

Forecasting National Health Expenditures in a CDHC Environment

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Outline

- ▲ Background
- ▲ Modeling Framework
- ▲ Potential Impacts
- ▲ Current Evidence
- ▲ Forecasts

Background

What do we mean by consumer driven healthcare?

- ▲ High deductibles with savings accounts
- ▲ Increasing amounts of consumer information
 - Prices
 - Quality
 - Enhanced e-tools
 - Shared decision-making
- ▲ Incentives for healthy behavior (sometimes)

Is there a way to make this work for those with low incomes?

Background

CDHC impact on national health expenditures

- ▲ Near term vs. long term
- ▲ Direct vs. indirect

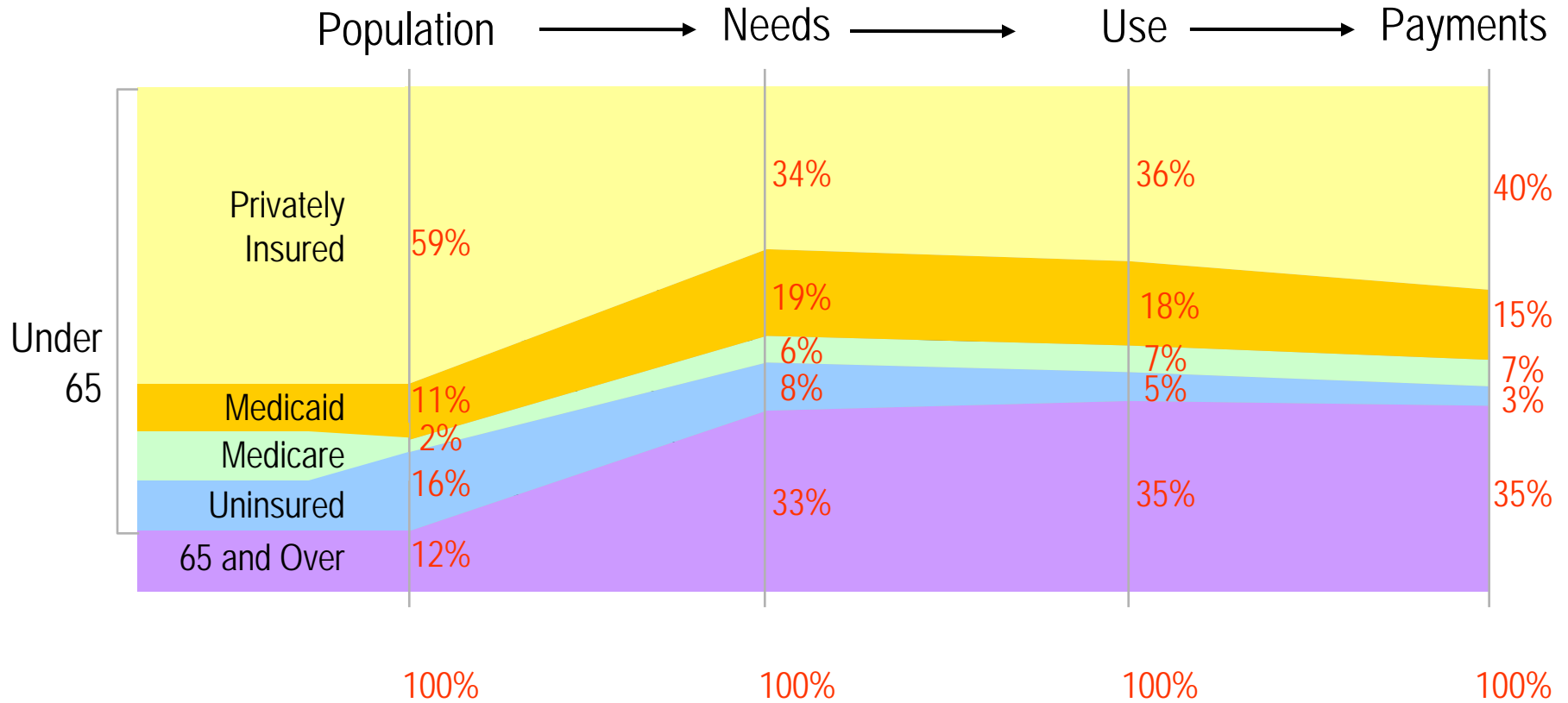
Modeling Framework

Healthcare expenditures are determined by:

