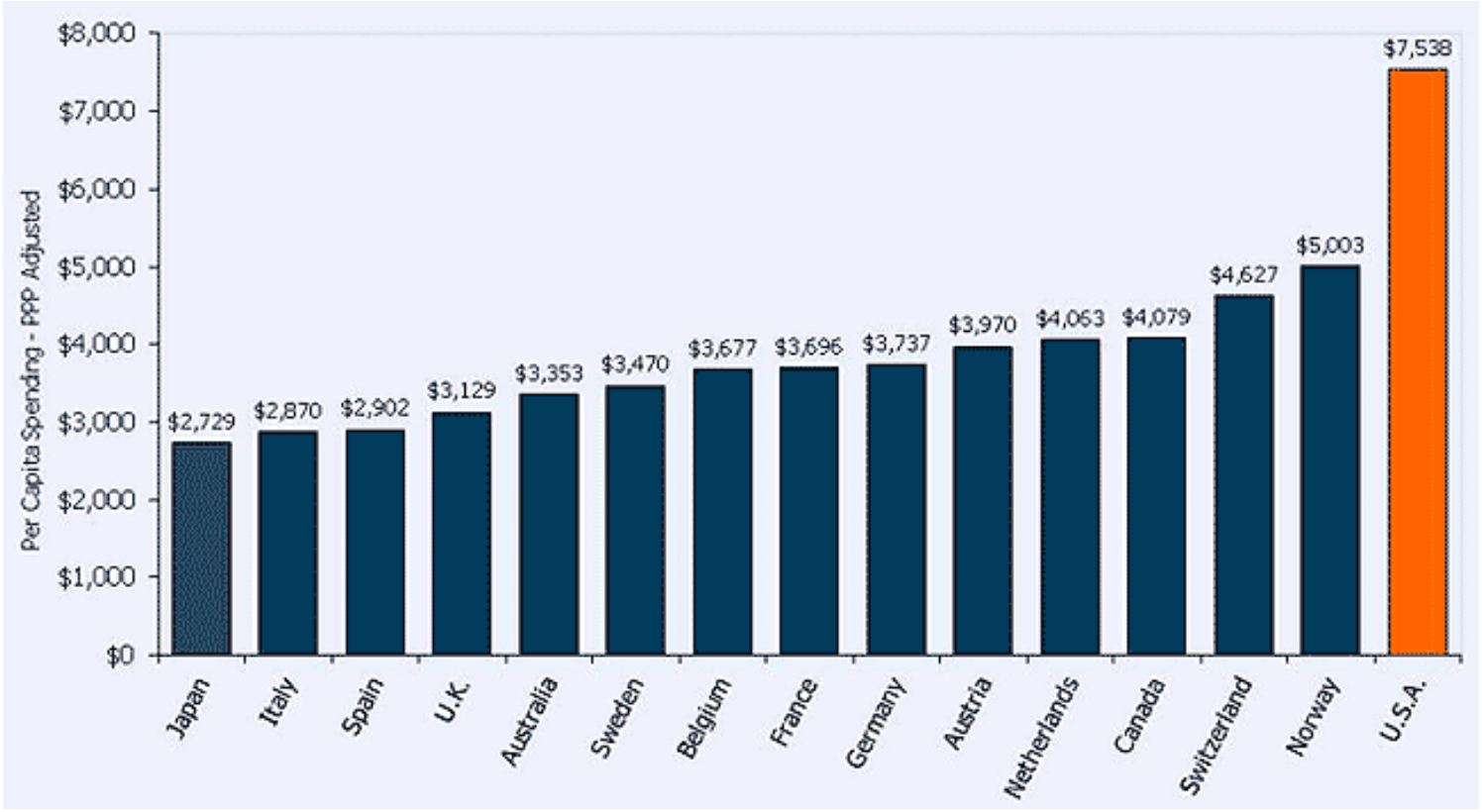
But paying more for healthcare has not yielded better outcomes.



