National Health Reform: Curb Your Enthusiasm

National Congress on the Un and Underinsured

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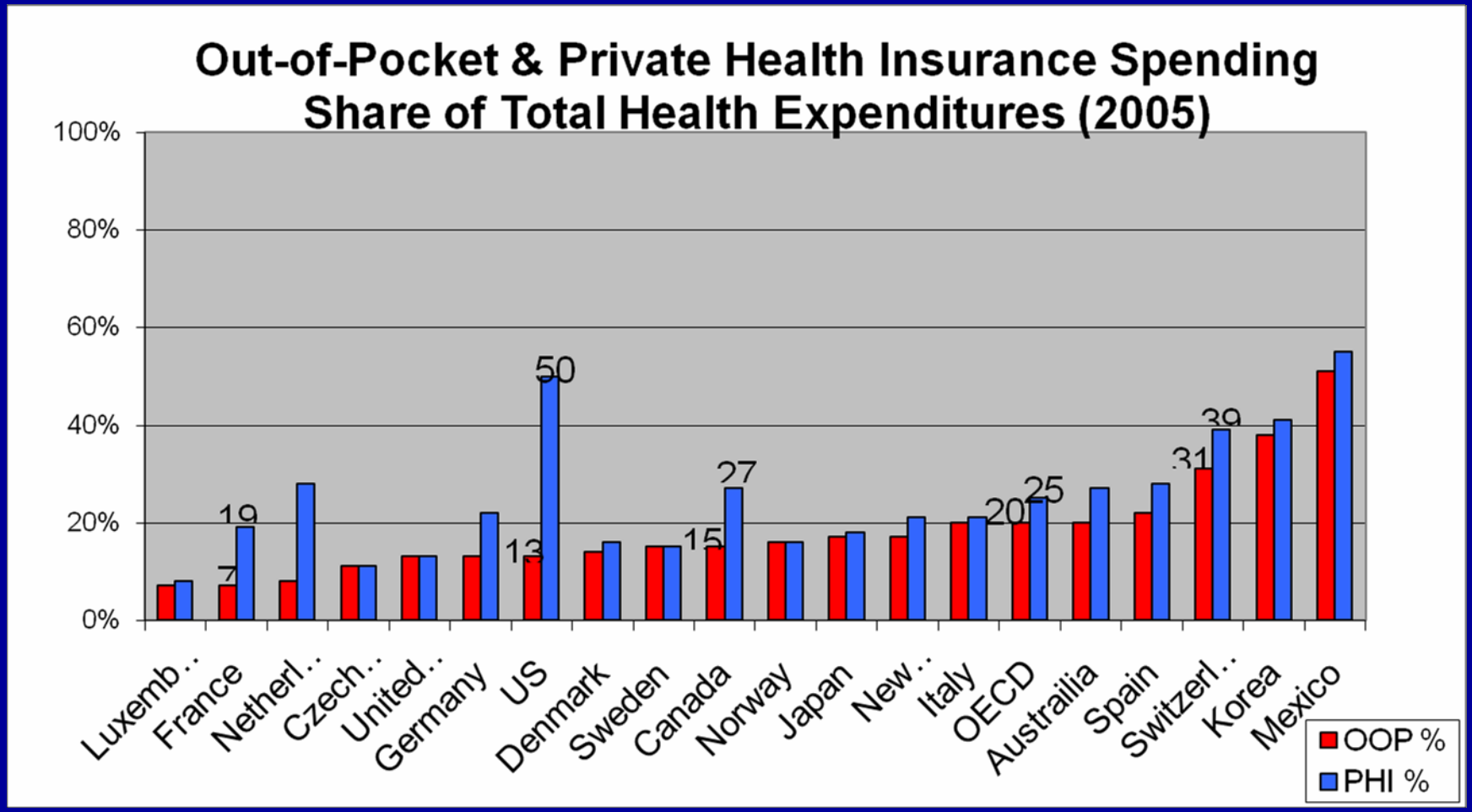
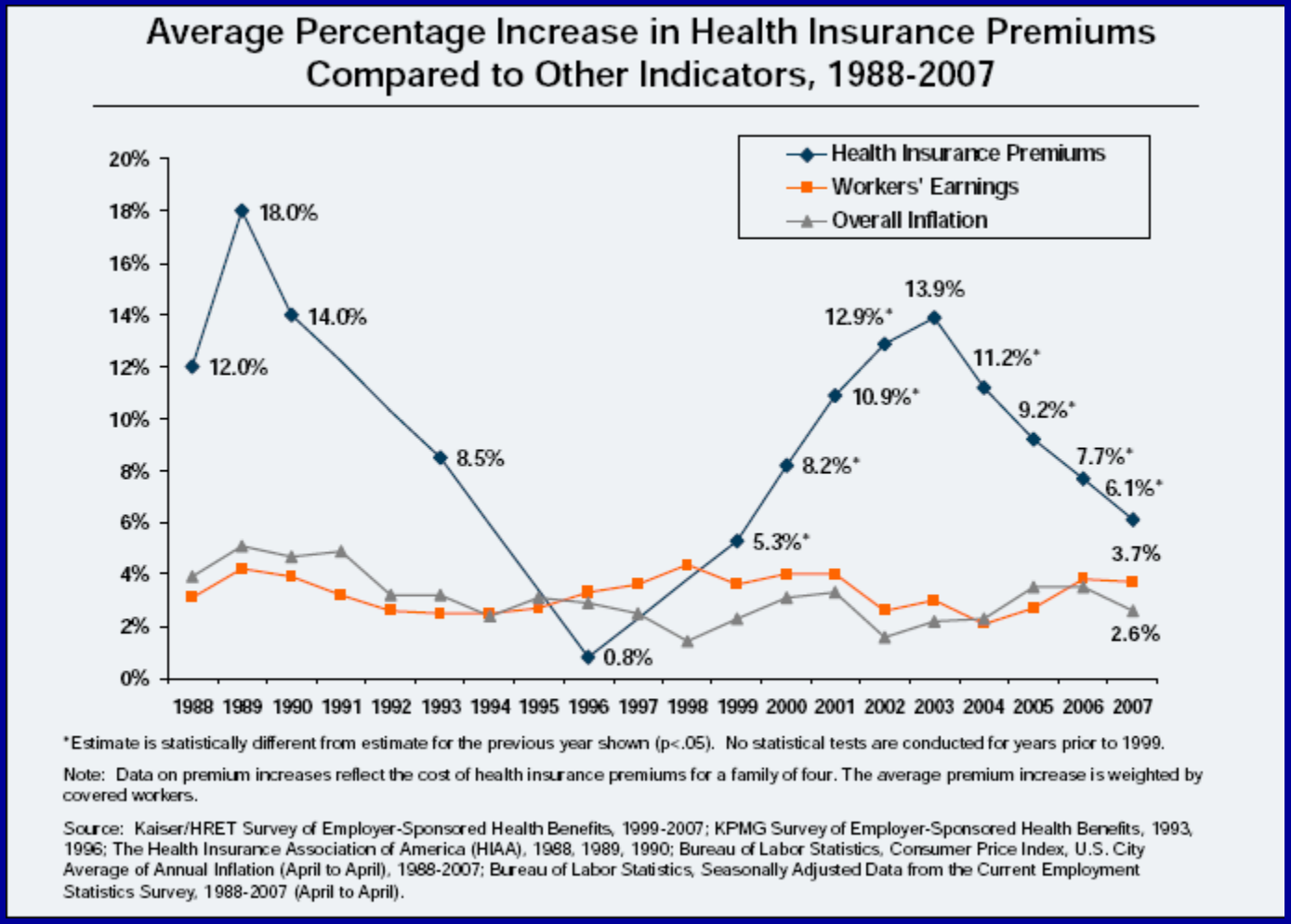
The Terrible Plight of the Overinsured



