

Health Care Costs

Trends, Causes, Truth & Consequences

“The Long-Term Outlook for Health Care Spending”

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American Enterprise Institute

November 27, 2007

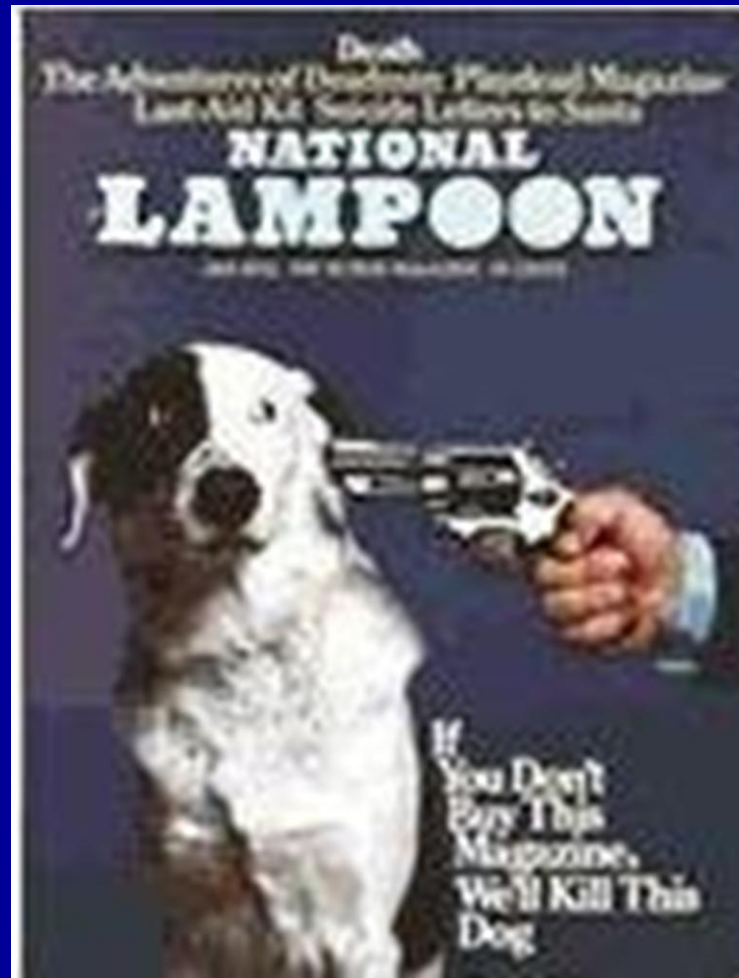
Health Spending & Federal Budget: The Future in a Nutshell



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



Health Policy Debates: The Search for Bipartisan Compromise



The Life Cycle of National Health Reform & Universal Coverage



CBO's Long Term Spending Outlook



“The Future Ain’t What It Used to Be.”

Lawrence Peter Berra

- “Between 1965 and 1993, national health expenditures grew from 6 percent to 14 percent of gross domestic product. The Congressional Budget Office's (CBO's) projections suggest that this figure will rise to **20** percent by 2004 if the current system is not changed.”

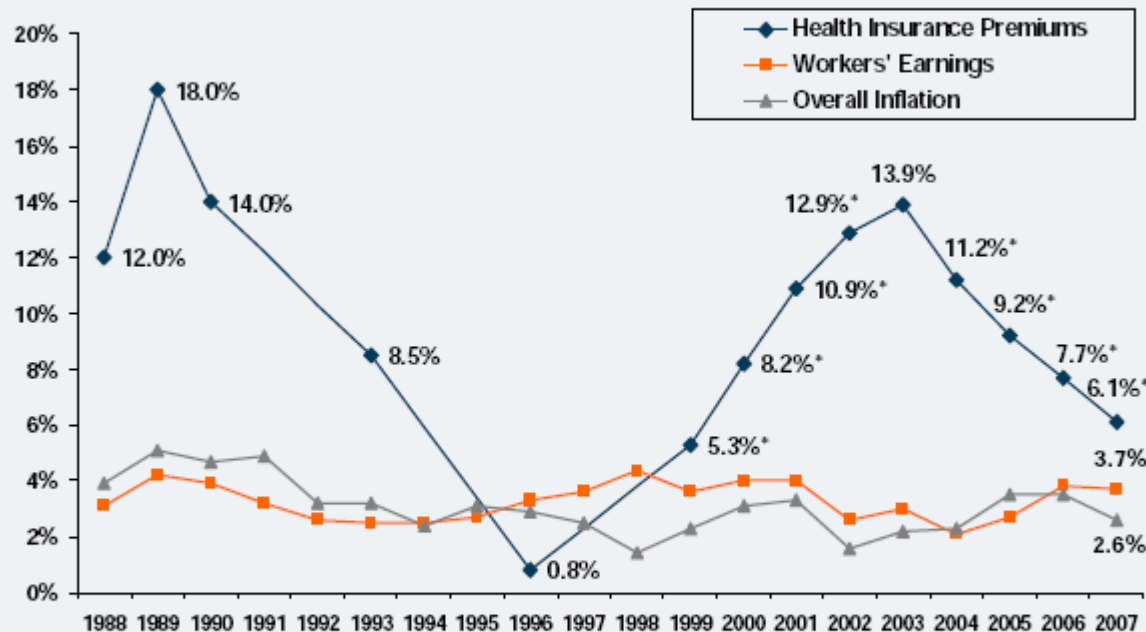
(An Analysis of the Administration’s Health Proposal, Feb. 1994, p. 25)