Source: Changes in health care spending and life expectancy, 1971-2008, US and other OECD countries. Gerald Friedman, http://www.populareconomics.org/2012/01/gerald-friedman-testifies-to-massachusetts-general-court-about-healthcare/

Cost and Quality Not Correlated

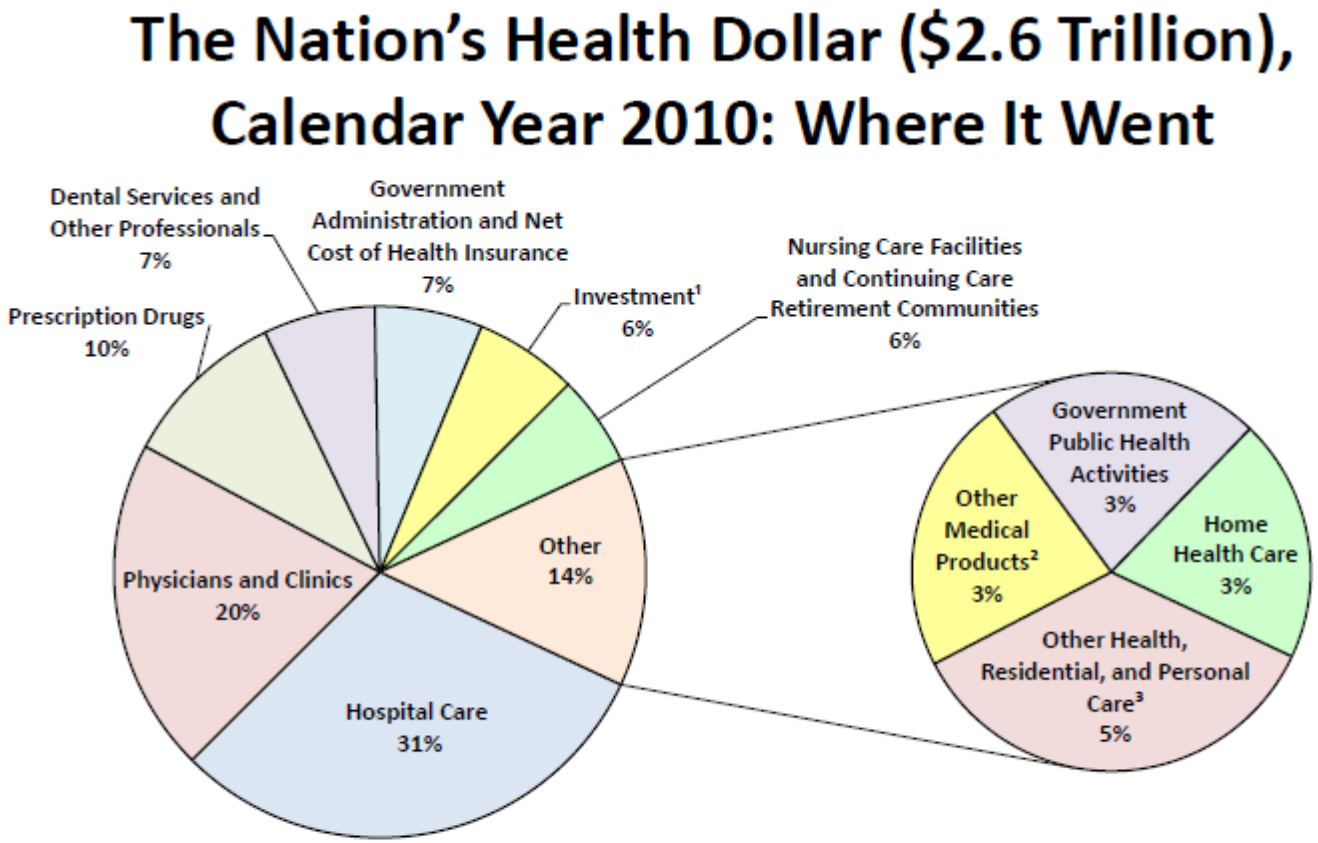
Total Health Expenditure per Capita, U.S. and Selected Countries, 2008



Source: Organisation for Economic Co-operation and Development (2010), "OECD Health Data", *OECD Health Statistics* (database). doi: 10.1787/data-00350-en (Accessed on 14 February 2011).
Notes: Data from Australia and Japan are 2007 data. Figures for Belgium, Canada, Netherlands, Norway and Switzerland, are OECD estimates. Numbers are PPP adjusted.

Healthcare Cost Breakdown

Most healthcare spending is directed to hospitals, doctors, and drugs.