Riding the Health Cost Rollercoaster

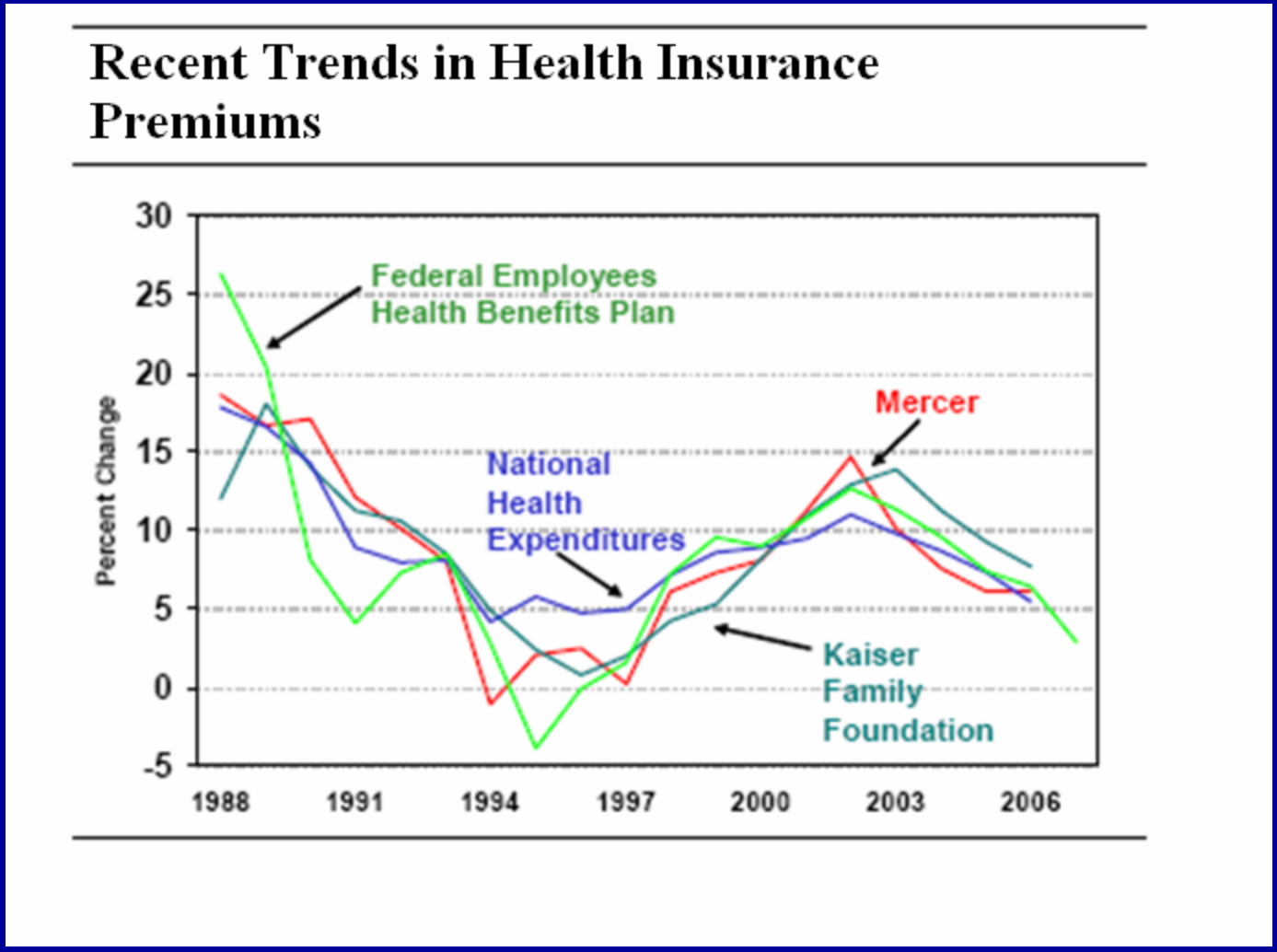


*Estimate is statistically different from estimate for the previous year shown (p<.05). No statistical tests are conducted for years prior to 1999.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. The average premium increase is weighted by covered workers.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2007; KPMG Survey of Employer-Sponsored Health Benefits, 1993, 1996; The Health Insurance Association of America (HIAA), 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2007 (April to April).

