



**Providing Insights
that Contribute to
Better Health Policy**

Responses to Rising Costs: Private and Public Sectors

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Why Are Rising Costs a Problem?

- Economists' agnosticism
- It's the financing system
 - ▶ Failure to tailor care to income
- Employers' short-term problem
- Employers' longer-term problem

Policymakers' Issues With Rising Costs

- Leads to more people being uninsured
 - ▶ Small employers less likely to offer
 - ▶ Workers less likely to take up
- Stress on public budgets
 - ▶ Less private insurance leads to more public insurance
 - ▶ Revenue growth not exceeding income growth

Employers' Short-term Responses

- Premium shifting to workers
- Increased cost sharing
 - ▶ Prescription drug copays
 - ▶ PPO deductibles
 - Stress on HMOs
- Conflicts and cooperation with unions

Consumer-Driven Health Care

- Return to an insurance benefit structure
- Potential for system effects of more cost sharing
- Limits to use of cost sharing
 - ▶ Incentives for discretionary care--yes
 - ▶ Barriers to nondiscretionary care--no
 - ▶ Need for creative but complex approaches
 - ▶ Need for information and adjustment time
- Potential for tiered networks

Savings Account Plans

- Making large deductibles more acceptable
- Opportunity for creative complexity
- Difficulties for employers in achieving savings
- Problems with use as option
- Employers now very knowledgeable
 - ▶ But many perceive practical problems

Is Return to Restrictive Managed Care an Option?

- The bimodal distribution of consumer preferences
- Restricted provider choice
 - ▶ Tiered networks most common approach
- Unlikely return to authorizations and gatekeepers
- A bright future for Kaiser Permanente

Disease Management Activities

- Will employers or plans drive this?
 - ▶ Employers seek to tailor to work force
- Successful programs that do not pay off
 - ▶ Turnover issues
 - ▶ Capturing reduced disability

Employer Strategies for Long Term

- Opting out is not an option for large employers
 - ▶ Unless universal coverage program permits it
- Activities to improve quality
- Investments in wellness
- Real story is absence of compelling strategies

Public Policy Response: Seeking Program Savings

- Short-run savings achievable
- Longer-run savings limited by trends in health care system

Program Savings in Medicare

- Short-term focus on provider payment rates
 - Hospitals: financial viability
 - ① Issue of cost shifting
 - Physicians: beneficiary access to care
- Longer-term battle over role of private plans
 - ▶ Potential for care management in traditional program
 - ▶ Difficult to emphasize private plans while they are leaving program

Program Savings in Medicaid

- Eligibility reductions
- Reductions in scope of benefits
- Reductions in provider payments
- Administration initiative for additional state flexibility

System-Wide Cost Containment Policy

- Absence of “Cost Containment Act of 2003”
- Impact on costs more important consideration
 - ▶ Malpractice reform
 - ▶ Patients bill of rights
 - ▶ Association health plans
 - ▶ Benefit mandates
- Invigoration of anti-trust policy
- Invigoration of capacity controls

Upcoming Debate on Shortcomings of Competition

- Natural monopoly in smaller communities
- Competition that increases costs
- Is regulation a realistic option?

Longer-Term investments

- Information technology infrastructure
 - ▶ Additional standardization
 - ▶ Subsidies for implementing infrastructure
- Increased support of effectiveness research
- Initiatives to promote healthier behaviors