
Health Care Costs 101

Ten Things You Need To Know

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New Orleans Health Care Cost Conference
November 11, 2013



1. There are many ways to measure health care spending, some more useful than others.

Context is needed when talking about health spending over time

More Meaningful:

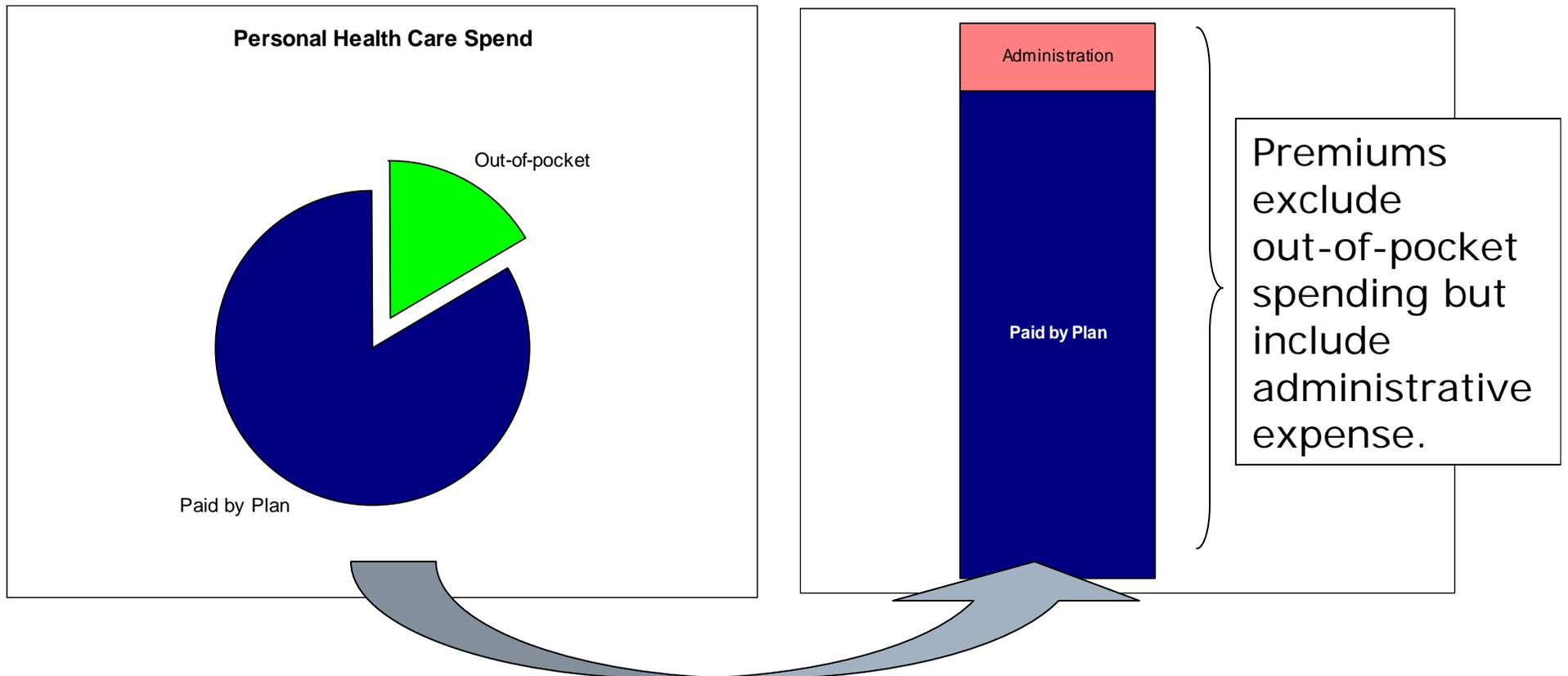
- spending per capita or
- spending as a percentage of GDP

Less Meaningful:

