



Health Care Costs

10 things to know to start working for better value in health care

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@LynnQuincy @HealthValueHub #healthtransformation



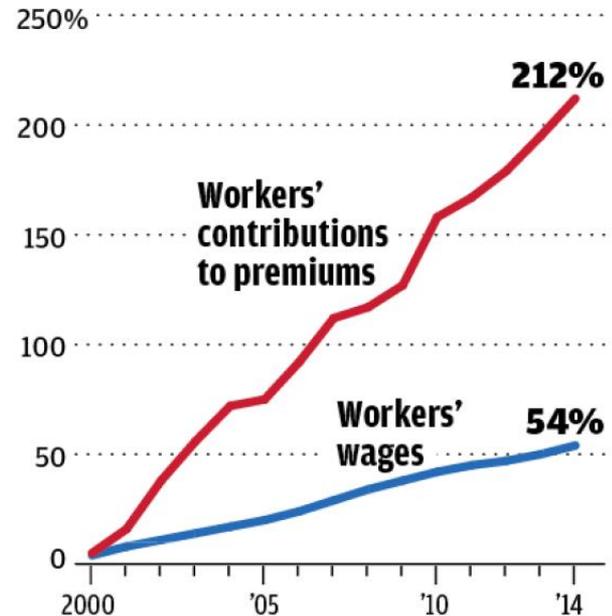
#1 We have a grave health care spending problem.

These high expenses are straining household, employer and government budgets.

Current path is not sustainable.

HEALTH INSURANCE PREMIUMS

Since 2000, workers' contributions to their health insurance premiums have on average far outpaced increases in their wages.



SOURCE: Kaiser Family Foundation and Health Research and Educational Trust | Post-Dispatch



#2 But that's not our only problem

- **(1) High and rising health care spending**
 - 1975 Health Spend/GDP = 8%
 - 2013 Health Spend/GDP = 17%
 - 2023 Health Spend/GDP = 19% *projected*
- **(2) Unwarranted variation in health care prices**
 - Many prices are “too high”
 - Price not linked to quality of care delivered
 - Excess variation a symptom of market failure
- **(3) Too little transparency**



Health Care in U.S. is Very Expensive

Few families can pay out-of-pocket for a serious illness

Most need health insurance but not everyone can afford it.

Average Hospital Cost per Day, 2013



Source: 2013 Comparative Price Report, International Federation of Health Plans

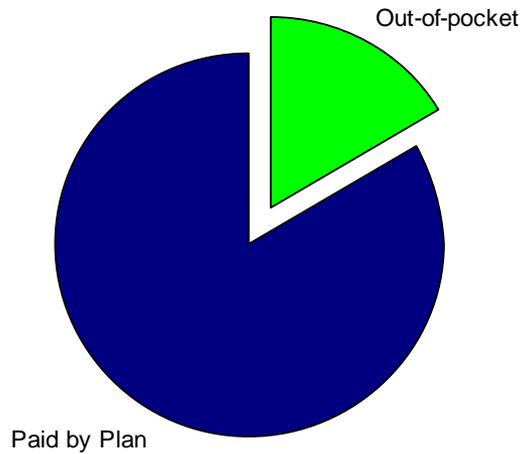


#3. We have a lot of measures of spending: premiums are not a good substitute for more complete measures of health care spending trend.