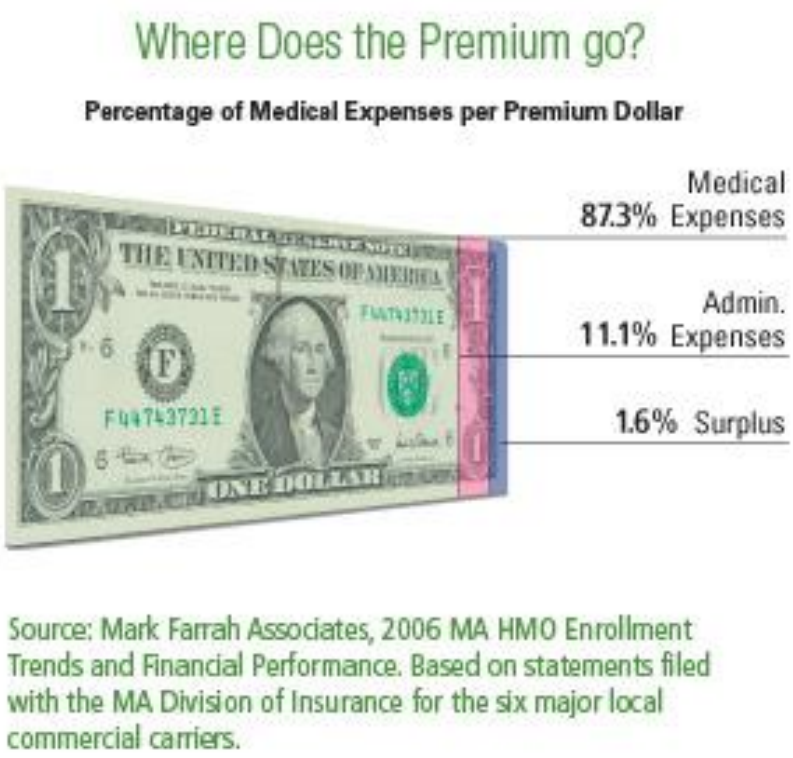


[1] Includes Research (2%) and Structures and Equipment (4%).
[2] Includes Durable (1%) and Non-durable (2%) goods.
[3] Includes expenditures for residential care facilities, ambulance providers, medical care delivered in non-traditional settings (such as community centers, senior citizens centers, schools, and military field stations), and expenditures for Home and Community Waiver programs under Medicaid.
Note: Sum of pieces may not equal 100% due to rounding.

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

Healthcare Cost Breakdown

Similarly, nearly 90% of health insurance premiums pay for medical expenses.

