US Health Care Reform
Week Two:
Controlling Costs

Bill Scanlon
For
Osher Lifelong Learning Institute
October 2010
• Context
  – Trends and International Comparison

• Private Market Experiences

• PPACA Changes to Medicare

• Options for the Future
Can’t Afford Insurance
Growth in Health Insurance Premiums versus Wages

October 25, 2010
Health Care Reform Week Two
OLLI
Per Capita Health Expenditures Have Been Growing at 2 percentage points faster than GDP For 40 Years

(adjusted for inflation)
Per Capita Health Care Spending and GDP in Selected Countries

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.

Source: OECD Health Data 2005 and WHO.
Health Spending as Share of Economy

CBO Projection
What’s Really Propping Up the Economy

Health care has added 1.7 million jobs since 2001. The rest of the private sector? None.

BY MICHAEL MANDEL

$5.99

October 5, 2010

Policy Analysis for the Real World--Health Debates
Why Is Healthcare Spending Higher In U.S.

Do We Use More Services or Just Pay More for The Services We Use?

Price versus Volume
In-Patient Acute Care Beds in Selected Countries 2005

Sources: OECD HEALTH DATA 2007
Hospital Discharge Rate in Selected Countries 2005

Discharges per 100,000 Pop

US: 121
UK: 245
Germany: 201
Australia: 158
France: 268
Japan: 106
Canada: 88
OECD Av.: 163

Source: OECD HEALTH DATA 2007
Practicing Physicians in Selected Countries 2005

Physicians per 1,000 population

- US: 2.4
- Germany: 3.4
- Australia: 2.7
- UK: 2.4
- France: 3.4
- Canada: 2.3
- Japan: 2.0
- OECD Av.: 3

Source: OECD HEALTH DATA 2007
Doctors’ Consultations Per Capita in Selected Countries 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Consultations Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>3.8</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
</tr>
<tr>
<td>Japan</td>
<td>13.8</td>
</tr>
<tr>
<td>France</td>
<td>6.6</td>
</tr>
<tr>
<td>Australia</td>
<td>6.1</td>
</tr>
<tr>
<td>OECD Av.</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: OECD HEALTH DATA 2007
What About The Availability of Expensive Medical Technology and Procedures?
## High Cost of Advancing Technology

<table>
<thead>
<tr>
<th>“Traditional” Technology</th>
<th>Standard Technology circa 2000</th>
<th>Current Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>X-Ray Machine</td>
<td>CT Scanner</td>
<td>CT Functional Imaging w/PET</td>
</tr>
<tr>
<td>$175,000</td>
<td>$1 million</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>Open Surgery Instrument Set</td>
<td>Laparoscopic Surgery Set</td>
<td>Surgery Robot</td>
</tr>
<tr>
<td>Set $10,000</td>
<td>$15,000</td>
<td>~$2 million</td>
</tr>
<tr>
<td>Cardiac Balloon Catheter</td>
<td>Stent $2,300</td>
<td>Treated Stent</td>
</tr>
<tr>
<td>$500</td>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Scalpel $20</td>
<td>Electrocautery $12,000</td>
<td>Harmonic (ultrasonic) Scalpel $30,000</td>
</tr>
</tbody>
</table>
MRIs in Selected Countries 2005

(Units per million persons)

Sources: OECD HEALTH DATA 2007
Coronary Revascularization Procedures, in Selected Countries 2004

Source: OECD HEALTH DATA 2007
Patients Using Renal Dialysis Treatment in Selected Countries 2005

Source: OECD HEALTH DATA 2007
Liver Transplant Procedures in Selected Countries 2002

Liver Transplant Procedure per 100,000 Population

Source: OECD HEALTH DATA 2005
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.

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
Variation in FEHBP Physician and Hospital Fees Across MSAs

• Metropolitan areas with low fees
  – Physician and hospital fees close to Medicare’s

• Metropolitan areas with highest fees
  – Physician fees average nearly twice Medicare’s
  – Hospital fees average nearly three and a half times Medicare’s
## Hospital Consolidation

<table>
<thead>
<tr>
<th>Definition of Highly Concentrated</th>
<th>1990</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage of MSAs</strong></td>
<td>71%</td>
<td>88%</td>
</tr>
<tr>
<td><strong>Number of Residents</strong></td>
<td>56.2 million</td>
<td>122 million</td>
</tr>
</tbody>
</table>

HIGHER PRICES ARE NOT TIED TO TEACHING STATUS

HIGHER PRICES ARE NOT TIED TO INCREASED COMPLEXITY OF SERVICES

INFORMATION FROM A MAJOR HEALTH PLAN: FOR ILLUSTRATIVE PURPOSES ONLY
How Much Hospital Charges Exceed Costs

