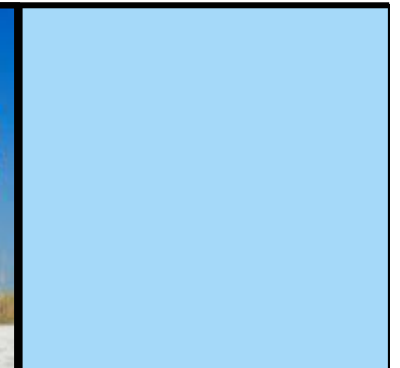
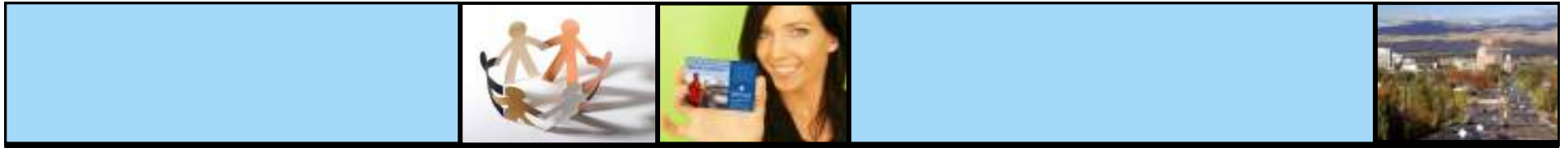


# Economics of Health Reform

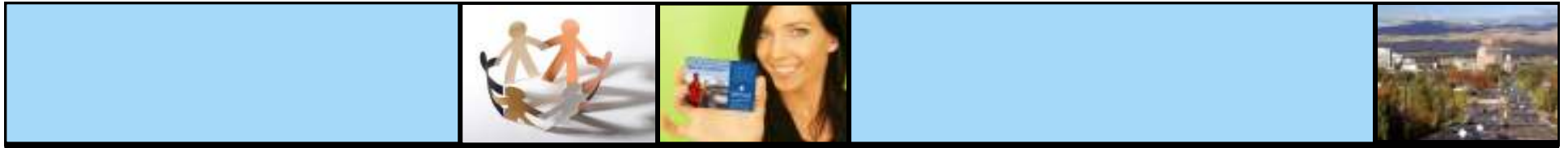
Ken Provencher





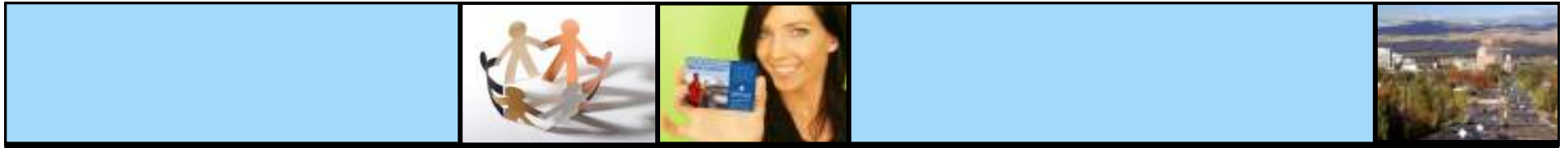
# **Economics of Health Reform**

- Problems with the current system
- Goals of reform
- Typical reform components
- Understanding the underlying economics
- Implications of reform
- Final thoughts



## **Problems with the Current System**

- Cost of health care and health insurance
- Uneven quality and effectiveness
- Lack of coordination and integration
- Growing number of uninsured
- Other barriers to health care
- Entitlement program challenges
- Challenges of employer-based coverage



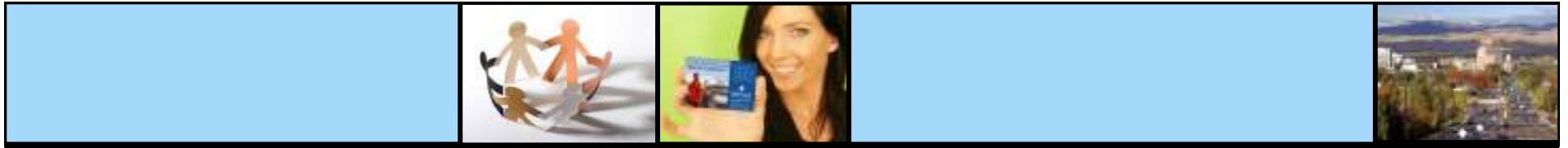
## **Common Goals of Reform**

- Expand Access
- Address Affordability and Cost Issue
- Improve Health Outcomes
- Improve Population Health
- Improve Delivery System
- Shift Control from Industry to Government



## **Typical Reform Components**

- Combined market/public approach
- Expansion of government programs
- Creation of a public option
- Efforts to improve portability of coverage
- Insurance exchange or connector
- Cost and premium controls
- Emphasis on transparency



## **Typical Reform Components**

- Individual and/or small group reform
- Increased regulation of insurers
- Tax reform
- Increased consumer engagement
- Payment reform
- Support for technology and innovation
- Attempts to improve the delivery system and the effectiveness and value health care

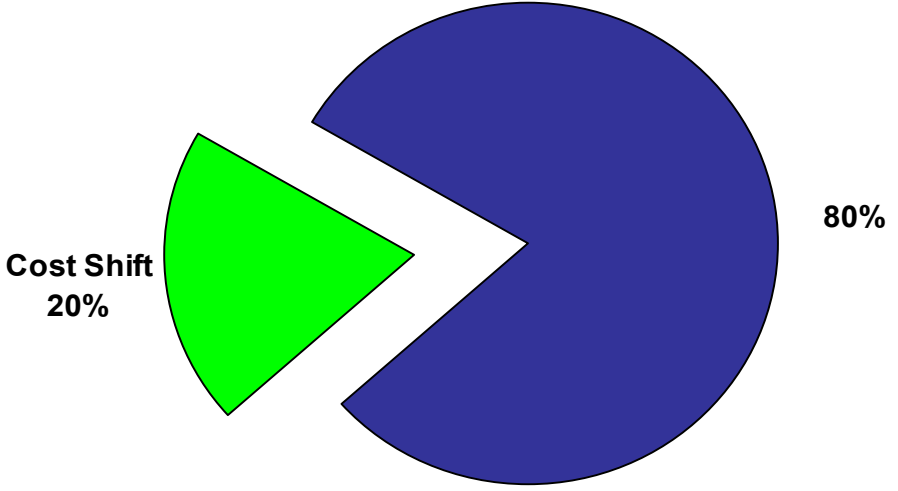


## **Understanding the Underlying Economics**

- The Cost Shift
  - Typically viewed as a hidden tax
  - Also impacts:
    - commercial trends
    - risk profile of commercial members
  - Medicare, Medicaid, “Public Option” expansions increase the impact
  - Could also threaten financial viability of some providers