Comparable Recent Trends

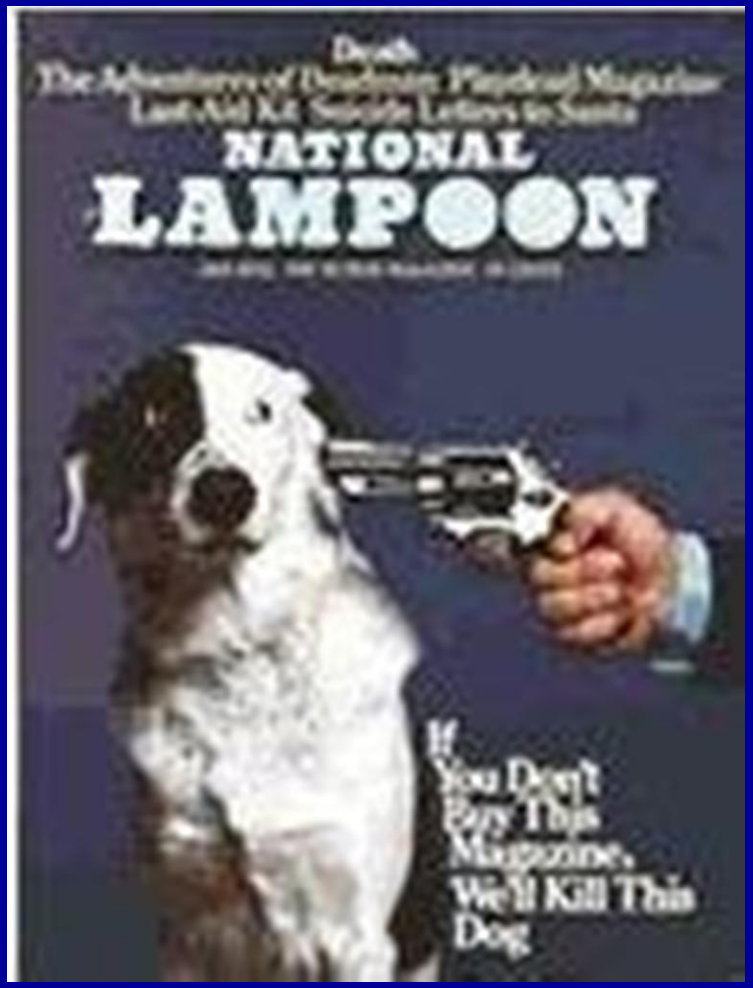


Health Spending & Federal Budget: The Future in a Nutshell

Health Care Entitlements:
Seemed Like A Good Idea at the Time

The Life Cycle of National Health Reform & Universal Coverage

Health Policy Debates:
The Search for Bipartisan Compromise



Why Change?

- Cost growth > economic growth indefinitely = unsustainable
- Uneven quality, geographic variation
- Inadequate, or unknown, value
- Demographic imbalances compound underlying problems
- Sunk costs in pay-go finance leverage unfunded liabilities
- Incumbent interests resist disruptive innovation by new entrants

Republican Candidate Proposals

- Coverage
- Tax Policy
- Insurance regulation
- Federalism
- Transparency, consumerism

Democratic Candidate Proposals

- Universal coverage, w/o scaring anyone
- Employer & individual mandates, w/ exceptions
- Cost control, w/o global budgets
- More public than private pooling
- Prevention, public health, chronic care
- HIT, EHRs
- Comparative effectiveness
- Predatory pricing, raising rivals' costs

What's Gotten in to State Health Policy?

- Gap filling & incrementalism on steroids
- "I got it one piece at a time
  And it didn't cost me a dime
  You'll know it's me when I come through your town
  I'm gonna ride around in style
  I'm gonna drive everybody wild
  'Cause I'll have the only one there is around."

Johnny Cash 1976

Massachusetts: Miracle or Mirage?

- Starting off on third base
- Setting min. coverage, subsidies, affordability
- Punting on cost containment, sustainability

California: "Hide & Seek" Taxation

- Exaggerating "hidden" taxes
- Barriers to real ones
- Mandates: a heavy lift even for Arnold

What States Can’t Do (Well)

- Broaden their revenue base
- Borrow (a lot)
- Change the internal revenue code
- Get around ERISA, lock all the exit doors
- Ignore underlying drivers of health costs
- Manage complex, personal health decisions and tradeoffs
- Export mistakes and burdens

Potholes in the Road to Coverage Expansion

- Mission creep, overreaching
- Ceilings & floors
- Why need to mandate?
- Can’t make up your losses on volume
- Value = better outcomes at lower cost

Is That All There Is?
Real Markets for Real Choices

- Finding better value & real costs of care
- Efficiency gains
- Develop different delivery systems
- Reduce future demand trajectory
- Need stronger tools than insurance expansion, and current medical services delivery, to improve population health
- Prefunding, changing time horizons

Matching Objectives & Instruments

- Lower costs (reduce payments, limit services)
- Increase health sector income (taxes, premiums)
- Improve efficiency (better value & transparent tradeoffs: matching lower costs with improved outcomes)

Comparative Advantage: Markets vs. Politics

- One dollar, one vote – many times VS. ballot box “consensus,” coalition building -- infrequent
- Extraction (deadweight) cost of taxes VS. private insurance loading costs
- Bottom up VS. top down
- Finding prices VS. setting prices
- Risk & reward incentives VS. balancing interest groups
- Who is the customer? Who is the boss?
- Compounding investment growth VS. taxing wealth creation

