The Fly in the Ointment: Health Care Costs

Fran Miller
Visiting Professor of Law, University of Hawaii at Manoa
Professor Emerita, Boston University School of Law
“The path to fiscal responsibility must run directly through health care.”

Peter Orszag, OMB Dir., @ White House Fiscal Resp. Summit

New York Times
February 23, 2009
A Sisyphean Task
Basic Facts Review

- US spent 17.9% of GDP on health care in 2017 – 1 out of every $6 spent in the country

- $3.3 trillion

- Almost twice as high a %-age as other high-income* countries
Basic Facts Review (cont.)

• But US Morbidity & Mortality far worse than other countries
  • US Life expectancy now lowest (78.8 yrs)
  • Infant, neonatal & maternal mortality now highest among 11 wealthy nations*

• And health care costs far higher in US

*JAMA. Mar. 13, 2018
Basic Facts Review (cont.)

• 12.2% of US population *uninsured* in 2018

• 99 – 100% of population in other wealthy countries insured

Who is Insured?

• EVERYONE under the national healthcare insurance
Edwina, we can’t go on forever propping each other up like this.
Victor Fuchs on Health Spending:

• “If we solve our health care spending problems, practically all our fiscal problems go away.”

• And if we don’t?

• “Then almost nothing else we do will solve our fiscal problems.”

- Victor Fuchs, Stanford Health Economist, NYTimes, March 5, ‘12
So What Is Our Problem?
Is It Lack of Health Insurance for 12.2% of the Population?

• That does contribute to costs when the uninsured end up in expensive ERs (& we pay for them anyway)

• But not disproportionately
  (Main impact is to depress indices of morbidity & mortality)
Is it Overutilization?

“Ask your doctor if taking a pill to solve all your problems is right for you.”
Is it Overutilization? (cont.)

• Not so much,* except for:
  • Total knee replacements
  • Angioplasty, &
  • C-sections

* Source for next 10 slides: JAMA, 3/13/18
Is it Overutilization? (cont.)

• US Hospital length of stay and specialist use = well below mean LOS of 11 highest-income countries

(Thank you DRGs!)
Is It Structural Capacity?

• Nope

• # of Hospital beds

• # of Specialist physicians, &

• # of Nurses

• Not markedly different from other 10 high-income countries
Is It Demographics?

• US has highest % of overweight & obese adults (70%!)

• But 2d lowest % of non smokers (11.4%)

Health issue costs for these 2 groups tended to cancel one another out.
Is It Demographics? (cont.)

• U.S. has lowest population % older than 65 (15.5 v 11 wealthy country mean of 18.2)

• And the highest poverty rate (24% living below the poverty line)

But these also tend to cancel each other out
Is It Pharmaceutical Costs?

• That’s a piece of it

• US has highest pharmaceutical spending per capita ($1443, 50% more than next highest country, & twice the mean for all 11 countries)

• Notwithstanding 84% generic penetration in the US!
But The Main Culprits?

• High Prices,

• & High Administrative Costs
Re High Prices:

- **US health professionals’ compensation:**
  - Mean generalist MD compensation = $218 K, almost double 11-country mean
  - Nurse compensation also higher ($74 K v. $42-$65 K in other 10 countries)
Re High Prices (cont.):

• Markedly higher US prices for non-physician services & procedures:

  • CABG surgery - $75,345 in US v $15,742 in the Netherlands

  • CT scans - $896 in US v $97 in Canada

  • MRI Scans - $1145 in US v $350 in Australia
Re (Very) High Administrative Costs:

- US: 8% of GDP spent on health care adm. & governance

- Mean GDP of all 11 rich countries spent on adm. & governance = 3% GDP
Implications?

• Traditional cost containment efforts haven’t had much impact thus far*

• It may take more drastic measures to bring US health care spending under control

• *Tho DRGs have constrained hospital utilization
So What Can We Do About It?
Well, Here Are Some Payment Methodologies – What Do You Think?

- Fee for service - payment for each service rendered
- Capitation – lump sum for total patient care
- Bundled payments – provider capitation for episodes of care
- More skin in the game for patients – higher co-pays & deductibles
- Provider financial bonuses for meeting utilization and/or quality benchmarks
- Provider financial penalties for missing benchmarks
Or Maybe This Is the Answer

“What if we don’t change at all and something magical just happens?”
Tune in Monday for the Final Word