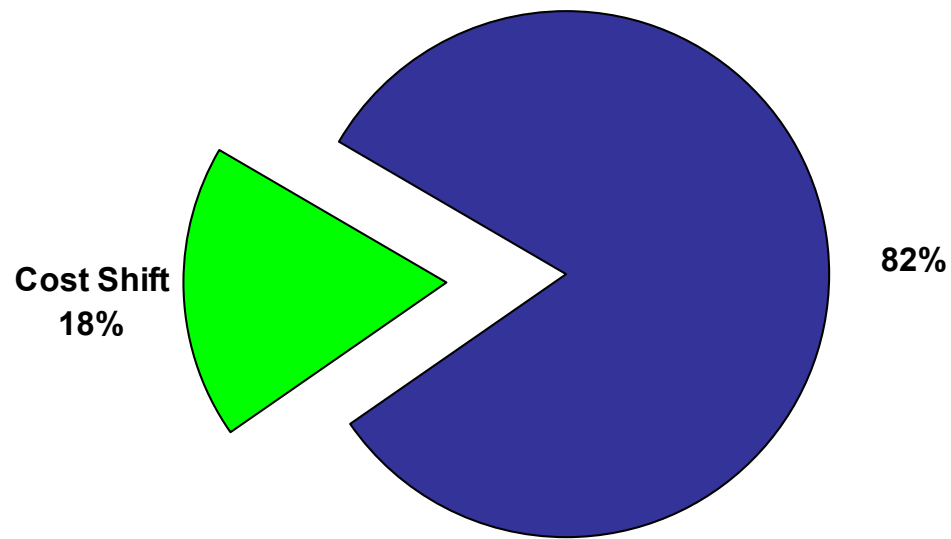


# Medicare and Medicaid Cost Shift as Percent of Commercial Hospital Payments



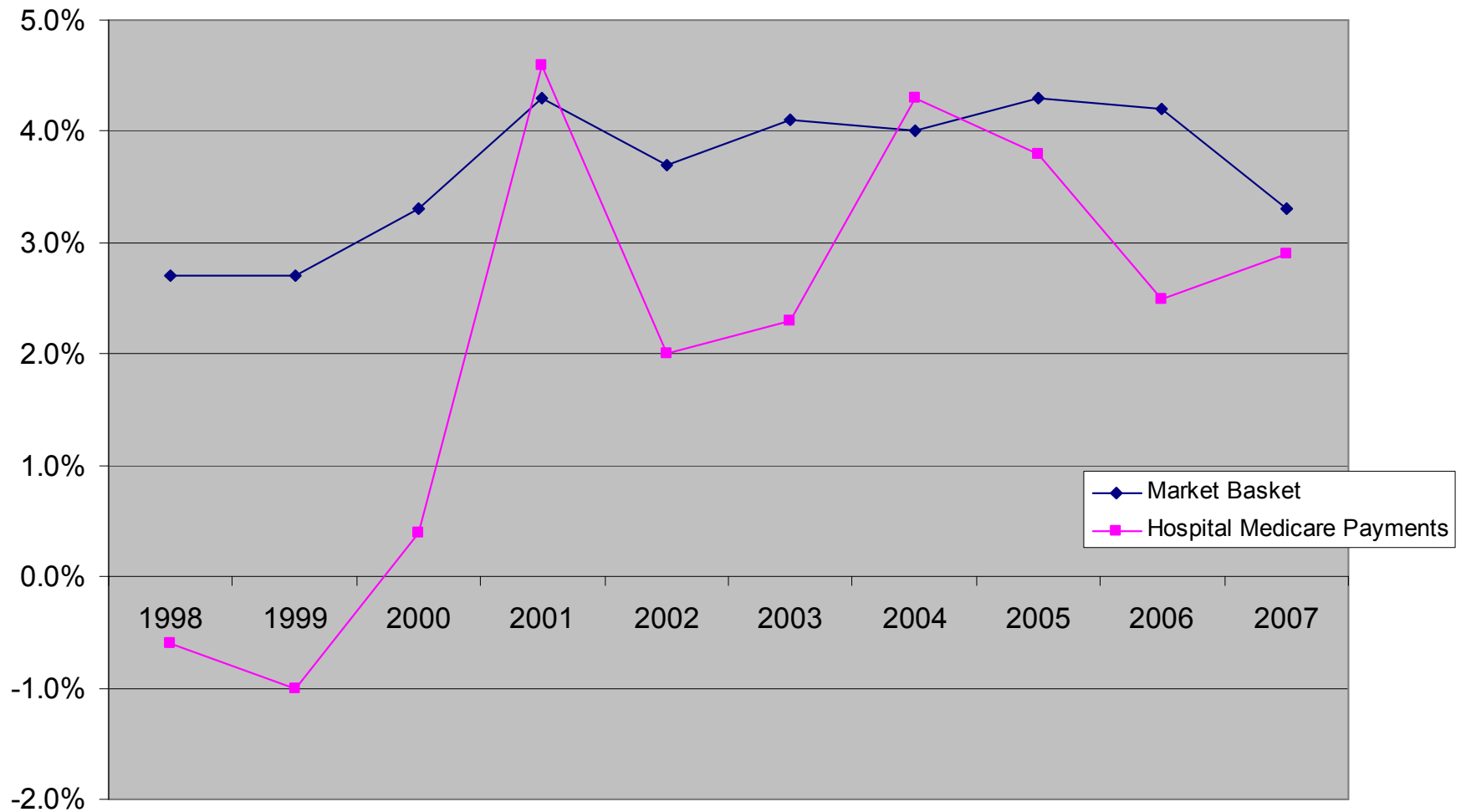


