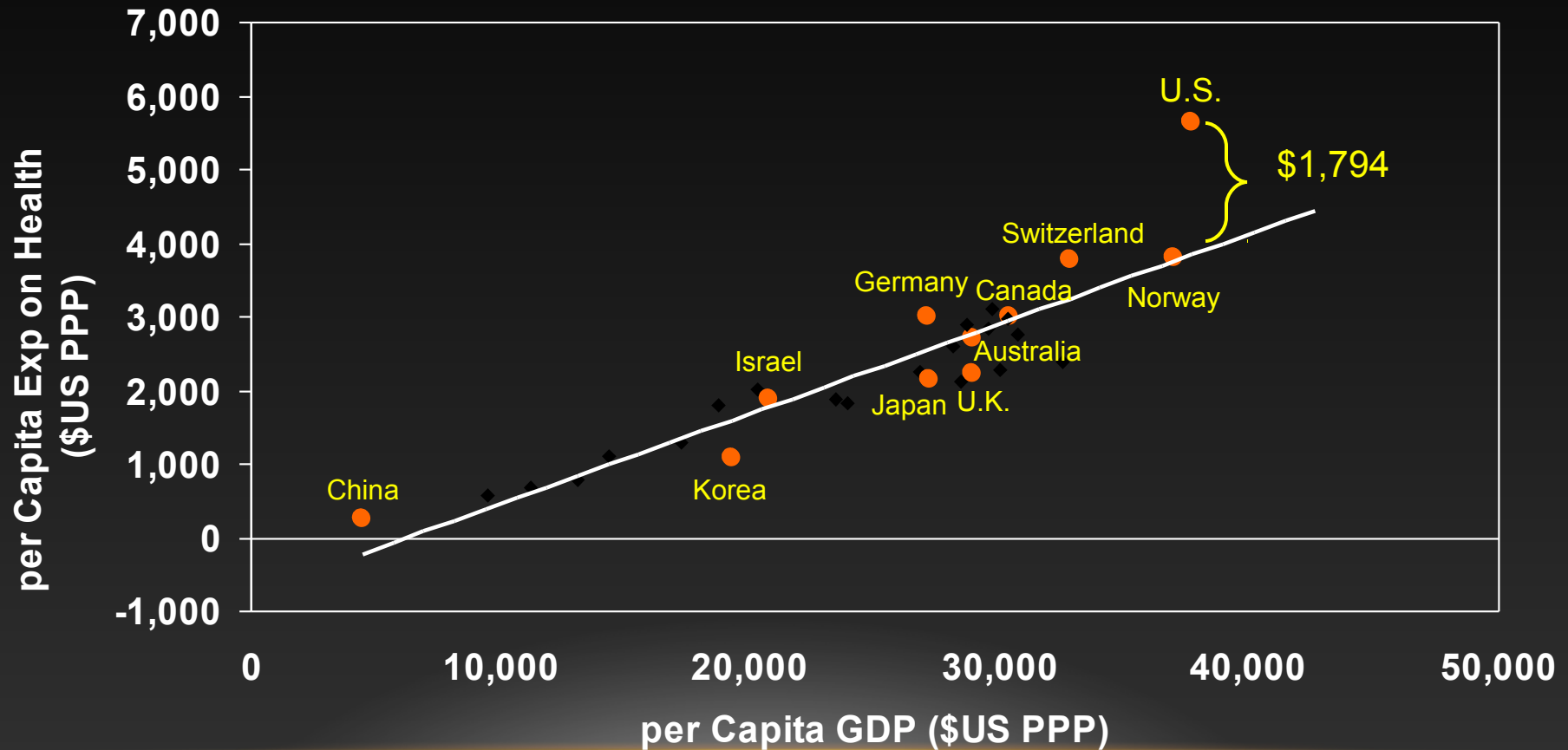


# US Health Care: The Future Week Two: Controlling Costs

Bill Scanlon  
For  
Osher Lifelong Learning Institute  
April 2012

- Context
  - How Big is the Cost Problem?
- What Drives Costs?
- ACA Changes to Medicare
- Reducing the Federal Deficit: Health Care Options

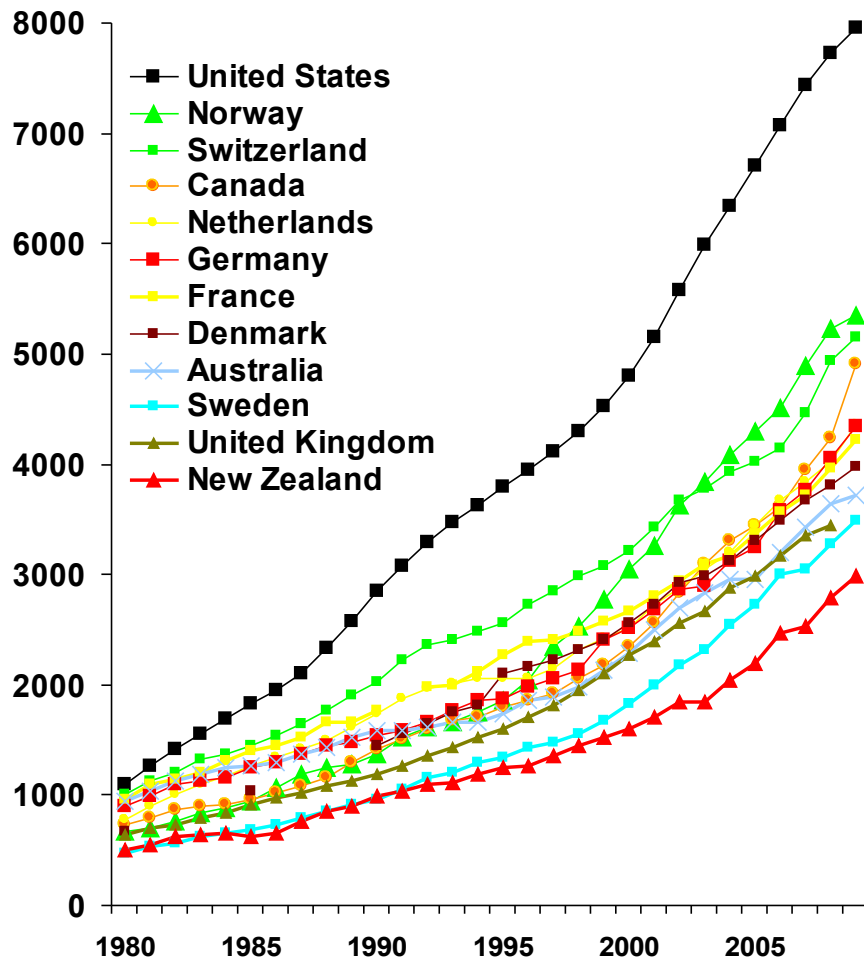
# PER CAPITA HEALTH CARE SPENDING AND GDP IN SELECTED COUNTRIES 2002-2003



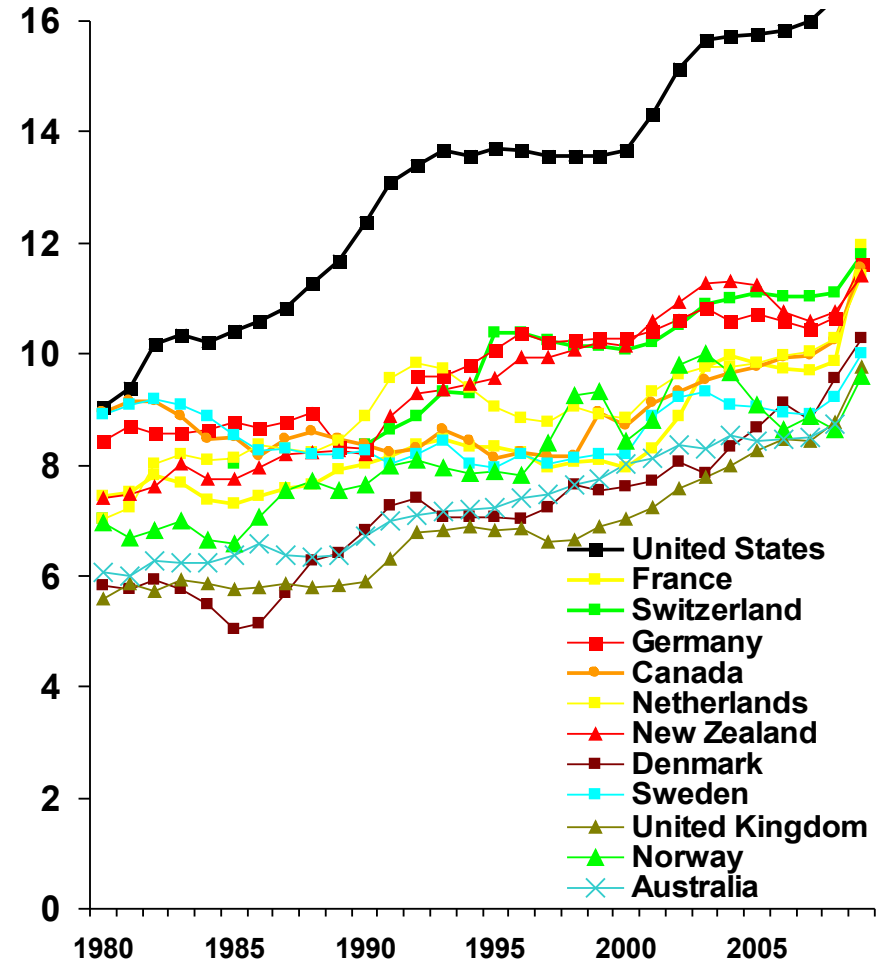
The figure for Japan is 2002 estimate; the figures for Australia, Austria, China, Hungary, Ireland, Israel, Poland, Sweden and United Kingdom are of 2002; the figures for Canada, France, Iceland, Norway and Switzerland are 2003 estimates. The rest are of 2003.