Comparative Efficiency vs. Comparative Effectiveness

- It’s what they do, not just what they know
- Variation among providers, in practice
- Time lag from research to implementation

“So easy a caveman could do it”

Pooling in Shallow Water

- Not enough risk rating to negate substantial risk pooling (limits, costs, imperfections)
- Most state regulation – moderate harassment, beside the point distraction
- Cost averaging doesn’t reduce overall costs
- Residual market vs. deeper one
- Pooling of different scale and scope

Pooling in Shallow Water

Discuss among yourselves:

- “Pooling Health Insurance Risks,” Pauly & Herring, AEI 1999
- “Risk Pooling and Regulation,” Pauly & Herring, Health Affairs, vol. 26, no. 3
- “Consumer Decision Making in the Individual Health Insurance Market,” Marquis et al, Health Affairs, May 2, 2006
- “Risk and Regulation: A New Look at the Individual Health Insurance Market,” AEI, May 11, 2007

Less Spending Concentration?

Distribution Of Health Expenditures For The U.S. Civilian Noninstitutionalized Population, By Expenditure Magnitude, Age, And Coverage Type, 1996 And 2003

Percent of U.S. population ranked by expenditures	Total population (%)		Population age 65 and older	
	1996	2003	1996	2003
Top 1%	28	24[a]	15	12
Top 2%	38	33[b]	23	19[a]
Top 5%	56	49[b]	39	34[b]
Top 10%	69	64[b]	56	49[b]
Top 25%	87	85[b]	79	73[b]
Top 50%	97	97[b]	93	91[b]

	Population under age 65 (%)					
	Any private		Public only		Uninsured	
	1996	2003	1996	2003	1996	2003
Top 1%	30	26	33	27[b]	38	30
Top 2%	39	34	47	39[b]	49	40[b]
Top 5%	54	48	65	58[b]	64	60
Top 10%	67	62[a]	79	74[b]	77	76
Top 25%	85	83	93	92[a]	92	93
Top 50%	96	95	99	99	99	100[b]

SOURCE: Authors' calculations from the 1996 and 2003 Medical Expenditure Panel Survey Household Component (MEPS-HC) Full-Year Public Use Files.

NOTE: Significance tests were performed using a balanced repeated replication (BRR) method, which accounts for the complex design of the MEPS survey.

[a] Difference between 1996 and 2003 significant at the .10 level.

[b] Difference between 1996 and 2003 significant at the .05 level.

Beyond Health Insurance

- Need stronger tools to improve health
- Avoidable deaths
- Upstream patient/consumer factors
- Downstream provider delivery value
- Limits of prevention
- Premiums reflect claims costs

Beyond Health Insurance

Discuss among yourselves:

- “Making A Difference in Differences for the Health Inequalities of Individuals,” Health Affairs, vol. 26, no. 5
- “Measuring Distributive Injustice on a Different Scale,” Law & Contemporary Problems, Autumn 2006
- “Getting to Better Value in Health Care: The Role of Physician Performance Measurement,” AEI, Nov. 5
- **“**The Case for More Active Policy Attention to Health Promotion,” McGinnis et al, Health Affairs, vol. 21, no. 2
- “Health Policy Approaches to Population Health:

  The Limits of Medicalization,” Lance et al, Health Affairs, vol. 26, no. 5

Better Starting Points

- Focus more on changing the upstream drivers of health care demand (education, time horizons, navigational assistance, decision support, patient self-management, social norms, culture)
- Deregulate delivery system
- Higher value care is more affordable, accessible, and sustainable

Better Starting Points

- Fix the real problems first
- Underlying high cost/low value of care drives rest of system
- We can’t outrun it with more revenue
- Start measuring and disseminating relative performance of accountable providers
- Better health outcomes is goal, not more health services