# Medicare and Medicaid Cost Shift as Percent of Commercial Physician Payment



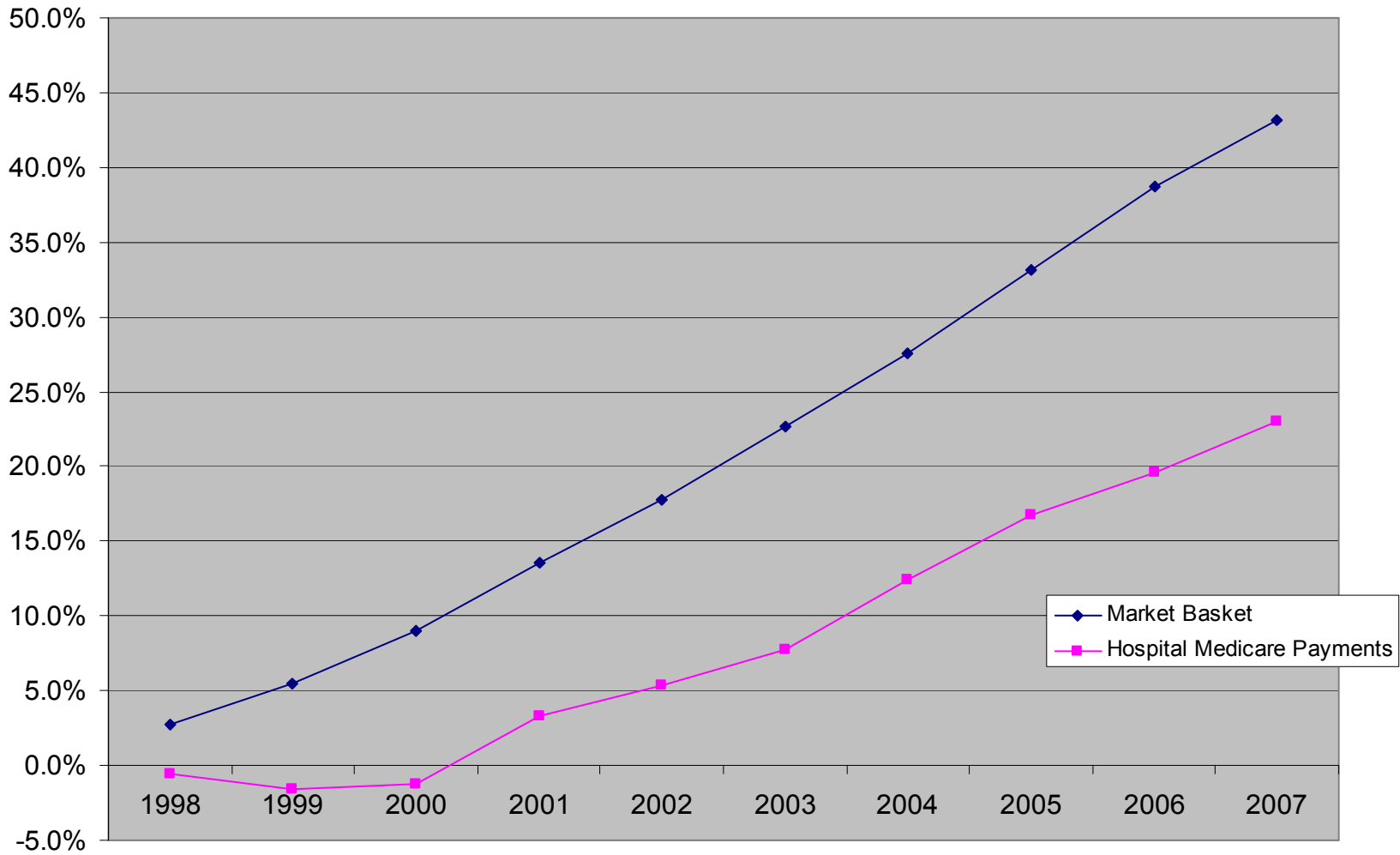


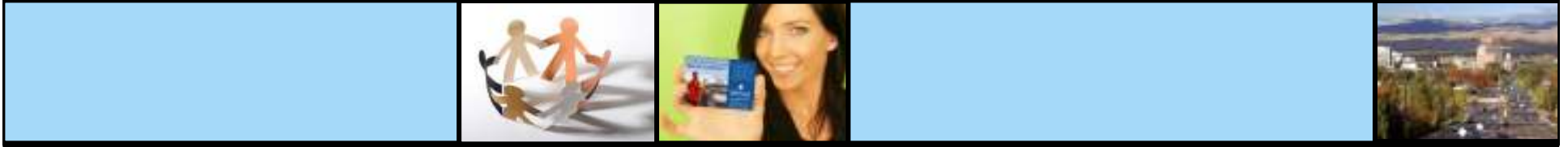
# Annual Medicare Hospital Rate vs. Market Basket



