Perspectives on Spending Growth

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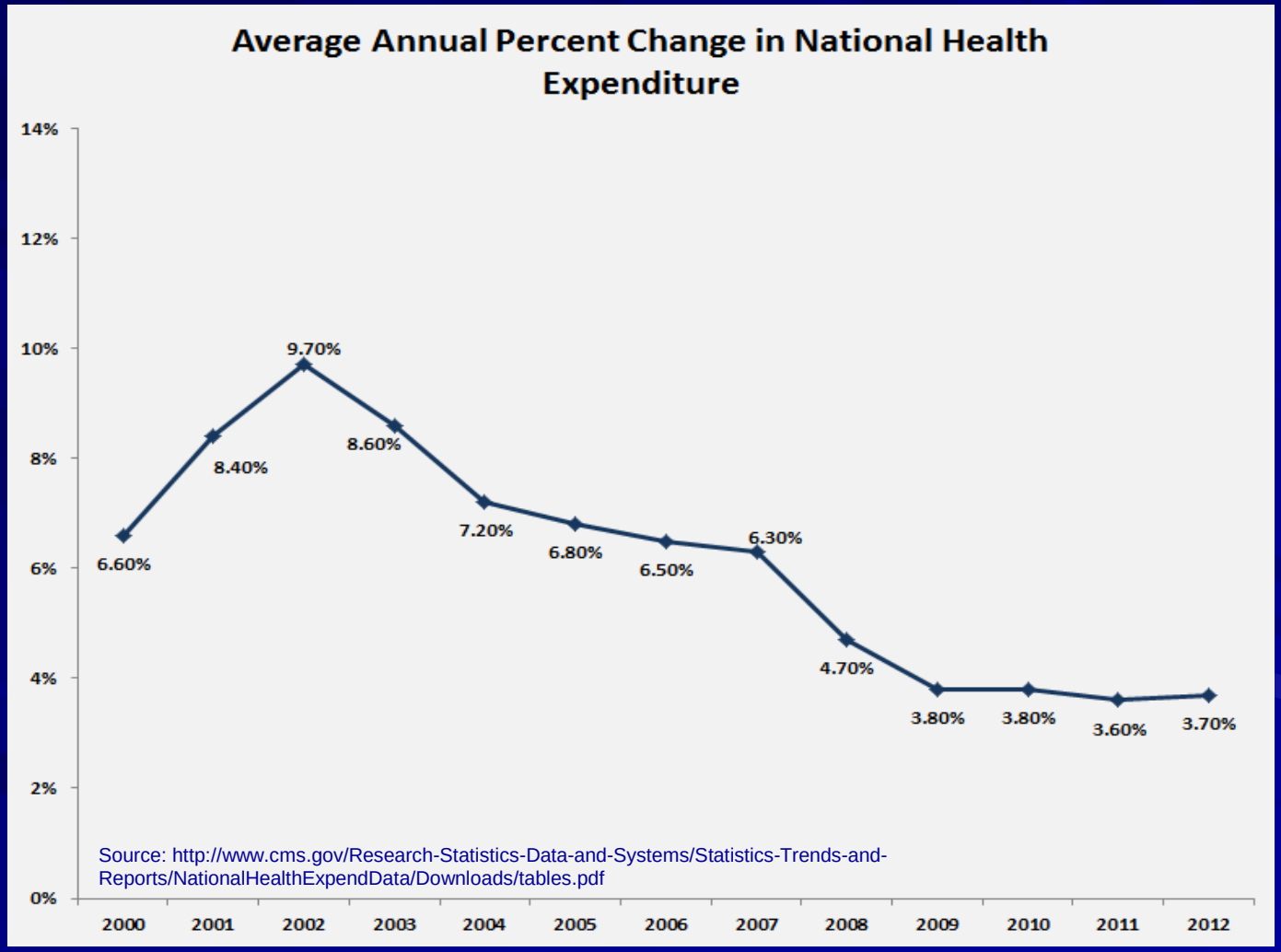
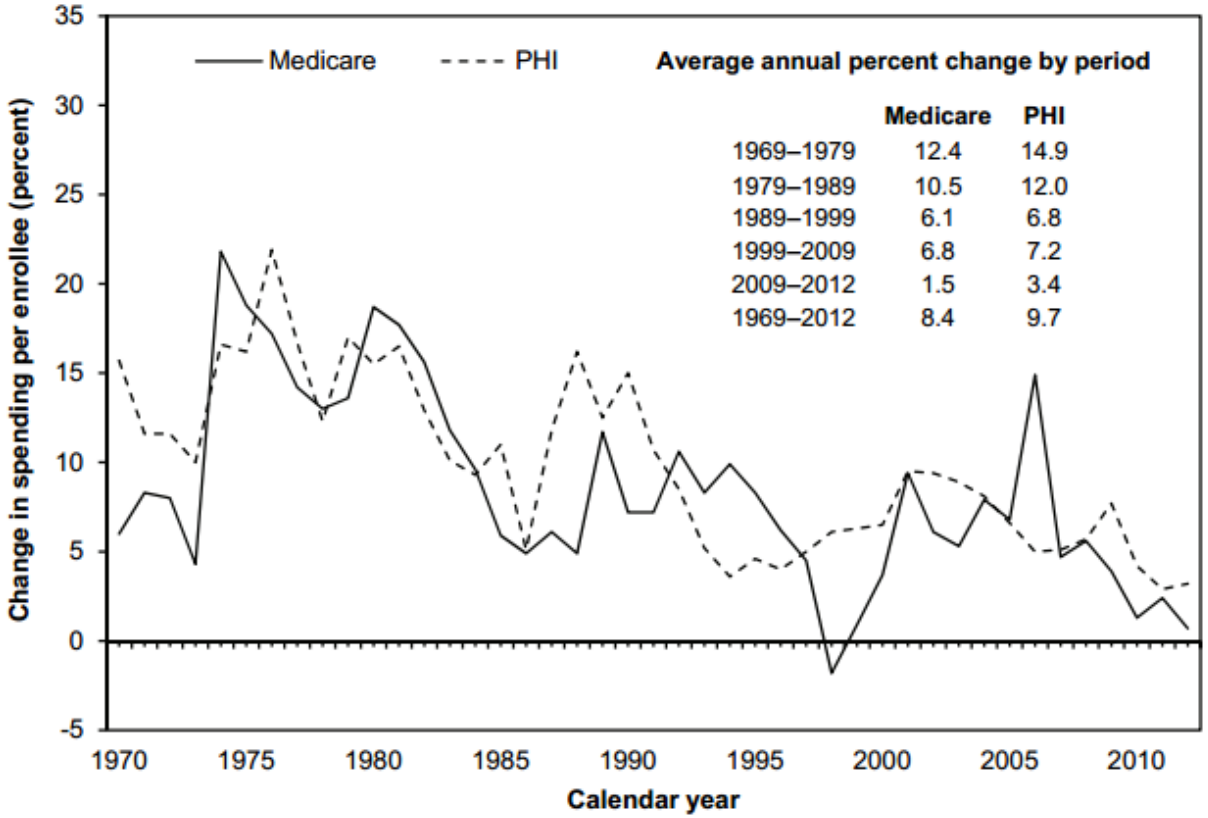
Oct. 6, 2014