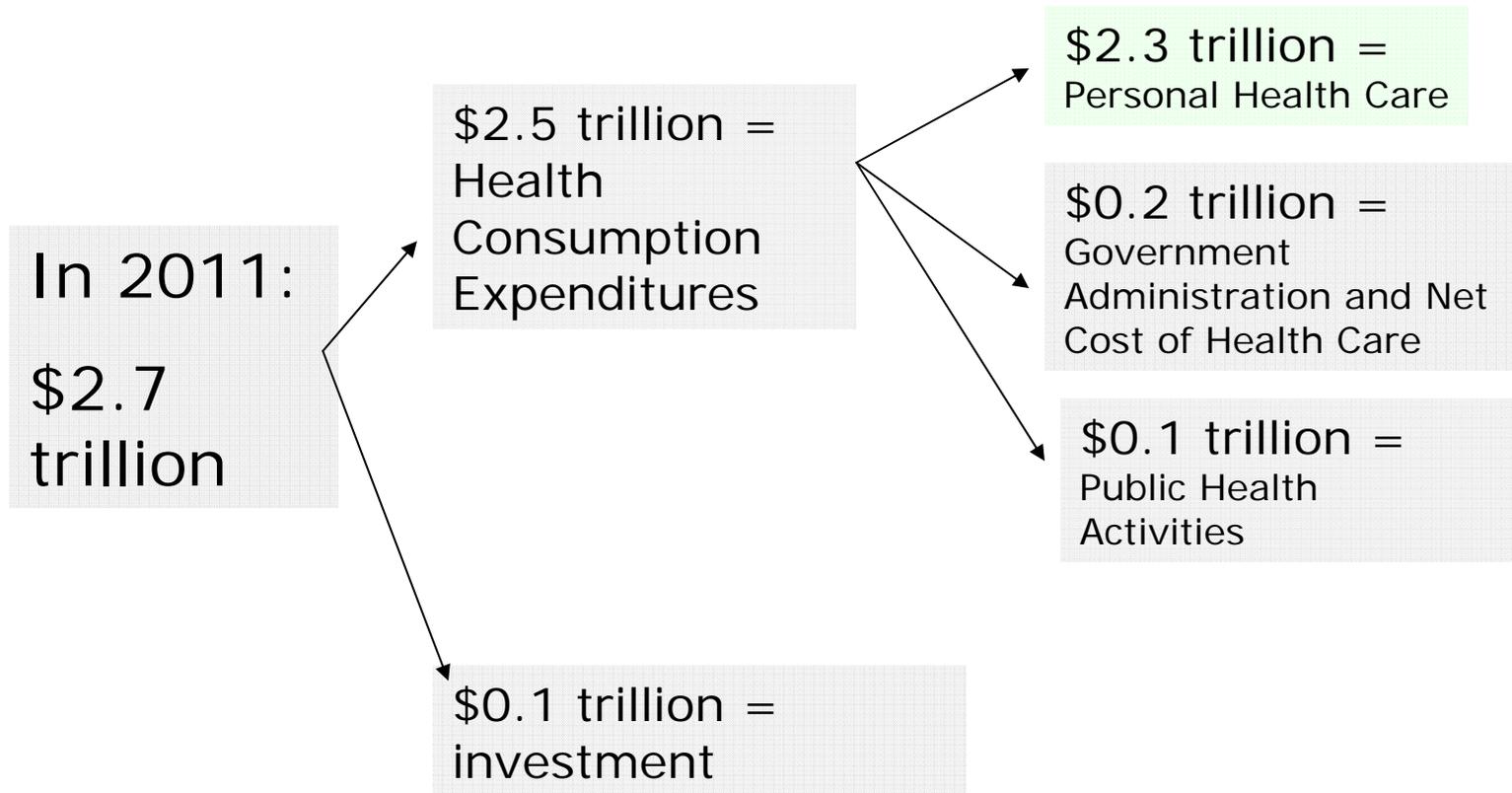
- Trends in overall health care spending