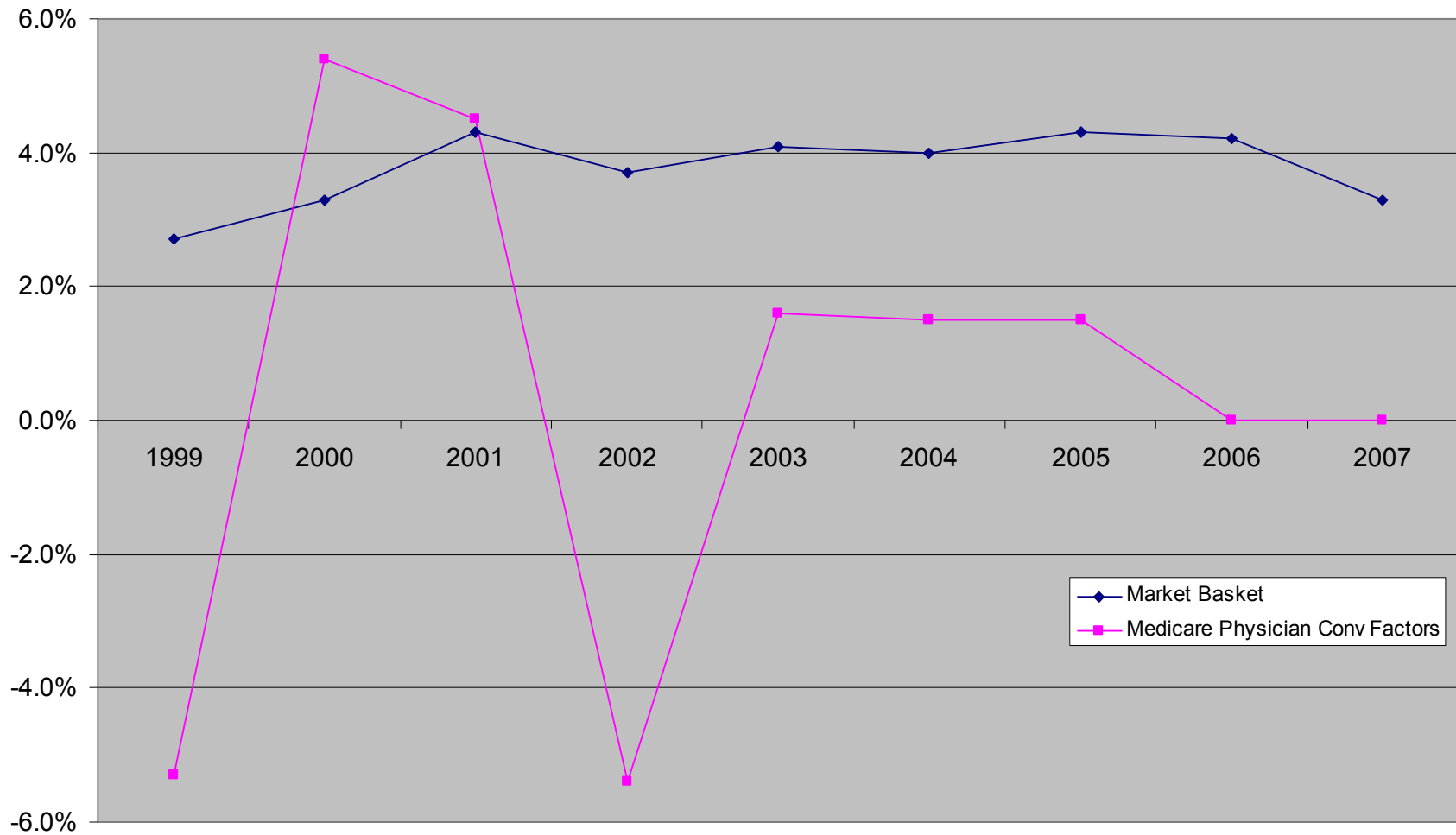


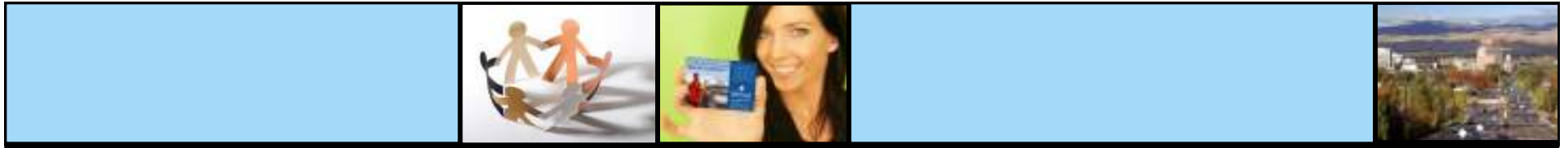
# Cumulative Medicare Hospital Rate vs. Market Basket





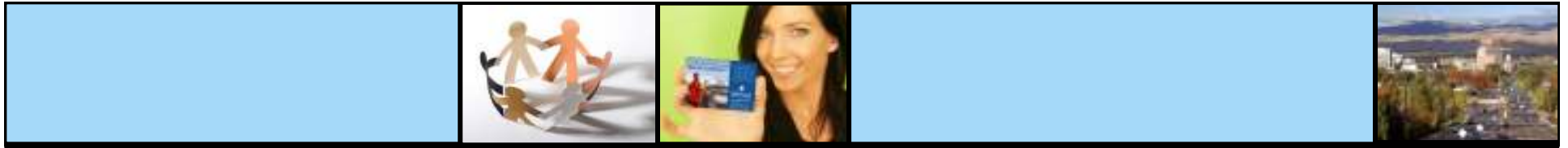
## Annual Medicare Physician Rate Increase vs. Market Basket





## **Understanding the Underlying Economics**

- Any inflationary increases in costs must be borne almost entirely by the commercial market
- For most hospitals and physicians, 3-4% increases in costs require at least 6-7% increases in commercial payments
- The cost shift impacts commercial costs **and** commercial trends