Premiums provide only a partial view of spending

Personal Health Care Spend



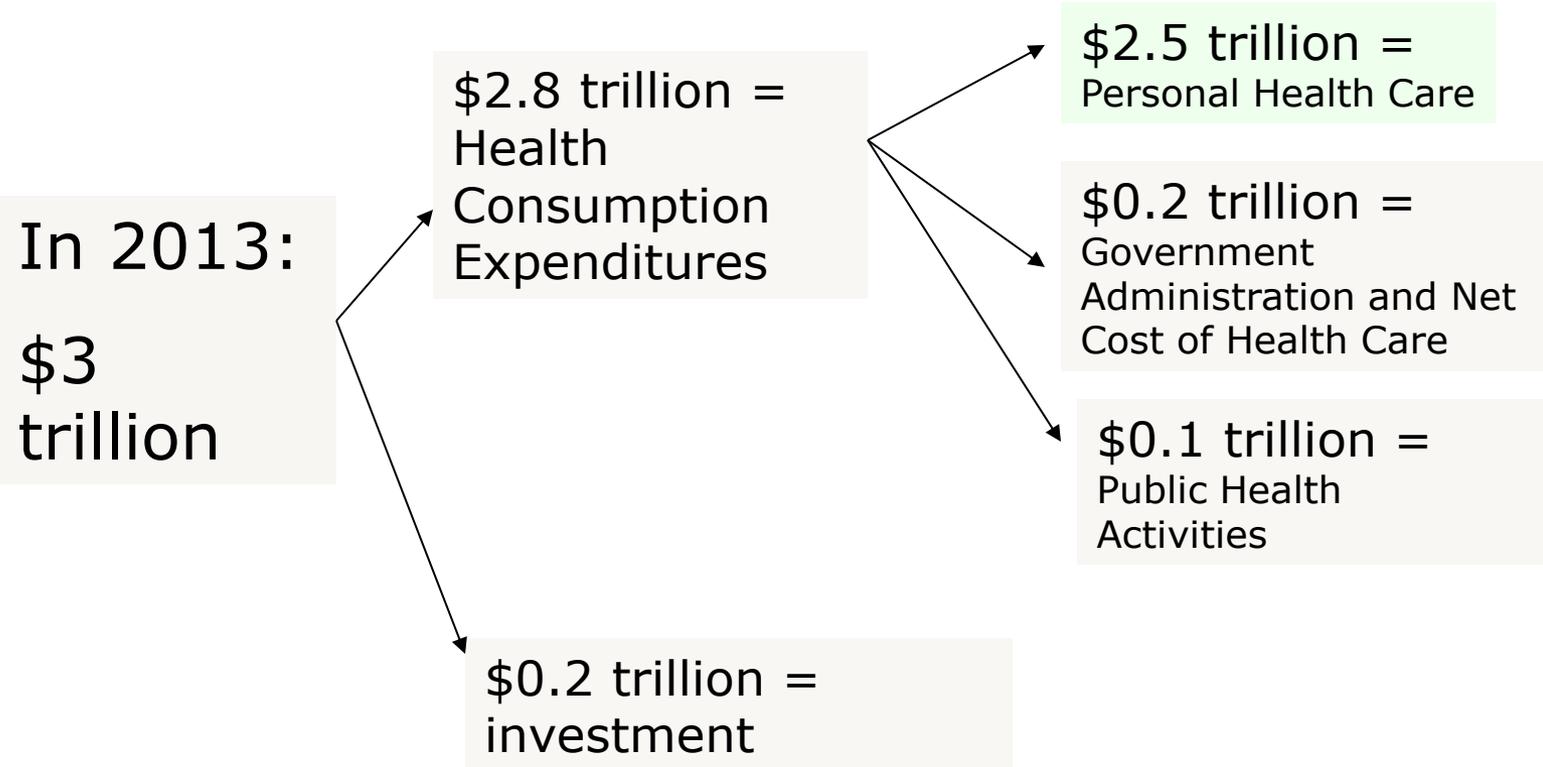
Administration

Paid by Plan

Premiums exclude out-of-pocket spending but include administrative expense.



National Health Expenditure Accounts from CMS are a Gold Standard

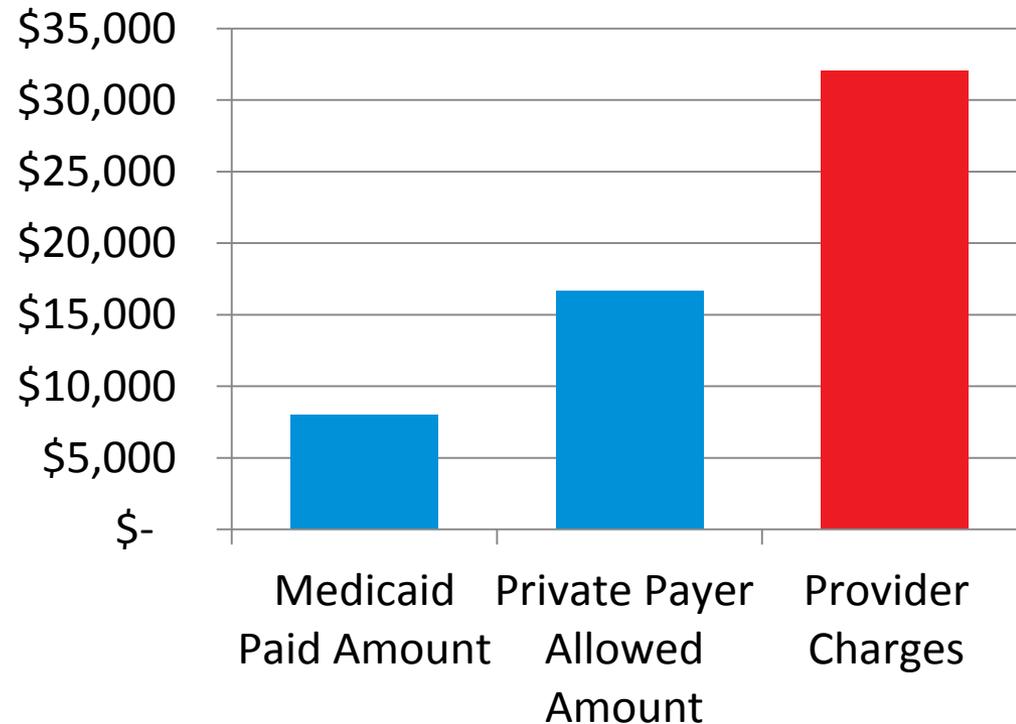




#4 Price and Spending Are Two Different Things

Average Maternal Costs 2010, Cesarean Childbirth

“Spending” shows what we paid but we probably didn’t pay the published “price”