2. Premiums are not a good substitute for more complete measures of health care spending trend.

Premiums provide only a partial view of spending



National Health Expenditure Accounts from CMS are the Gold Standard



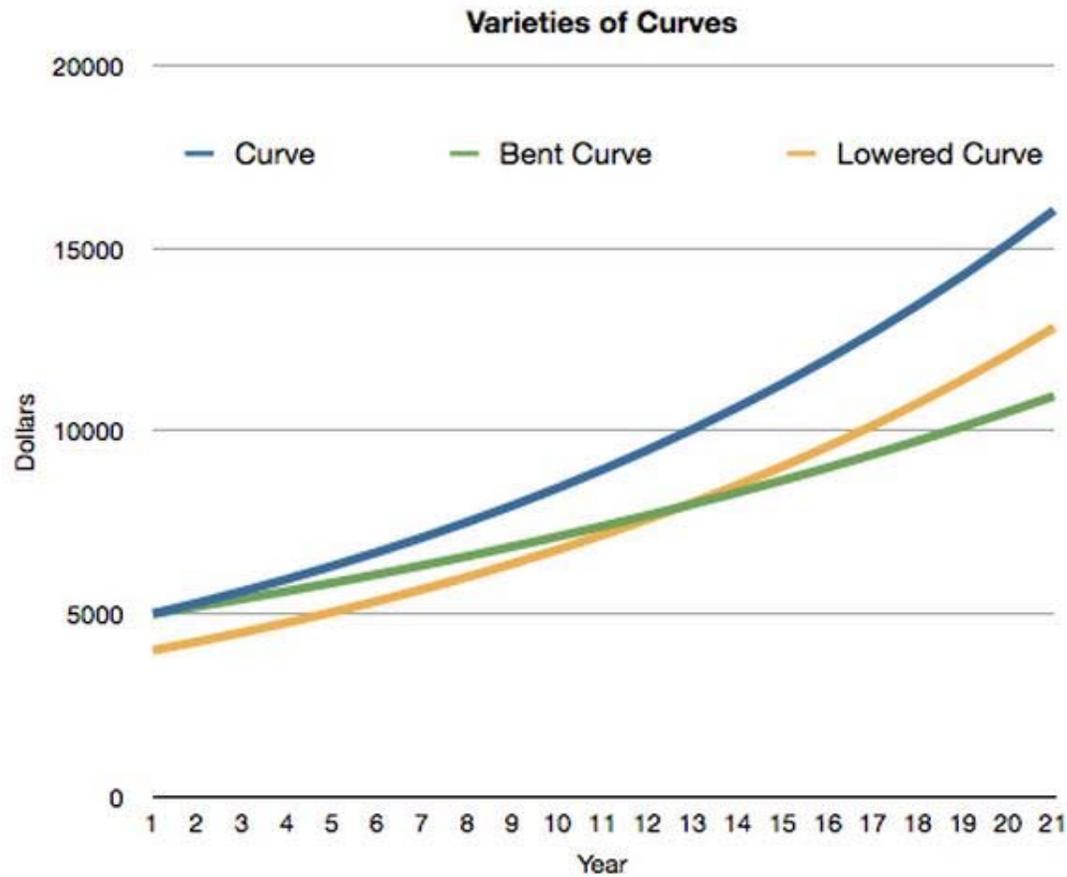
3. Current levels of spending are secondary to trends over time.

Two Problems:

- ❑ The level of spending per person is much higher than other countries.
- ❑ Our rate of growth is too high, taking an ever larger share of GDP.

A one time fix to the level of spend will not sustain us over time.