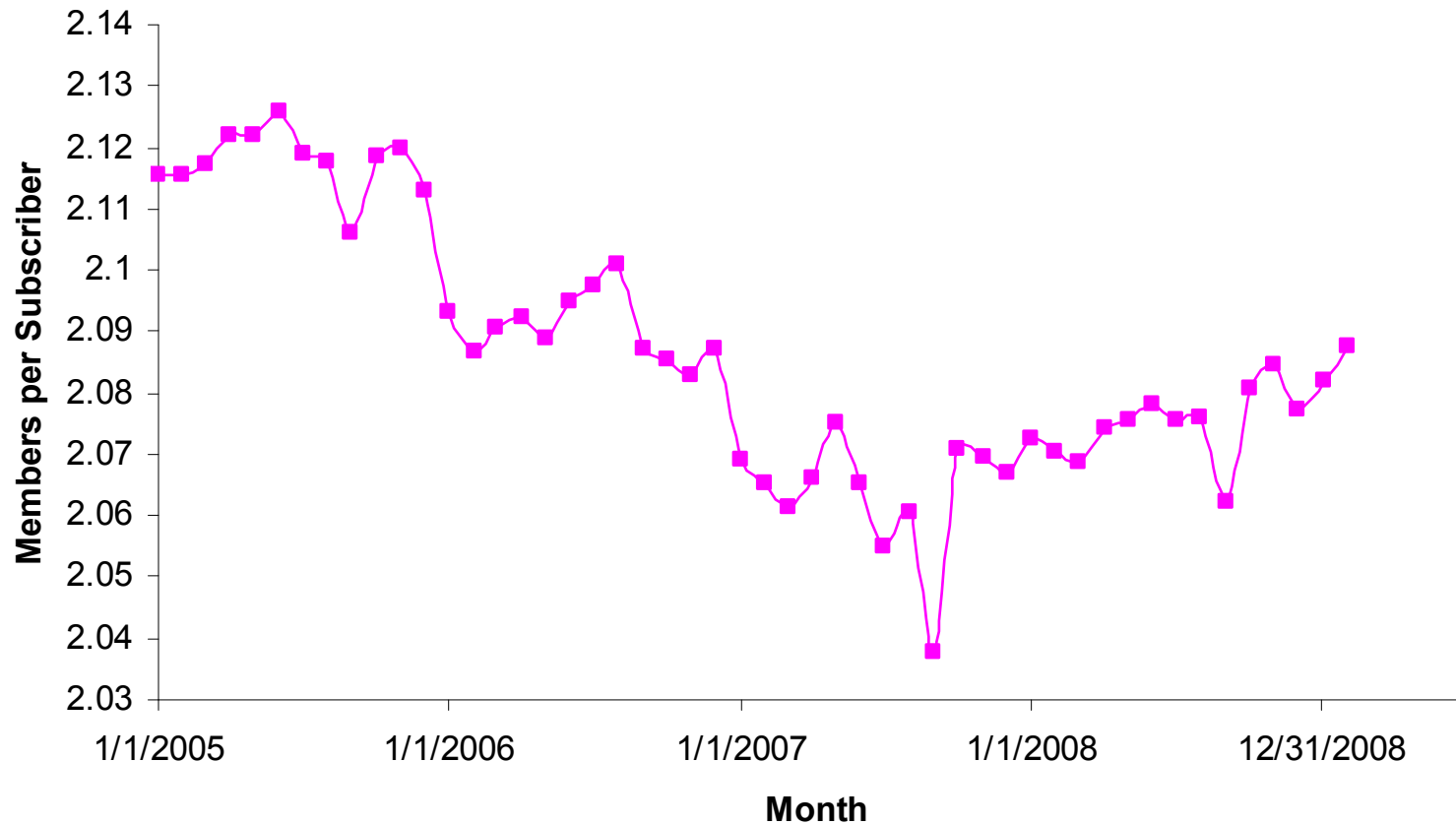


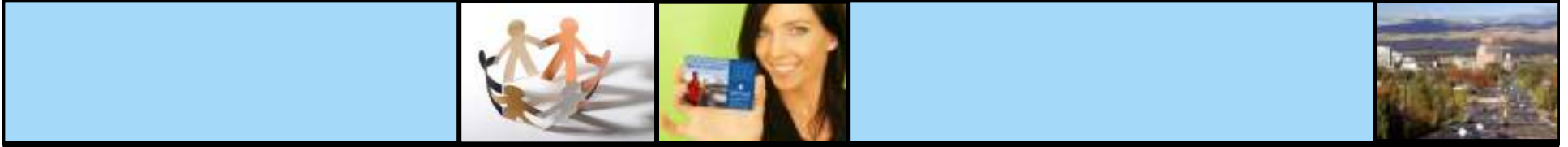
## **Understanding the Underlying Economics**

- Higher costs and trends are, of course, driving commercial premiums higher
- As a result, groups and members drop coverage and the commercial risk profile has changed