# International Comparison of Spending on Health, 1980–2009

**Average spending on health  
per capita (\$US PPP)**

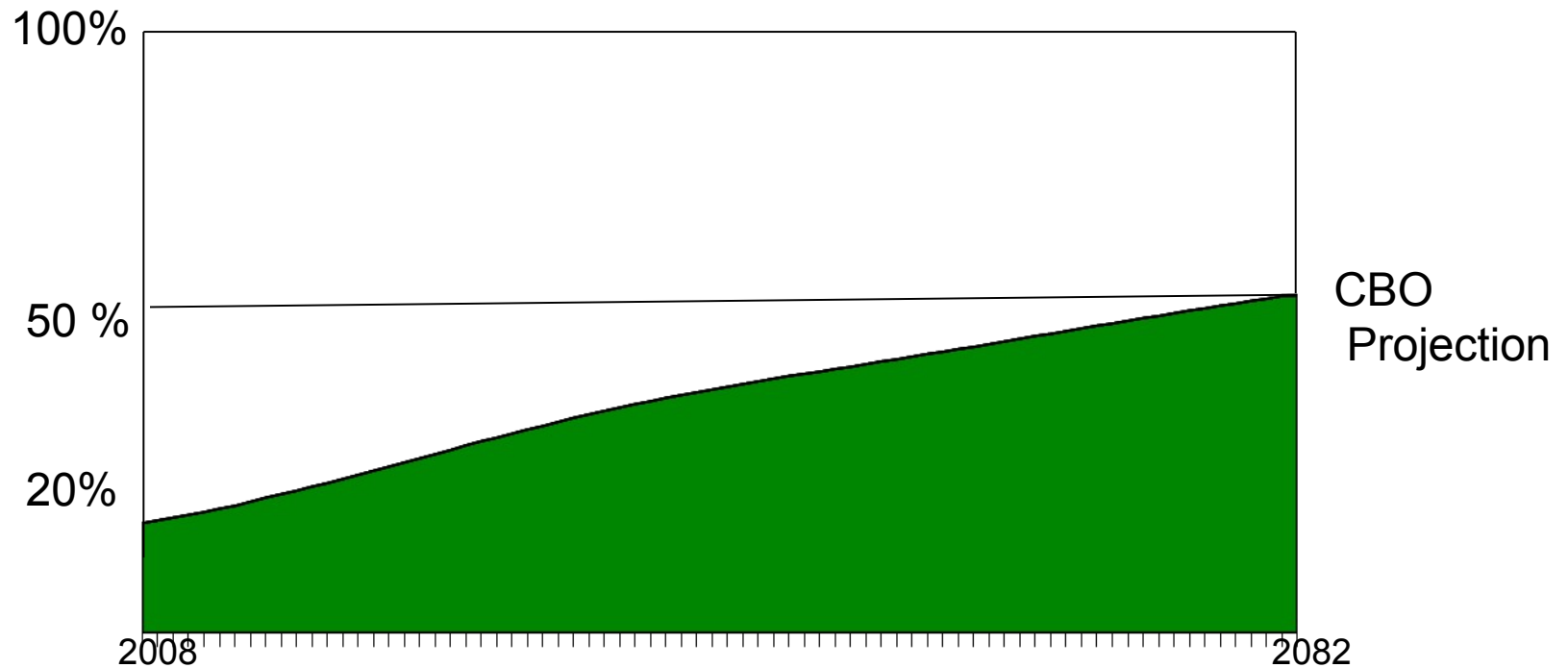


**Total expenditures on health  
as percent of GDP**



SOURCE: OECD Health Data 2011 (June 2011).