Health Care Spending Growth has Slowed Dramatically



Slowdown Common Across Payers

Chart 1-7. Changes in spending per enrollee, Medicare and private health insurance



	Medicare	PHI
1969–1979	12.4	14.9
1979–1989	10.5	12.0
1989–1999	6.1	6.8
1999–2009	6.8	7.2
2009–2012	1.5	3.4
1969–2012	8.4	9.7

Note: PHI (private health insurance). Medicare expenditures include both fee-for-service and private plans.

Source: CMS Office of the Actuary, National Health Expenditure Accounts 2014.

Excess Spending Growth

	1960-1970	1970-1980	1980-1990	1990-2000	2000-2010	2010-2012
Average annual growth in per capita health expenditures	9.2%	12.0%	9.9%	5.5%	5.6%	3.0%
Average annual growth in per capita GDP	5.8%	9.3%	6.6%	4.5%	2.9%	3.5%
Excess growth in health expenditures	**3.4%**	**2.7%**	**3.3%**	**1.0%**	**2.7%**	**-0.5%**

In current dollars
Source: Spending and population data obtained from Centers for Medicare & Medicaid Services National Health Expenditures Data, 2013

Spending Growth Remains Low

- Nationally
  - 3.6% (vs 3.7% in 2012)
  - vs. 2.3% in MA 
- Per enrollee spending growth projected for 2014:
  - Medicare: +0.8%
  - Medicaid: -0.6%
  - Commercial Spending: +2.9%