Actual NHE share of GDP, 2004: **15.9 percent**

(CMS, Office of the Actuary; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census)

Riding the Health Cost Rollercoaster

Average Percentage Increase in Health Insurance Premiums Compared to Other Indicators, 1988-2007



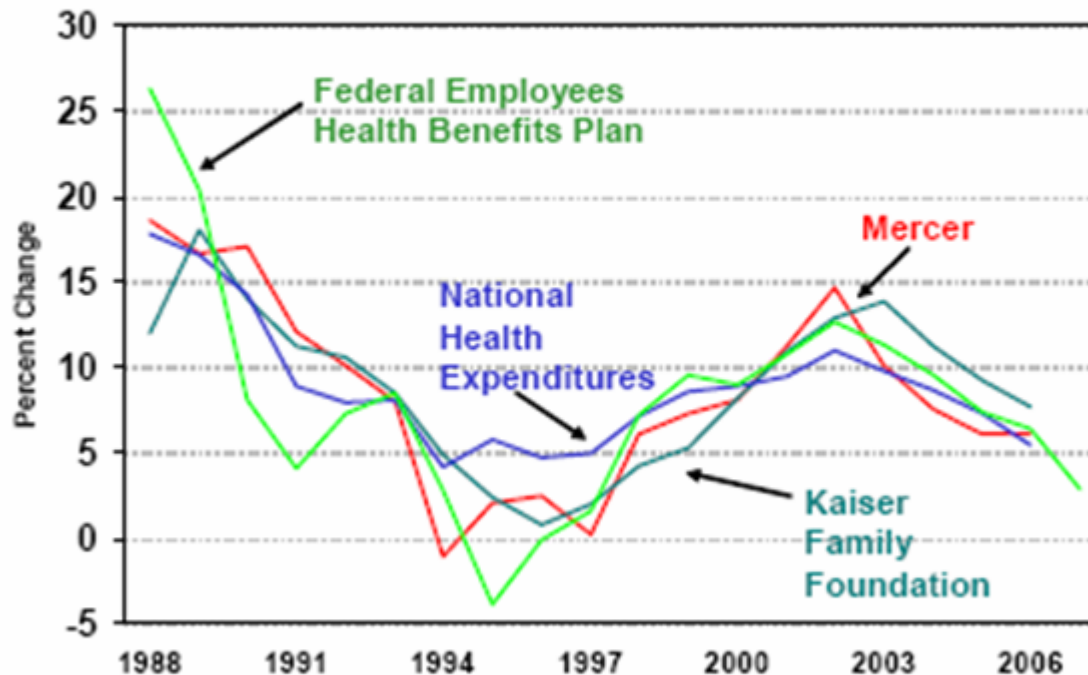
*Estimate is statistically different from estimate for the previous year shown ($p < .05$). No statistical tests are conducted for years prior to 1999.

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

Recent Trends in Health Insurance Premiums



Limiting Factors

- “Not a suicide pact”
- Resource competition from other sectors
- Medical manpower
- Muddling through with third-best
- Exhausting every other bad alternative first
- Assume a floating baseline
- It’s either a solution, or a problem that solves itself

Aging and Health Costs

How Red Is that Herring?

- Correlation: per capita HCE & time to death
- But composition of population changes w/ larger share closer to death
- Components: morbidity (survivors) vs. mortality (deathbound)
- Age vs. remaining life expectancy (retrospective)
- Cost of dying (mortality) accrues at higher age
- Aggregate HCE rises faster than per capita HCE

Changes in Medicare Spending: Decedents vs. Survivors

- Spending Growth, 1989-1996

Last 2 yrs of life

Age 70 14%

Age 90 8%

Prior to last 2 yrs

Age 70 70%

Age 90 45%

Lifetime Medicare

Age 70 34%

Age 90 36%

Just a “School” of Red Herring

- Werblow, Felder & Zweifel 2005
 - Controlling for time to death
 - Age neutral only for persons not using LTC services (within 5 yrs of death)
- Social care costs depend more on age & associated frailty, less on time to death
- Social care services likely to grow much faster than medical treatments (due to aging)
- Costs further from death growing faster,
- Time to death/expenditure curve has flattened

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.