# Health Spending as a Share of the Economy

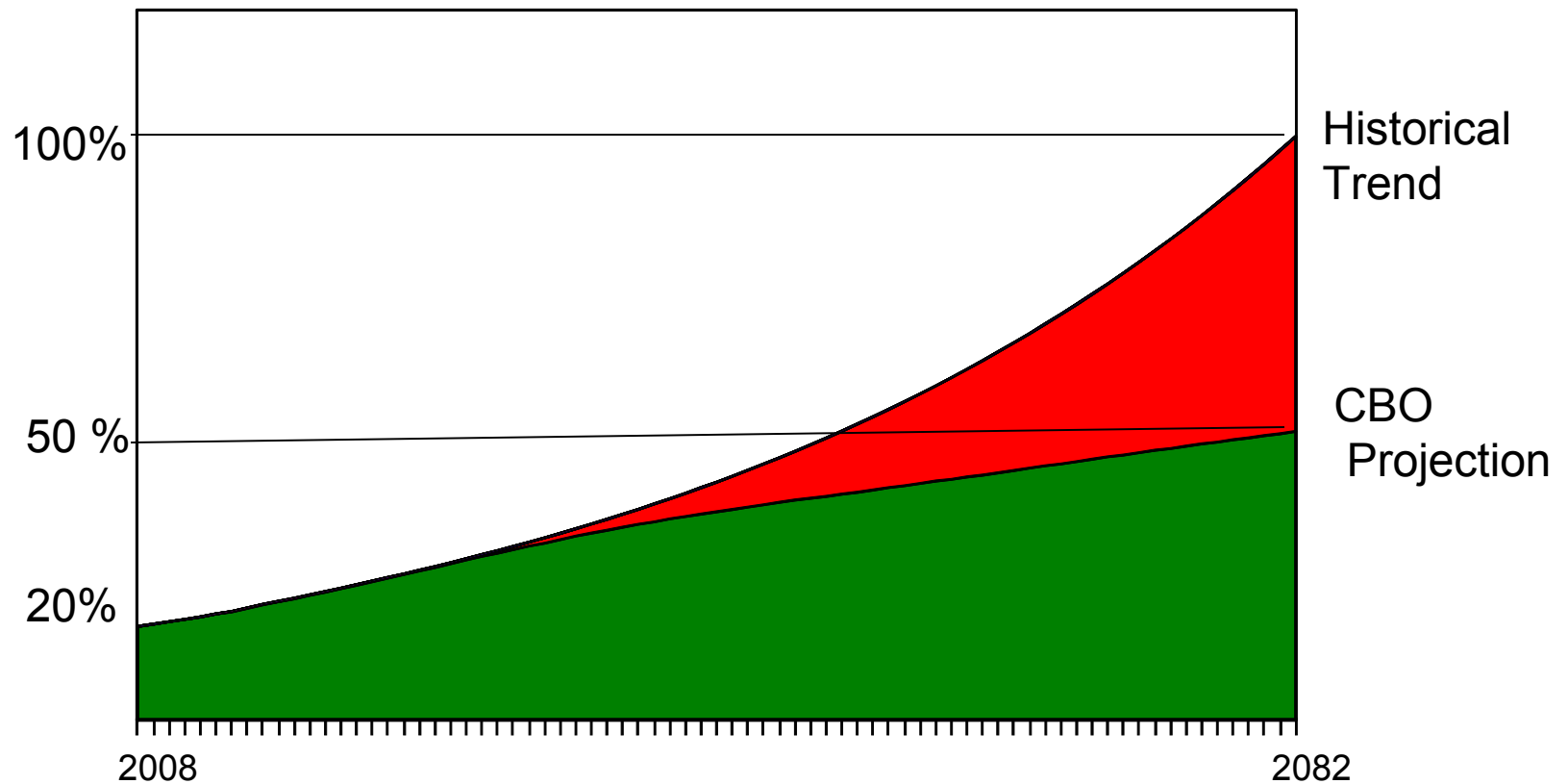


Source: CBO

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Week Two

# Health Spending as Share of Economy



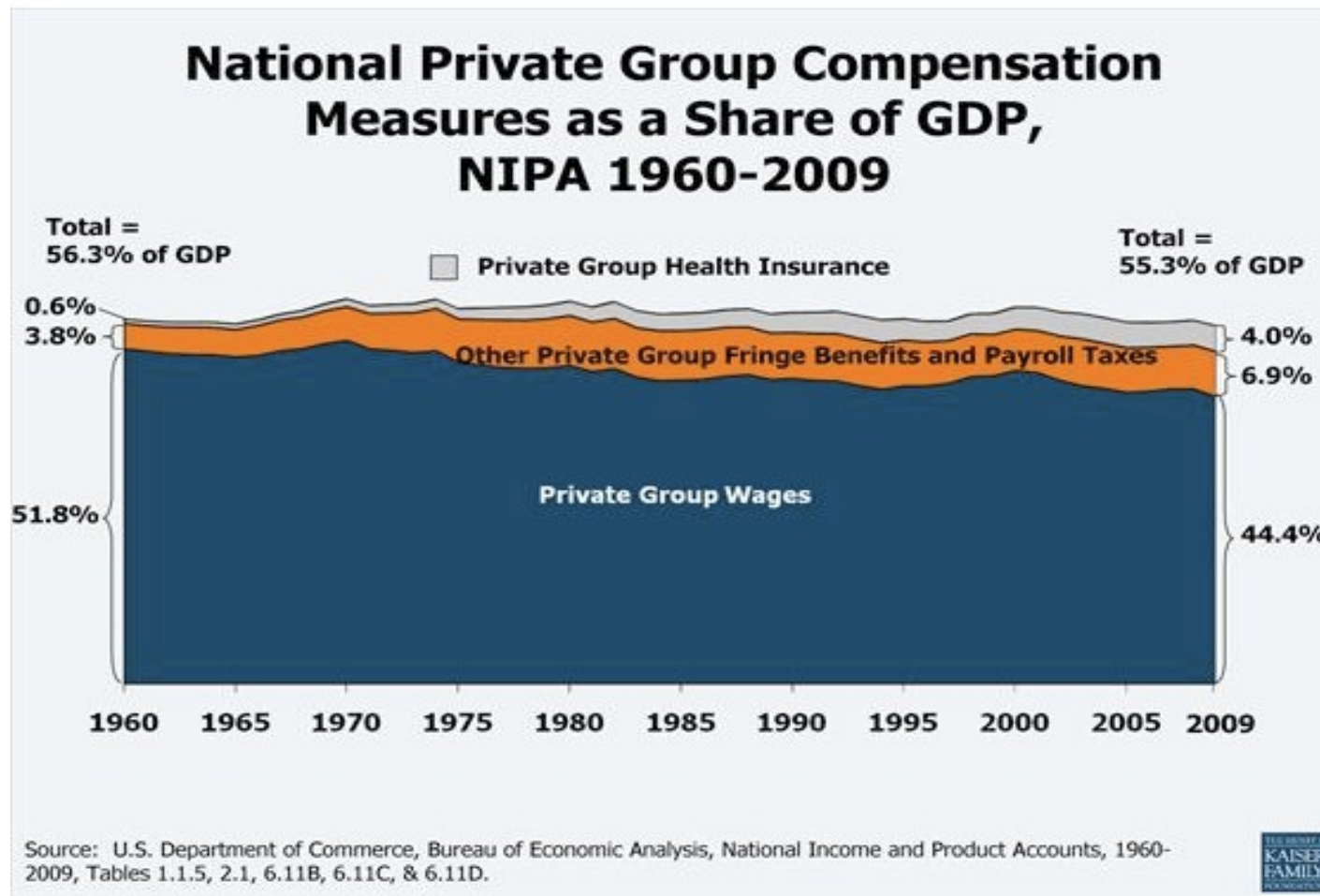
Source: CBO and Author Computations



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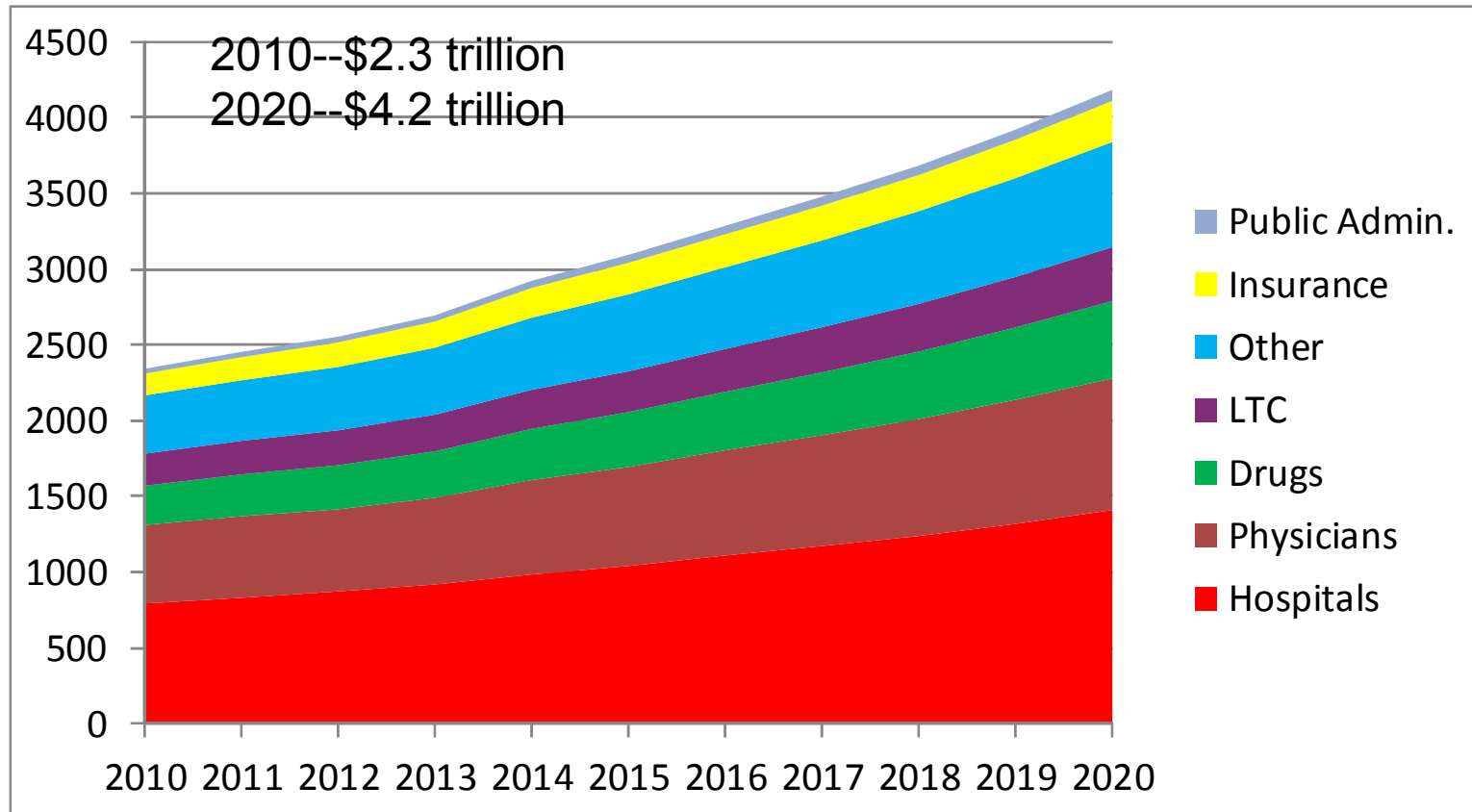
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# Declines in Worker Compensation Mostly due to Health Care and Payroll Taxes (Medicare)





# Spending on Health Services and Insurance Administration



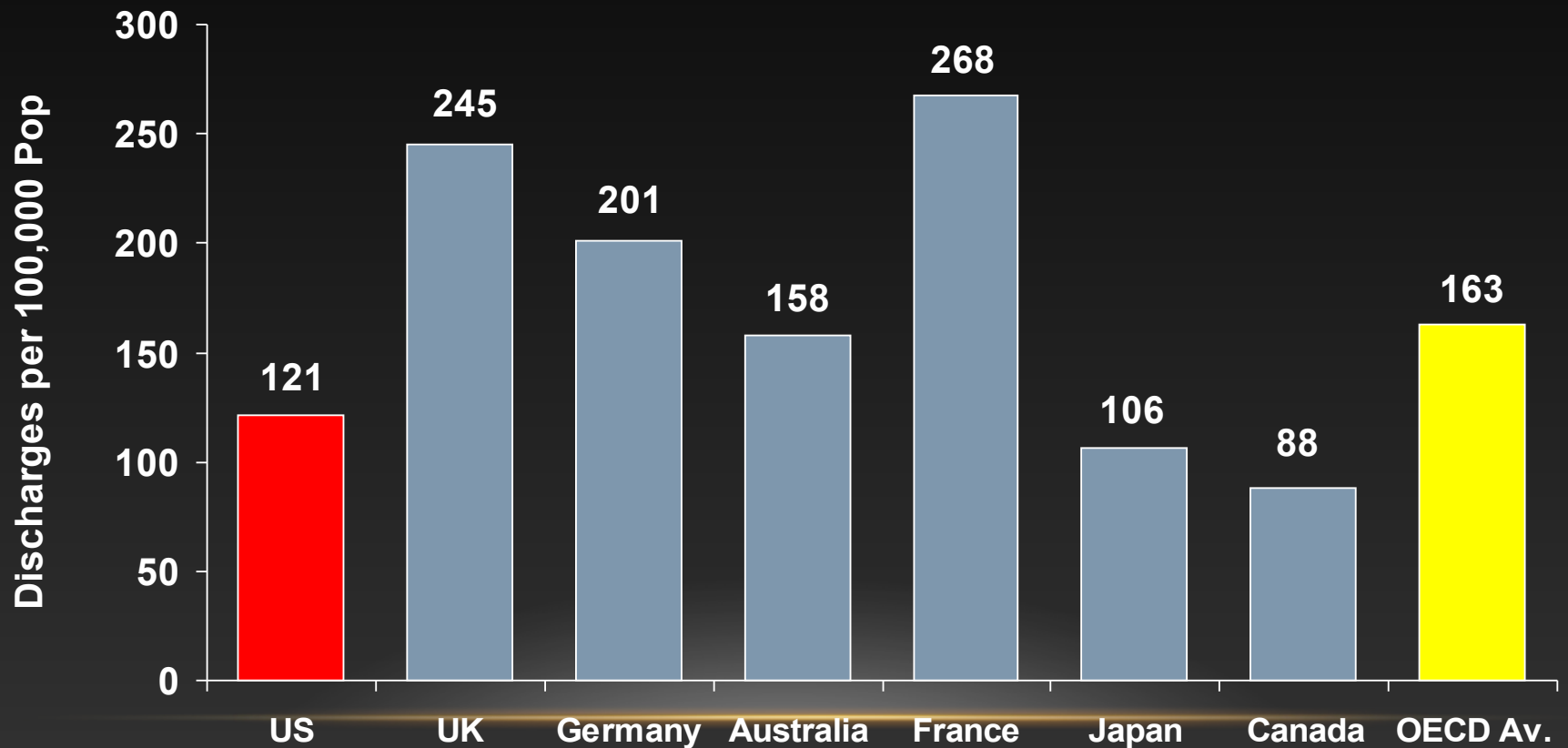
Source:CMS Actuary

# **It's The Prices, Stupid: Why The United States Is So Different From Other Countries**

Higher health spending but lower use of health services adds up to much higher prices in the United States than in any other OECD country.

