



Providing Insights
that Contribute to
Better Health Policy

Health Care Financing and Delivery: Recent Trends and Future Outlook

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Presentation to Chapter Officers
and Young Surgeons Leadership
Conference, ACS, June 22, 2003

Areas of Focus

- Costs
- Insurance benefit structure
- Managed care
- Medical practice
- Hospital care
- Insurance coverage
- Quality of care

Center for Studying Health System Change (HSC)

- Research on changes in the organization and delivery of care -- and their impact on people
 - ▶ Objective information for policy makers
 - ▶ Funded by The Robert Wood Johnson Foundation
- Emphasis on health care markets
- www.hschange.org



The Community Tracking Study (CTS)

- Multiple data sources
 - ▶ Surveys of households, physicians, employers
 - ▶ Site visits
- Community focus
 - ▶ 60 communities that are nationally representative
- Longitudinal design
 - ▶ Data collected on a regular basis (1996, 1998, 2000, 2003)



Costs: Hospital Care the Most Important Contributor

- Accounts for 51 percent of cost trend in 2002
 - ▶ 18 percent in 1997
 - ▶ Trend for inpatient care
 - 6.8 percent increase in 2002
 - 5.3 percent *decrease* in 1997
- Prescription drug trend has slowed but still very high
 - ▶ 13.2 percent in 2002

Costs: Hospital Use and Prices Both Important

- Prices rising
 - ▶ Steeply rising hourly wages
 - ▶ More leverage with health plans
- Rising use of services even more important
 - ▶ Reversal of trend on admission rate
 - ▶ Rising use of outpatient services

Costs: Physician Spending Rising-- But Slowly

- Physician spending increased 6.5 percent in 2002
 - ▶ Trend very stable 1998-2002
 - ▶ Price: 1.6 percent per year
 - ▶ Quantity: 4.5 percent per year
- Physicians have less leverage than hospitals
 - ▶ Some notable exceptions

Costs: Key Short-term Drivers

- Retreat from tightly managed care
- Hospital consolidation
- Labor shortages
- New drugs and advertising
- Lagged effect of the economy

Costs: Long-term Drivers

- Continuing clinical innovation
 - ▶ Some innovations reduce unit costs
 - ▶ Demand effects often overwhelm cost reductions
- Rising social expectations
 - ▶ Lack of visibility of costs

Costs: High versus Rising

- Malpractice system
- Mandates and regulation

Costs: Role of Demographic Change is Overrated

- Contribution of aging to cost trend
 - ▶ 2002: 0.7 percentage points
 - ▶ 1996: 0.3 percentage points
- Explains little of increase in underlying cost trend
 - ▶ 2002: 9.6 percent
 - ▶ 1996: 2.2 percent
- Implication: More of trend potentially controllable

Costs: Future Outlook

- Factors that will slow increases
 - ▶ Completion of transition to looser managed care
 - ▶ Increased cost sharing
- Factors that could accelerate increases
 - ▶ High level of hospital construction activity
 - Focused on specialty services

Benefits: Trend to More Cost Sharing Already Established

- Benefits buy down is substantial
 - ▶ 3 percent in 2003
 - 2.5 percent in 2002
 - ▶ PPO deductible, drug copays
- Managed care structure returning to insurance structure

Benefits: Pursuing the Consumer-Driven *Concept* (1)

- Many choices best made by consumers
- Insurers as information intermediaries
 - ▶ Does government need to gather data on quality?
- Protecting high-risk consumers
 - ▶ Incentives versus obstacles
 - ▶ Value of tiered approach
 - ▶ Positive incentives for high risk consumers
 - ▶ Rationale for differentiating services

Benefits: Pursuing the Consumer-Driven *Concept* (2)

- Changes in mainstream plans is key driver
- Creating a culture of cost sensitivity
- Likelihood of backlash
- Political response to backlash

Managed Care: Responding to the Backlash (1)

- Components retained
 - ▶ Provider networks
 - Tiered networks
 - ▶ Authorizations for selected drugs
 - ▶ Length of stay review
 - ▶ Case management
 - ▶ Disease management

Managed Care: Responding to the Backlash (2)

- More efficient interface with consumers and providers
- Potential for restrictive plan types

Medical Practice: Stretched Physician Supply

- Evidence of tight capacity
 - ▶ Waiting times for appointment
 - ▶ Refusal to accept new patients
- Is this temporary?
 - ▶ Completion of adjustment to looser managed care
 - ▶ Increased cost sharing
 - ▶ But growth in supply is slower
 - Supply determined by policy

Medical Practice: “Boutique” Medicine

- Manifestation of desire for differentiation
 - ▶ Physicians
 - ▶ Patients
- Reaction to egalitarianism of managed care
- Payment rates and practice style
- Less important than physicians dropping out of insurance networks
 - ▶ How will managed care plans respond?