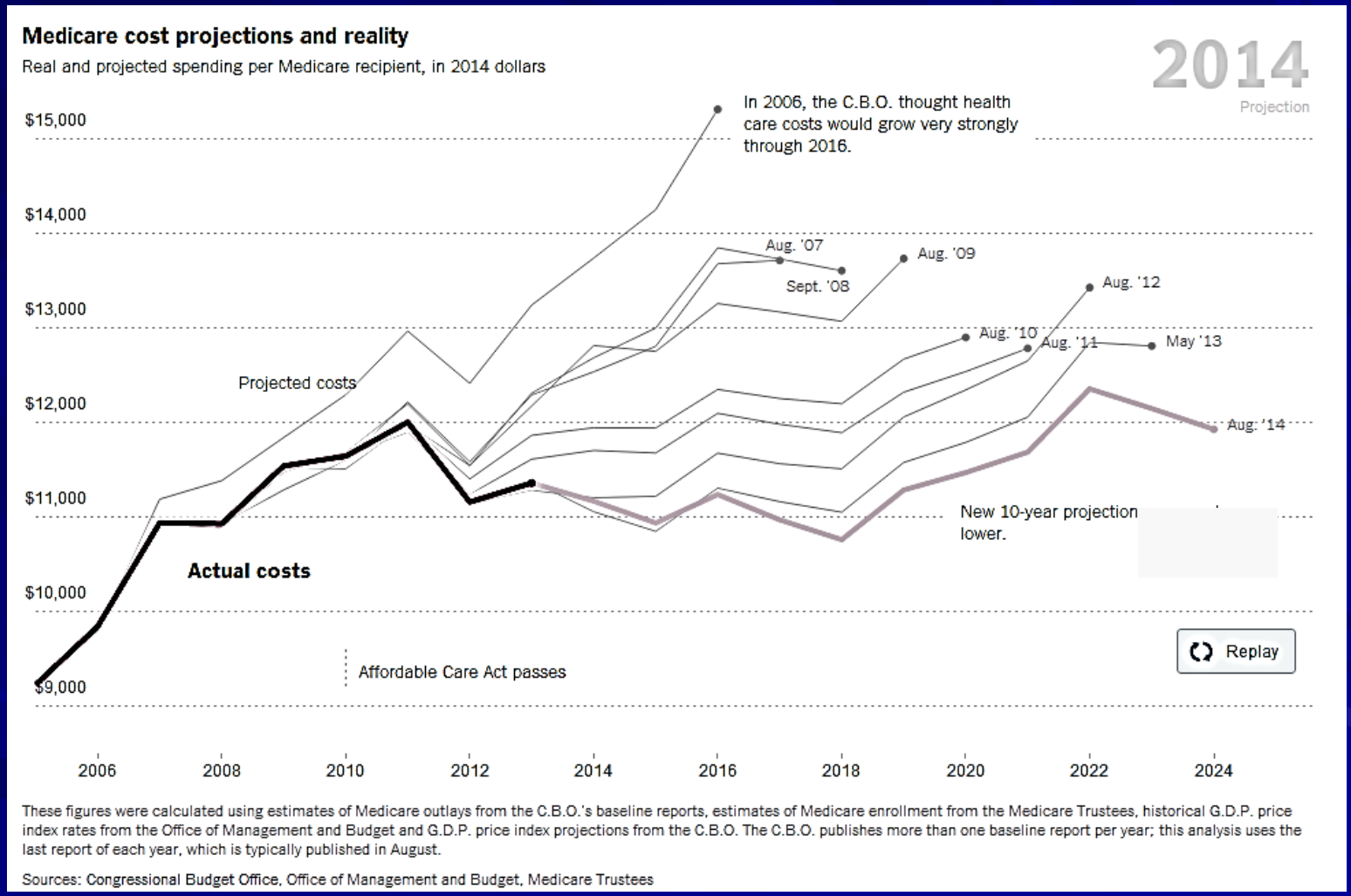
Source: Sisko, Andrea M., et al. "National Health Expenditure Projections, 2013–23: Faster Growth Expected With Expanded Coverage And Improving Economy."*Health Affairs* (2014): 10-1377.

CBO Projections per Beneficiary

- From 2015-2029 the rate of growth in costs per beneficiary is projected to exceed the rate of growth in per capita GDP by an average of:
  - Medicare: 0.6 percent per year
  - Medicaid: 1.5 percent per year

Source: http://www.cbo.gov/publication/45543

But Projections Have Been Falling



Two Questions

- What caused the spending slowdown?
- Will the slowdown persist?

It’s harder to look forward than backward

Why might spending growth slow?

- Direct recession effects
  - Job loss
  - Reductions in benefit generosity
- Indirect recession effects
  - Stock market drop
  - Job insecurity
- Structural change (temporary and permanent)
  - Culture
  - Technology

Why Slowdown Was Not Simply Due to the Recession?

- Started before the recession (Cutler 2012)
- Affected populations not as strongly impacted by the recession (Ryu et al.)
  - Privately insured
    - HOLDING BENEFIT GENEROSITY CONSTANT
    - Medicare
- Observed change in technology introduction (Cutler 2012)

Cutler, David M., and Nikhil R. Sahni. *Health Affairs* 32.5 (2013): 841-850.