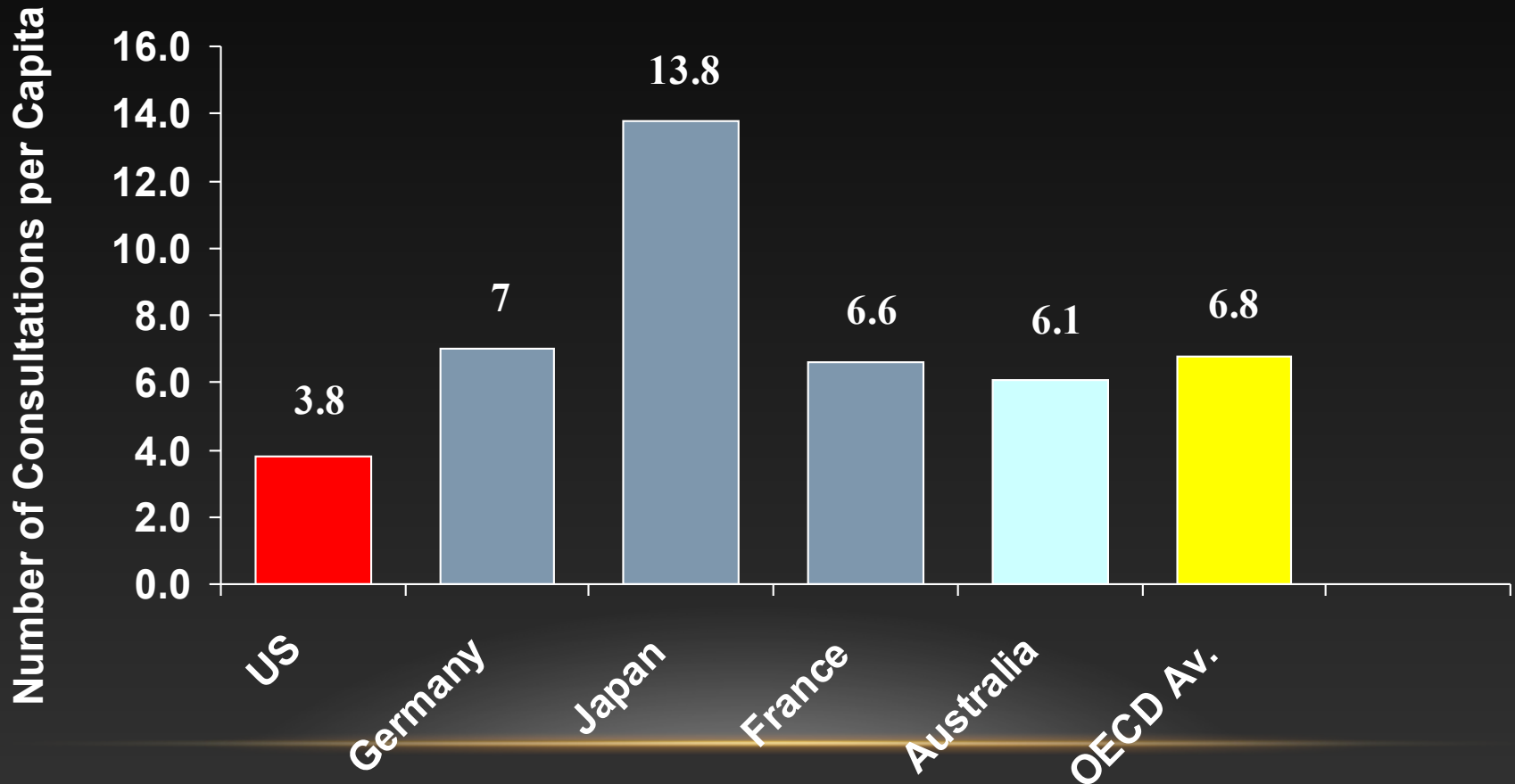
**by Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan, *Health Affairs*, Vol. 22. No 3, 2003.**

# HOSPITAL DISCHARGES PER CAPITA IN SELECTED COUNTRIES 2005



Source: OECD

# DOCTOR VISITS PER CAPITA IN SELECTED COUNTRIES 2005



Source: OECD

US HEALTH CARE: THE FUTURE TODAY  
Source: OECD HEALTH DATA 2007  
WEEK TWO

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WHAT ABOUT EXPENSIVE MEDICAL  
TECHNOLOGY AND PROCEDURES?

