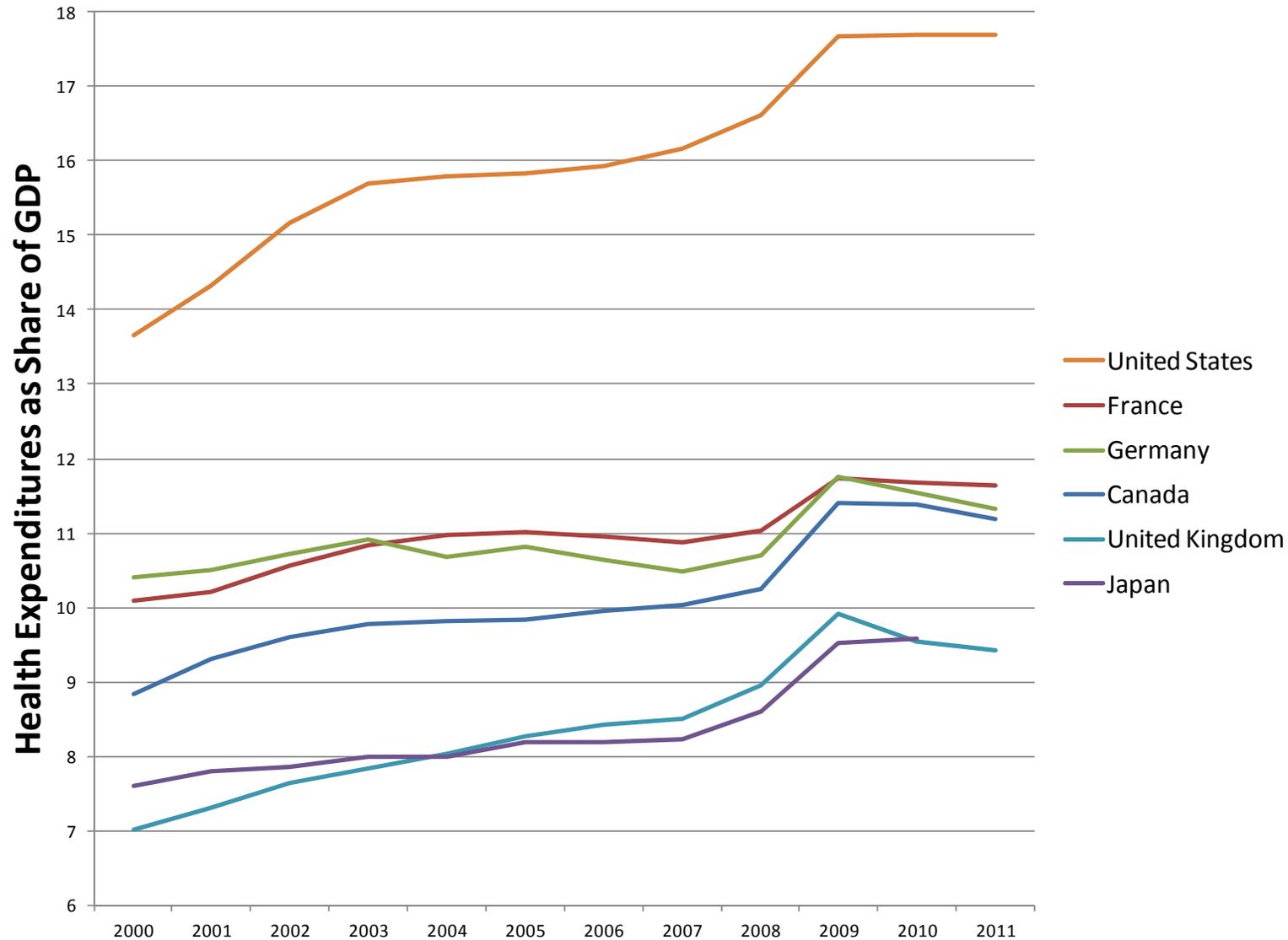


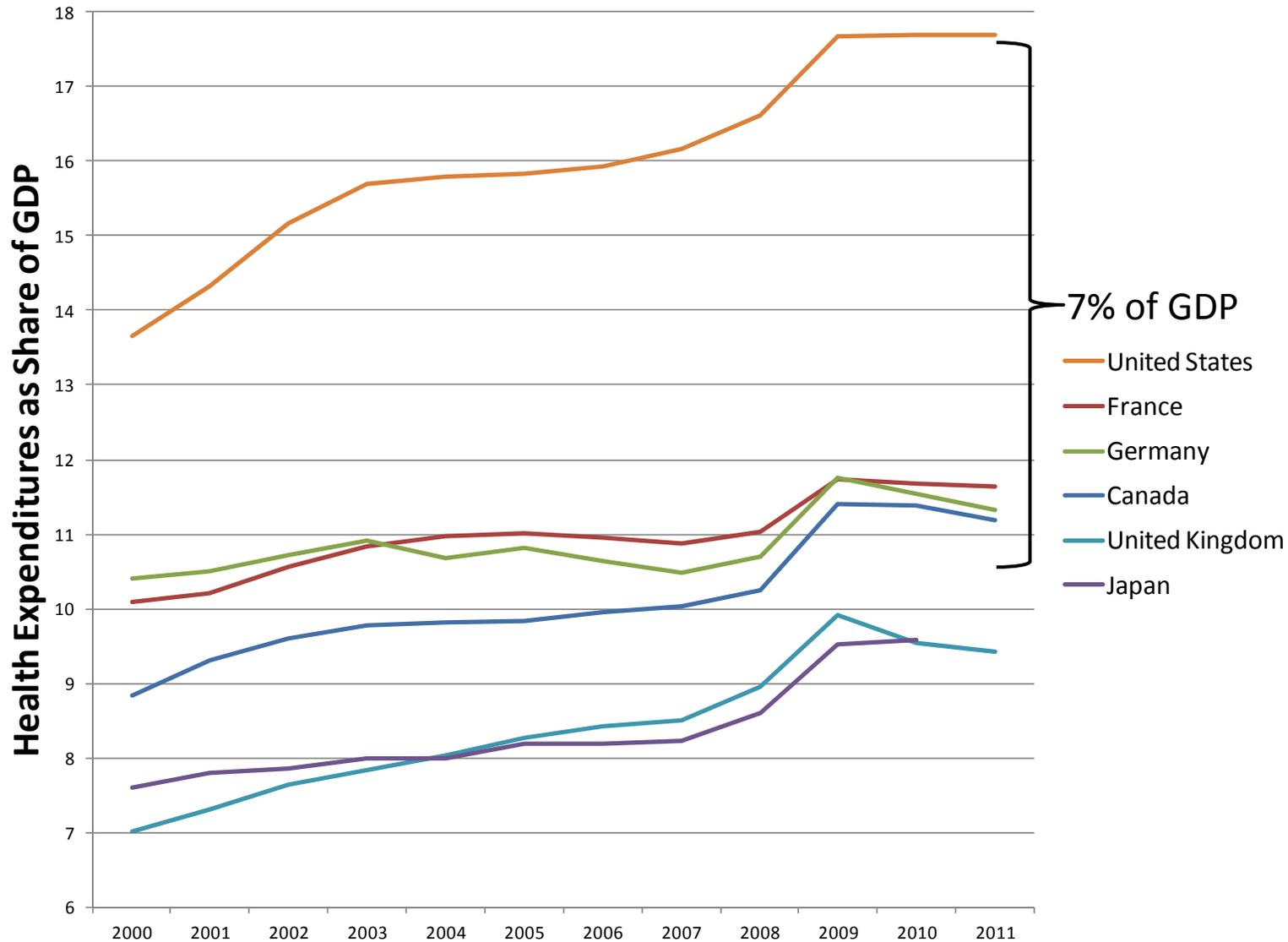
# Prices: The Real Health Care Cost Driver

Chapin White  
Addressing Rising Health Care Costs  