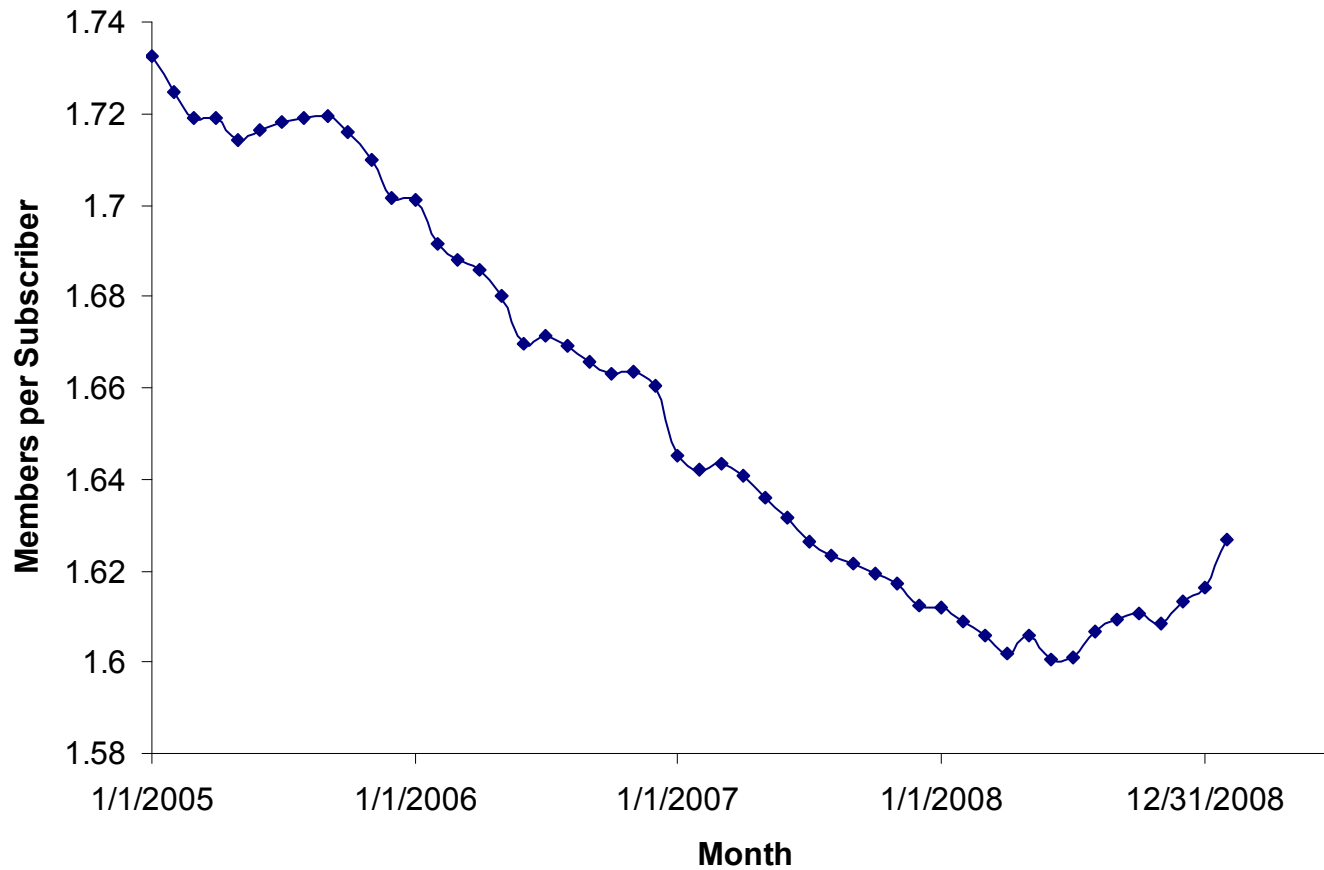


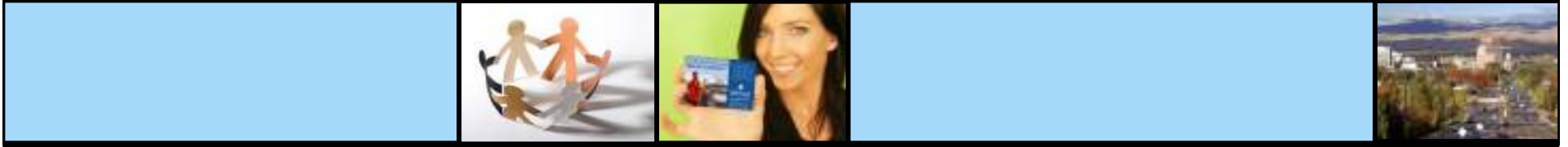
# Average Contract Size - Large Group



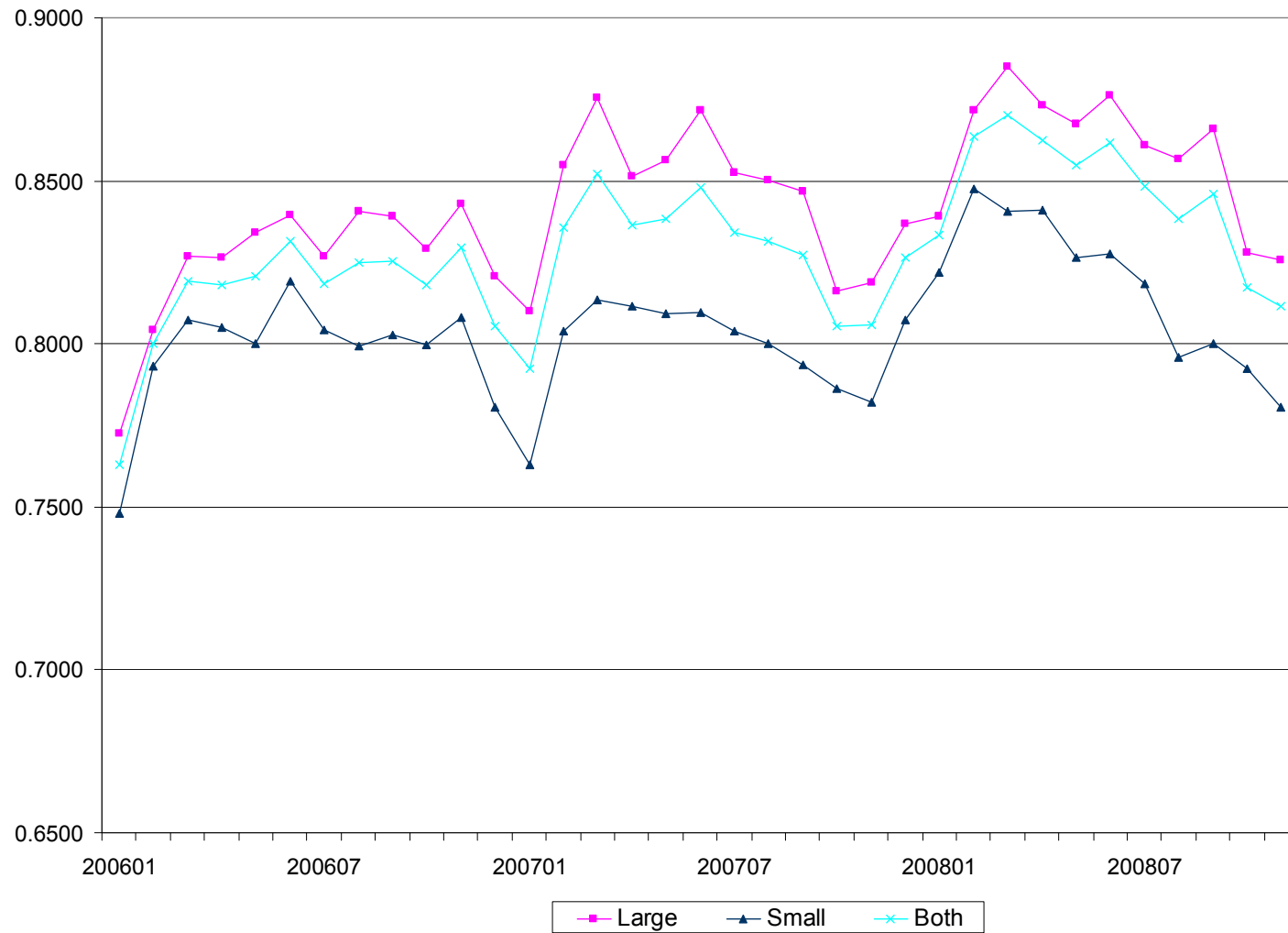


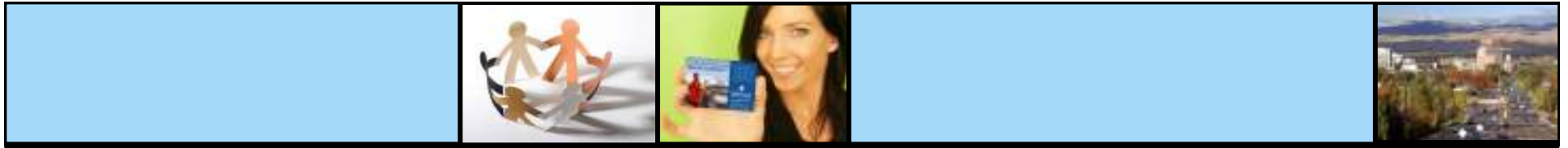
# Average Contract Size – Small Group





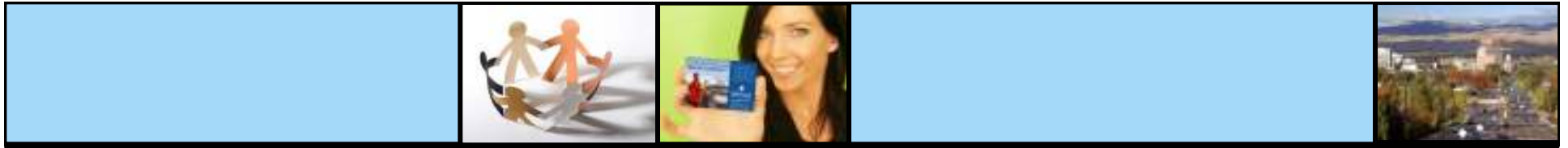
# Average ERG Retrospective Score – Fully Insured Group Business





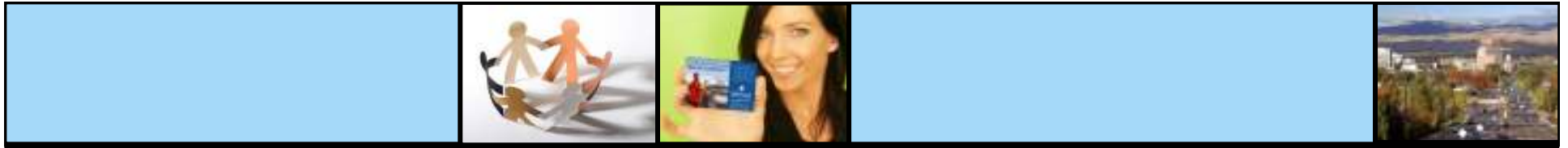
## **Understanding the Underlying Economics**

- 2008 Medicare Hospital Insurance (HI) Trust Fund Report:
  - For second year in a row, projection is that reserves will be exhausted by 2019
  - To bring the fund into 75 year actuarial balance requires immediate action:
    - 122% increase in payroll tax, or
    - 51% reduction in program outlays, or
    - Combination of both



## **Understanding the Underlying Economics**

- Medicare, Medicaid and any new government programs do not have the resources through current financing to increase provider payments
- As a result, expansion of these programs worsens the cost shift which adversely impacts commercial costs, trends, premiums and risk profiles