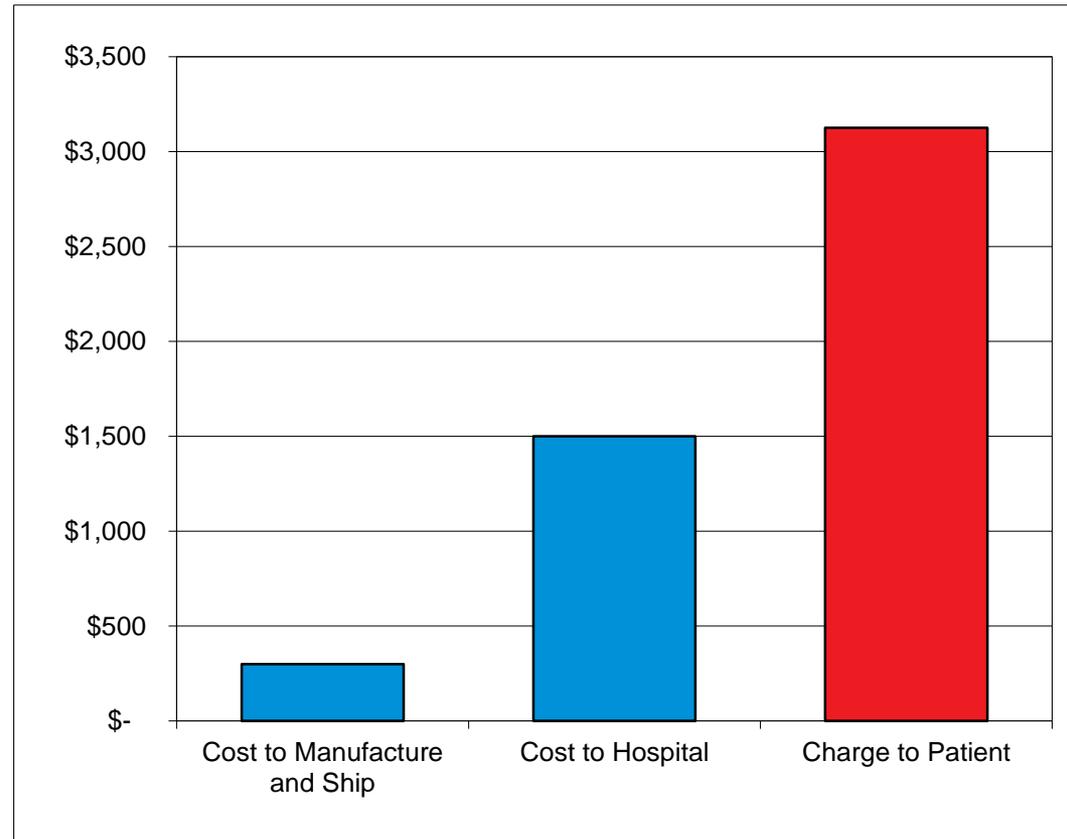




#5 Neither Price Nor Spending Provide An Accurate Picture Of The Underlying Cost

For the most part, we have no idea what the underlying cost to provide is.