^aDifference between 1996 and 2003 significant at the .10 level.

^bDifference between 1996 and 2003 significant at the .05 level.

Medicare Costs: Last Yr. of Life

Percentage of Medicare Spending:

26.5 % 1994

27.9 % 1999

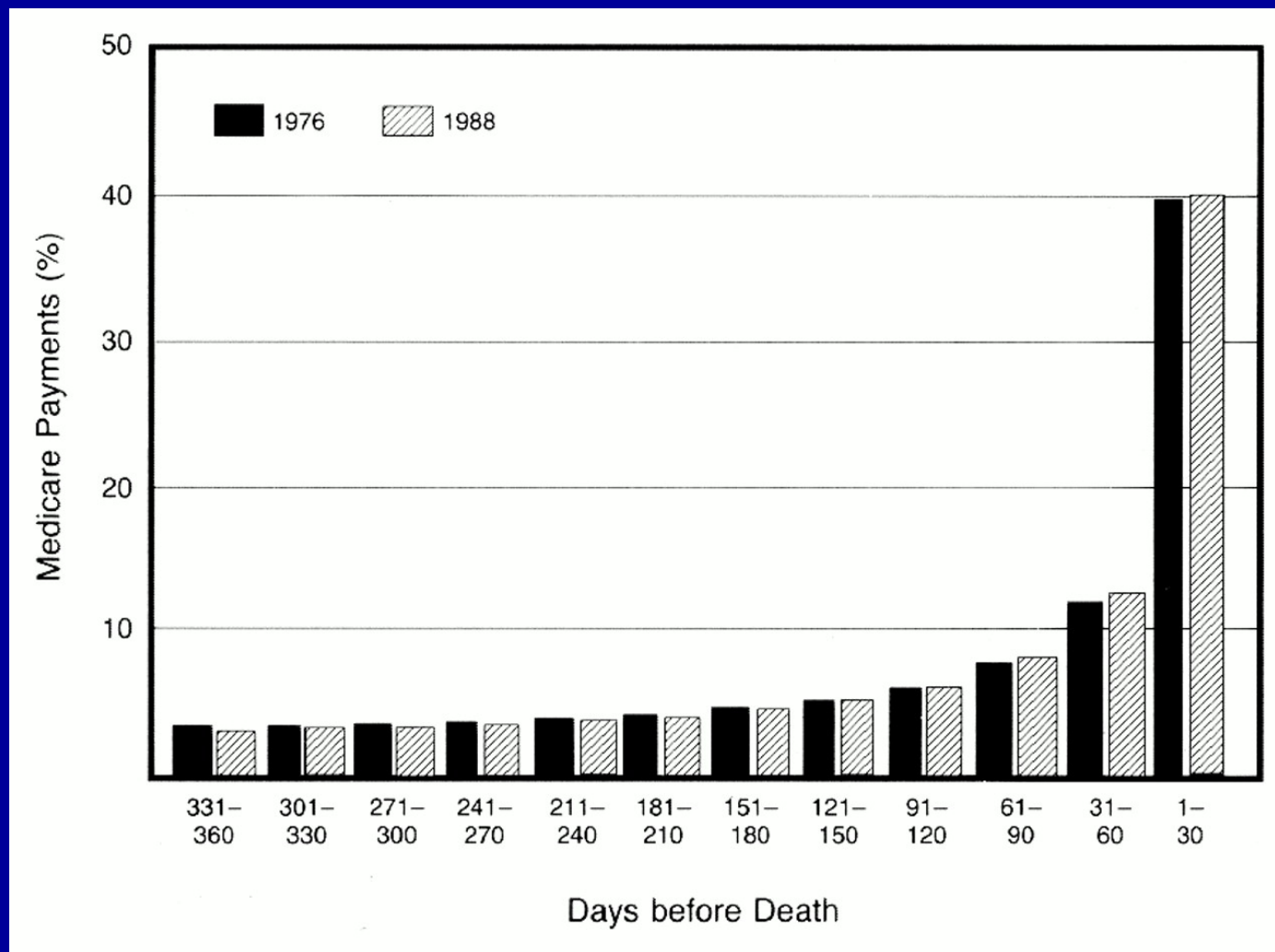
Increases in per capita costs:

