

Health Care Financing Reform in the United States

Richard M. Scheffler, PhD

**Distinguished Professor of Health Economics and Public
Policy**

**Director of the Nicholas C. Petris Center on Healthcare Markets
and Consumer Welfare**

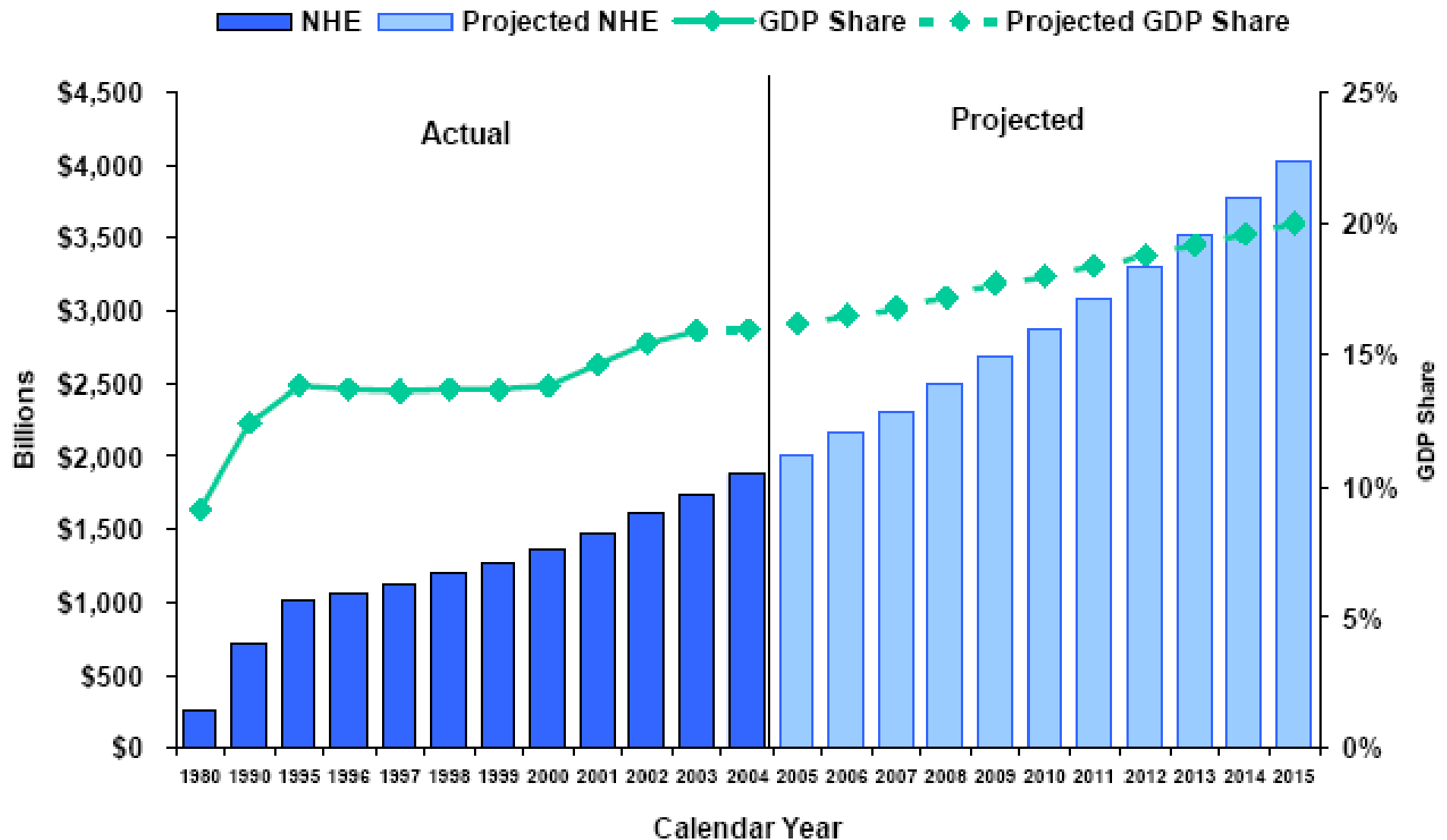
University of California at Berkeley