ConsumersUnion and the Robert Wood Johnson  
Foundation  
New Orleans, LA  
November 11, 2013

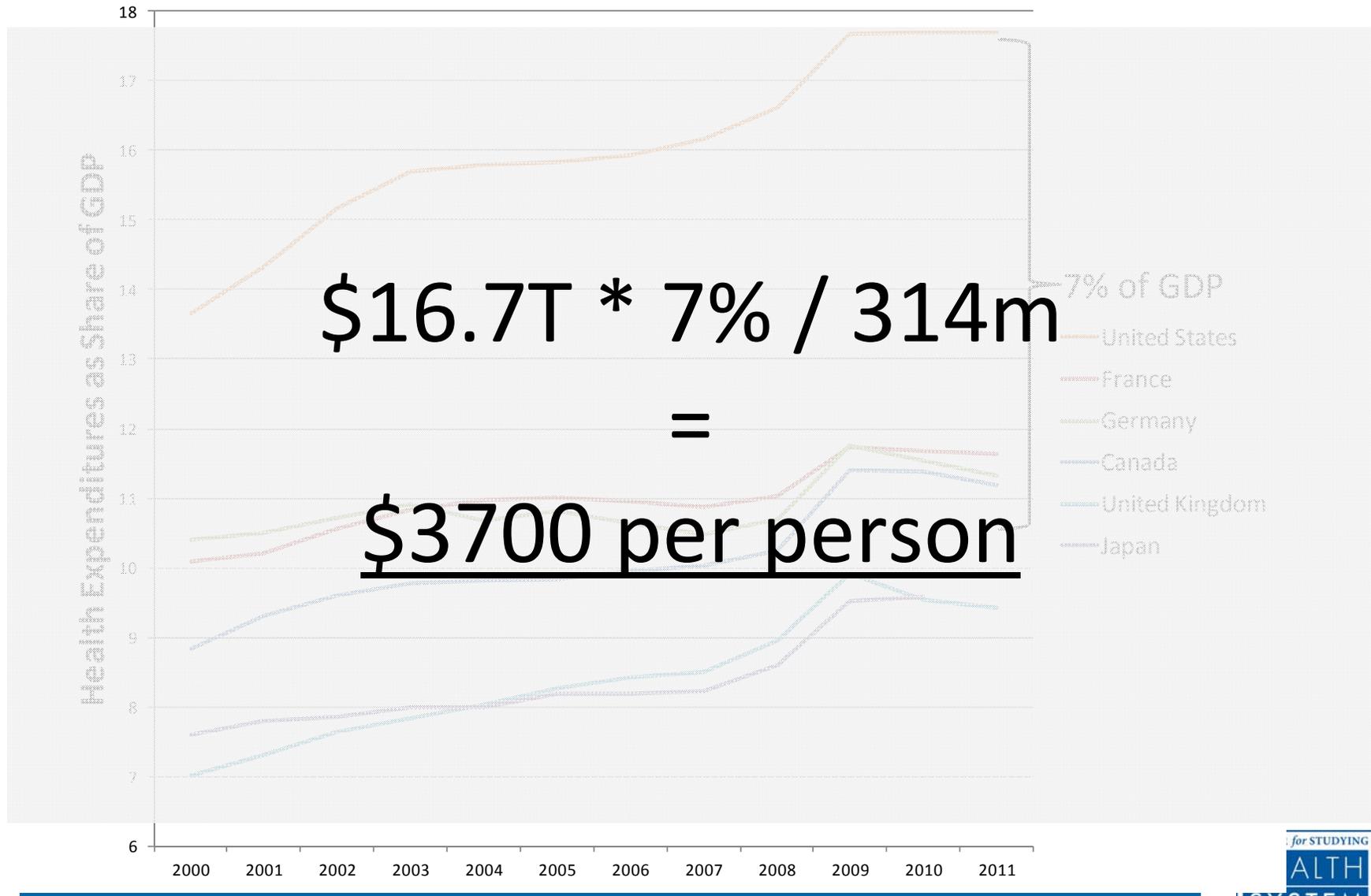
# How Big is the Cost Problem?