Dose of Drug Flebogamma



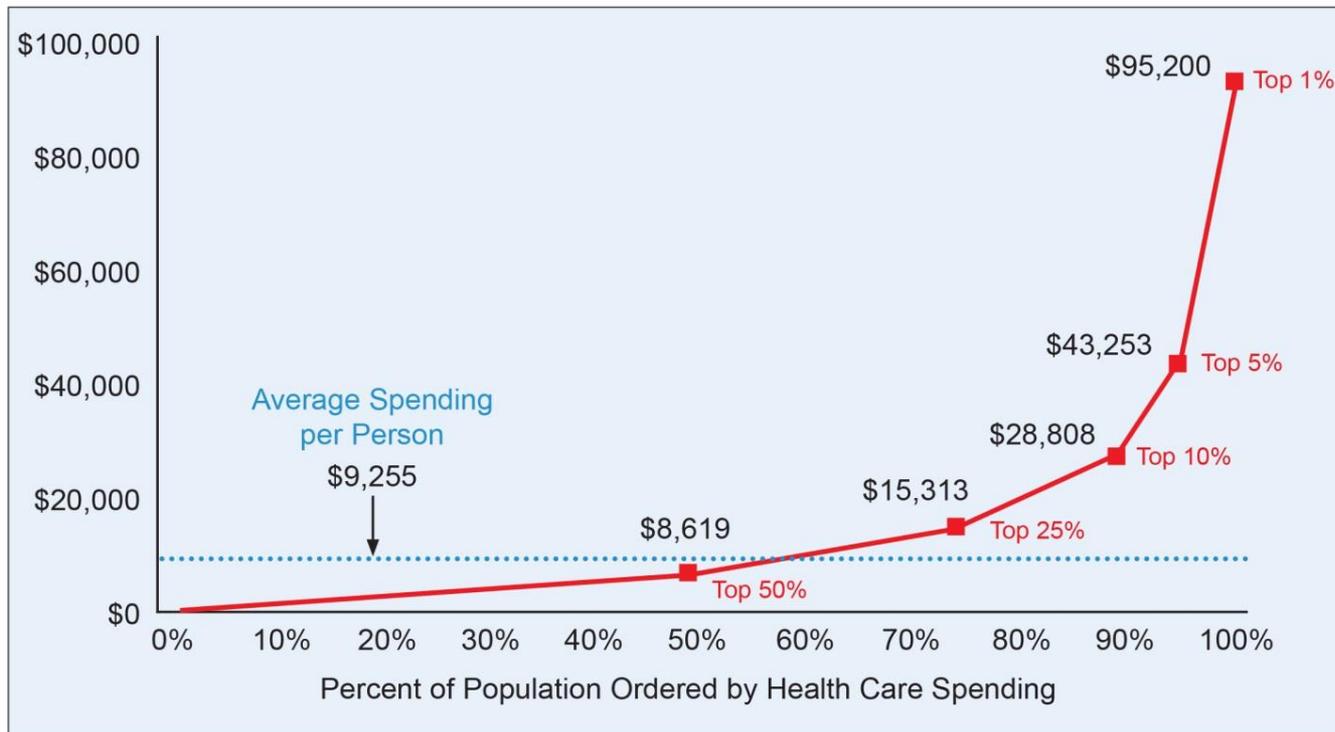


#6. It's good to know how spending is distributed.



Some people cost a lot... and some people cost a little.

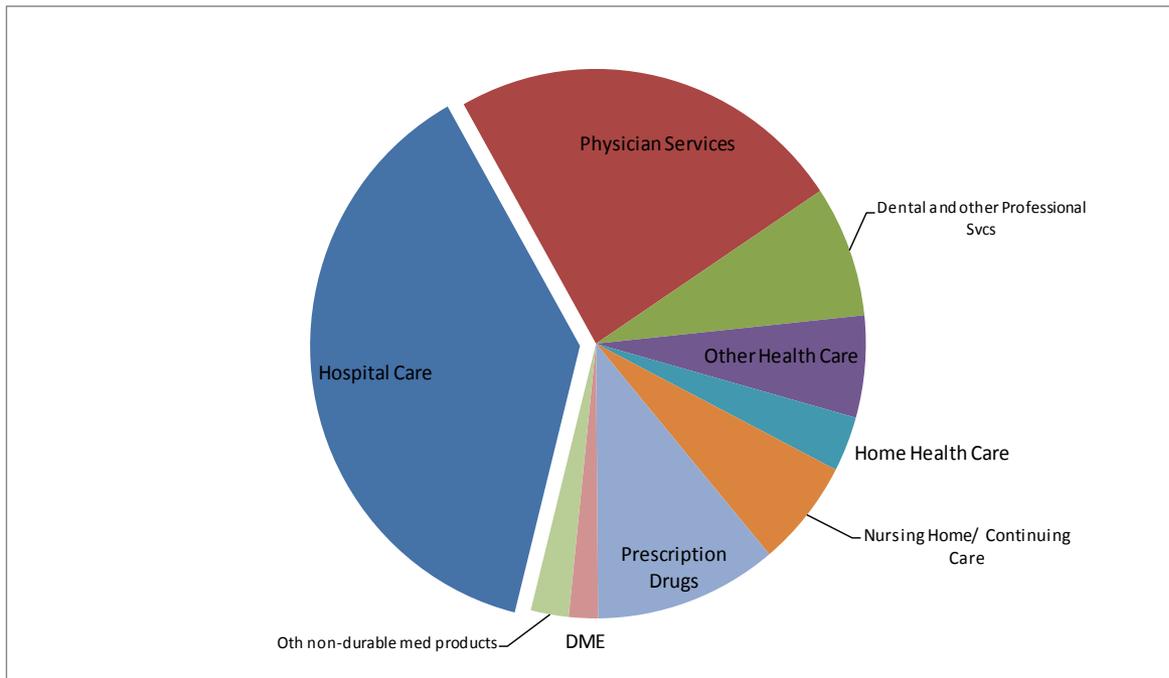
Distribution of Average Annual Personal Health Care Spending, 2013



Source: Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey (2013) and Centers for Medicare & Medicaid Services, National Health Expenditure Fact Sheet (2013).