Hong Kong, Hospital Authority Convention 2011

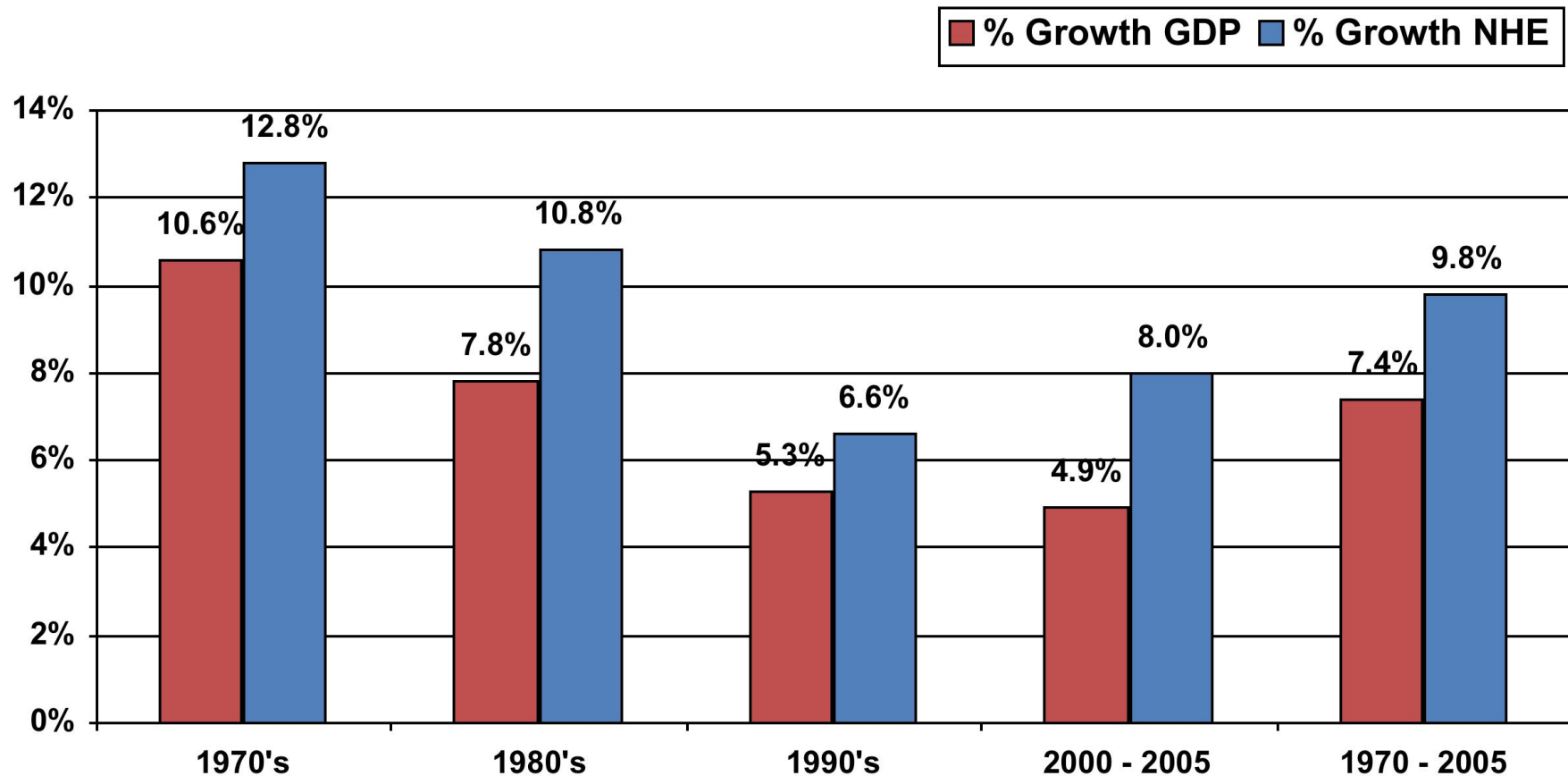
June 8th, 2011

National Health Expenditures and Their Share of Gross Domestic Product (GDP), 1980-2015

National health spending is projected to continue to increase as a share of GDP over the next decade.



