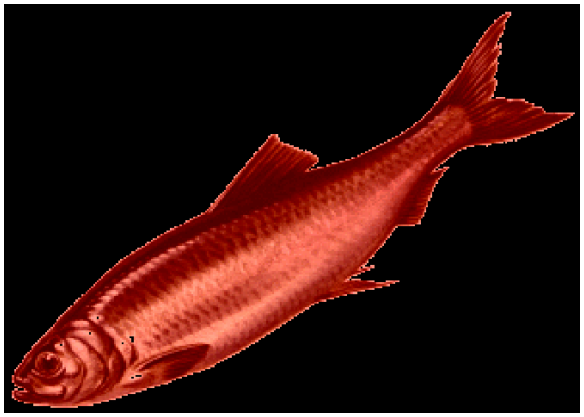

Comments on “The Red Herring”

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- Sustainability of health spending one of the most important public policy issues for US and most other countries
- Most work has been fairly formulaic – take current spending and project forward with different population and some fixed assumption about excess growth
- Thinking about the complexities behind these forecasts is very important

The Red Herring

- Does it make sense to assume constant spending by age (grossed up by average rate of spending growth) or does that overstate future spending?
- What age is more important – age measured as years since birth (the red herring) or age measured as years before death?
- This study shows that age until death is a better predictor of spending than years since birth

Why is this important?

(1) Forecasting future expenses

(2) Public Policy toward expenses near the end of life

An analysis of both these issues requires understanding:

- Why do we observe the explosion of health spending near the end of life
- How will health spending by age and near death change over time
- Most work (my prior work included) does not delve into this issue

Why does health spending explode near death

- The “funeral cost” model: spending increases near death are not related to health outcomes – they are like “funeral costs” – or $ thrown at dying patients to satisfy family members.
- With this model, one funeral per person means that as life expectancy increases, age-specific spending declines (fewer funerals at any given age)
- Health spending would decline if you spent less on funerals – whether you want to or not depends on valuve of funeral to family

A different reason for spending to explode before death

- Imaging that there are two types of spending
  - Age related spending for conditions that won't kill you
  - Spending to try to cure a disease that will kill you
- There is an expensive treatment for the disease.
- Most people still die of the disease despite the treatment, but some do not, and the probability of survival makes the $ worth the cost
- Since most people die after receiving the expensive treatment, spending explodes before death
- But treatment is still efficient

How does longevity increase under this model?

1. Increase in multifactor productivity: given treatment for disease improves, and survival rates increase
   - Implication of future spending – nothing. Spending is the same, but people live longer and there are more people.
   - For public policy? Value of treatment increases over time, not decreases.
2. Increase in medical spending lowers probability that people will get the disease
   - For example – use of drugs to treat hypertension
   - Impact on spending is ambiguous – depends on $ and age pattern of additional preventative medical spending

Evidence? (very casual)

- Geographic variation: areas with higher health spending DO NOT spend a disproportionately higher share of spending near end of life.
- When ask physicians why they do treatments, they think there is a not insignificant chance that it will work.
- But, clearly, some parts of expenditures near death do reflect “waste” and efforts to ferret these out (and many other inefficiencies in health spending) are valuable.