# High Cost of Advancing Technology

## “Traditional” Technology

## Standard Technology circa 2000

## Current Technology

X-Ray Machine  
\$175,000



CT Scanner  
\$1 million



CT Functional Imaging  
w/PET  
\$2.3 million

Open Surgery Instrument  
Set  
\$10,000



Laparoscopic Surgery  
Set  
\$15,000



Surgery Robot  
~\$2 million

Cardiac Balloon Catheter  
\$500



Stent  
\$2,300



Treated Stent  
\$5,000

Scalpel  
\$20



Electro cautery  
\$12,000

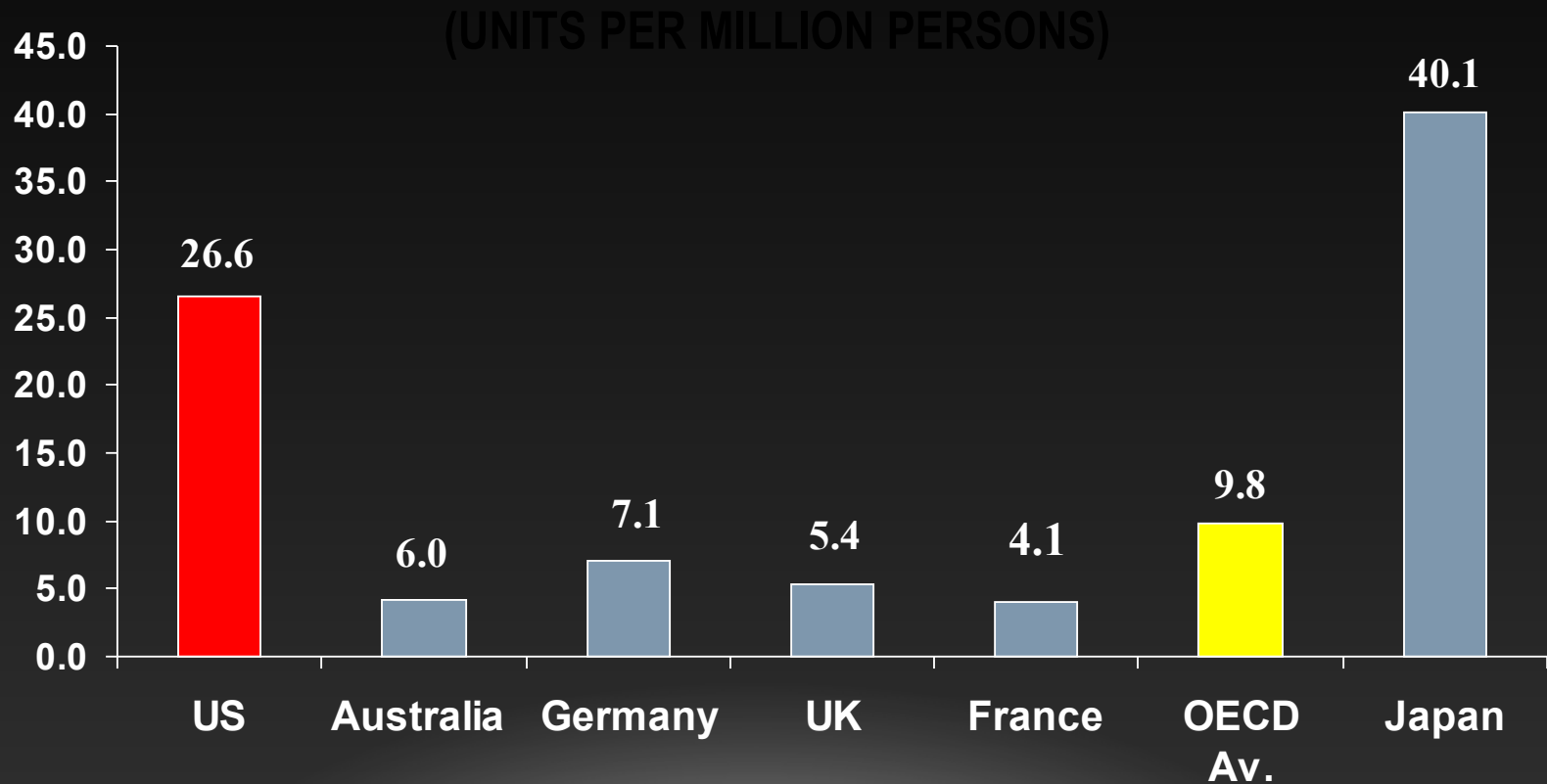


Harmonic (ultrasonic)  
Scalpel  
\$30,000

Source: K. Kasper, Presentation to National Health Policy Forum

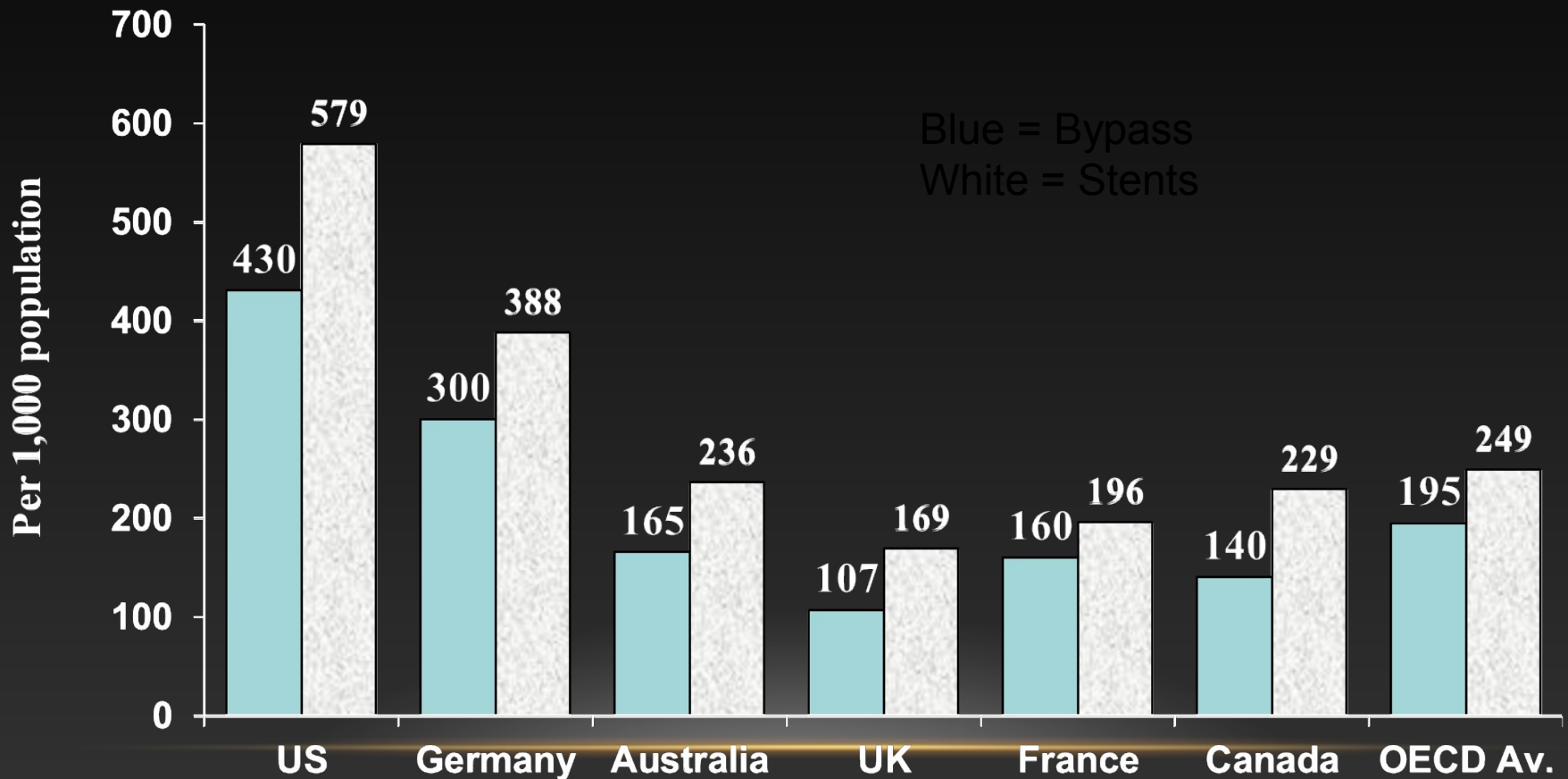
# MRI<sub>s</sub> IN SELECTED COUNTRIES

## 2005



Source:OECD

# CORONARY REVASCULARIZATION PROCEDURES, IN SELECTED COUNTRIES 2004



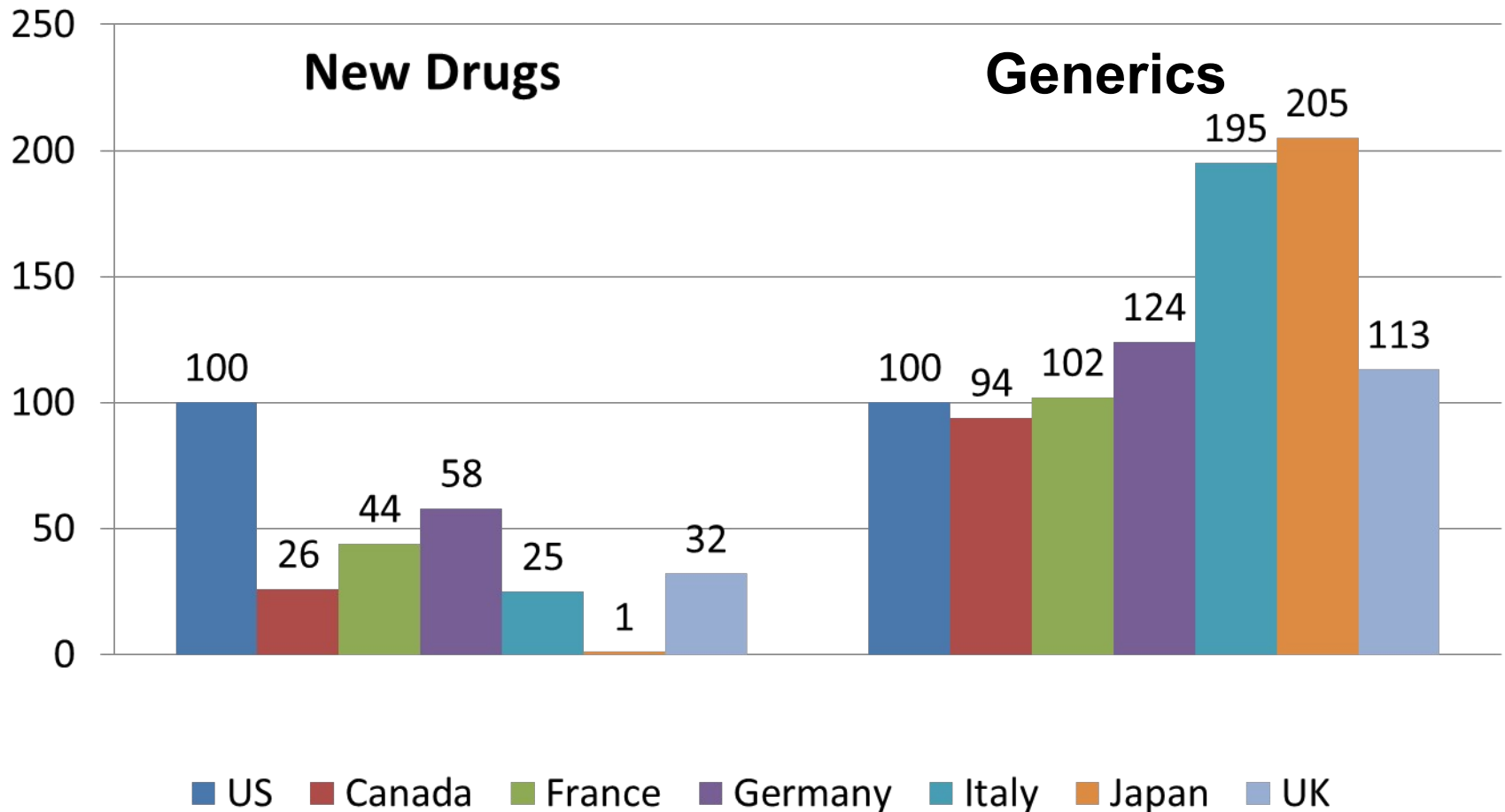
Source: OECD

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Source: OECD HEALTH DATA 2007  
WEEK TWO

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# Drug Prices in Selected Countries 1999