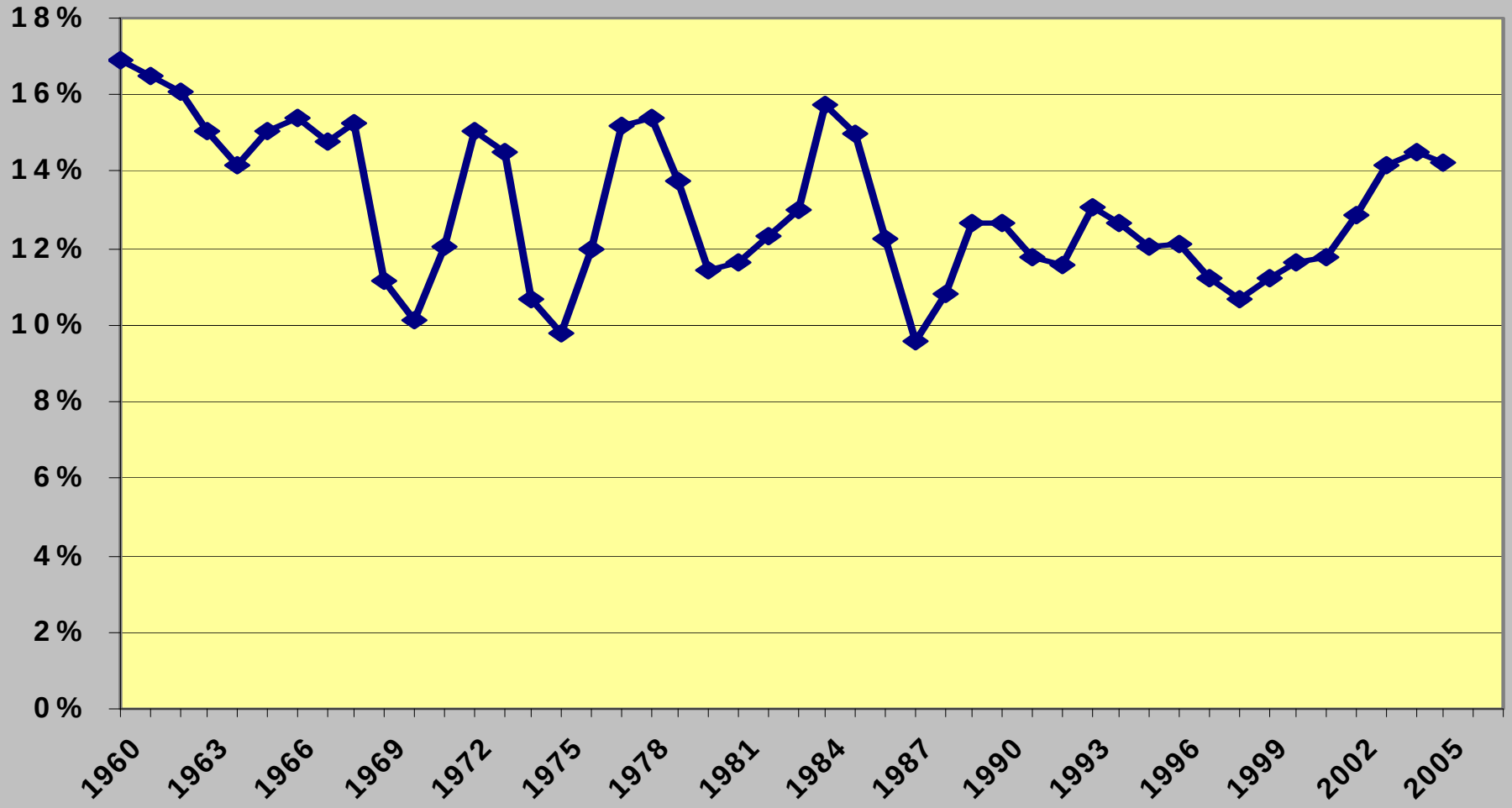
Implications

- Taxes (2010)
- Value purchasing
- Bundling & unbundling
- Cross subsidy pressure
- Tiering, smarter cost sharing
- Convergence (defined contribution, prefunding)
- Longer working lives

Don’t Round Up the Usual Suspects

- “Shared” responsibility
- Cost shifting & hidden taxes
- Administrative costs
- March of technology
- Aging
- Competitiveness
- Worker mobility & job tenure

Administrative Costs as a Percent of Private Health Premiums



Source: CMS National Health Accounts

Lessons from 1993

- Public won't be well informed
- Cost overrides coverage concerns
- Universal coverage – goal, w/o directions
- Other values important (choice, preserving current strengths)
- What's in it for …. Me
- Skepticism: Fed Govt Incompetence

Numbers to Remember

- 30 %
- 55%
- 40%
- 10%
- $70 trillion or $38 trillion (who’s counting?)
- 2009
- 18% GDP

Rx

- Healthier people
- Better-performing providers & delivery
- Education, early childhood, culture, behavior, time horizons, decision support, navigation, incentives, transparency, accountability, competition, decentralized choice, deregulation, targeted assistance, tax reform