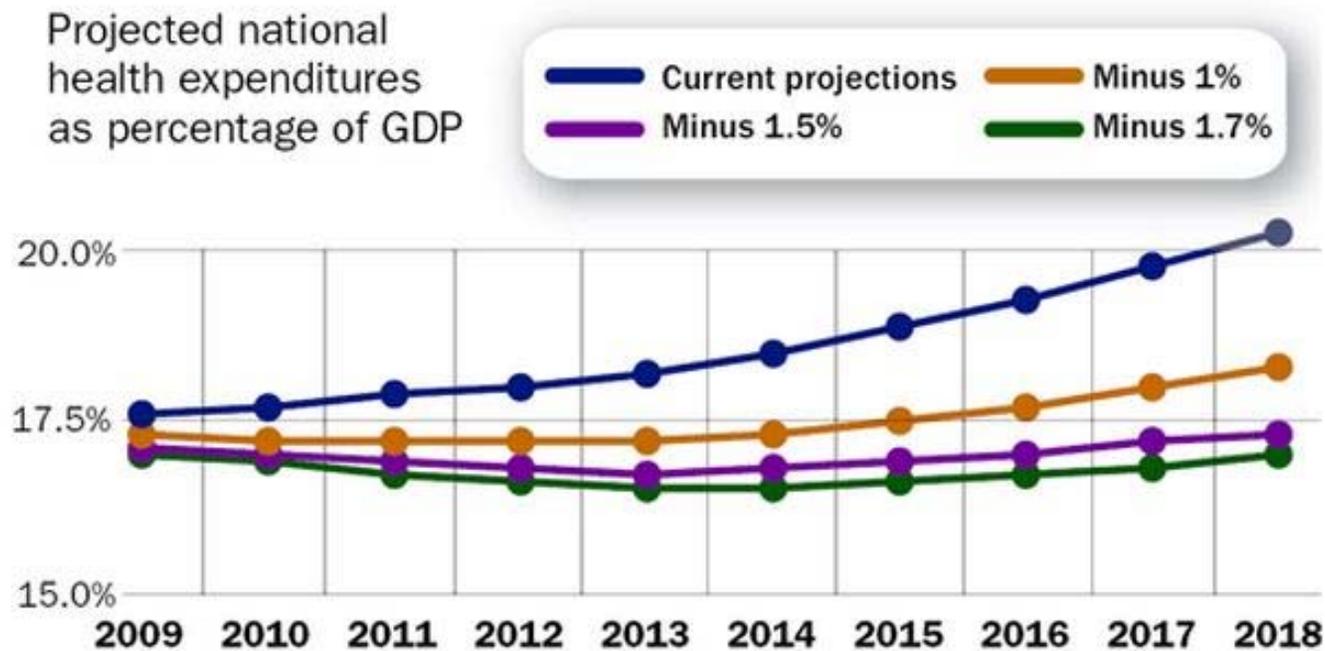
Bending vs. Lowering “the Curve”



Source: Matthew Yglesias, *Think Progress* – *Bending vs. Lowering the Curve*
<http://thinkprogress.org/yglesias/2009/12/12/195429/bending-vs-lowering-the-curve/>