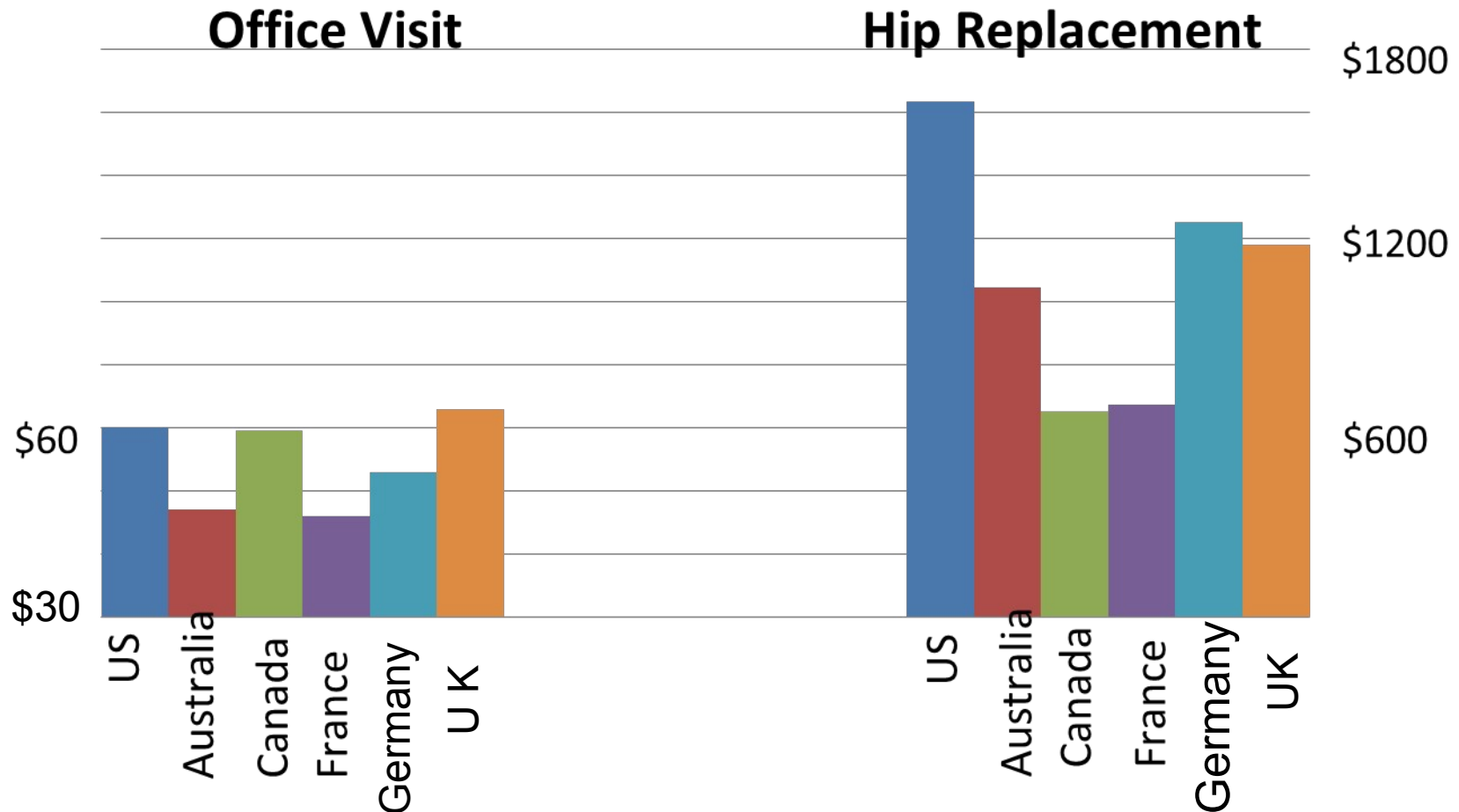
Source: Congressional Research Service

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# Physician Fees in Selected Countries

## 2008

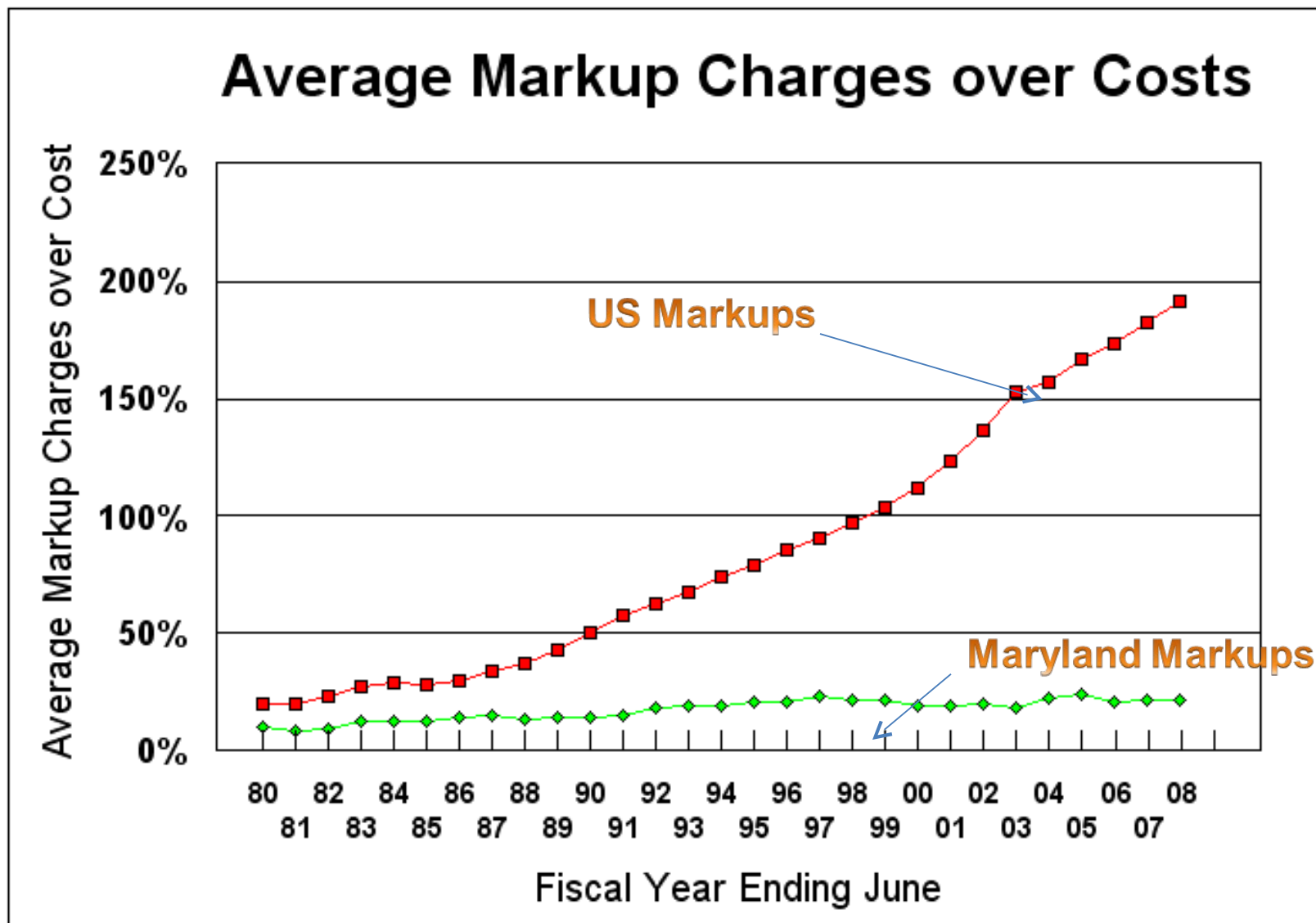


Source: Laygeson and Glied, *Health Affairs*, 2011.

# Health Care Spending Growth

- Primary driver differs between private insurance and Medicare
- Private insurance--Prices more important
  - Insurers have less ability to set prices
  - Privately insured population is healthier
- Medicare—Use of services more important
  - Program is a price setter
  - Beneficiaries are less healthy

# How Much Hospital Charges Exceed Costs



Source: Maryland Rate Review Commission

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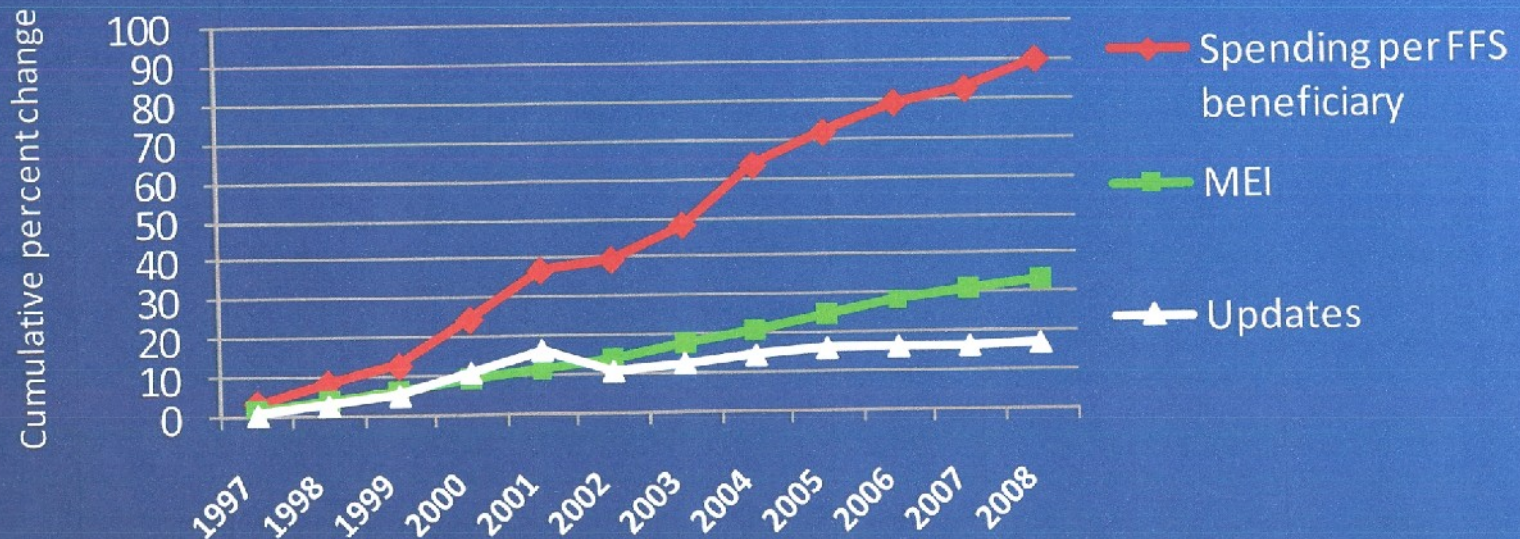
# “Premium Pricing” Example

## Northern California

	Sutter Health	Other Local Providers
Office Visit	\$349	\$222
Normal Delivery	\$5,890	\$2,052
MRI Knee Scan	\$1,271	\$696
Colonoscopy	\$3,200	\$2,800
Immunization	\$85	\$16
Ear Wax Removal	\$175	\$104