National Health Expenditures: Comparing NHE and GDP Growth for selected time periods

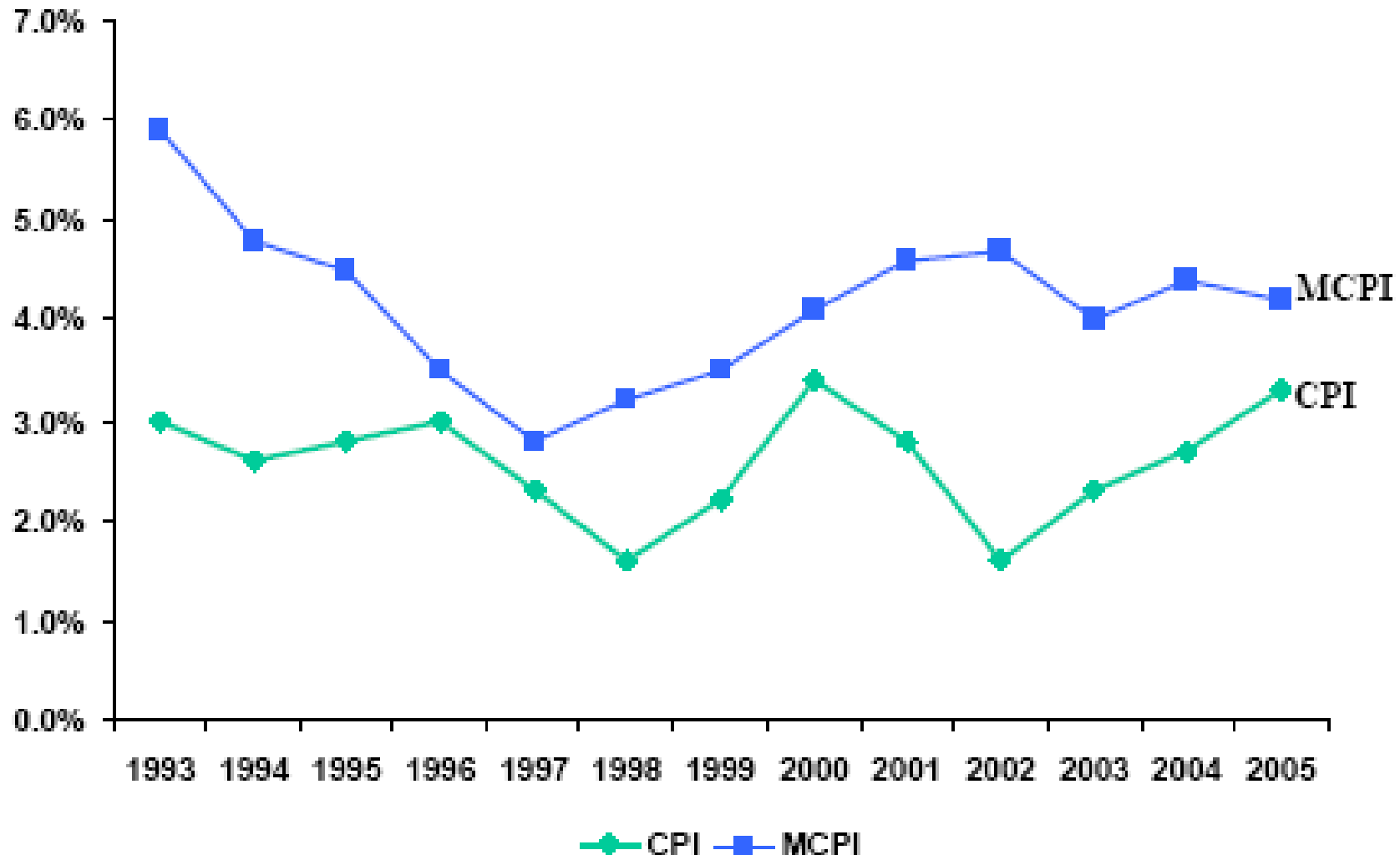


•Health care spending has exceeded overall economic activity in every recent decade...which means it takes up an ever-increasing slice of the overall economy...

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at <http://www.cms.hhs.gov/NationalHealthExpendData/> (seeHistorical;NHEsummaryincludingshareofGDP,CY1960-2005;filenehgdp05.zip).

Annual Growth Rates in the Overall Consumer Price Index (CPI) and Medical-Specific Consumer Price Index (MCPI), 1993-2005

Medical prices have risen faster than overall consumer prices.



United States Health Care System

- Medicare
 - Covers 65+ years old
- Medicaid
 - State-run
 - Covers individuals at the poverty level
- Employer-paid private health insurance

Who is not covered?