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# How Are We Paying that Extra \$3700?

- Taxes
- Forgone wages
- Out-of-pocket premiums
- Cost sharing

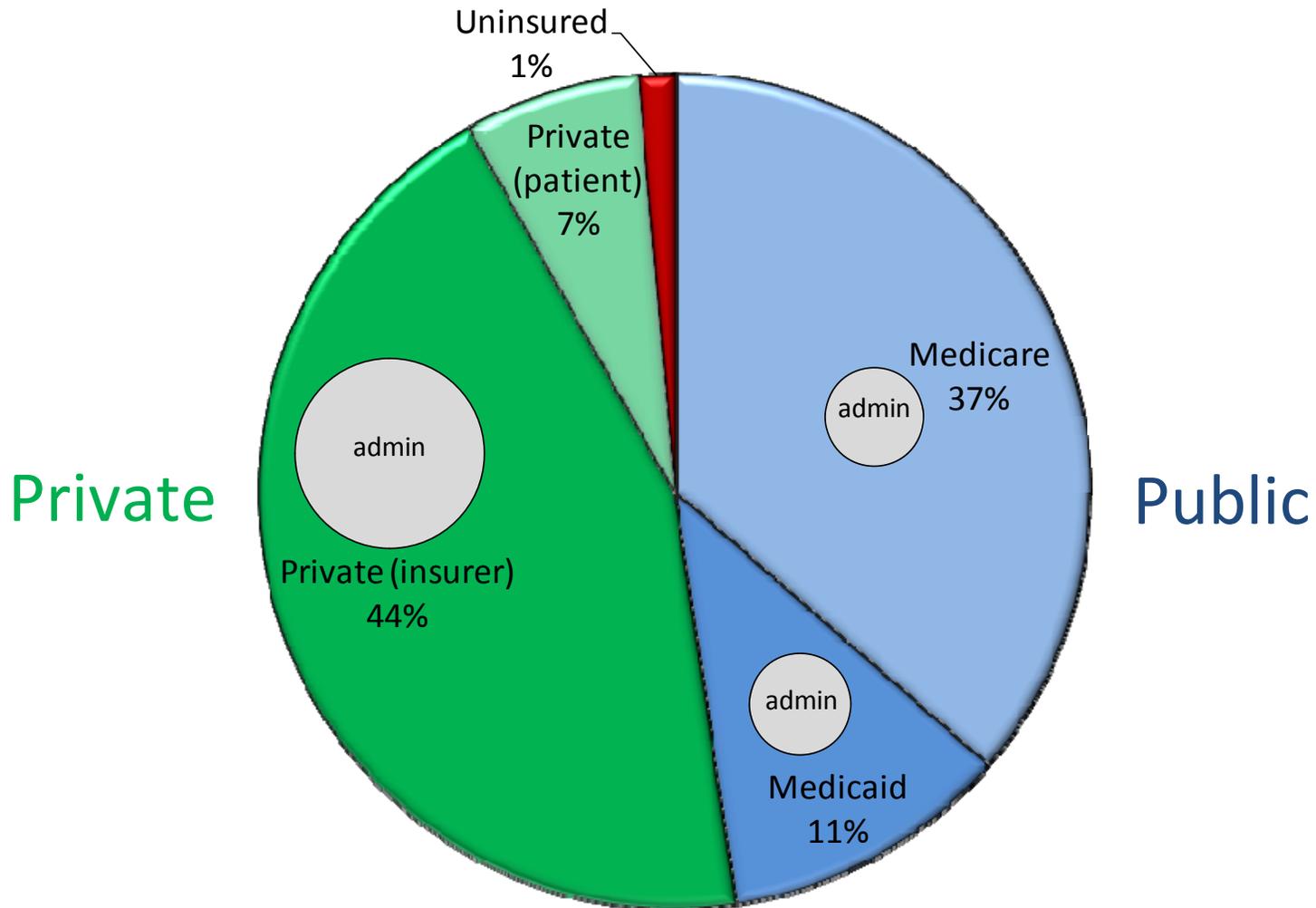
# Why is the U.S. So Different?