Source: Business Week Aug. 30, 2010

## Volume growth has raised actual spending faster than input prices and the updates

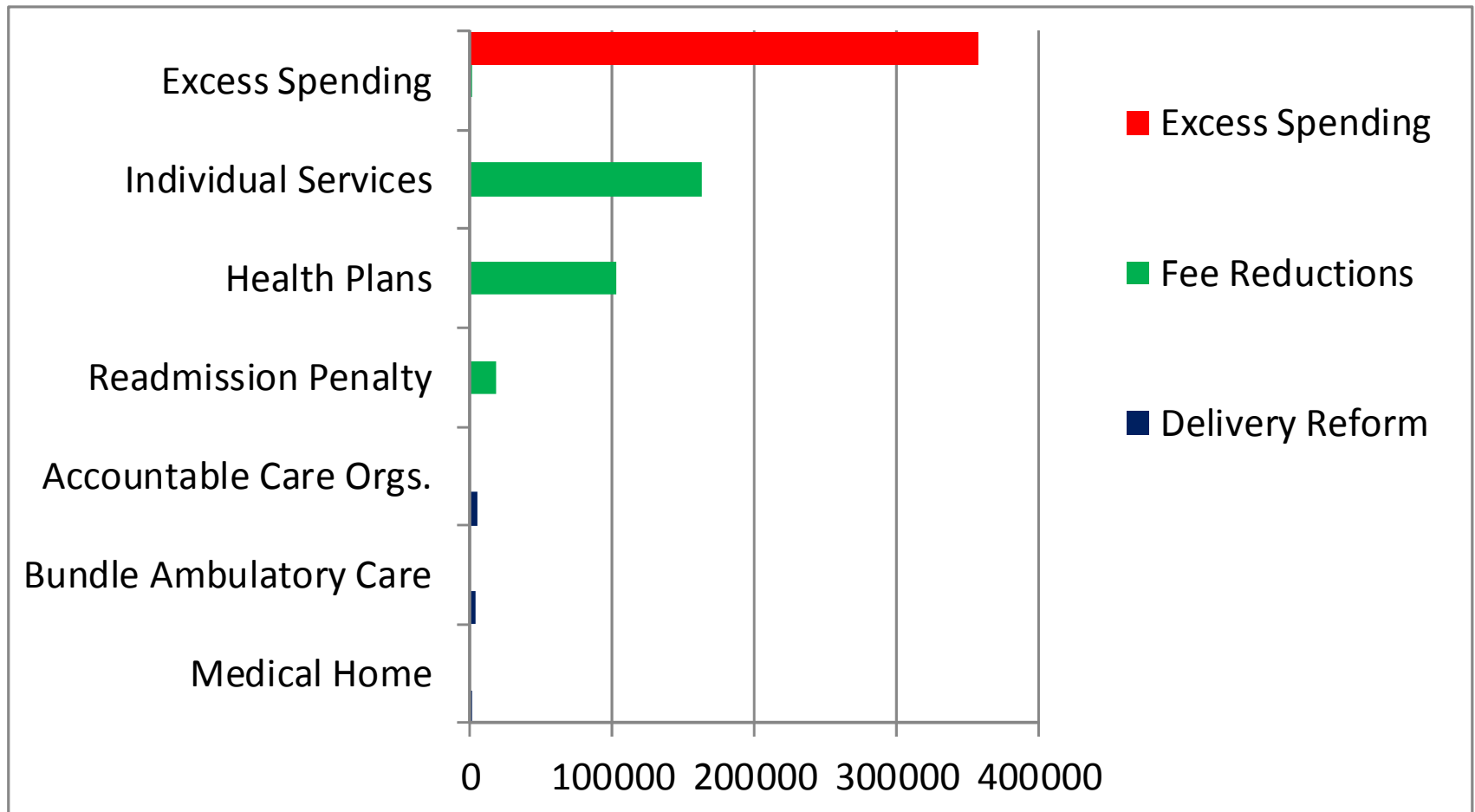


Note: MEI (Medicare Economic Index).  
Source: 2006 and 2009 trustees' reports and OACT 2009.

MEDPAC

# ACA Medicare Changes to Reduce Costs

# CBO Budget Options to Reduce Excess Medicare Spending\* 2015-2019



\*Excess Spending is Growth More than GDP growth + 1 percent point



# ACA Changes to Projected Medicare Spending

## Total Change

**\$424.B**

Reduce Price Increases for

(Hospitals, Skilled Nursing Facilities,  
Home Health Agencies)

**\$146 B**

Modify Medicare Advantage Plan Payments

**\$118 B**

Reduce Medicare Payments to Compensate for  
Hospital's Uninsured Care

**\$25 B**

Prescription Drug—Close Doughnut Hole

**\$18 B**

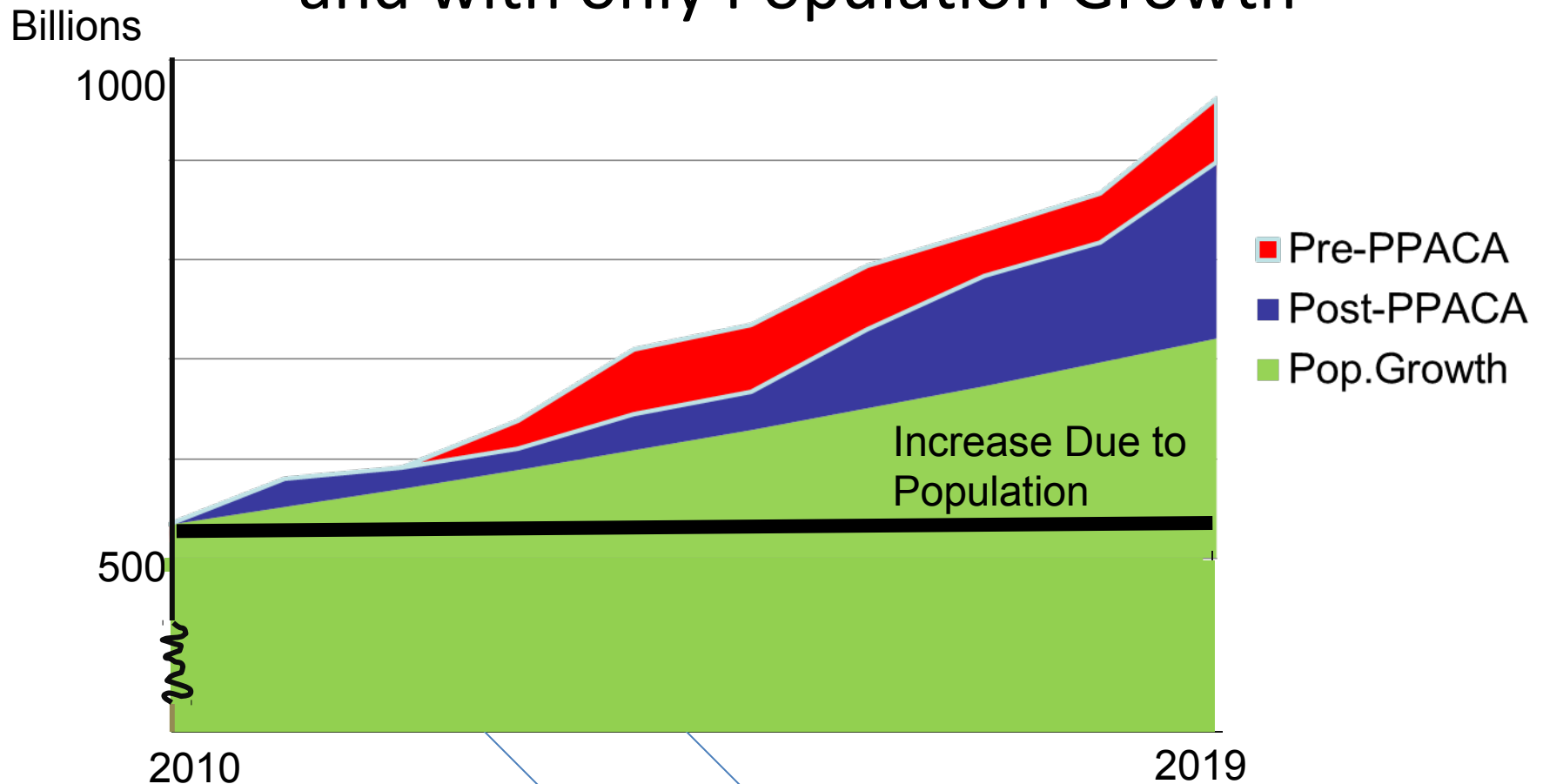
**Lower Part B Premiums**

**Not estimated**

**Lower Cost Sharing**

**Not estimated**

# Projected Medicare Spending Pre and Post ACA and with only Population Growth



Author Calculations using CMS Actuary Data

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# Are the Changes Sustainable?