**4. Worry about the long run,
not the short run.**

The Cumulative Impact of Reducing Trend Over Time



Source: America's Health Insurance Plans

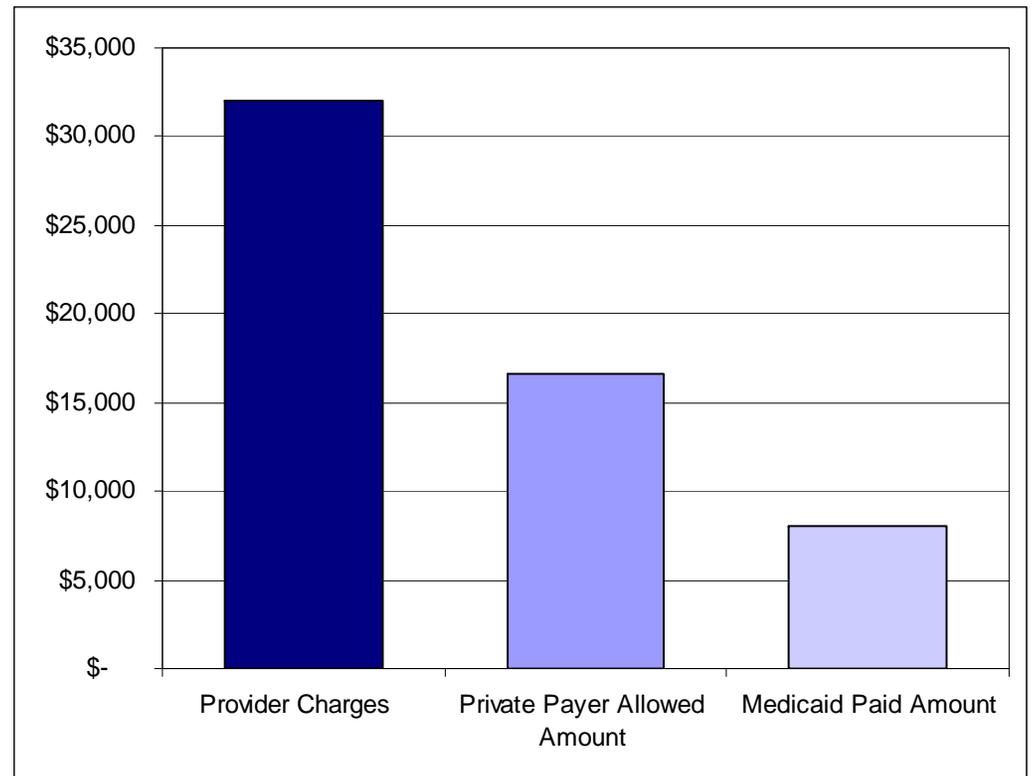
Source: The Commonwealth Fund, *Uniquely American Solution - Collaboration, Leadership Required to Bring Change*
<http://www.commonwealthfund.org/Publications/Commentaries/2009/Apr/Uniquely-American-Solution.aspx>

5. Spending and prices are very different things.

“Spending” shows what we paid

But we probably
didn't pay the
published
“price”

