Health Care Costs: Is Relief on the Way?

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Rutgers School of Management and Labor Relations
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Outline

• Healthcare costs in the US
• Why so high?
• Implications for labor and management
• Is relief on the way?
Health Care Expenditure per Capita by Source of Funding, 2008
Adjusted for Differences in Cost of Living

Dollars US

<table>
<thead>
<tr>
<th>Country</th>
<th>Out-of-pocket spending</th>
<th>Private spending</th>
<th>Public spending</th>
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<tbody>
<tr>
<td>US</td>
<td>7,538</td>
<td>912</td>
<td>3,119</td>
</tr>
<tr>
<td>NOR</td>
<td>5,003</td>
<td>756</td>
<td>4,213</td>
</tr>
<tr>
<td>SWIZ</td>
<td>4,627</td>
<td>467</td>
<td>1,424</td>
</tr>
<tr>
<td>CAN</td>
<td>4,079</td>
<td>600</td>
<td>2,736</td>
</tr>
<tr>
<td>GER</td>
<td>3,737</td>
<td>487</td>
<td>2,863</td>
</tr>
<tr>
<td>FR</td>
<td>3,696</td>
<td>548</td>
<td>2,916</td>
</tr>
<tr>
<td>DEN*</td>
<td>3,540</td>
<td>489</td>
<td>3,251</td>
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<tr>
<td>SWE</td>
<td>3,470</td>
<td>543</td>
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</tr>
<tr>
<td>AUS*</td>
<td>3,353</td>
<td>484</td>
<td>2,869</td>
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<tr>
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<td>3,129</td>
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<tr>
<td>NZ</td>
<td>2,683</td>
<td>372</td>
<td>2,158</td>
</tr>
</tbody>
</table>

* 2007.

Source: Commonwealth Fund Analysis of OECD Health Data 2010 (Oct. 2010).
Total health expenditure per capita and GDP per capita, 2009 (or nearest year)

Health spending per capita (USD PPP)

Source: OECD Health Data 2011.
Total health expenditure per capita and GDP per capita, 2009 (or nearest year)

Source: OECD Health Data 2011.
“The federal budget is on an unsustainable path, primarily because of the rising cost of health care.”

SOURCE: CONGRESSIONAL BUDGET OFFICE
HTTP://WWW.CBO.GOV/PUBLICATIONS/COLLECTIONS/HEALTH.CFM
Accessed 9-4-09
Why are US healthcare costs so high?

**Major Causes**
- Higher prices
- Have more and use more costly technology
- Rising tide of treatable chronic illness
- Higher administrative cost

**Smaller Contributors**
- Population aging
- Fraud, waste, abuse
- Malpractice liability and defensive medicine
Drug Prices for 30 Most Commonly Prescribed Drugs, 2006–07

US is set at 1.0

Source: Commonwealth Fund analysis of data from IMS Health.
Magnetic Resonance Imaging (MRI) Machines per Million Pop., 2008

Source: OECD Health Data 2010 (Oct. 2010).

* 2007.
MRI Exams per 1,000 Population, 2008

- **US**: 91
- **FR**: 49
- **CAN**: 42
- **NETH**: 39
- **DEN**: 38
- **AUS**: 21

Source: OECD Health Data 2010 (Oct. 2010).

* 2007.
** 2006.
MRI Scan and Imaging Fees, 2009

Dollars US

<table>
<thead>
<tr>
<th>Country</th>
<th>US Average</th>
<th>US High-end</th>
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</thead>
<tbody>
<tr>
<td>US</td>
<td>1,200</td>
<td>1,500</td>
</tr>
<tr>
<td>GER</td>
<td>839</td>
<td></td>
</tr>
<tr>
<td>CAN</td>
<td>824</td>
<td></td>
</tr>
<tr>
<td>NETH</td>
<td>567</td>
<td></td>
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<tr>
<td>FR</td>
<td>436</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>179</td>
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<tr>
<td>US Medicare</td>
<td>500</td>
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</table>

Obesity rates among the adult population in OECD countries 1990, 2000 and 2009 (or nearest years)

Percent

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2000</th>
<th>2009</th>
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<tbody>
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<td>Korea</td>
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<td>5.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Japan</td>
<td>3.9</td>
<td>5.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.1</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Norway</td>
<td>6.6</td>
<td>11.1</td>
<td>12.9</td>
</tr>
<tr>
<td>Italy</td>
<td>3.9</td>
<td>6.1</td>
<td>10.0</td>
</tr>
<tr>
<td>France</td>
<td>6.6</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.6</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6.6</td>
<td>9.0</td>
<td>11.1</td>
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<td>Austria</td>
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<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.6</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>6.6</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Israel</td>
<td>12.4</td>
<td>13.4</td>
<td>14.9</td>
</tr>
<tr>
<td>Germany</td>
<td>12.1</td>
<td>13.4</td>
<td>14.9</td>
</tr>
<tr>
<td>Finland</td>
<td>8.8</td>
<td>11.1</td>
<td>12.1</td>
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<tr>
<td>Ireland</td>
<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
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<tr>
<td>Portugal</td>
<td>12.1</td>
<td>13.4</td>
<td>14.9</td>
</tr>
<tr>
<td>Spain</td>
<td>7.7</td>
<td>13.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Canada</td>
<td>11.1</td>
<td>14.1</td>
<td>17.1</td>
</tr>
<tr>
<td>OECD (15)</td>
<td>13.0</td>
<td>16.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Czech Republic</td>
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<td>Hungary</td>
<td>12.0</td>
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<td>Luxembourg</td>
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<tr>
<td>Australia</td>
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<td>Chile</td>
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<td>20.0</td>
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<tr>
<td>New Zealand</td>
<td>11.1</td>
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</tr>
<tr>
<td>Mexico</td>
<td>13.0</td>
<td>16.1</td>
<td>20.0</td>
</tr>
<tr>
<td>United States</td>
<td>13.0</td>
<td>16.1</td>
<td>23.0</td>
</tr>
</tbody>
</table>

Data are based on measurements rather than self-reported height and weight.