- Aging
- Obesity
- Technology
- Malpractice
- Unit prices
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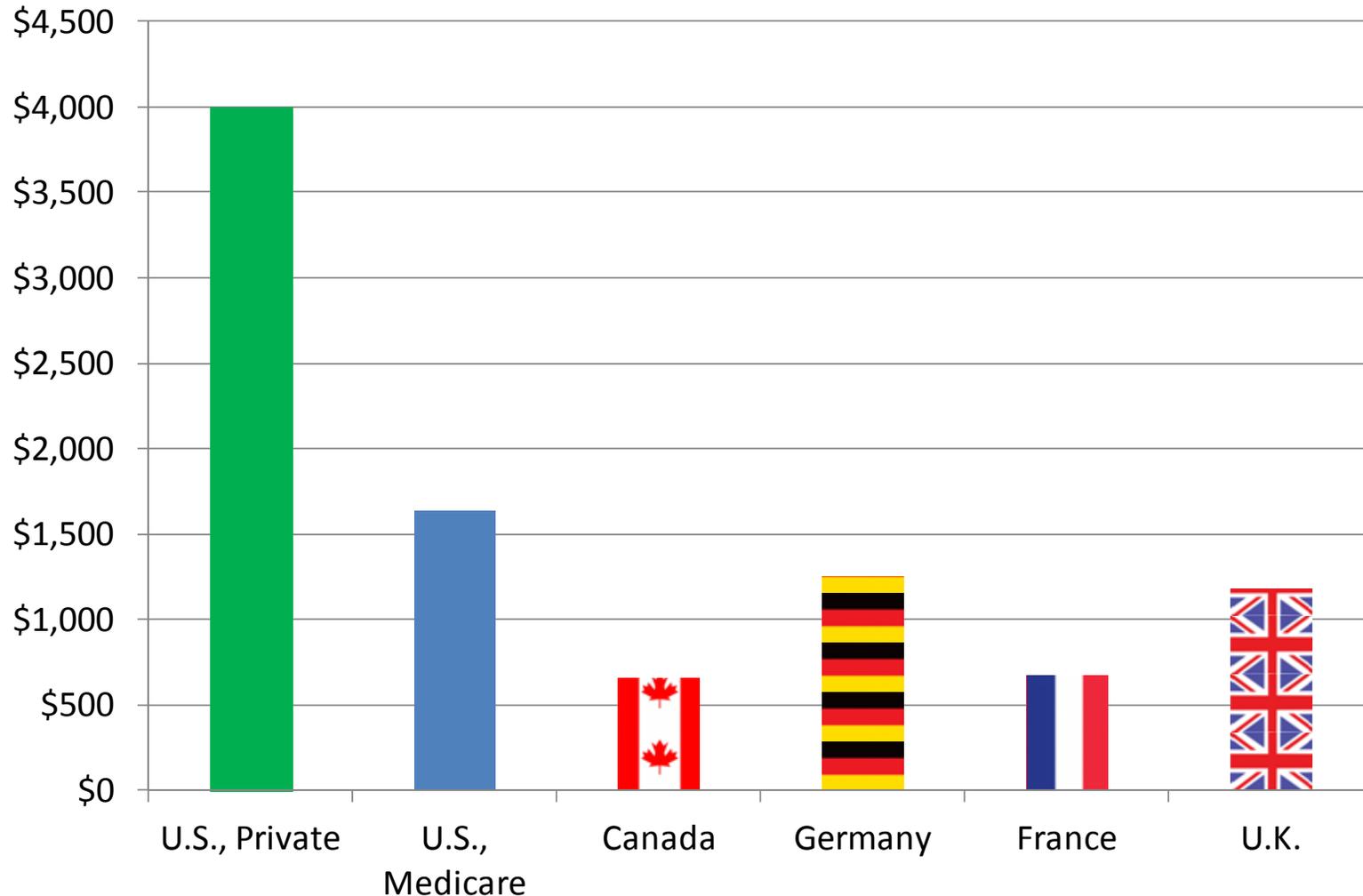
# Health Spending by Source of Coverage, 2013



Source: Author's calculations using NHE and MEPS-NHEA.