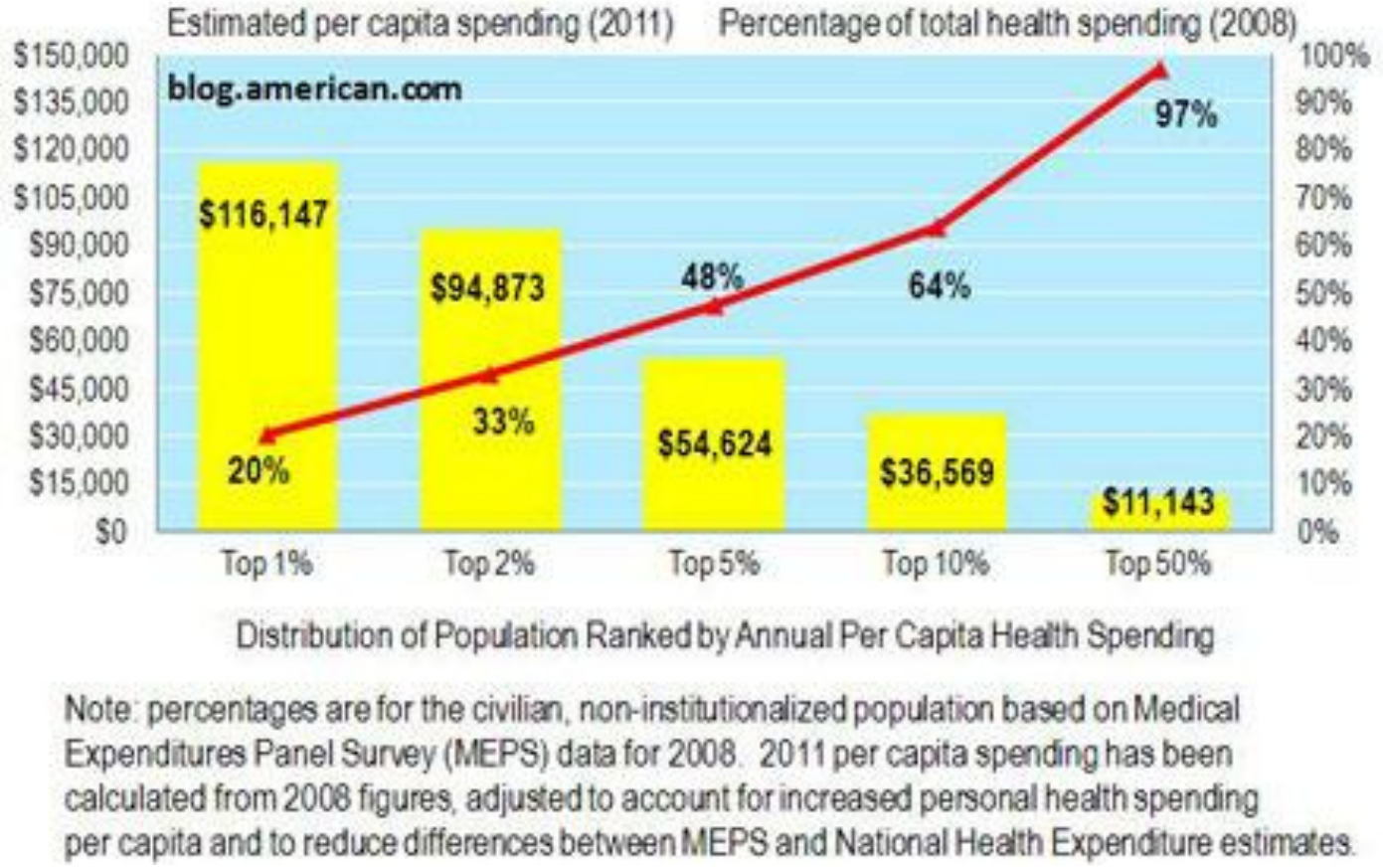


Source: Mark Farrah Associates, 2006 MA HMO Enrollment Trends and Financial Performance. Based on statements filed with the MA Division of Insurance for the six major local commercial carriers.

Source: http://www.mahp.com/health-care-in-ma/where-does-the-money-go.html

Healthcare Cost Breakdown

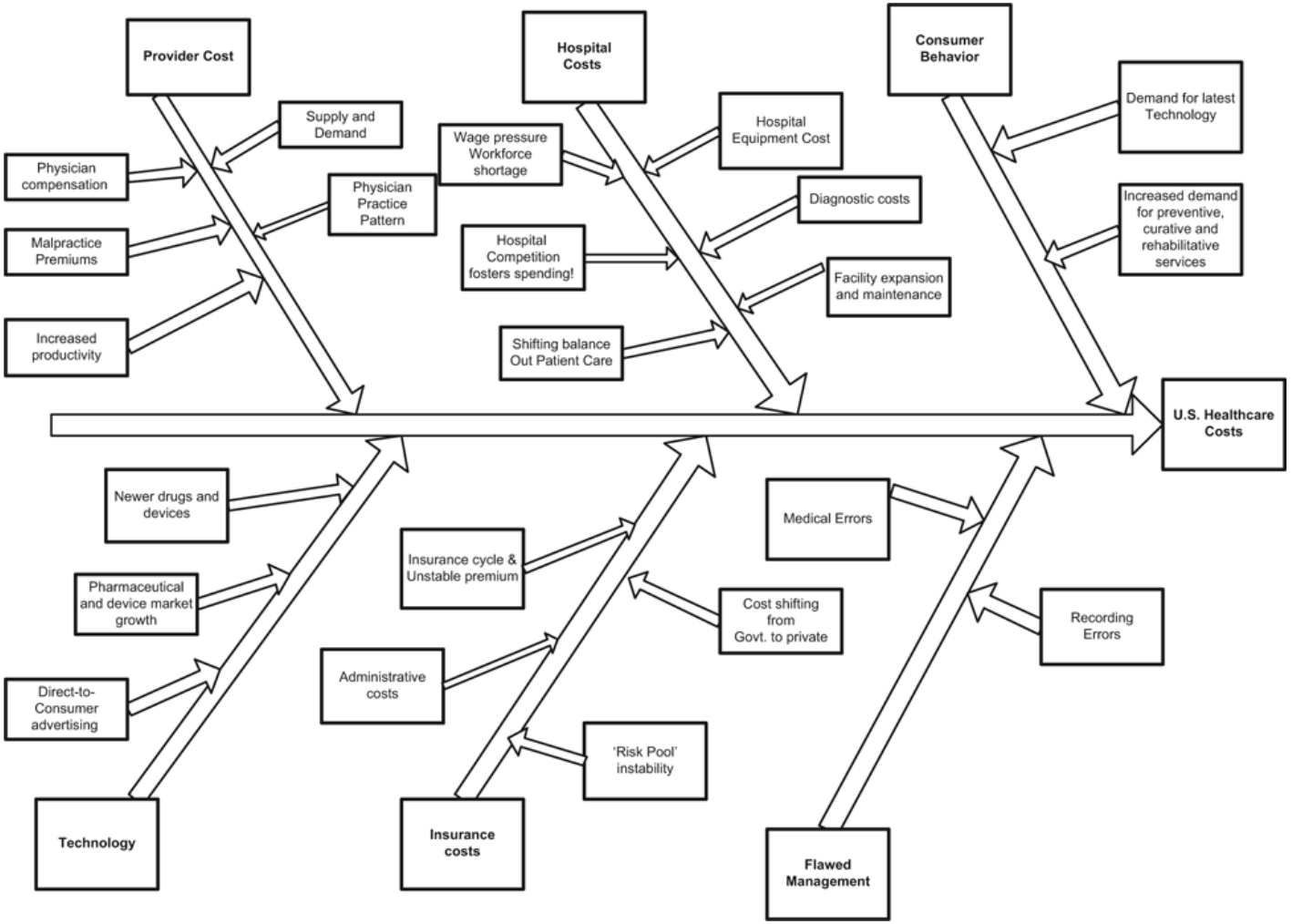
Only 5% of the population accounts for nearly 50% of the healthcare spending.