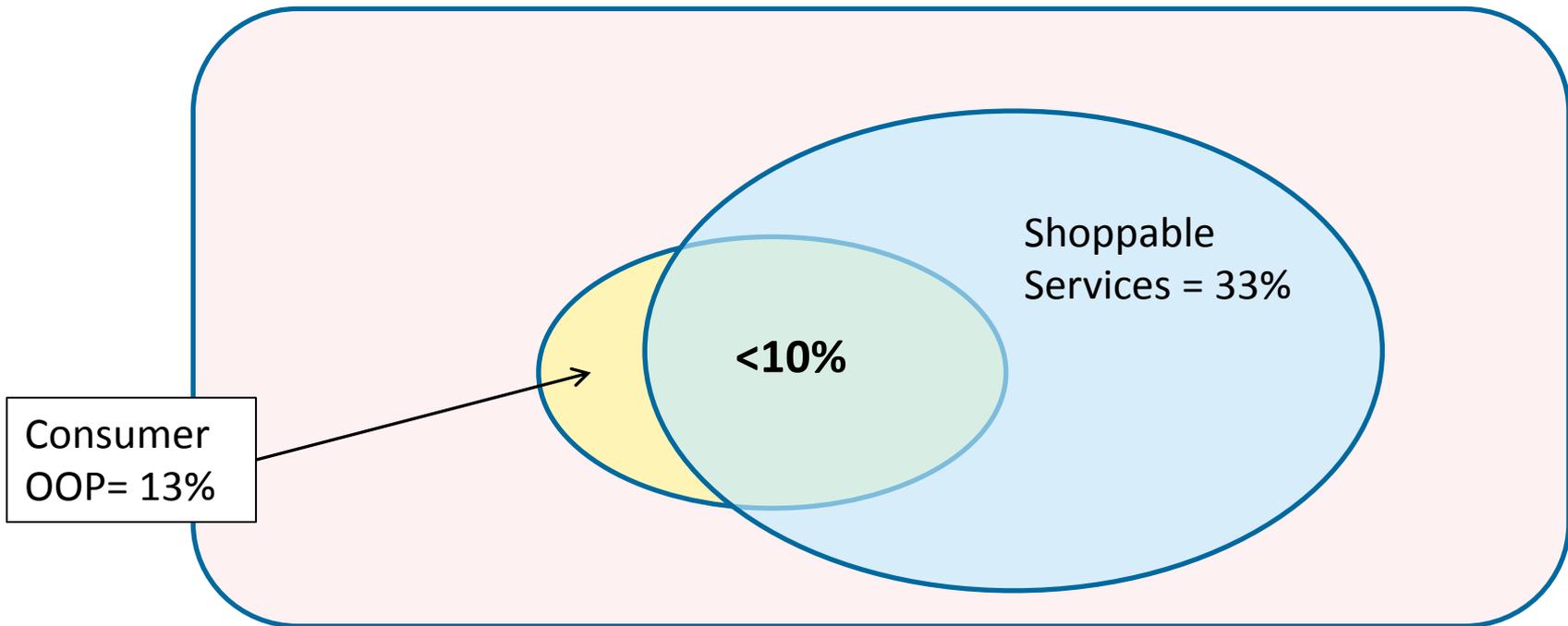
Hospital Care is accounts for the greatest amount of spending, followed by physician services.





Less than 10% of overall health spending is “shoppable” and paid out-of-pocket by consumers

And this is an outer bound. Adding a requirement that usable price and quality data be available would narrow the range of shoppable services substantially.





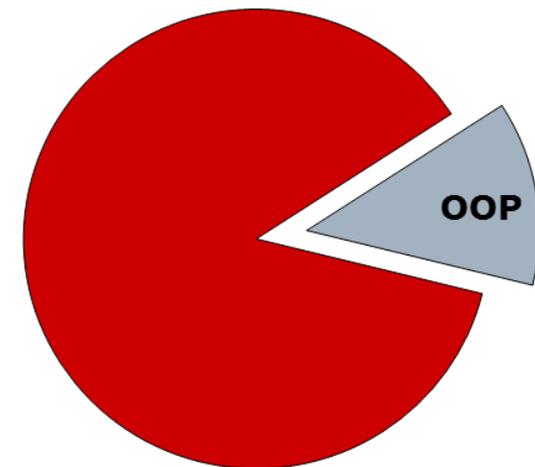
Most Health Care Dollars Are Directed by Physicians

Consumers' out-of-pocket spending is just 13% of our nation's health care bill.

And a portion of this is still directed by the doctor.

The most expensive piece of medical equipment is a doctor's pen.