Average Markup Charges over Costs

- US Markups
- Maryland Markups
## “Premium Pricing” Example
Northern California

<table>
<thead>
<tr>
<th>Service</th>
<th>Sutter Health</th>
<th>Other Local Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Visit</td>
<td>$349</td>
<td>$222</td>
</tr>
<tr>
<td>Normal Delivery</td>
<td>$5,890</td>
<td>$2,052</td>
</tr>
<tr>
<td>MRI Knee Scan</td>
<td>$1,271</td>
<td>$696</td>
</tr>
<tr>
<td>Colonoscopy</td>
<td>$3,200</td>
<td>$2,800</td>
</tr>
<tr>
<td>Immunization</td>
<td>$85</td>
<td>$16</td>
</tr>
<tr>
<td>Ear Wax Removal</td>
<td>$175</td>
<td>$104</td>
</tr>
</tbody>
</table>

Source: Business Week  Aug. 30, 2010
PPACA
Controlling Cost

Medicare as the Model
CBO Budget Options to Reduce Excess Medicare Spending*
2015-2019

* Excess defined as growth exceeding GDP growth + 1 percentage point

Source: CBO, Budget Options Health Care, Dec. 2008
# PPACA Changes to Projected Medicare Spending

<table>
<thead>
<tr>
<th>Total Change</th>
<th>$424.0 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce Price Increases for</td>
<td></td>
</tr>
<tr>
<td>(Primarily Hospitals, Skilled Nursing Facilities, Home Health Agencies)</td>
<td>$146.0 B</td>
</tr>
<tr>
<td>Modify Medicare Advantage Plan Payments</td>
<td>$118.0 B</td>
</tr>
<tr>
<td>Reduce Medicare Disproportionate Share Hospital Payments</td>
<td>$25.0 B</td>
</tr>
<tr>
<td>Prescription Drug—Close Doughnut Hole</td>
<td>$18.0 B</td>
</tr>
<tr>
<td>Lower Part B Premiums</td>
<td>Not estimated</td>
</tr>
<tr>
<td>Lower Cost Sharing</td>
<td>Not estimated</td>
</tr>
</tbody>
</table>

October 25, 2010  Health Care Reform Week Two  OLLI
Projected Medicare Spending
Pre and Post PPACA
and with only Population Growth

Billions

Increase Due to Population

2010
2019

October 25, 2010
Health Care Reform Week Two
OLLI
Are the Changes Sustainable?
Home Health

Profit Margin Percent

Profit Margin on Medicare Patients 2008

20th Pctile  Average  80th Pctile

-10  -5  0  5  10  15  20  25  30  35  40

-9 %  17 %  37 %
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.

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.
Making Game-Changing Investments

- AMCs uniquely willing to invest in state-of-the-art technology.
- E.g., proton therapy required $140M investment - new infrastructure
Private Plans in Medicare
Four Eras

支付

- 风险合同计划程序（1982-1997）: 95% 的费用为基础
- 医保 + 选择 (1997-2003): 年度增长2%
- 医保优势 (2003-2010): 投标与基准和底线
- PPACA 修改的医保优势计划 (2011--): 费用为服务加减

健康改革周第二周
10月25日，2010年
PPACA Medicare Advantage Payments

- Benchmark depends on county’s cost
  - 25 percent most expensive—95% of FFS
  - 25 percent least expensive—115% of FFS
  - Remaining counties—100–107.5% of FFS

- Quality Bonuses (4 and 5 star plans)
  - 1.5% in 2012
  - 5.0% in 2014

- Goes into effect in 2012
Threefold variation in unadjusted Medicare spending.

Source: Dartmouth Atlas of Health Care 1999
## Miami versus Minneapolis
### Coronary Artery Disease Episodes

<table>
<thead>
<tr>
<th>Services</th>
<th>Miami</th>
<th>Minneapolis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Index</td>
<td>0.66</td>
<td>1.28</td>
</tr>
<tr>
<td>Episodes per beneficiary</td>
<td>1.32</td>
<td>0.88</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E&amp;M</td>
<td>1.05</td>
<td>0.93</td>
</tr>
<tr>
<td>Imaging</td>
<td>1.62</td>
<td>0.76</td>
</tr>
<tr>
<td>Tests</td>
<td>1.14</td>
<td>0.90</td>
</tr>
<tr>
<td>Inpatient</td>
<td>0.51</td>
<td>1.46</td>
</tr>
<tr>
<td>Procedures</td>
<td>0.39</td>
<td>1.24</td>
</tr>
</tbody>
</table>

October 25, 2010

Health Care Reform Week Two

OLLI
Medicare Advantage
Quality Ratings

• Stars based on:
  – Customer service and satisfaction
  – Complaints
  – Delivery of selected services (e.g., annual visits, screenings
  – Selected health outcomes
Physician Payments

- Not changed by PPACA
- Fees adjusted by Sustainable Growth Rate (SGR) formula since 1997
- SGR required fee reductions since 2002
- Reductions overridden by Congress
- Budget rules mean reductions postponed not eliminated
- Projected 2011 reduction –30 percent

Will not happen

October 25, 2010
Health Care Reform Week Two
OLLI
Volume growth has raised actual spending faster than input prices and the updates.