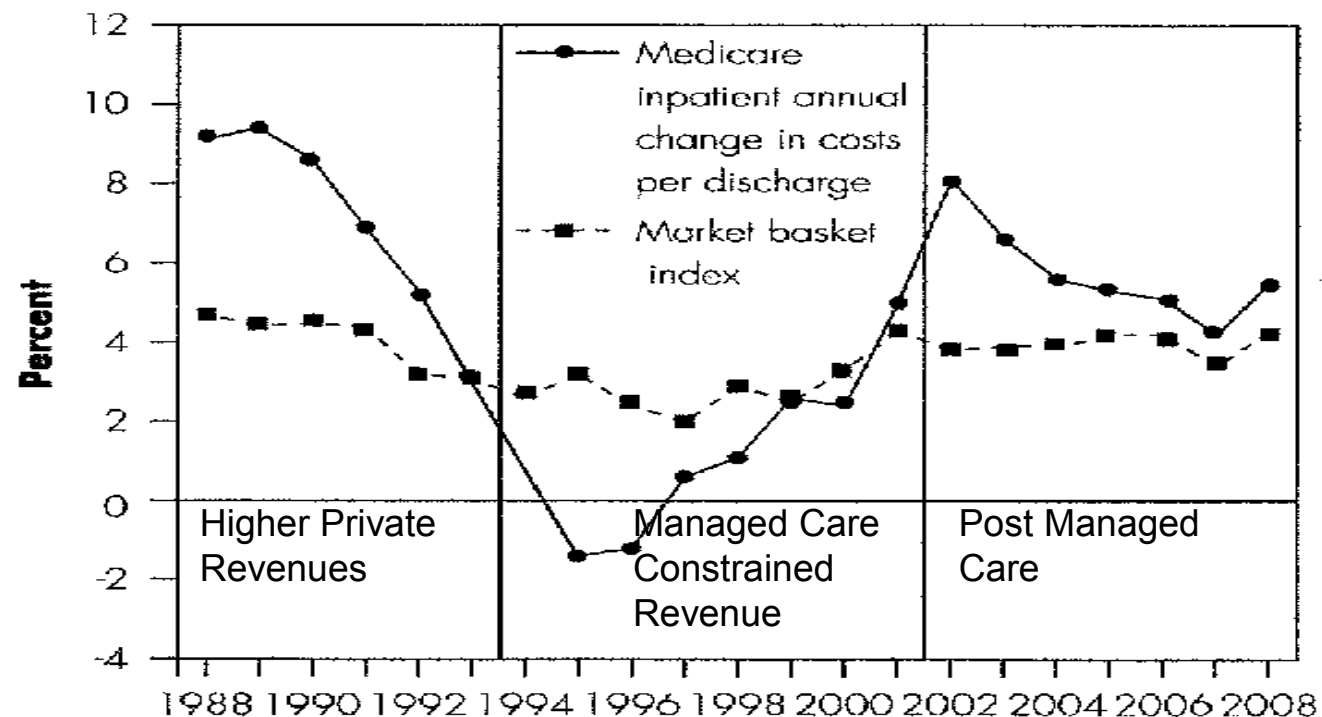
## Hospitals

While such payment update reductions would provide a strong incentive for providers to maximize efficiency, it is doubtful that many could improve their own productivity to the degree achieved by the economy at large. Over time, a sustained reduction in payment updates, ...would cause Medicare payment rates to grow more slowly than, ...the providers' costs of furnishing services to beneficiaries.

CMS Office of the Actuary, January 8, 2010.

# Hospital Spending

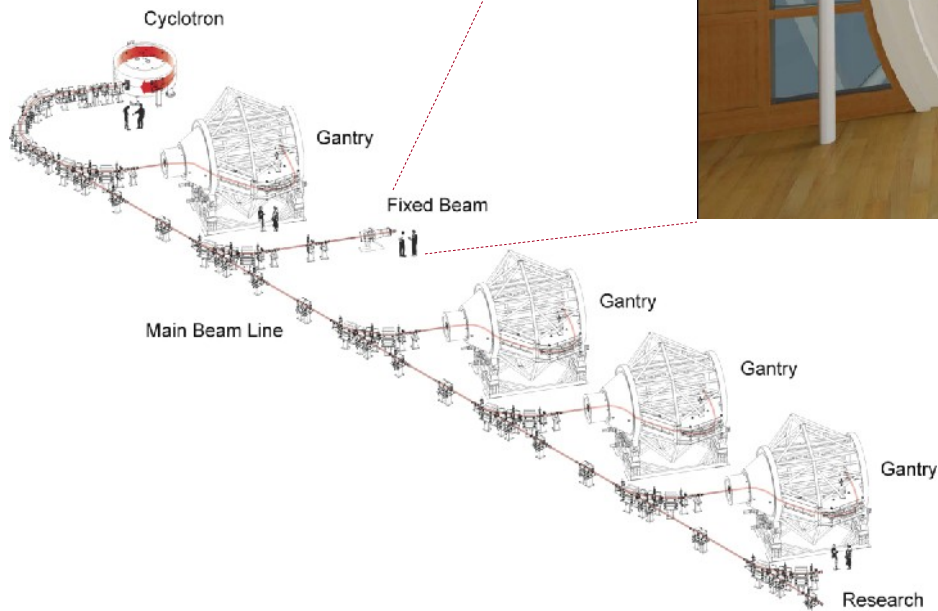
## Tracks Available Funds



**Note:** The market basket index measures annual changes in the prices of the goods and services hospitals use to deliver care.

**Source:** Medicare analysis of Medicare Cost Report files from CMS and annual final rules for the inpatient prospective payment system from CMS. By MedPAC

# Making Game-Changing Investments



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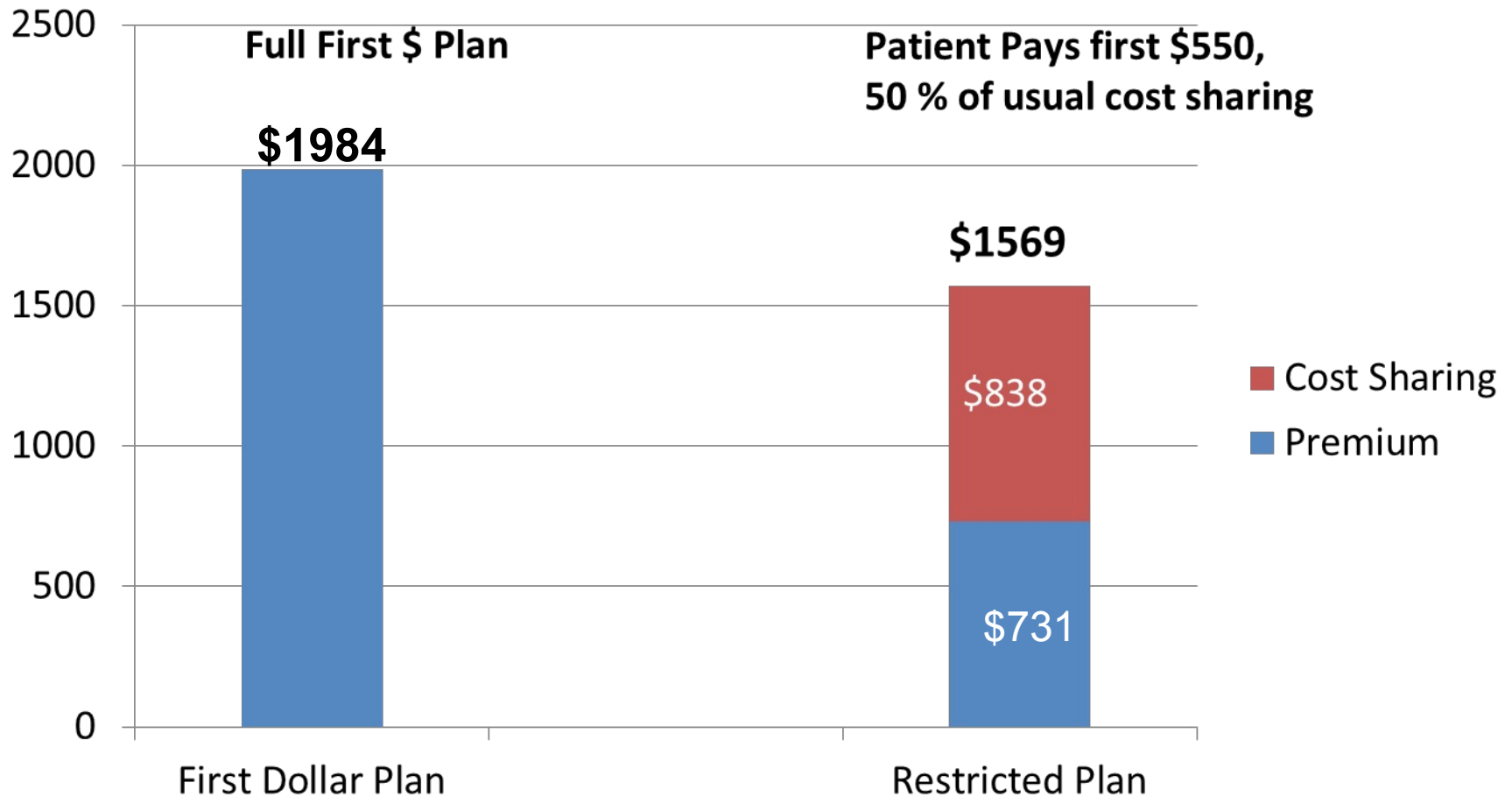
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# Deficit Reduction Proposals for Medicare 2011-12

House Budget <small>2011 and 2012</small>	Convert to <b>Premium Support</b> Raise Eligibility Age
Senate “Gang of Six”	Senate Finance Comm. To figure out
National Commission on Fiscal Responsibility (Bowles-Simpson)	Consider <b>Premium Support</b> if growth is too high <b>Restrict Medi-Gap policies</b>
Bipartisan Policy Center (Domenici-Rivlin)	Convert to <b>Premium Support</b>
Ryan-Wyden	Convert to <b>Premium Support</b>
President’s Plan	Change some premiums, cost sharing. <b>Penalize new Medi-Gap policies</b> IPAB to figure out the rest

# Restrict Medi-Gap First Dollar Coverage



Source: Kaiser Family Foundation [www.kff.org](http://www.kff.org)



# Premium Support Experience will depend on Allowed Growth

	Allowed Growth Rate
House Budget Committee—2011	Consumer Price Index
Bipartisan Policy Center	GDP + 1
Ryan-Wyden	GDP + 1
House Budget Committee--2012	GDP + 0.5

## Ryan Proposal Would Double Health Care Spending of Typical 65-Year-Old

■ Government's share   ■ Beneficiary's share

Health care spending for a typical 65-year-old in 2022, in dollars

Ryan Proposal



Current Medicare



Source: Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Paul Ryan, April 5, 2011, and CBPP calculations. Current Medicare is CBO's alternative fiscal scenario.

Note: Beneficiary's share of spending includes premiums, out-of-pocket costs for covered services, and any payments for supplemental insurance.

Questions??