Total Health Care Spending



Source: CMS, National Health Expenditures



**Information on cost drivers is confusing
but here are a couple big picture points...**



#7 Cost drivers come in many flavors

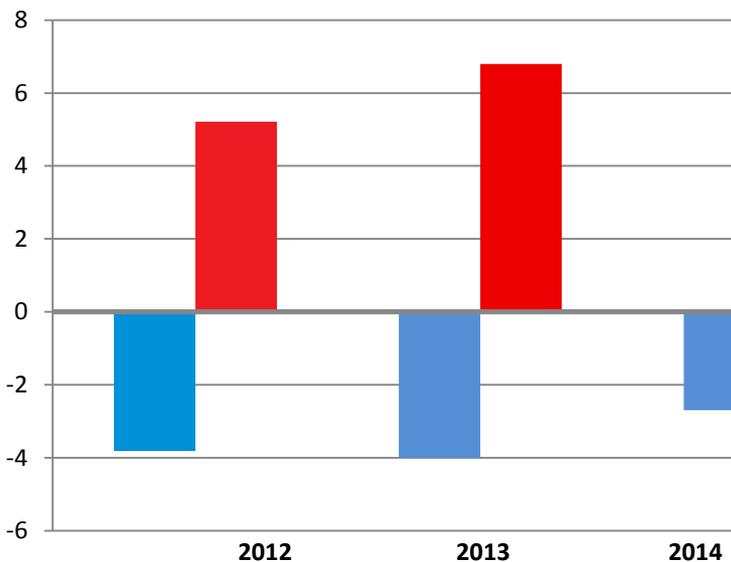
Type of Cost Driver	Description
Industry Segment	Highlights segments of the health care industry where spending has been increasing, like outpatient care
Demographic	Measures of the population, society, and general economy that appear to result in more spending on health care, like the aging of the population or increases in per capita income.
Health Condition	Measures of illness or other health conditions that have changed over time in excess of general demographic trends, like the increasing prevalence of diabetes.
Line Item	Increasing amounts actually being spent by health care providers in their operating budgets, like increased spending on new medical technology.
Policy Drivers	Public policy and health system practice can contribute to the cost of health care, like allowing hospital consolidations that result in near monopolies.



#8 Rising unit prices drive our health care spending growth; increases in utilization are a less important factor

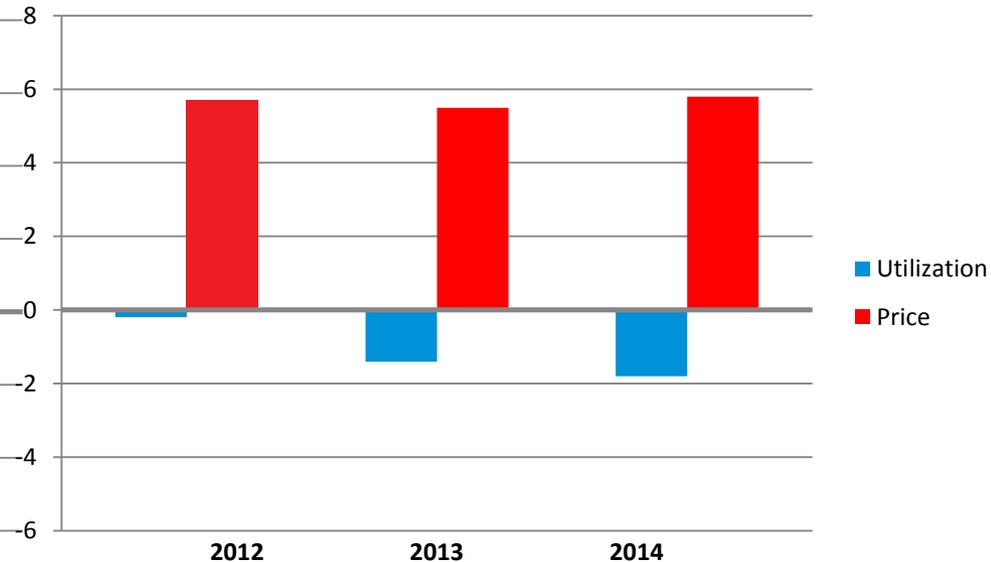
Inpatient Care:

Average Annual Percentage Change



Outpatient Care:

Average Annual Percentage Change





#9 Provider market power is a major reason for unit price growth

Massachusetts AG scrutinized the normally “secret” provider contracts and found:

...wide disparities in prices are not explained by differences in quality, complexity of services, or other characteristics that might justify variations in prices paid to providers. Instead, prices reflect the relative market leverage of health insurers and health providers.



#10 We can't just consider health care spending – instead worry about overall Health Care Value

Value in health care can be increased by improving quality or reducing costs (or both at the same time)