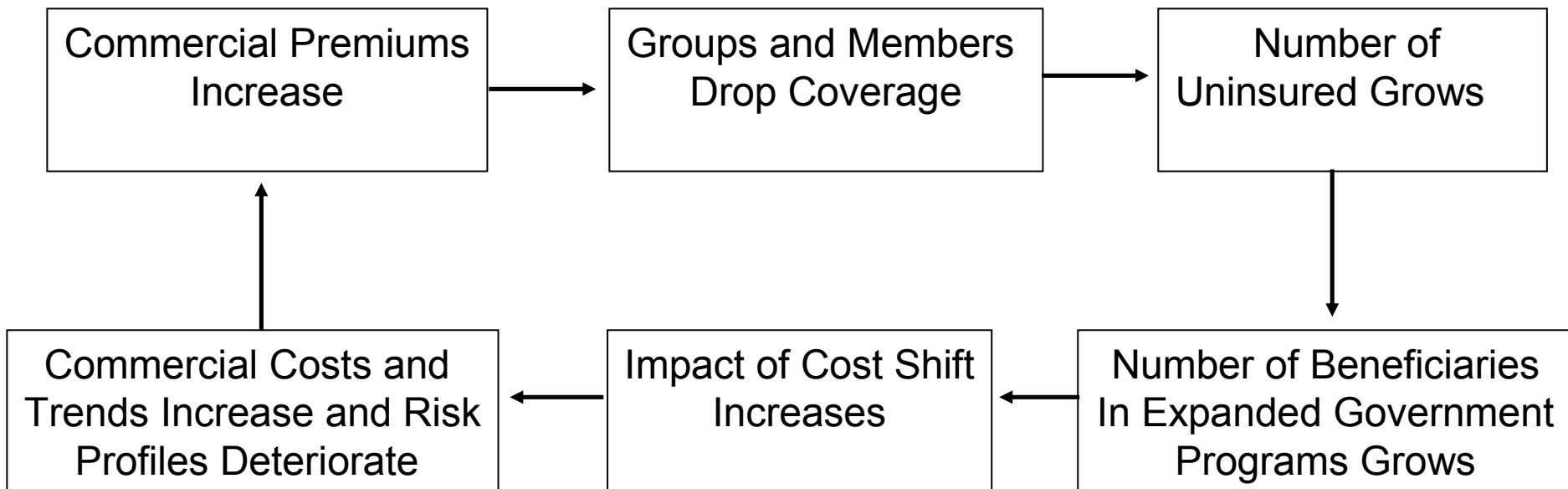


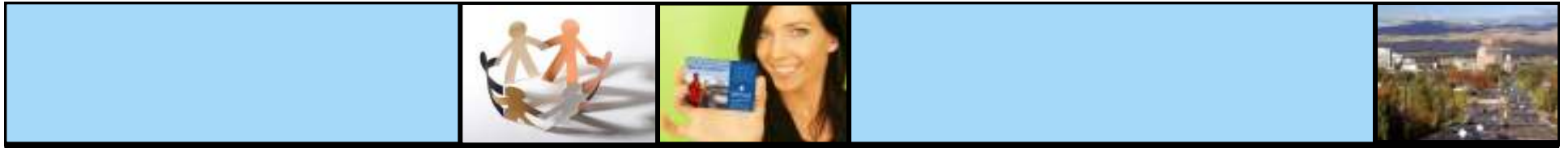
## **Understanding the Underlying Economics**

- Increase in Medicare/Medicaid provider payments are unlikely
- Reform will likely expand these programs
- Cost shift will continue to drive up the cost of commercial coverage, increasing the numbers of uninsured and people eligible for coverage expansion programs



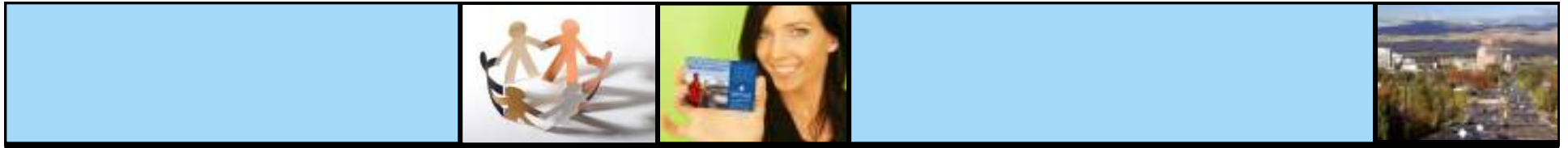
## Understanding the Underlying Economics





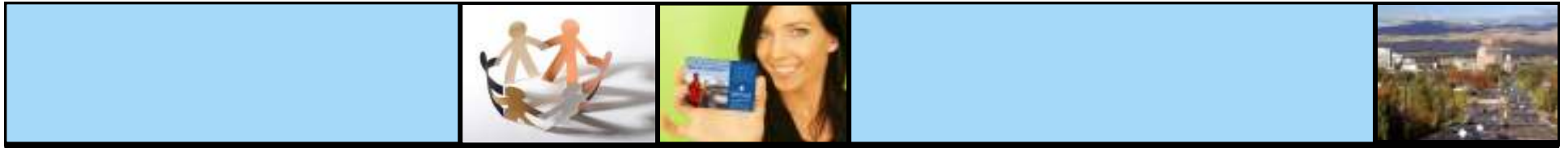
## **Understanding the Underlying Economics**

- As the percentage of people covered by government programs increases, hospital and physician payments/revenue are likely to decline
- Health care cost structures (labor and debt service) could put organizations in jeopardy with sharply declining revenue
- Is this the health care bubble?



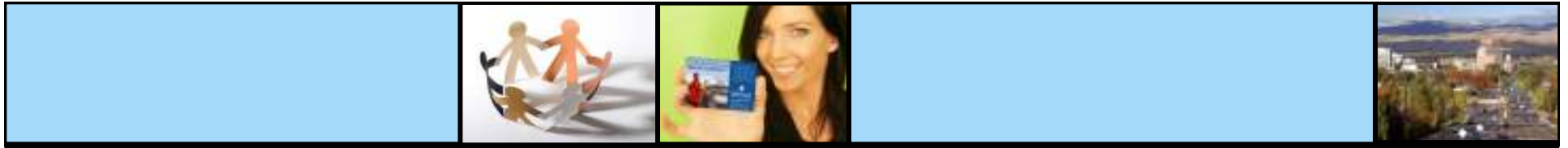
## **Understanding the Underlying Economics**

- Potential unintended consequences of poorly executed reform:
  - Accelerated deterioration of the commercial market
  - Severe financial difficulties for providers



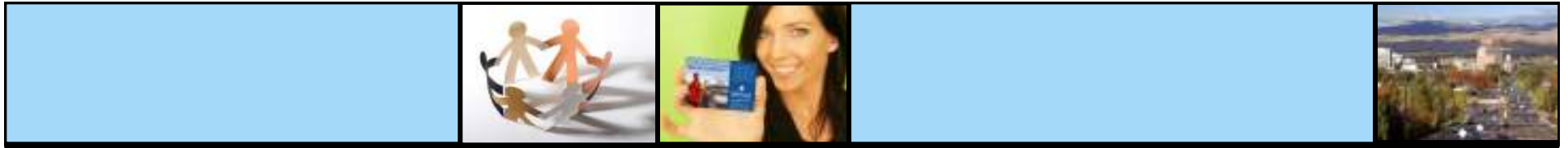
## **Other issues impacting reform**

- Political forces
- Budgetary issues
- The weakened economy
- The need to show some wins
- Short term versus long term steps



## Keys to Success

- Global vision regarding desired outcome
- Understanding how all the parts interconnect
- Transparent and honest discussion about **how** and **what** to fund.....and about what the real costs are
- Understanding the real cost of not addressing our issues
- Compromising without sacrificing basic principles



## **Some final thoughts....**

- These are important issues that must be solved
- We need to reach consensus on what we want
- We need open and honest debate about how much things will cost, what/whom we will cover and how we will pay for it
- We all need to set aside our self interests and work towards a higher goal