Source: *Christopher J. Conover is a research scholar at Duke University's Center for Health Policy and Inequalities Research and an adjunct scholar at AEI. The charts shown are from his new book* American Health Economy Illustrated*, to be released in January 2012 by AEI Press. See PowerPoint version of Figure 12.1a, and Excel spreadsheet on the concentration of health spending in 2008 for data, sources, and methods.* http://blog.american.com/2011/11/the-health-spending-1-percent-healthcare-fact-of-the-week/

Drivers of Healthcare Cost Increases

Myriad factors are driving up healthcare costs in the United States and MA.



Source: Sameer Kumar, Neha S. Ghildayal, Ronak N. Shah, (2011) "Examining quality and efficiency of the US healthcare system", International Journal of Health Care Quality Assurance, Vol. 24 Iss: 5, pp.366 - 388

Drivers of Healthcare Cost Increases

Cost drivers increase utilization, pricing, and administrative costs.

Cost Driver	Effect on Cost	Effect on Quality
• Lack of PCPs	• More catastrophic utilization	• Lack of care management
• Public health deterioration	• Higher utilization	• n/a
• Demographics	• Higher utilization	• n/a
• End of Life Care	• Higher utilization	• Quality of life not improved
• Defensive medicine	• Higher, unnecessary utilization	• More visits needed
• Medical Technology	• Higher capex by each provider	• Improves quality of care
• Outdated IT	• Higher capex by each provider	• Lack of care management
• Quality Brands	• Higher prices at some hospitals	• Not clear
• Burdensome administration	• Higher administrative costs	• Takes away time & resources
• Profits	• Higher administrative costs	• n/a

Source: Office of State Rep. Thomas P. Conroy analysis

Options for Controlling Costs

Rate setting is used by several industrialized countries to control costs.

Metric	US	France	Germany	Japan	UK	Canada
Price determination system	Market and government	**Government sets rates**	**Government sets rates**	**Government sets rates**	**Government sets rates**	**Government sets rates**
Price transparency	None	Dr. offices	Patients not billed directly	100%: All rates for treatments are published	n/a	n/a
Insurance premiums payers	Employers and employees	Employers and employees	Employers and employees	Employers and employees	n/a	Consumers
Access to services	40 million uninsured	All residents mandated to have insurance	All residents mandated to have insurance	All residents mandated to have insurance	All residents have full access to services, which are rationed	All residents have full access to services, which are rationed
Treatments covered	Determined by insurance company	Largely determined by government	Largely determined by government	Largely determined by government	Determined by government	Largely determined by government
Cost % GDP	17%	10%	11%	8%	9%	11%
Cost trends	Up > inflation	Up > inflation	Up > inflation	Flat	Up, to reduce wait times	Up, to reduce wait times
#, type of payers	Private for profit, private non-profit, and gov't	Private non profit (14) and gov't	Private non profit funds (200) and gov't	Private non-profit (3,500) and gov't	One	12 regionals and one federal government
Payment system	Fee for service	Fee for service	Fee for service, but shifting to global payment	Fee for service	Capitation	Fee for service