# How Bad is the Price Problem?

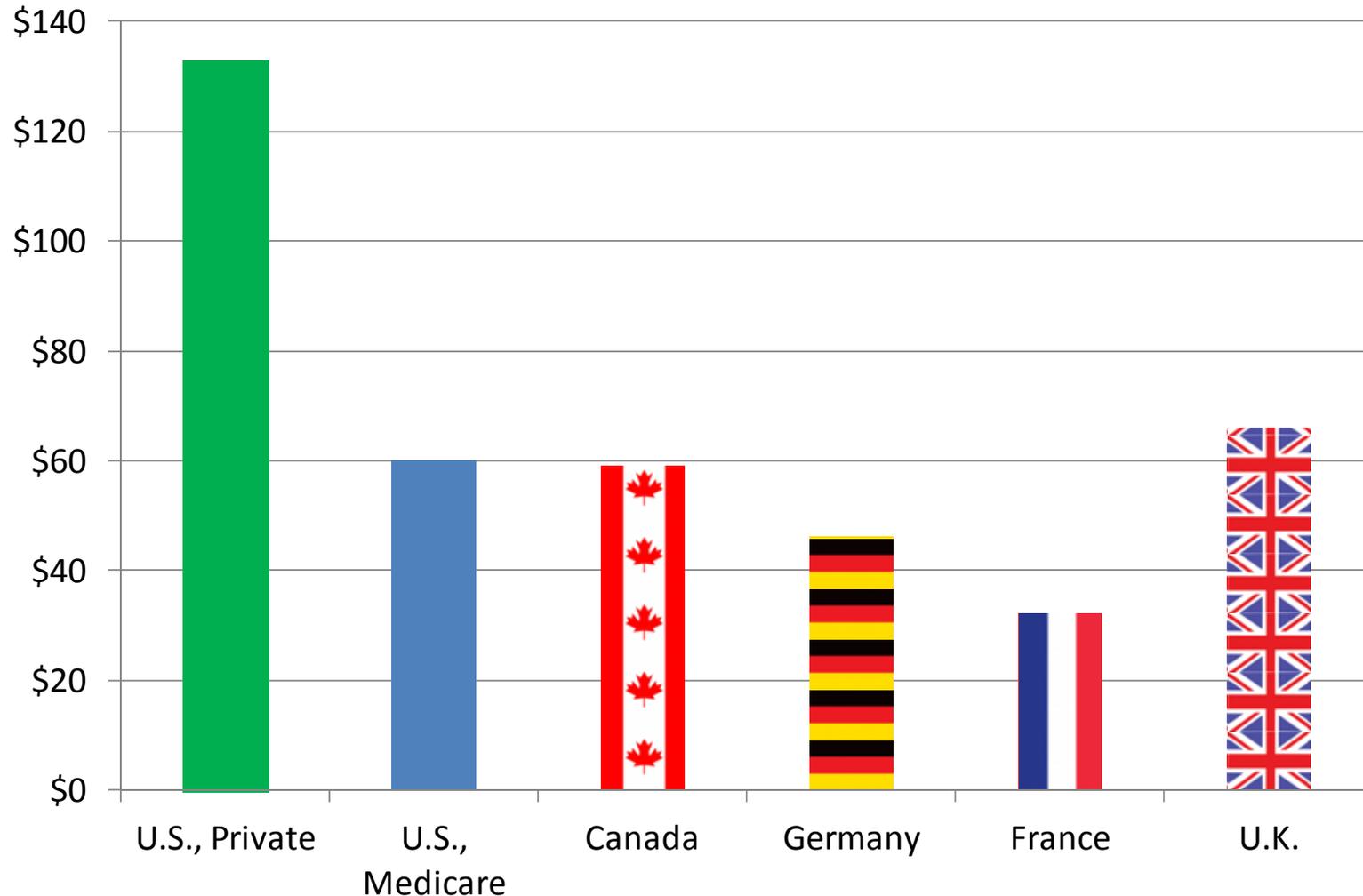
## Surgeon fee for hip replacement (2008, US\$)



Source: Laugesen and Glied, *Health Affairs*, 2011.