Source: OECD Health Data 2011.
Potential Years of Life Lost Due to Diabetes per 100,000 Population, 2006

Data: OECD Health Data 2008 (June 2008).

*2005
**2004
Diabetes Acute Complications Admission Rates per 100,000 Population
Age 15 and Older, 2007

- US*: 57
- UK: 32
- CAN: 23
- DEN: 20
- NOR: 20
- SWE: 19
- FR: 14
- SWIZ*: 12
- NETH**: 8
- NZ: 1

Source: OECD Health Care Quality Indicators Data 2009.

* 2006.
** 2005.
Outline

• Healthcare costs in the US
• Why so high?
• **Implications for labor and management**
• Is relief on the way?
Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2011

In other words: Virtually all of real earning increases since 1999 has gone to pay for health benefits

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of $1,000 or More for Single Coverage, By Firm Size, 2006-2011

* Estimate is statistically different from estimate for the previous year shown (p<.05).

Note: These estimates include workers enrolled in HDHP/SO and other plan types. Because we do not collect information on the attributes of conventional plans, to be conservative, we assumed that workers in conventional plans do not have a deductible of $1,000 or more. Because of the low enrollment in conventional plans, the impact of this assumption is minimal. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of $2,000 or More for Single Coverage, By Firm Size, 2006-2011

* Estimate is statistically different from estimate for the previous year shown (p<.05).

Note: These estimates include workers enrolled in HDHP/SO and other plan types. Because we do not collect information on the attributes of conventional plans, to be conservative, we assumed that workers in conventional plans do not have a deductible of $2,000 or more. Because of the low enrollment in conventional plans, the impact of this assumption is minimal.

Firms’ Opinions on the Effectiveness of Strategies to Contain Health Insurance Costs, 2011

- Disease Management Programs:
  - Very Effective: 26%
  - Somewhat Effective: 37%
  - Not Too Effective: 15%
  - Not At All Effective: 19%

- Consumer-Driven Health Plans:
  - Very Effective: 22%
  - Somewhat Effective: 29%
  - Not Too Effective: 24%
  - Not At All Effective: 19%

- Tighter Managed Care Restrictions:
  - Very Effective: 18%
  - Somewhat Effective: 29%
  - Not Too Effective: 20%
  - Not At All Effective: 26%

- Higher Employee Cost Sharing:
  - Very Effective: 14%
  - Somewhat Effective: 29%
  - Not Too Effective: 25%
  - Not At All Effective: 27%

Note: Don’t Know answers not shown
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2011
Outline

• Healthcare costs in the US
• Why so high?
• Implications for labor and management
• Is relief on the way?
Healthcare Costs and the Affordable Care Act

Medicare (& Medicaid)

• About half of ACA financed by slowing Medicare spending trend
  – Medicare Advantage plan premiums
  – “Productivity adjustments” (reduced future increases in payments to some providers)

• Payment incentives
  – Medicare Shared Savings Programs / Accountable Care Organizations
  – Hospital penalties for excess readmissions and “never events”
  – Payment & delivery system demonstration programs (e.g., bundled payments, patient-centered medical homes, etc.)
  – CBO: $12 billion savings over 10 years

• Other
  – Center for Medicare and Medicaid Innovation
  – Independent Payment Advisory Board (CBO: $14 billion savings over 10 years)
Healthcare Costs and the Affordable Care Act

Private Employer-Sponsored Health Insurance

• Individual mandate
  – Potentially $50 billion less annual “cost shift” from uninsured*

• Insurance reforms
  – Minimum loss ratio
  – Rate review

• Value-based insurance designs
  – No cost sharing for some preventive services
  – Quality measurement, transparency requirements
  – Dept. of Labor developing guidance

• Wellness rewards
  – ACA increases allowable incentives from 20% to 30% of total premium (2014)

What Can Labor and Management Do?

• Reward healthy behavior
  – Carefully structured incentives (beware of risk selection strategies)

• Improved care management programs
  – Research mixed so far*

• Selective contracting with high-performing providers

• Engage in innovative delivery systems
  – Accountable Care Organizations
  – Patient-Centered Medical Homes

*See, for example: http://www.rwjf.org/pr/product.jsp?id=52372
Is Relief on the Way?

• Most eggs in payment/delivery system reform basket
  – Theory good, but little experience/evidence yet
  – If they work, will take time
  – Risks – e.g., ACOs may increase provider market power

• Rumbling of more systemic cost controls
  – Would take a strong government hand
  – e.g., Global budgeting in Massachusetts
THANK YOU

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