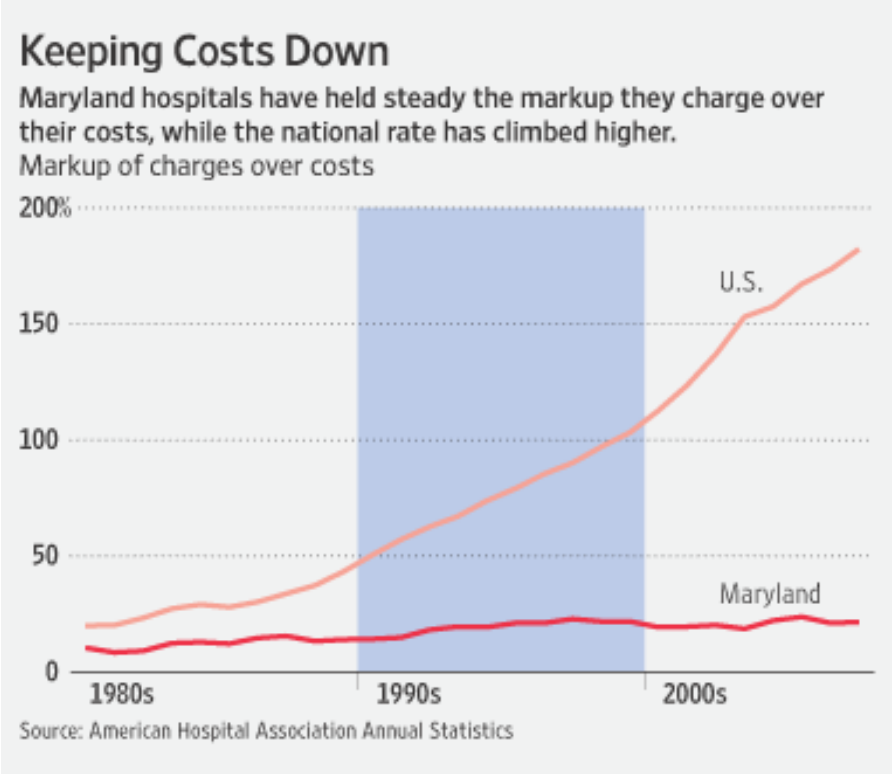
Source: Office of State Rep. Thomas P. Conroy analysis, T.R. Reid, *The Healing of America*

Options for Controlling Costs

Rate setting is used in Maryland to control costs.

Bending the Cost Curve

- Lowest rate of coast growth of any state 1976-2009
- 1976: Maryland cost per case was 25% ABOVE the US average
- 2009: Maryland hospital cost per case 3% BELOW the US average
- Estimated $45 billion savings to the state over the period 1976-2009
- Had the US grown at the slower Maryland rate of growth – hospital spending would have been $2.0 trillion lower

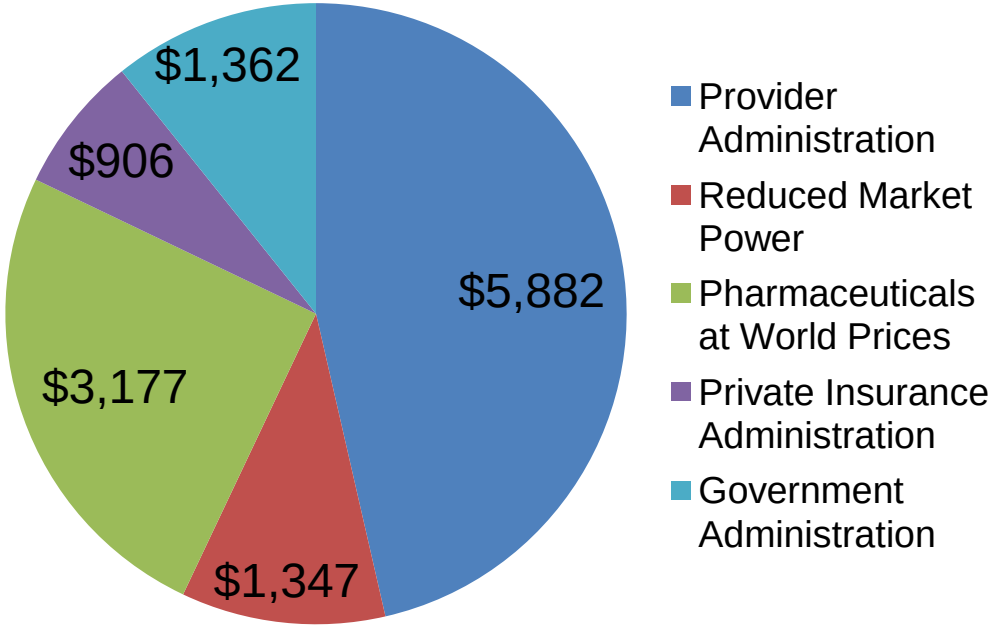


Source: Maryland's Hospital Cost Review Commission at 40: A Model for the Country *JAMA. 2011;306(10):1137-1138.*

Options for Controlling Costs

The single payer concept has both benefits and costs.