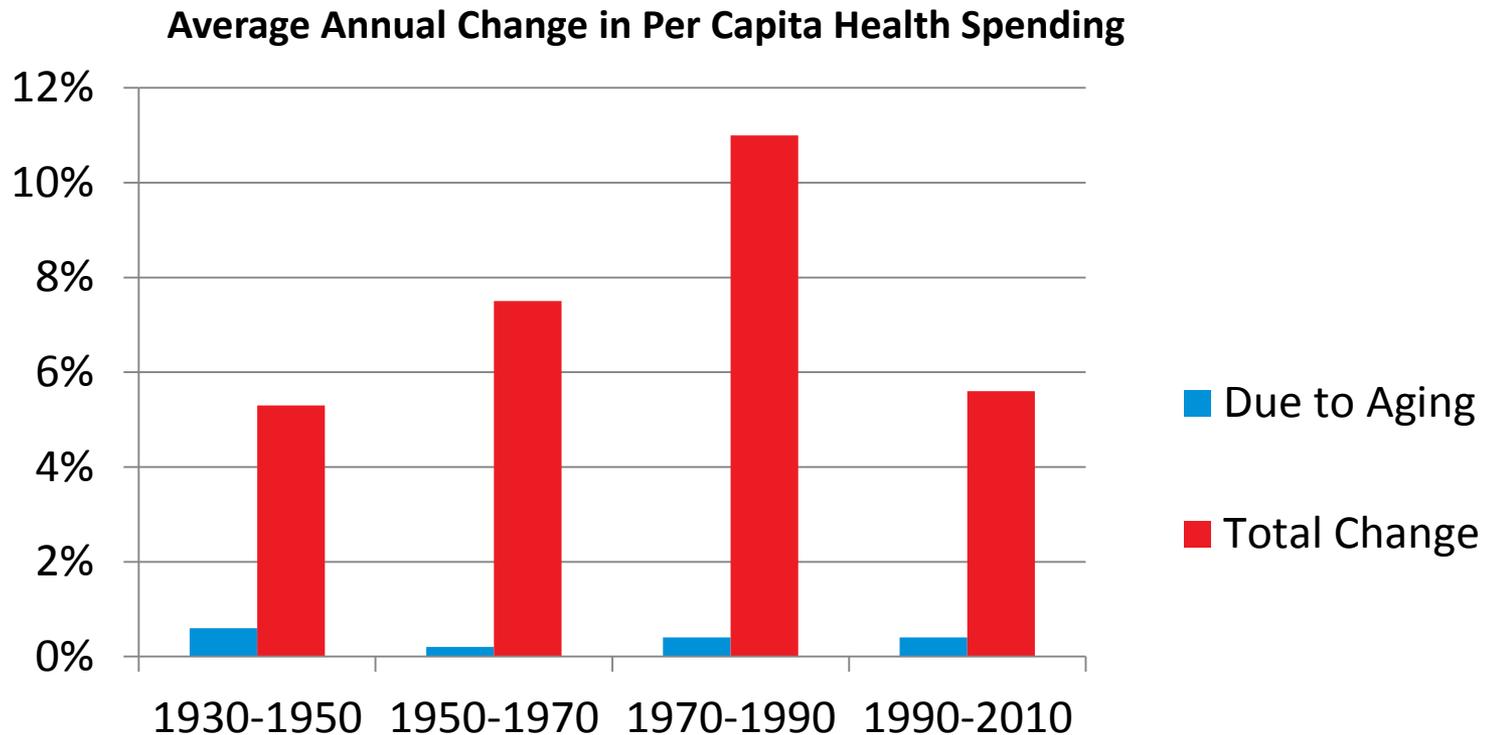
But it turns out it's hard to measure value directly. We don't yet have a good way to synthesize price and quality into a single measure. Even our methods for measuring quality are still under development.

Up Next: Can't get to value if we don't also think about health care quality





Just for fun: Aging of the population is NOT an important cost driver





The Role of the Consumer

Consumers should have trusted, actionable information on the prices, quality and value of doctors, hospitals and treatments. Consumers deserve to shop with confidence. But we need to be realistic about consumers' ability to “move the market.”



Health care prices are a “Top of Mind” worry for consumers

Health coverage is one of most expensive purchases consumers make.

Consumers feel strongly that “someone” – probably a government entity - should address high health care **prices**.

Consumers willing to embrace a wide-range of solutions.





Private and Public Responses

- **1990's – DRGs; managed care**
- **1999 – IOM publishes *To Err is Human***
- **2000's – “consumer directed” health care; wellness programs; limited benefit plans**
- **2010's – narrow and tiered networks; greater scrutiny of mergers; emerging transparency; Medicare increases commitment to value based purchasing.**



Poor health care value is a consumer hardship

- Difficulty affording premiums and out-of-pocket expenses: sub-optimal health care
- Lower paychecks
- Medical harm
- Public resources diverted from other uses



Why are Health Care Costs an Urgent Problem?
For Decades, Health Care Costs Have risen at Rates that Outpace the General Rate of Inflation

There is strong evidence that we aren't getting the value that we should for our health care dollars. Quality is uneven and an estimated 30% of our spending is considered unnecessary.

These cost and value issues aren't just an academic exercise—they have a profound impact on the health and financial security of American families.

Many families cannot afford health care they need

Periodic surveys by the Kaiser Family Foundation reveal that half the U.S. population goes without needed care due to concerns about the costs they will have to bear. And one-quarter of those who do get care have trouble paying their medical bills.

