Taking Control:
An Actuarial Perspective on Health Spending Growth

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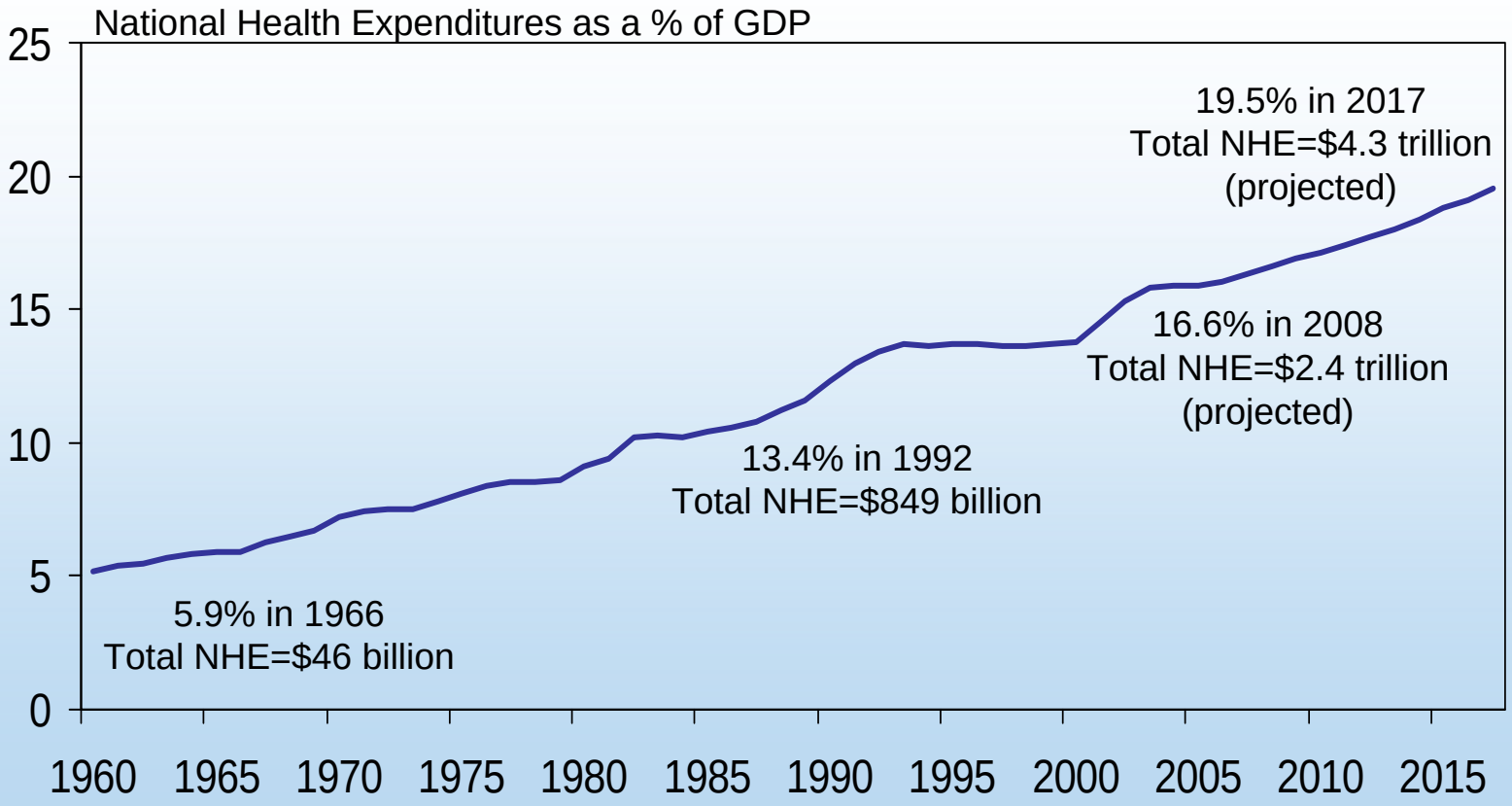
Introduction

- 46 million uninsured
- Cost of healthcare continues to rise
- Rate of increase is twice general inflation
- Rate of increase exceeds growth in the economy

Rising Health Care Spending



Source: Centers for Medicare and Medicaid Services, Office of the Actuary

Actuarial Perspective

- Review of some of the major drivers
- Drivers that are actuarial in nature
- When looking at potential solutions it is important to consider:
  - Magnitude of any cost savings
  - Are savings one-time or permanent?
  - Are they short-term or long-term savings?
  - Impact on quality