Average Maternal Costs 2010, Cesarean Childbirth

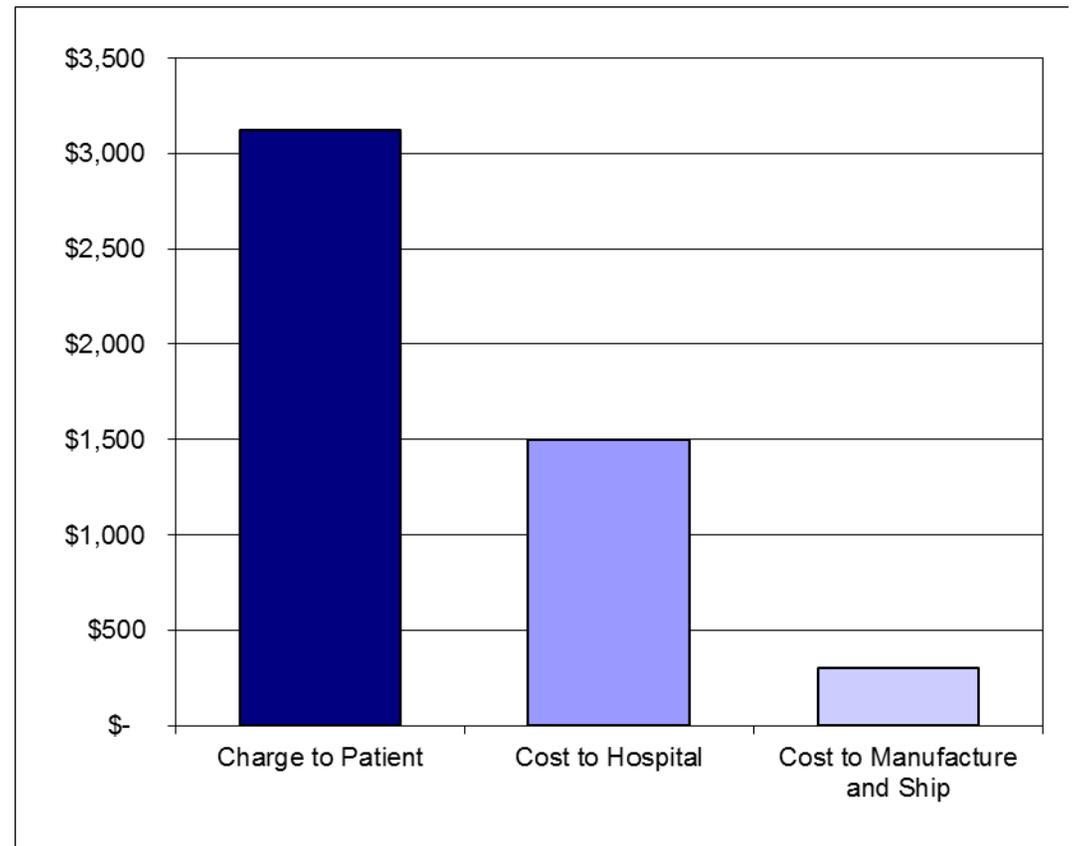


6. Neither price nor spending provide an accurate picture of the underlying cost.

Some – but not all – products and services are priced far above costs

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

