



**SCOPE OF THE HEALTH CARE
COST CHALLENGE**

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Surge in Health Insurance Premiums

- Insurance premiums:
 - Large groups: 10-20%
 - CalPERS 25%?
 - Small groups and individuals: 10-50%
- Effect on number of Californians with health insurance coverage?
- Effect on the insurance benefits for those who retain coverage?



Short Term Drivers of Health Care Cost Inflation

- Pharmaceutical products
- Labor market: nurses, techs, pharmacists
- Hospital consolidation and market power
- Unsustainably low margins in physician practices, nursing homes, home health, etc.
- Regulations and benefit mandates



Long Term Drivers of Health Care Cost Inflation

- Continuing clinical innovation
 - Drugs, devices, procedures
- Continuing regulation and litigation
- Demographics: only a minor contributor
- Most important: rising social expectations



What Do People Want from Their Health Care System?

- Afghanistan: Reduce mortality
- Portugal: Reduce morbidity
- Canada: Improve functionality
- United States: Feel better
- California: Look better
- West L.A.: Look real good



Revenues are Limited

- Even with unprecedented prosperity, social resources for health care were limited
 - We cannot spend the same budget surplus twice
 - Non-health priorities: education, social security
 - Taxpayer support for tax cuts
- Unprecedented prosperity is gone
 - Budget deficits
 - Tight employer budgets and cost cutting



The Fundamental Imperative

- Limited resources, unlimited expectations
- Setting priorities is imperative
- Where and by whom will this be done?
- Government?
- Employers, insurers, providers?
- Consumers themselves?



The End of Managed Care

- Politicians, the press, and the public love to use HMOs as a whipping boy for system ills
- But health plans are tired of this
- Strategy A: merge with a tobacco company
- Strategy B: merge with a drug company
- Strategy C: re-invent health insurance



From Managed Care to Health Insurance

- Major drivers of cost inflation are not under control of health plans (drugs, expectations)
- Controlling costs (provider revenues, consumer expectations) is a dirty job
- Health insurance: America wants more
- Managed care: America want less
- The industry is shifting to consumerism



Health Insurance Consumerism: Models from other Industries

- Mutual fund companies sell an array of investment products, add information and decision support tools, and facilitate rather than supplant consumer decisions
- Non-health insurers predict trends, charge actuarially fair premiums, but do not seek to control the costs of the services they insure



Components of Health Insurance Redesign

- Benefit design
- Network design and contracting
- Medical and disease management
- Connectivity among all participants
- Info and decision support to consumers



Challenges to a Consumer-Driven Health Insurance System

- Consumers lack good information on benefits, providers, prices, quality
- Consumers vary in health status
 - Risk selection and cherry picking
- Consumers vary in income
 - Easier to do implicit than explicit subsidies



Virtues of a Consumer-Driven Health Insurance System

- Everyone feels strongly about health care, but everyone has unique preferences, goals
- No one size fits all
- We are all more careful spending our own money than somebody else's money
- America wants a system based on responsible individual choice, with protections for the most vulnerable



A Bit of Wisdom

- “We have met the enemy, and he is us.”
 - (Pogo)