# How Bad is the Price Problem? (2)

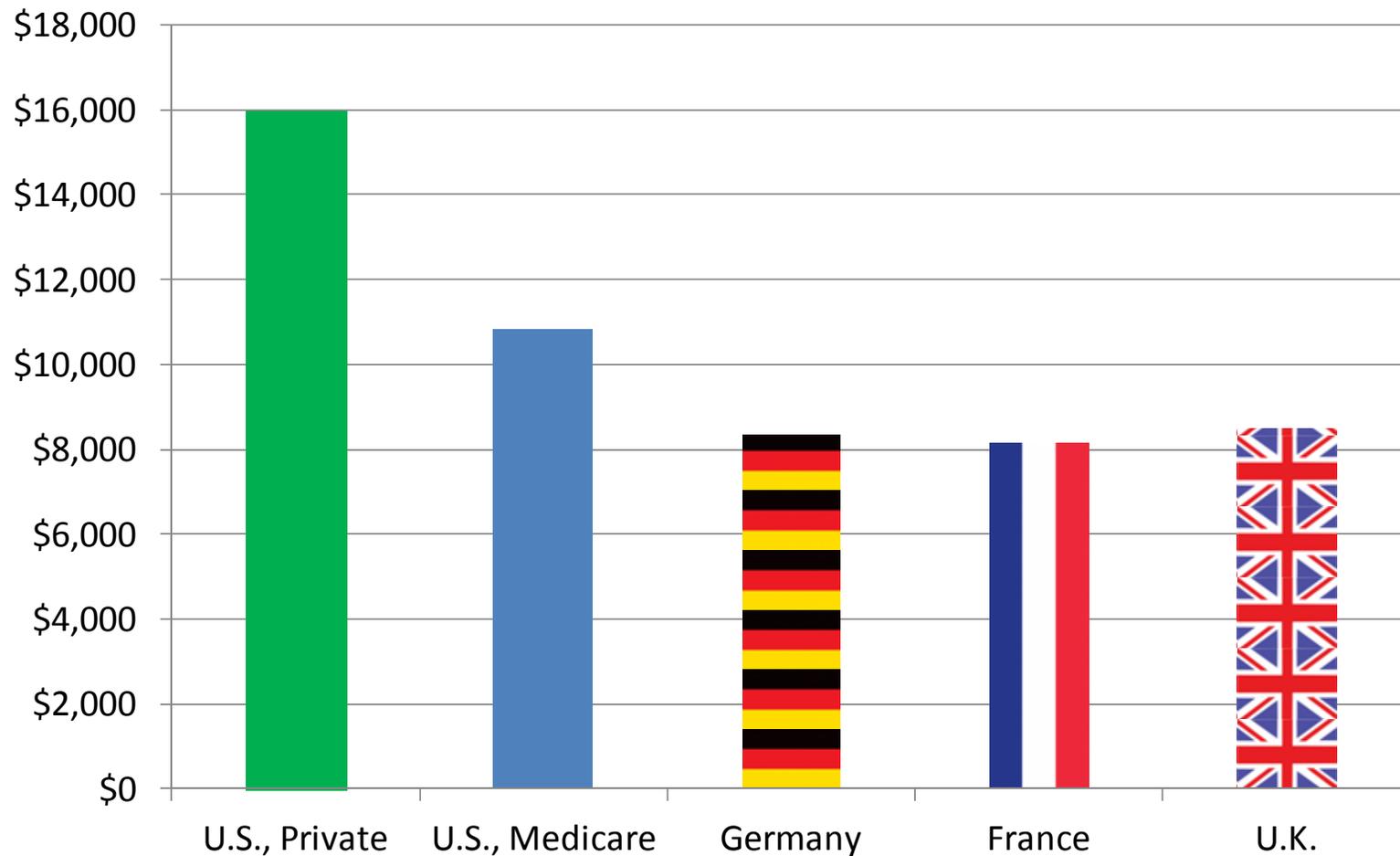
## Physician office visit (2008, US\$)



Source: Laugesen and Glied, *Health Affairs*, 2011.

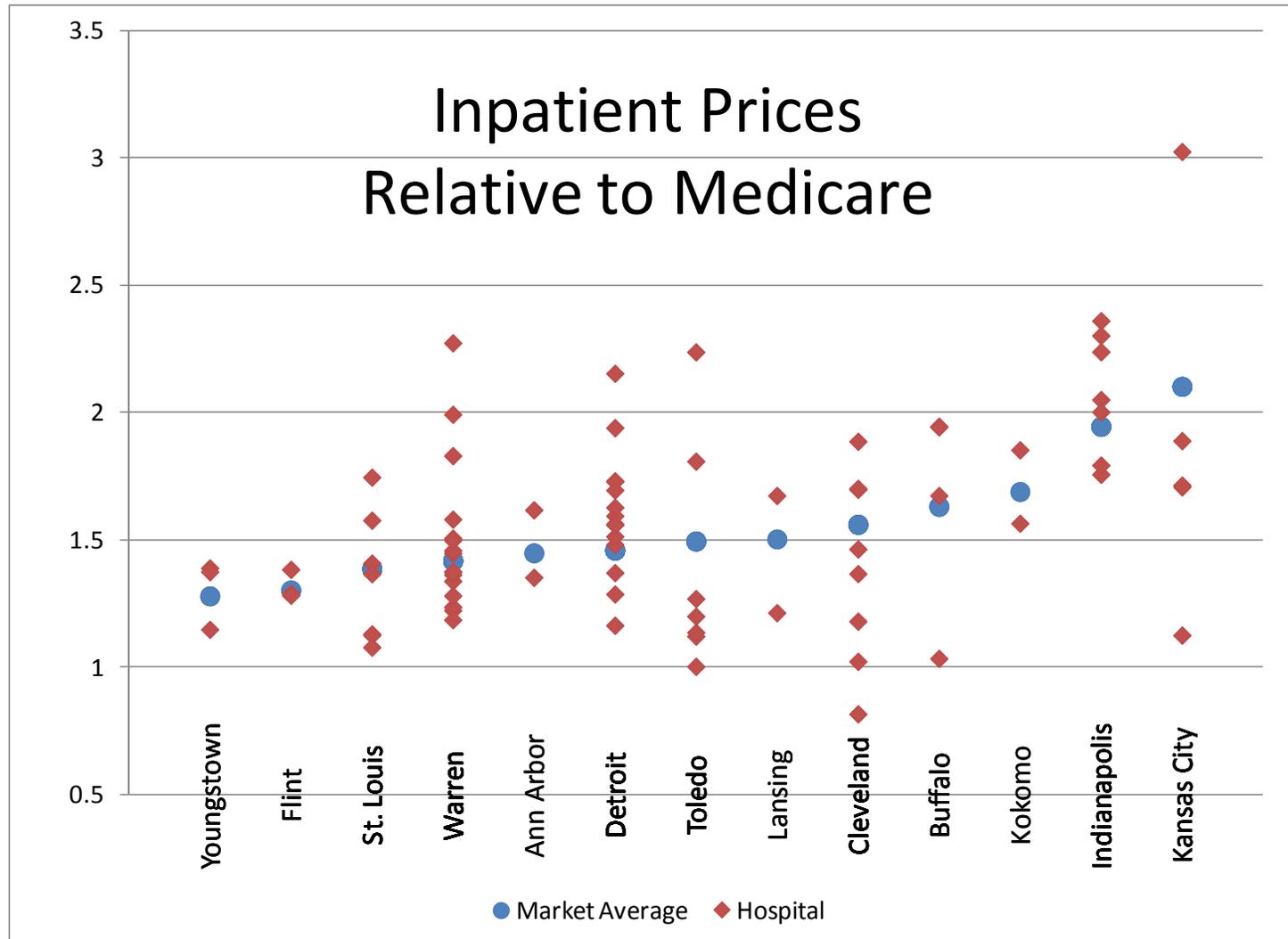
# How Bad is the Price Problem? (3)

