Forecasting National Health Expenditures in a CDHC Environment

Presentation to
Consumer Driven Healthcare Summit, Washington, DC

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September 14, 2006
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
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

<table>
<thead>
<tr>
<th>Population</th>
<th>Needs</th>
<th>Use</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privately Insured</td>
<td>59%</td>
<td>34%</td>
<td>36%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>11%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Medicare</td>
<td>2%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Uninsured</td>
<td>16%</td>
<td>33%</td>
<td>35%</td>
</tr>
<tr>
<td>65 and Over</td>
<td>12%</td>
<td>33%</td>
<td>35%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Population Category</th>
<th>Percent of Population</th>
<th>Percent of Spending</th>
<th>Per Capita Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Healthy</td>
<td>40%</td>
<td>2%</td>
<td>$200</td>
</tr>
<tr>
<td>Somewhat Healthy</td>
<td>52%</td>
<td>43%</td>
<td>$3,500</td>
</tr>
<tr>
<td>Chronically Ill</td>
<td>7%</td>
<td>30%</td>
<td>$17,000</td>
</tr>
<tr>
<td>Catastrophic</td>
<td>1%</td>
<td>25%</td>
<td>$100,000</td>
</tr>
</tbody>
</table>
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