- ▲ Need --- which leads to
- ▲ Use --- which leads to
- ▲ Payments

This includes the impact of technology which affects all three factors

Modeling Framework



Source: Altarum Health Sector Model (AHSM-US 2004)

Potential Impacts

Why CDHC might reduce need:

- ▲ Risky behavior ↓ since own health care \$ at stake
- ▲ Preventive services ↑ if exempt from deductible
- ▲ HSA contributions tied to healthy behaviors
- ▲ Cultural shift driven by:
 - Better information
 - Constant media attention to health issues

Depends upon benefit design

Potential Impacts

Why CDHC might increase need:

- ▲ Preventive services ↓ if not exempt from deductible
- ▲ Reduced adherence to prescribed medications
- ▲ Postponement of necessary care / delayed Dx

Depends upon benefit design

Potential Impacts

Why CDHC might reduce utilization:

- ▲ Higher deductible raises price to consumer
- ▲ Information will increase self-care options
- ▲ Shared decision-making tends to reduce use

Depends upon benefit design

Potential Impacts

Why CDHC might increase utilization:

- ▲ More preventive services to avoid future costs
- ▲ Care is free after exceeding deductible
- ▲ Better access for previously uninsured

Depends upon benefit design

Potential Impacts

Why CDHC might reduce prices paid:

- ▲ Individuals will shop for lower prices due to:
 - Higher deductible
 - Better price and quality information
 - An environment that encourages price consciousness
- ▲ Prices will fall for products/services due to:
 - Increased price elasticity of demand
 - Discounts for cash or HSA debit card payment
 - Long term: shift toward cost reducing innovations

Depends upon benefit design

Potential Impacts

CDHC has the *potential* to affect long term trends primarily through relentless pressure on prices

- ▲ Current system rewards expensive innovations
- ▲ CDHC rewards innovations that improve value
 - Lower cost ways of achieving same benefit
 - Same-cost ways of gaining much greater benefits

Will CDHC bargain hunters drive cost-reducing innovation?

Will reduced prices simply lead to increased utilization?

What about high-cost illness?

Potential Impacts

Illustrative Privately Insured Population

Population Category	Percent of Population	Percent of Spending	Per Capita Spending
Very Healthy	40%	2%	\$200
Somewhat Healthy	52%	43%	\$3,500
Chronically Ill	7%	30%	\$17,000
Catastrophic	1%	25%	\$100,000

Potential Impacts

Will CDHC impact spending above the deductible?

It could conceivably happen this way:

- ▲ Step 1: Deductible-driven bargain hunting induces and rewards cost-reducing innovations
- ▲ Step 2: These innovations are incorporated into management of spending above the deductible (tail wags the dog)

Potential Impacts

Summary

CDCH has the *potential* to reduce personal health expenditures through:

- ▲ Reducing need
- ▲ Reducing utilization
- ▲ Reducing prices

Depends upon benefit design

Current Evidence: Industry

▲ Aetna

- Fewer primary care visits
- More specialist visits
- Fewer ER visits
- Fewer hospital admissions
- Lower expenditure increases

▲ Humana

- Greater use of primary care and prescriptions
- Less use of ER and specialists
- Better adherence to maintenance medications
- Overall reduction in rate of increase in expenditures

Current Evidence: Industry

▲ Lumenos

- Increased preventive care
- Reduced outpatient visits
- Reduced pharmaceutical costs – more generics
- Reduced cost trend
- Improvements in diet and exercise

▲ UnitedHealth Group

- Increased use of preventive care
- Reduced use of hospital and ER
- Expenditures actually fell

Current Evidence: Researchers

▲ Greene

- No impact on use of generics
- Discontinuation of some “essential” chronic illness medications

▲ Parente

- Some reduction in pharmaceutical costs but no decline in brand name share
- Increase in hospital costs – free care after deductible

Note: plan studied was ‘generous’

Current Evidence: Conclusions

- ▲ Industry and academia differ
 - Academia provides details to support conclusions
 - Industry has not released underlying evidence
- ▲ Academic research may not be representative
 - Mostly HRAs
 - Limited to a few companies and plans
 - Primarily 'generous' plans
- ▲ Different CDHPs will have different impacts

Forecasts

Forecasts using the Minnesota CDHP Choice Model and the Altarum Health Sector Model to be provided on September 14th