Greatest in youngest age groups

??? Managed care enrollment bias

Calfo, Smith, Zezza CMS Office of Actuary

Distribution of Medicare Payments in the Last Year of Life, According to the Number of Days before Death, 1976 and 1988

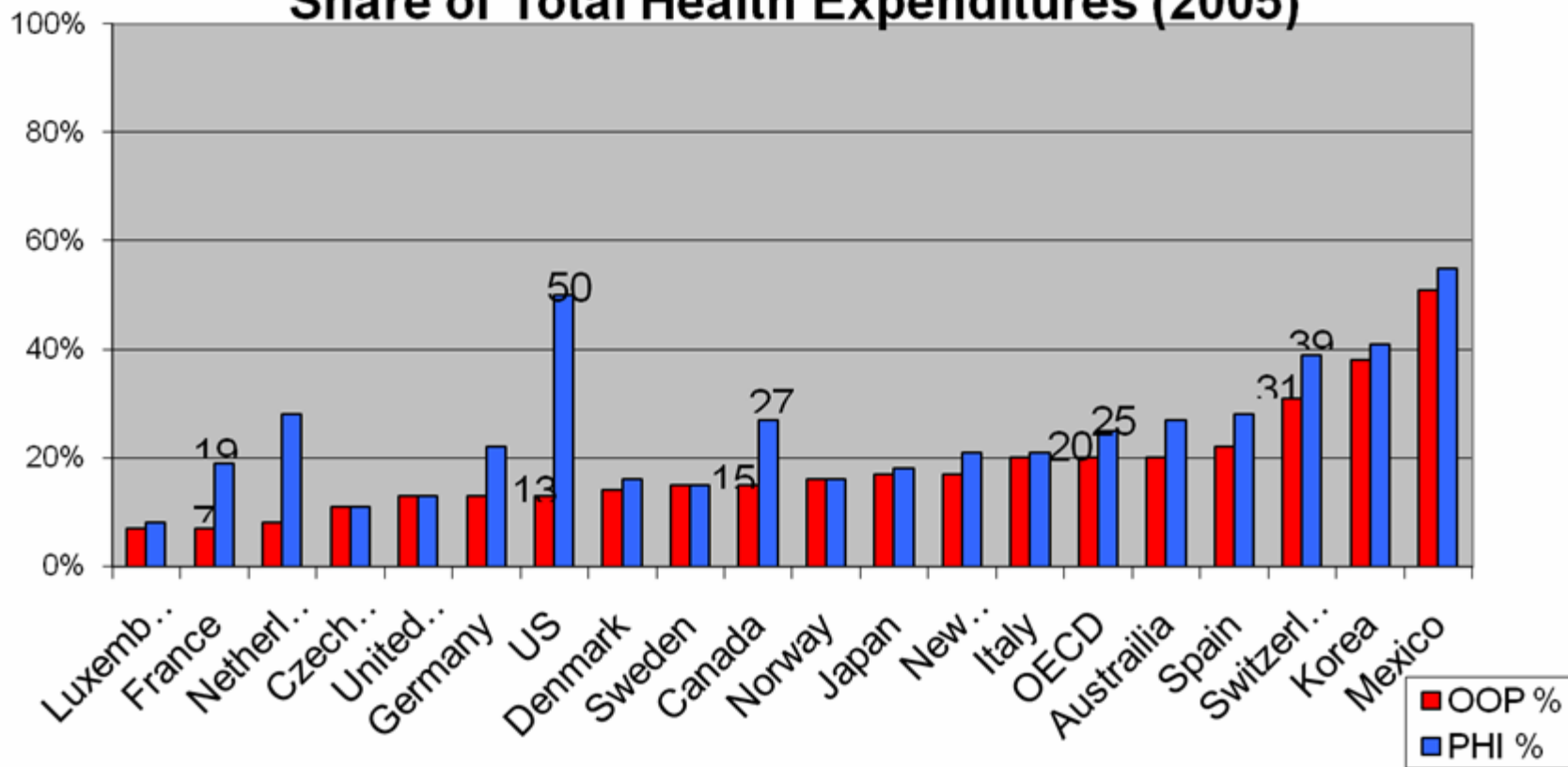


Lubitz J and Riley G. N Engl J Med 1993;328:1092-1096



The NEW ENGLAND
JOURNAL of MEDICINE

Out-of-Pocket & Private Health Insurance Spending Share of Total Health Expenditures (2005)



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
- Keeping score:
 - Finding trace benefits in outyears

Fee for Service vs. Third Party Payment

- Would people paying more OOP ask for bundled pricing, greater value accountability?

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

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

Implications

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

Wild Cards

- Subjective redefinition of “health care”
- Genetic information
- Medical tourism
- Political cycles
- Economic downturns