Medical Practice: Medicare Payment Rates

- Payment rate reductions
 - ▶ Reduction in 2002 not a “glitch”
 - Policy decisions from 1997 still in force
- Medicare cannot be separated from rest of health system
 - ▶ Need for realistic goals for volume
 - ▶ Need to monitor access to care
 - Both Medicare and privately insured
 - Multiple measures

Medical Practice: Professional Liability Insurance

- System is inherently cyclical
 - ▶ Crises provide opportunities for reform
- Large disparities across states
 - ▶ Impact of St. Paul withdrawal
 - ▶ Reflection of variation in state policy
- Addressing the real issues

Medical Practice: Managed Care

- Expanded reach but less restrictive
 - ▶ Broader physician networks
 - ▶ Reduced use of capitation
 - Pay for performance instead
 - ▶ Less profiling that affects compensation

Hospital Care: Hospital Supply Tight

- Emergency department crowding
 - ▶ Lengthy list of causes
 - ▶ Some a reflection of bottlenecks elsewhere
- Earlier hospital adjustment to lower demand and pressure on prices
- Role of labor shortages

Hospital Care: Medical Arms Race (1)

- Building specialized facilities
 - ▶ Hospitals facing competition from physician ventures
 - ▶ Why are cardiovascular facilities so profitable?
 - Lag in meeting new demands?
 - Flawed reimbursement policies?
 - ▶ Fallout if building is excessive
 - Costs of underused capacity
 - Demand creation

Hospital Care: Medical Arms Race (2)

- General building boom on horizon?
 - ▶ Key is near-term utilization trend
 - ▶ Expansion versus information technology
- Potential regulatory response
 - ▶ Government as payer concerned with costs
 - ▶ Hospitals blocking competitive threats

Insurance Coverage: Poor Outlook

- Long-term trends unfavorable
 - ▶ Premium trends exceeding income trends
- But some factors offset these trends
 - ▶ Expanding coverage a higher policy priority
 - Recent state expansions and protection of gains
 - But state budget crises could overwhelm

Insurance Coverage: Public Policy (1)

- Incremental expansions
 - ▶ Combination of expanded public programs and tax credits
- Interest in incremental expansions has declined
 - ▶ Magnitude of problem
 - ▶ States cannot fund program expansions at present

Insurance Coverage: Public Policy (2)

- Renewed attention to universal coverage
 - ▶ Return of conditions like early 1990s
 - Fears about affording health care
 - ▶ What could be shape?
 - Individual mandate
 - Single payer unlikely
 - Role of employers
 - Cost containment?

Quality of Care: Patient Safety

- Success by Institute of Medicine
 - ▶ Stunning data
 - ▶ Blaming lack of systems
- Private regulatory approaches
 - ▶ Contract only with complying providers
 - Augmentation with rewards
 - ▶ Pitfalls
- Potential role for public policy
 - ▶ Protection for voluntary reporting
 - ▶ Funding research
 - ▶ Funding investment in IT

Quality of Care: Other Aspects

- Business case has weakened
 - ▶ Broader provider networks
 - ▶ Decline of capitated payment
 - ▶ Shift to PPOs
- Locus of attention has shifted to providers
 - ▶ Makes information challenges more formidable
 - Many providers to rate
 - Limited patient base

Concluding Thoughts (1)

- Conditions resemble early 1990s
 - ▶ Rising costs, eroding coverage
- But new vision garners less enthusiasm
 - ▶ From managed care and integrated delivery
 - ▶ To consumer-driven health care
- Financing system will force additional efforts to control costs

Concluding Thoughts (2)

- Cost containment will be painful and take long time
 - ▶ Public largely unaware of how high costs are and how they are bearing them
 - ▶ In a competitive economy, consumer financial incentives likely to be an important part of the response