Estimated Savings from single-payer health system, Massachusetts 2010 (in $ millions)



Benefits:

- Cost reduction
- Administrative reduction
- Simplification for consumers

Costs / Implications / Barriers:

- Quality of Care
- No other change possible?
- Job losses
- Imposition of higher taxes on business and consumers?
- Implementation complex: if change only MA, how do multi-state employers offer health care?
- A step beyond rate setting

Source: Gerald Friedman

Health Care Cost Reform in Massachusetts

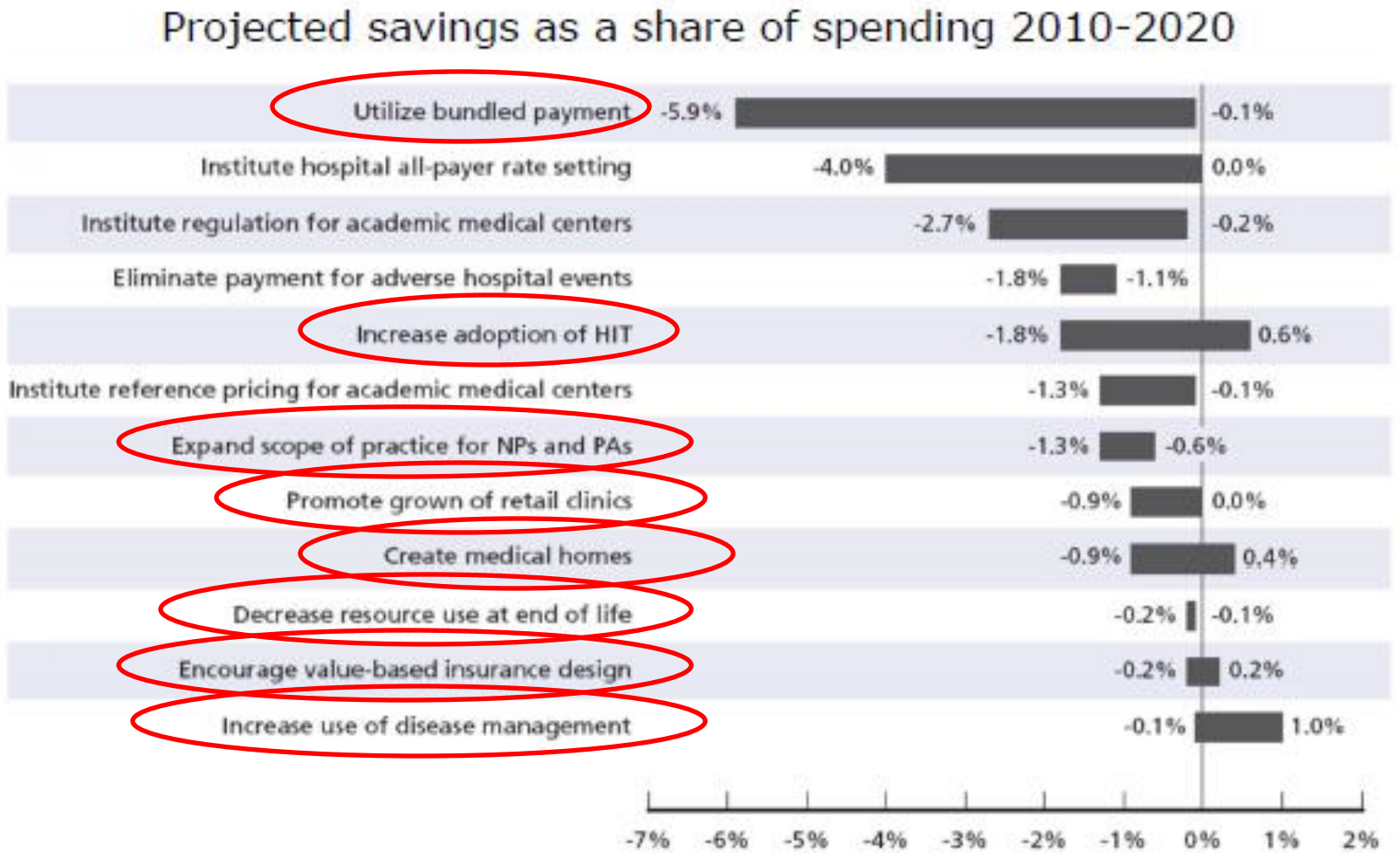
A package of several solutions that address each cost driver holds promise.

Cost Driver	Solution
• Lack of PCPs	• Make PCP career more attractive, have NPs do the work
• Public health deterioration	• Public health trust fund for pilot programs
• Demographics	• SCOs, better care coordination
• End of Life Care	• Make hospice more attractive
• Defensive medicine	• Medical malpractice reform
• Medical Technology	• Payment reform
• Outdated IT	• Government procures uniform IT for providers?
• Quality Brands	• Tiered networks (2010 law), price transparency
• Burdensome administration	• Payment reform, consumer education
• Profits	• Payment reform, consumer education

Source: Office of State Rep. Thomas P. Conroy analysis

Healthcare Cost Reform in Massachusetts

Proposed changes could yield cost reductions > 10%.