- 15-20% of the population (45-50 million)
- Under 65 years of age
- Self-employed
- Small firm employees (<50)
- Undocumented individuals

Patient Protection and Affordable Care Act

- Health insurance requirement – mandate
 - Required to buy or penalized
- Covers 70% of uninsured (35 million)
 - Under 65 years of age
- Excludes:
 - Undocumented individuals
 - Abortion

Patient Protection and Affordable Care Act

- State-based American Health Benefit Exchanges
 - Subsidy (133-400% of federal poverty level)
 - Separate Exchanges for small businesses
 - Private Insurance

Financing

- Medicare from 1.45% to 2.35%
 - 3.8% of unearned income
- Cadillac plan tax – moral hazard
 - exceed \$10,200 individuals
 - exceed \$27,500 families
- Excise profits tax
 - Private health insurance companies
 - Pharmaceutical companies

Improving Health System

- Patient-Centered Outcomes Research Institute
- National Medicare pilot program
- Independence at Home demonstration program
- Medicare value-based purchasing program

Improving Health System

- Increase Medicaid payments
 - States to receive 100% federal financing
- 10% bonus payment to primary care physicians

Prevention and Wellness

- Preventive Services and Community Preventive Services
- Evidence-based and community-based prevention and wellness services

Long-Term Care

■ CLASS Act

- National, voluntary insurance program
- Community living assistance
- 5-year vesting period
- Average \$50 or more per day (non-medical)

Workforce

- Increase workforce
 - Scholarships and loans
 - Training and capacity building
 - State grants to underserved areas
 - Train and recruit in rural areas
 - Public health workforce loan repayment program
- Mental and behavioral health training programs

Current Payments

- Fee-for-service payment
- DRG
- Capitation

Concerns:

- Over use; Under use
- Risk adjustment
- Perceived problems with financial risks

Proposed Payment

- Bundled payment systems (“case rates” or “episode-based payment”)
 - Middle ground between fee-for-service and capitation
 - Make single payment
 - Multiple providers and settings
 - Example: coronary artery bypass graft

How it works

- Bundle payment by services
- Bundle payment for all services
- Bundle services related to hospitalization

Has it been tried before?

- Medicare Participating Heart Bypass Center
- Medicare Cataract Alternative Payment
- Private sector initiatives
 - knee and shoulder arthroscopic surgery
 - CABG surgery

Total expenses for selected conditions by type of service: US, 2005

Conditions	Hospital	Hospital Inpatient Stays	Emergency Room Visits	Prescribed Medicines	Home Health	Total
	Outpatient or Office-Based					
Heart conditions	12,671.88	48,413.53	2,874.45	8,168.45	4,363.53	76,491.84
Trauma-related disorders	26,979.29	29,913.04	9,537.30	1,592.18	4,430.03	72,451.84
Cancer	33,559.39	29,923.19	519.11	3,365.76	2,310.61	69,678.05
Mental disorders	16,253.92	8,228.19	816.99	23,902.56	6,763.95	55,965.61
COPD, asthma	12,045.09	13,665.46	2,756.21	17,850.79	7,497.78	53,815.33
Hypertension	10,073.01	5,919.88	662.01	22,937.04	2,687.93	42,279.86
Diabetes mellitus	10,347.87	5,385.30	245.86	15,241.92	3,067.42	34,288.36
Osteoarthritis and other non- traumatic joint disorders	12,050.16	11,175.74	257.99	6,836.76	3,918.02	34,238.67
Back problems	17,598.68	8,834.78	728.77	3,957.72	1,367.82	32,487.77
Normal birth/live born	7,871.03	23,526.98	606.11	281.69	30.21	32,316.01
Kidney disease	14,633.31	12,829.51	1,265.82	1,761.44	595.4	31,085.48
Disorders of the upper GI	5,349.87	7,535.37	788.94	11,597.64	772.2	26,044.03
Hyperlipidemia	5,851.14	427.59	17.92	17,295.31	384.71	23,976.67
Skin disorders	6,965.23	10,717.62	514.68	3,127.09	2,370.60	23,695.22
Other circulatory conditions arteries, veins and lymphatics	5,380.38	12,275.86	243.48	1,611.52	1,392.01	20,903.25

Source: Agency for Healthcare Research and Quality. Medical Expenditure Panel Survey Component Data

- An **accountable care organization** (ACO) is a type of payment and delivery reform model that starts to tie provider reimbursements to quality metrics and reductions in the total cost of care for an assigned population of patients.