## Inpatient Hospital Stay (2011 \$USD, casemix-adjusted)



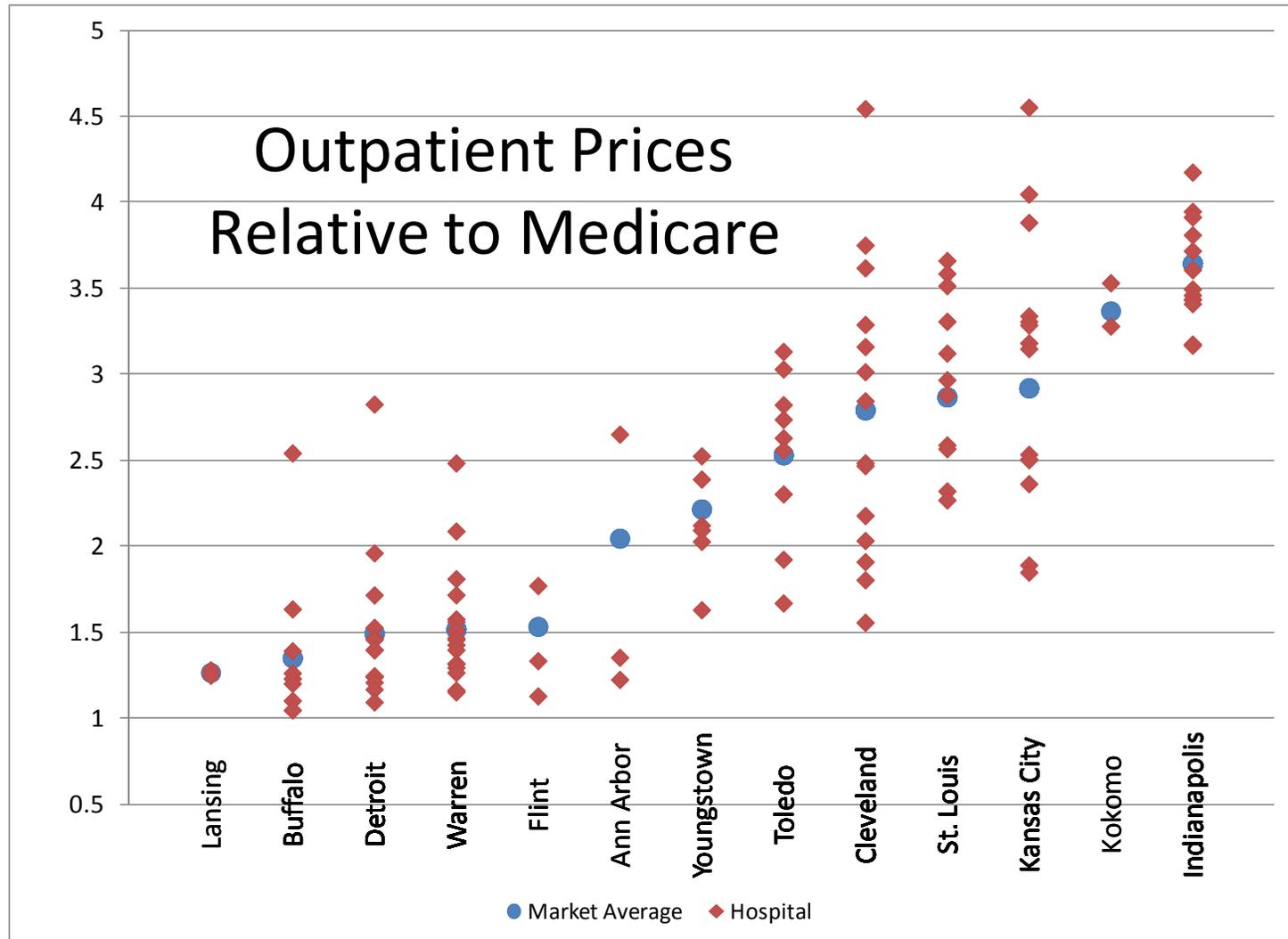
Source: Author's calculations based on the AHA Chartbook, BLS PPIs, and Stargardt, *Health Economics*, 2008.

