Health Care Cost Drivers: What Should Be Done?

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INTRODUCTION
Joel White, a veteran of Capitol Hill who served as the Staff Director for the Ways and Means Health Subcommittee, founded Horizon Government Affairs in 2007. He became President of the Council for Affordable Health Coverage in 2008.

HGA is a full-service government affairs firm recognized in Washington, D.C. for our well-established coalitions, deep policy expertise and effective advocacy. CAHC is a leader in uncovering the causes of rising unaffordability and in offering solutions.

Joel spent twelve years on Capitol Hill as professional staff for the Ways and Means Committee and two Members of Congress.

He helped enact nine laws, including the 2003 law that established the Medicare prescription drug benefit (Part D), the Average Sales Price reimbursement model for drugs (Part B) and Health Savings Accounts.
What do we spend on health care and where does it go?

HEALTH SPENDING
Quick Overview of Health Costs

- US will spend $3.7 trillion on health care in 2018
  - Most spending is on labor (hospitals and doctors)
  - About 30% ($1.1 trillion) is waste

- Costs have persistently grown 2-3 times faster than wages

- Despite having the world’s highest per capita health spending, we are the only rich country with falling life expectancy
  - High variation in quality
  - Health markets are opaque
  - Consumers wield little power in health care
Currently, three-quarters of health spending goes toward hospitals, professional services, and prescription drugs. CMS expects these shares to remain relatively constant through 2028.
CMS projects that health spending as a share of GDP will continue growing rapidly over the next ten years, albeit at a slowing pace.

Source: National Health Statistics Projections (2017)
U.S. health care spending per capita has risen at historically low rates recently, but is expected to pick up

Average annual growth rate of health spending per capita for 1970s - 1990s; Annual change in actual health spending 2000 - 2016 and projected health spending 2017 - 2026

Grey region represents average growth within decade.

Source: Kaiser Family Foundation analysis of National Health Expenditure (NHE) Historical (1960-2016) and Projected (2017-2026) data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group (Accessed on February 14, 2018).  •  Get the data  •  PNG
Medical Cost Growth Relative to Wages

- Since 2010, the medical cost trend (MCT) has grown by 73%.
- The MCT has grown four times faster than the average wage and five times faster than the Consumer Price Index.

Source: PricewaterhouseCoopers; Census; BLS, CAHC Calculations.
By 2030, the average family will pay 54 percent of their income on healthcare
The rising cost of health coverage has translated into falling or stagnant wages for the majority of working Americans.

Two earner household with employer-sponsored family coverage. Does not include deductibles, co-pays and other out-of-pocket spending.
What is driving health care costs?

HEALTH COST DRIVERS
Cost drivers

- Price
- Utilization
- “Waste”
- Aging
- Disease
- Concentration/Consolidation
Price increases are driving the growth in health spending, even as utilization falls.

The Institutes of Medicine estimate that 15% of spending might be associated with low- and no-value services.
Causes of Waste in the US System

Covered lives (2016 data): 120 – 125 million
Total health consumption expenditures (HCE): $1.26 trillion

Estimated annual waste, in 2016

Administrative complexity: 389 (31%)
Pricing failures: 73
Fraud and abuse: 83
Failures of care coordination: 39
Failures of care delivery: 47
Overtreatment: 100

Medicare & Medicaid:

Private payers & other:

Total waste (of HCE): $1,145 billion (35 – 37%)
Administrative & operational: $700 billion (20 – 25%)
Clinical: $445 billion (14 – 15%)

Council for Affordable Health Coverage
HORIZON GOVERNMENT AFFAIRS
Chronic illness will cost $42 trillion between 2016 and 2030, or $8,600 per person
The most expensive five percent of patients accounted for about half of total health spending, while the most expensive 20 percent accounted for 82 percent of spending.

Top 1% of spenders account for more than one-fifth of all spending.

Top 5% of spenders account for half of all spending.

Top 10% of spenders account for two-thirds of all spending.

Bottom 50% of spenders account for only 3% of all spending.

Percent of Civilian Non-Institutionalized Population Ordered by Health Care Spending, 2014.
Opioid abusers generate an average of $14,810 in excess costs to payers in the 6 months before and after the initial abuse episode.
The real cost of opioids…

Source: CDC
By 2007 one could traverse the continental United States going in any direction without encountering a single competitive hospital market.
MSAs with highly concentrated health markets in 2016

In many communities, price controls (by hospital systems) are a reality

“Just as seriously, if not more, evidence shows that patient quality of care suffers from lack of competition.”

Martin Gaynor, Carnegie Mellon University, Testimony before E&C Committee, 2018
Insurer Concentration: Fewer Plans, Fewer Choices

County by County Analysis of Plan Year 2018 Insurer Participation in Health Insurance Exchanges

- 0 counties have no carriers (0.00%)
- 1,565 counties have 1 carrier (51.43%)
- 0 Exchange participants without coverage (0.00%)
- 2,152,700 Exchange participants without choices (29.68%)

Exchange Carrier Number:
- 0 Carriers
- 1 Carrier
- 2 Carriers
- 3 Carriers
- >3 Carriers

All State Exchange data is self-reported from the Exchanges to CMS (CA, CO, CT, DC, ID, MA, MD, MN, NY, RI, VT, WA). Information on this map is point in time as of 10/26/2017. Exchange carrier data as of August 30, 2017, and does not include enrollment for State-Based Exchanges.
What Then Shall We Do?

HEALTH COST SOLUTIONS
Solutions

Address Prices:
- Transparency
- Anti-competitive Tools
- Medicare benchmark

Expand choices:
- plans
- exchanges

Address Chronic Illnesses, Opioids:
- Flexible Benefit Design
- Wellness programs
- Fix PDMP model
If we had maintained a 0.5 percent of GDP differential in health spending from 1970 through 2015, we would have spent a cumulative $22.2 trillion less (in 2015 dollars) on health care. With interest, the deadweight loss comes to $31.5 trillion.