Note: MEI (Medicare Economic Index).
Source: Medicare Program, Annual reports and OACT 2009.
Volume of physician services per beneficiary continues to grow

Note: (E&M Evaluation and management).
Source: MedPAC analysis of claims data for 100 percent of Medicare beneficiaries.
## Physician Participation in Medicare

**Medicare Beneficiaries** | **Privately Insured 55-64 year olds**
--- | ---
No delay in getting an appointment |  
For routine care | 77 % | 71 %
For illness or injury | 85 % | 79 %

Looking for new primary care physician |  
No problem | 78 % | 71 %
Big Problem | 12 % | 21 %

MedPAC 2010 March Report

October 25, 2010

Health Care Reform Week Two

OLLI
Keys to Future Cost Control

- Healthcare Workforce
- Health Information Technology
- Technology
Healthcare Workforce

• Education reforms
  – Changing mode of practice
  – Greater efficiency (Shorter)

• Scope of practice
  – Practicing to the “top of the license”
# Template of the Present

<table>
<thead>
<tr>
<th>Time</th>
<th>Primary care physician</th>
<th>Medical assistant 1</th>
<th>RN</th>
<th>Nurse Practitioner</th>
<th>Medical assistant 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:00</td>
<td><strong>Patient A</strong></td>
<td>Assist with Patient A</td>
<td><strong>Triage</strong></td>
<td><strong>Patient H</strong></td>
<td>Assist with Patient H</td>
</tr>
<tr>
<td>8:10</td>
<td><strong>Patient B</strong></td>
<td>Assist with Patient B</td>
<td></td>
<td><strong>Patient I</strong></td>
<td>Assist with Patient I</td>
</tr>
<tr>
<td>8:30</td>
<td><strong>Patient C</strong></td>
<td>Assist with Patient C</td>
<td></td>
<td><strong>Patient J</strong></td>
<td>Assist with Patient J</td>
</tr>
<tr>
<td>9:00</td>
<td><strong>Patient D</strong></td>
<td>Assist with Patient D</td>
<td></td>
<td><strong>Patient K</strong></td>
<td>Assist with Patient K</td>
</tr>
<tr>
<td>9:30</td>
<td><strong>Patient E</strong></td>
<td>Assist with Patient E</td>
<td></td>
<td><strong>Patient L</strong></td>
<td>Assist with Patient L</td>
</tr>
<tr>
<td>10:00</td>
<td><strong>Patient F</strong></td>
<td>Assist with Patient F</td>
<td></td>
<td><strong>Patient M</strong></td>
<td>Assist with Patient M</td>
</tr>
<tr>
<td>10:30</td>
<td><strong>Patient G</strong></td>
<td>Assist with Patient G</td>
<td></td>
<td><strong>Patient N</strong></td>
<td>Assist with Patient N</td>
</tr>
<tr>
<td>Time</td>
<td>Primary care physician</td>
<td>Medical assistant 1</td>
<td>RN</td>
<td>Nurse Practitioner</td>
<td>Medical Assistant 2</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------</td>
<td>---------------------</td>
<td>----</td>
<td>-------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>8:00</td>
<td></td>
<td></td>
<td></td>
<td><strong>Huddle</strong></td>
<td></td>
</tr>
<tr>
<td>8:10</td>
<td><em>E-visits and phone visits</em></td>
<td><em>Panel management</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8:30</td>
<td><em>Complex patient</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:30</td>
<td><em>Complex patient</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10:00</td>
<td><em>Coordinate with hospitalists and specialists</em></td>
<td><em>BP coaching clinic</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10:30</td>
<td><em>Huddle with RN, NP</em></td>
<td></td>
<td></td>
<td></td>
<td><em>Huddle with MD</em></td>
</tr>
</tbody>
</table>

**Template of the Pasture**

**Template of the Future**
Health Information Technology

- Care delivery
  - Facilitates appropriate care
  - Prevents error

- Quality assurance
  - Monitoring services delivered, need and appropriateness, and quality

- Payment reform
  - Bundling based on need and science
  - Accountability for delivery of appropriate bundle
Future Payment Innovations

• Hospital Bundles
  – Admission, Re-admission, Post-Acute, Physician

• Ambulatory Episode Payments

• Medical Home

• Accountable Care Organizations
“New Age” Technology

Patient managed care
October 25, 2010

Health Care Reform Week Two

OLLI
Questions??