Dose of Drug Flebogamma



7. Remember to account for value.

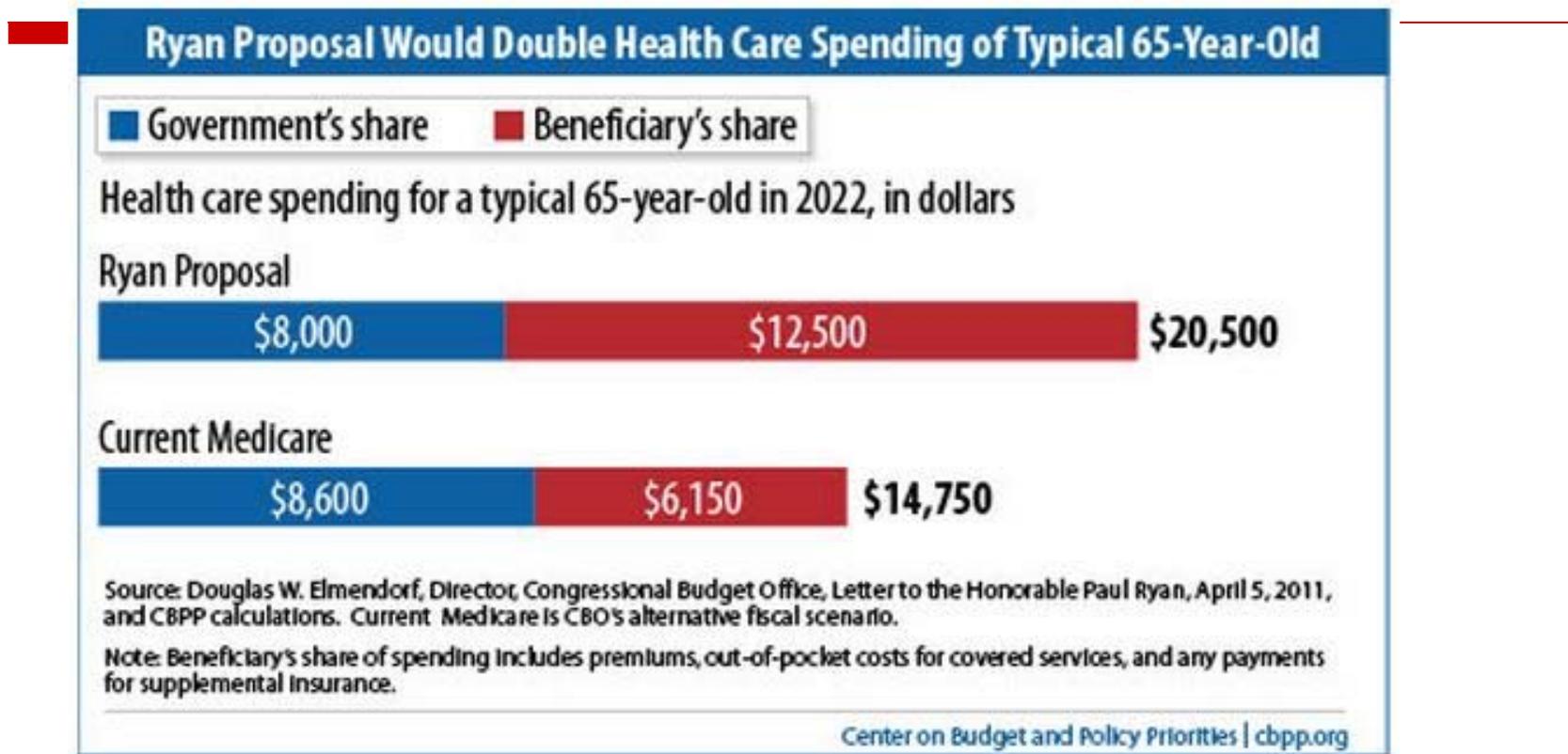
Spending Doesn't Tell The Whole Story

- ❑ Strategies to reduce costs must maintain or improve quality.
- ❑ And when costs go up, it may be justified if patient outcomes or quality of life have improved.