RAND. "Controlling Healthcare Spending in Massachusetts: An Analysis of Options." 2009.

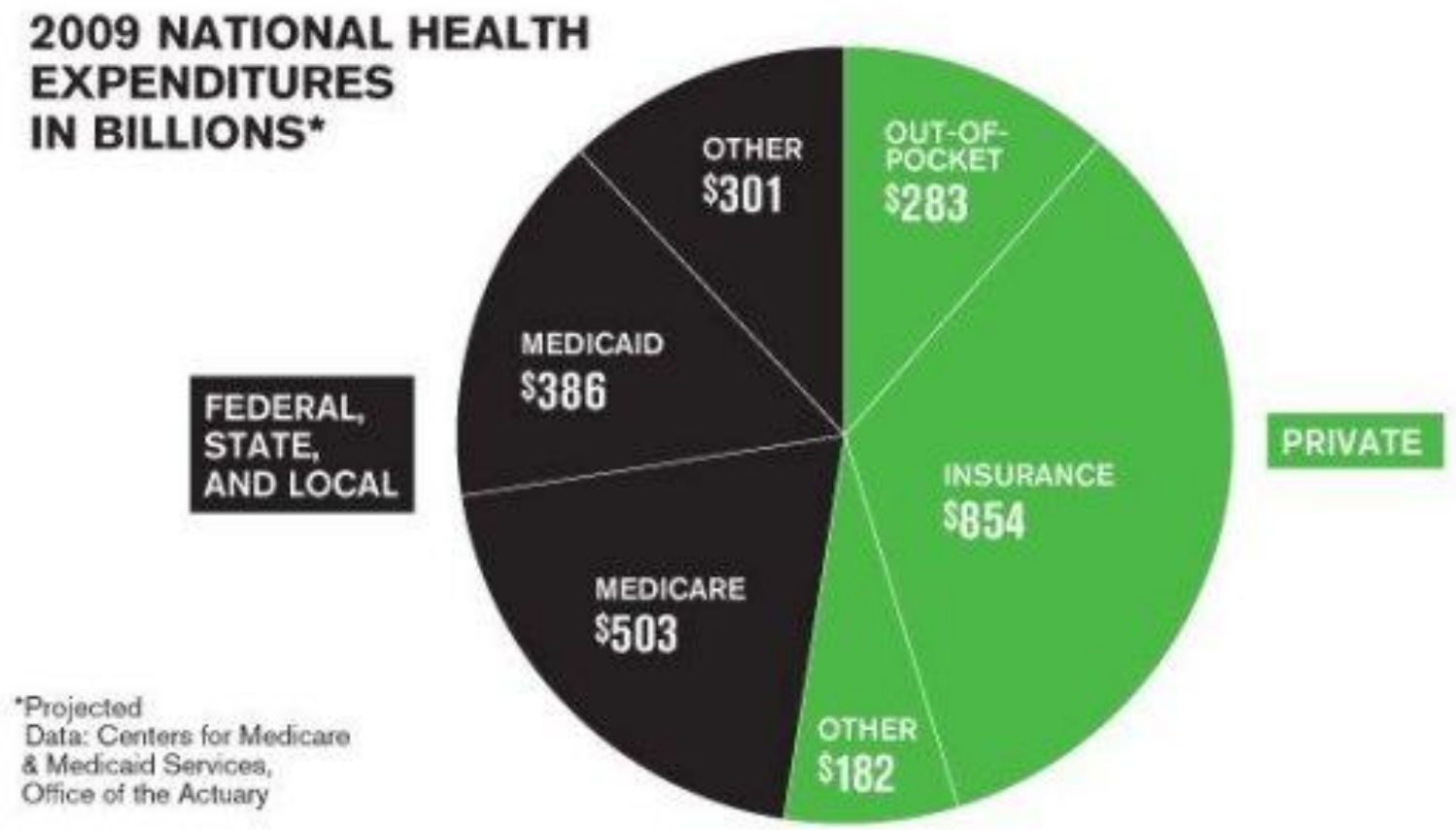
Health Care Cost Reform in Massachusetts

Appendix

Source:

$2.5 Billion in Healthcare Spending in U.S.

The U.S. has a hybrid, public/private health care system.



Source: U.S. Centers for Medicare and Medicaid Services, and Office of the Actuary