# Private Hospital Prices—High and Highly Variable



Source: White, Bond, and Reschovsky, "High and Varying Prices ..." (2013)

# Private Hospital Prices—High and Highly Variable



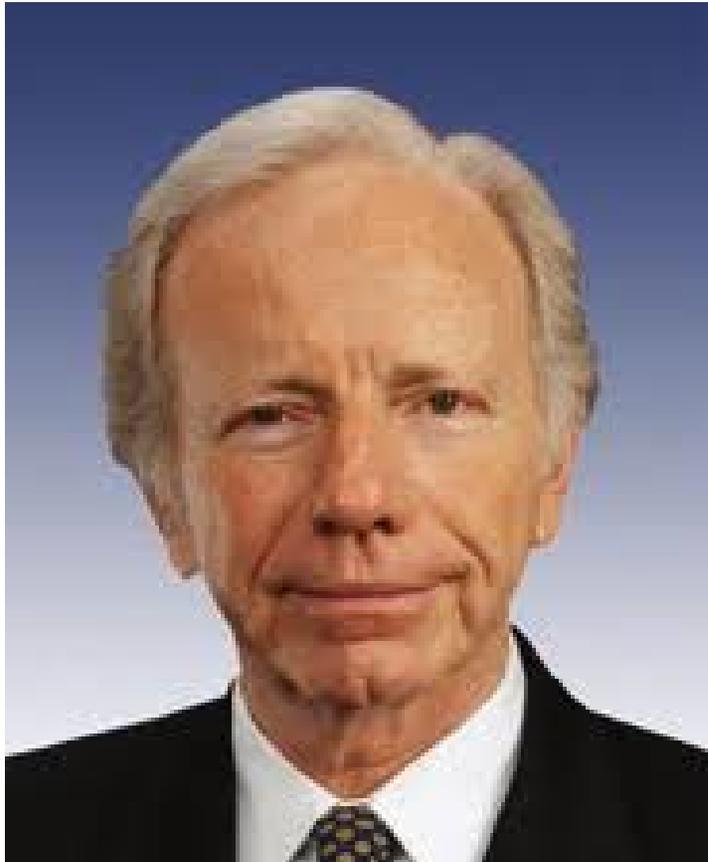
Source: White, Bond, and Reschovsky, "High and Varying Prices ..." (2013)

Center for Studying Health System Change – [www.hschange.org](http://www.hschange.org)



# Why Are Prices So High?

# Why Are Prices So High?



America's Health  
Insurance Plans



# The ACA and the “Public Option”



- House passed version of health reform included a “public option”
  - would pay Medicare rates (or 5-10% above)
- A public option would
  - reduce premiums in the exchanges
  - reduce the federal deficit
- Joe Lieberman said “no way, no how”
  - why? Because Medicare controls prices and spending

# The SGR “Fix”



- The Sustainable Growth Rate (SGR)
  - assigns a spending cap for Medicare physician services
  - Medicare physician prices are (supposed to be) adjusted up or down to hit the cap
  - every year the AMA demands and gets an override
- Overriding the SGR
  - increases the deficit
  - increases Medicare Part B premiums
  - increases beneficiary cost sharing

# Balance Billing for Emergency Docs



- ACA requires that health plans pay something for out-of-network emergency care
- But, no limits on charges or balance billing
- California is one of a handful of states that prohibit balance billing for emergency care
  - fought every step in courts by ACEP
  - former head of CA chapter of ACEP warns

"The emergency care safety net in California is not likely to fail in dramatic fashion, like a bridge falling into a river," he said. "It will fail one unavailable consultant at a time, one extra ambulance diversion at a time, one death in the ED waiting room at a time, one closed hospital at a time, one patient at a time."
- Mean ER physician income: \$237k in 2011

Sources: <http://www.acep.org/Clinical---Practice-Management/Balance-Billing-Ban-in-California-Could-Have-National-Impact/>, and <http://www.medscape.com/features/slideshow/compensation/2012/emergencymedicine>

# Administrative costs in U.S.



- \$80b for Medicare and Medicaid
  - roughly equal to OECD average for systemwide admin
- Plus, \$140 billion for private insurers administrative costs
  - \$450 per person
- What do we get for the \$450?
  - highest prices and spending in the world, by far

# Market Power

- Monopolistic tendencies in health care
  - high-tech hospital services (e.g. level I trauma care)
  - integrated delivery systems
  - insurance
  - physician cartel
  - Rx patents
- Does market power matter?
  - yes: in private market, prices depend on market power
  - no: Medicare sets “take-it-or-leave-it” prices
- Most countries use gov’t price setting to deal with provider market power

# Wrapup

- Unit prices are by far the biggest cost driver
  - high in public plans
  - extremely high in private plans
- Administrative costs
  - \$140 billion for private insurance system
  - what are we getting for that?