**8. Quality, and hence value,
are hard to measure.**

9. Beware interventions that just shift costs, without reducing them overall.

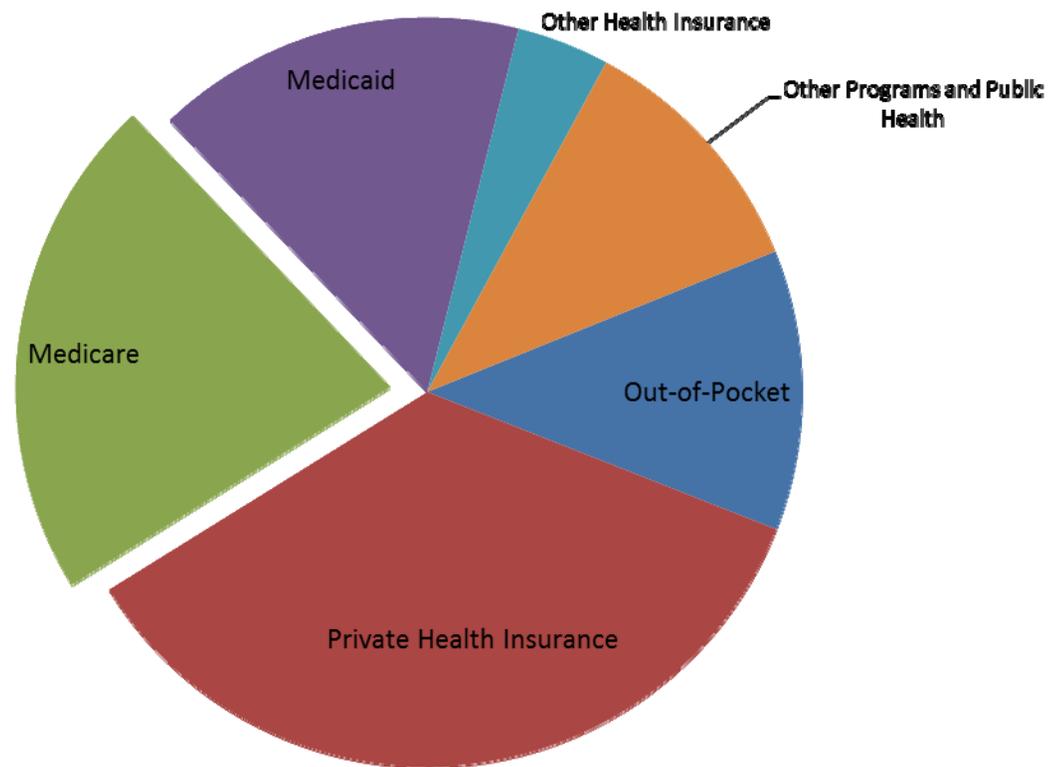
Cost Shifting Example



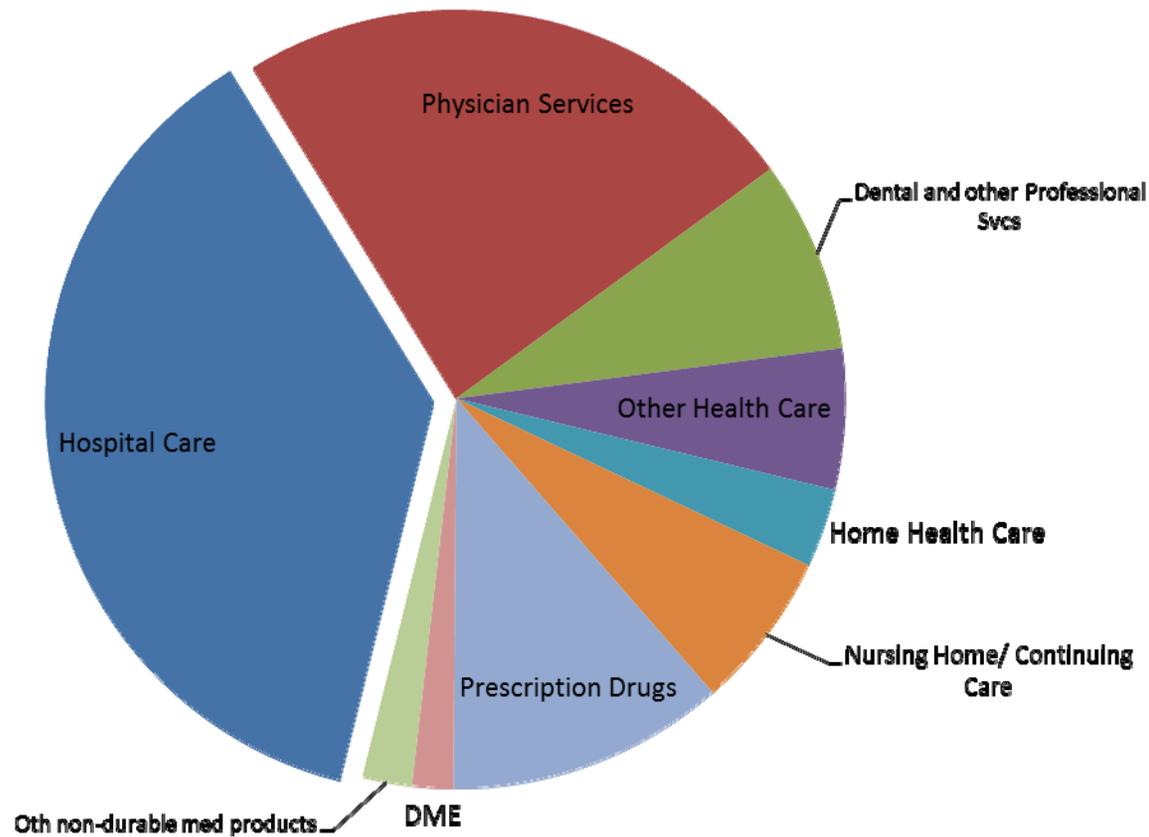
Source: Center on Budget and Policy Priorities, Out-of-Pocket Medical Costs Would Skyrocket for Low-Income Seniors and People with Disabilities Under the Ryan Budget Plan, <http://www.cbpp.org/cms/?fa=view&id=3473>

10. Become familiar with how overall spending is distributed among market segments.

Some evidence just examines the Medicare population, for example



Some evidence just examines hospital services, for example



Thank you!

Please email
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questions:

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"First we're going to run some tests to
help pay off the machine."

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<http://www.dailyyonder.com/how-medicare-could-fix-us-healthcare/2013/03/15/5717>