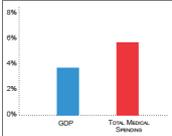
Rising health care costs are wiping out almost all income growth

A RAND analysis compared a family's health care cost burden in 1999 with that incurred in 2009. The take-away message, although family income grew throughout the decade, the financial benefits that the family might have realized were largely consumed by health care cost growth, leaving them with only 8% more per month at the end of the decade. Another study shows that the cost of health care has risen at a rate that outpaces wages for 30 years.

Lower-income families' budgets are hit hardest...

Low-income families are less likely to have health insurance to help with medical costs. Further, when low-income families do have employer coverage, health premium increases (being a fixed expense) absorb a larger share of the employees' compensation compared to a high-income employee. In one study, workers in the bottom income group who were insured had a ratio of employer-paid premiums to house-

Table 1
Per Capita GDP Growth vs Per Capita Medical Spend, 1999-2012



Source: Annual Health Expenditures, CMS

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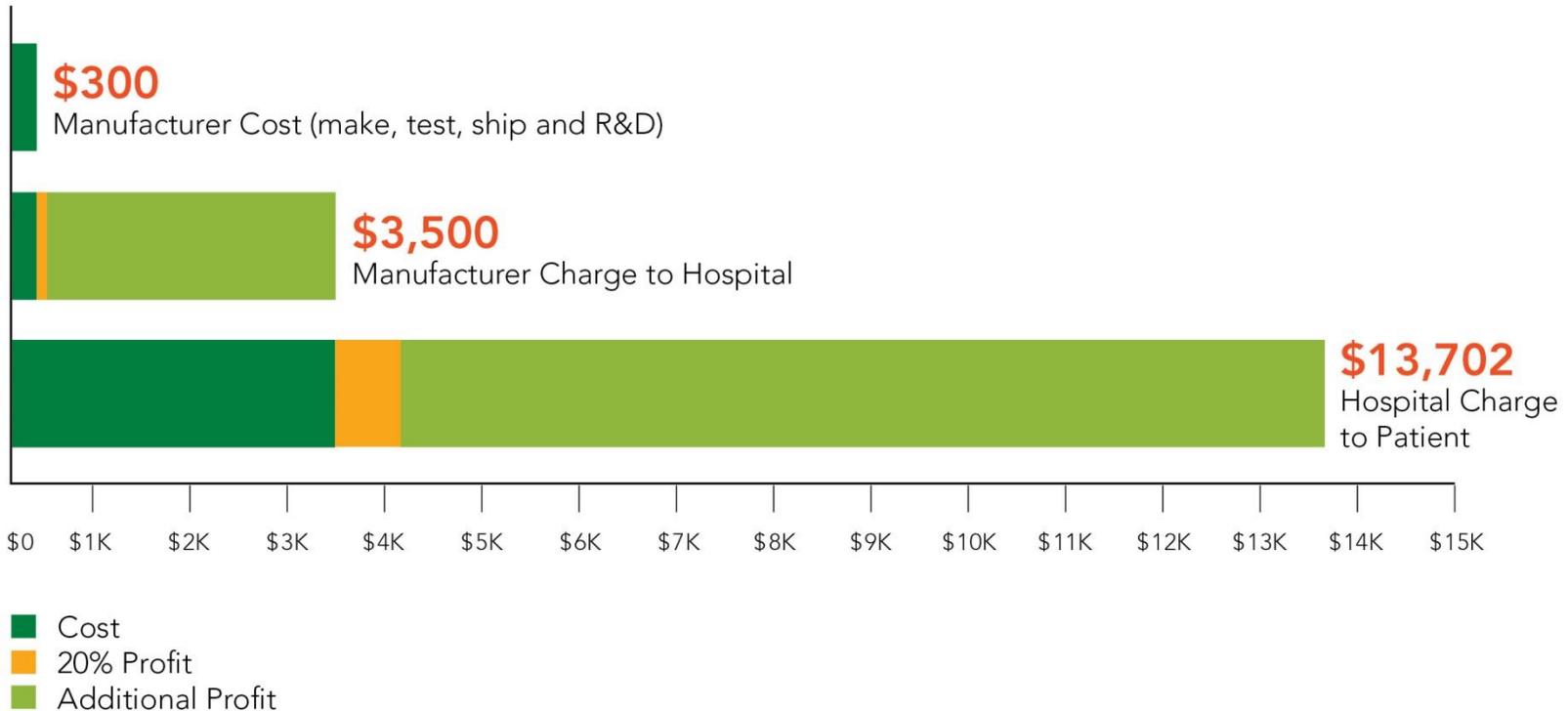


Q: Can we measure “value” in our health care system?

<i>Does the strategy...</i>	Lower Costs?	Raise Costs?
Lower Quality?	Reconsider	Do not support
Maintain Quality?	Support	Do not support
Improve Quality?	Support	Consider supporting

Is the Cost Reasonable?

One Dose of Cancer Drug Rituxan



Source: *Engaging Consumers On Health Care Cost and Value Issues*, Consumers Union, September 2014.