Drivers

- Drivers that increase price
  - Broader access provider networks
  - Provider capacity
  - Provider consolidation
- Drivers that increase utilization
  - New technology and treatment
  - Provider reimbursement structure
  - More generous benefit packages
  - Unhealthy lifestyle choices

Drivers

- Other drivers
  - Adverse selection
  - Cost shifting

Broader Access Provider Networks

- Trend to broader networks
  - PPO versus HMO
  - Limits ability to negotiate discounts
- Mitigated by narrowing network
- Consumers generally prefer greater choice of providers
- Reduced cost versus increased choice

Provider Capacity

- High specialist utilization increases cost of healthcare
- Mitigated by benefit design
  - Provide incentives for use of primary care providers, nurse practitioners
- Unlikely to reduce costs in short term
  - Shortage of primary care providers
- Requires a longer term solution

Provider Consolidation

- Consolidation can decrease spending due to economies of scale

  BUT

- Consolidation can increase spending due to less competition

Technology

- New medical technologies large driver of healthcare spending
- Few replace existing treatments
- Not always better or more cost-effective than prior treatments
- Cost of medical technologies do not decrease over time

Technology (cont.)

- Comparative effectiveness research could:
  - Inform the treatment decision
  - Refocus delivery on the value of care received
  - Facilitate a shift to evidence-based medicine
  - Increase the quality, but may not decrease the cost

Provider Reimbursement

- Misalignment of incentives in current system
- Rewards more care and more intense care
- Attempts at realignment
  - Pay-for-performance
  - Structural reorganization of healthcare delivery and reimbursement

Provider Reimbursement (cont.)

- Pay-for-performance
  - Attempts to align financial reimbursement with improved health outcomes
  - Success depends on ability to influence provider behavior
  - Issues include performance measures and credible data

Provider Reimbursement (cont.)

- Reorganization of delivery and reimbursement
  - Medical Home – Care coordinated by personal physician
  - Accountable Care Organization – Group of doctors responsible for quality and cost of patient care

Generous Benefit Packages

- Most insurance programs cover comprehensive set of services
  - Budgetable, predictable services included
  - Lower perceived cost results in higher use of services, some of which are unnecessary
  - Indirectly encourages development of new technology

Generous Benefit Packages (cont.)

- Mitigation of over-utilization through strategic benefit design
  - Structured cost sharing, including high deductible solutions
  - Value Based Insurance Design
- Careful consideration for special populations
  - Low income
  - Chronic conditions

Lifestyles

- Lack of exercise, poor diet, smoking – lifestyle choices can worsen health and increase health expenditures
- Higher prevalence and earlier onset of chronic conditions, such as diabetes and asthma

Lifestyles (cont.)

- Potential mitigation through wellness and disease management programs
  - Incentives for enrollee participation
- It is not yet clear whether these programs can produce significant cost savings
  - Cost-effectiveness not definitively established
  - Short term costs with potential benefits accruing in the long term
  - Careful review of cost/benefit to establish realistic expectations

Adverse Selection

- In a voluntary insurance market with product choices, individuals with higher medical needs are more likely to purchase coverage (and more generous coverage)
- Not a driver of overall health expenditures, but rather a driver of higher insurance premiums

Adverse Selection (cont.)

- Guaranteed issue requirements and community rating exacerbate adverse selection
  - Healthy individuals might be discouraged from joining the insurance pool
- Mitigated by increasing participation of healthy individuals
  - Mandatory programs
  - Default enrollment
  - Premium subsidies
  - Penalties for late enrollment

Cost Shifting

- Health care providers charge higher rates to private payers to compensate for below-cost public payment levels and uncompensated care
- Not a driver of overall health expenditures, but a dynamic of cost distribution among payers

Cost Shifting (cont.)

- Potential spiral:
  - Budget pressures suppress public payments
  - Providers increase rates to private payers
  - Higher premiums cause more employers/employees to drop coverage, increasing public rolls

Conclusions

- Without mechanisms to control the rate of health care cost growth, success of other health care reforms are jeopardized
- Some current proposals have potential
  - Comparative effectiveness
  - Provider reimbursement reform
- Coverage initiatives should avoid adverse selection and cost shifting

Questions/Comments

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