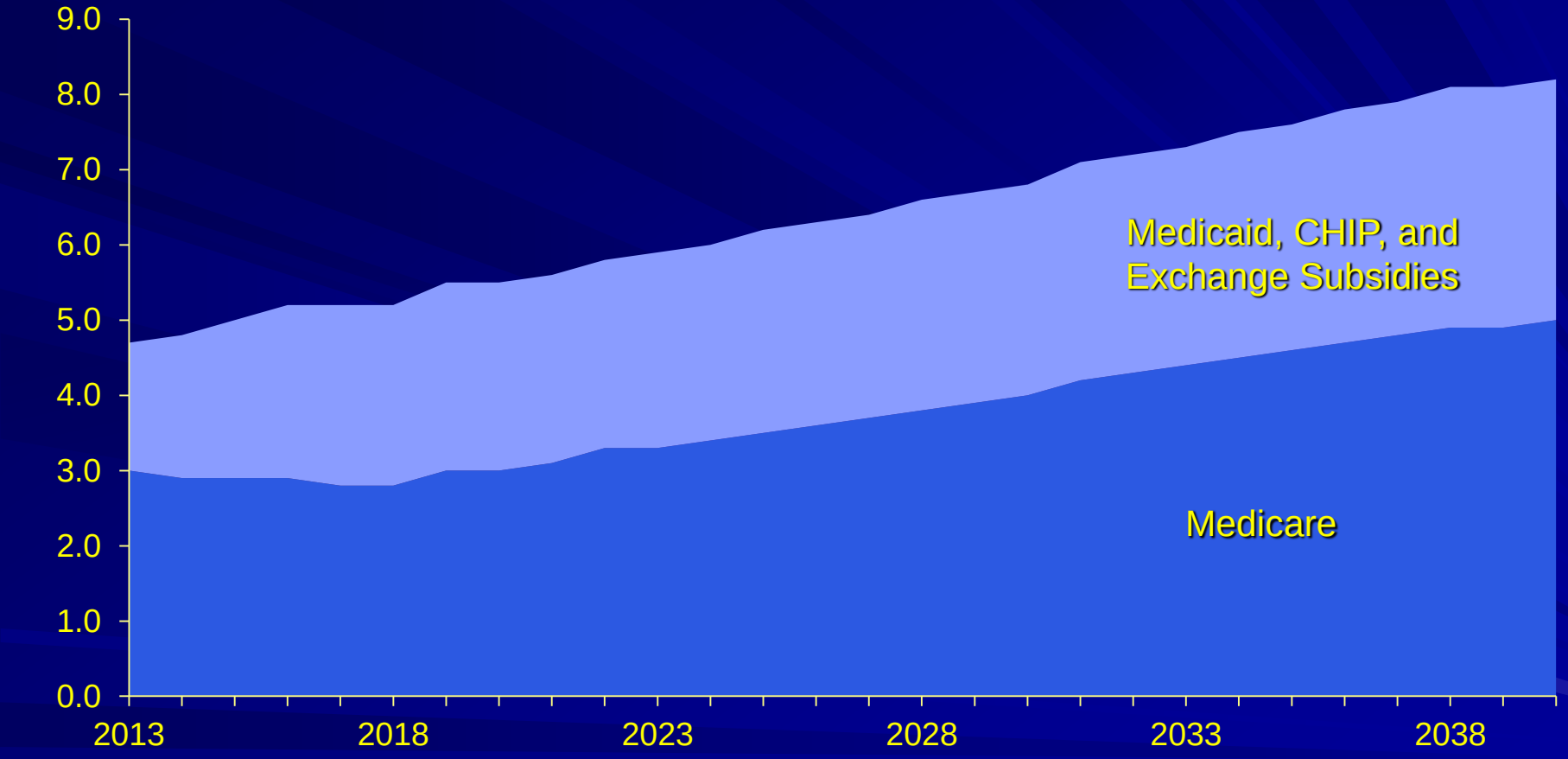
Slowdown may not continue

- One time factors may not repeat
  - Patent expirations
- Technology may rebound
  - Sovaldi
- Provider cost control efforts could weaken
  - Slowdown in spending in the 1990s in subsequent rebound reflected a relaxation of efforts to control spending

➔ We must continue to strive for efficiency

Pressure from Public Payers to Continue

Federal Spending on Health as % of GDP



Source: Congressional Budget Office. The 2013 Long-Term Budget Outlook. https://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO-1Column_0.pdf

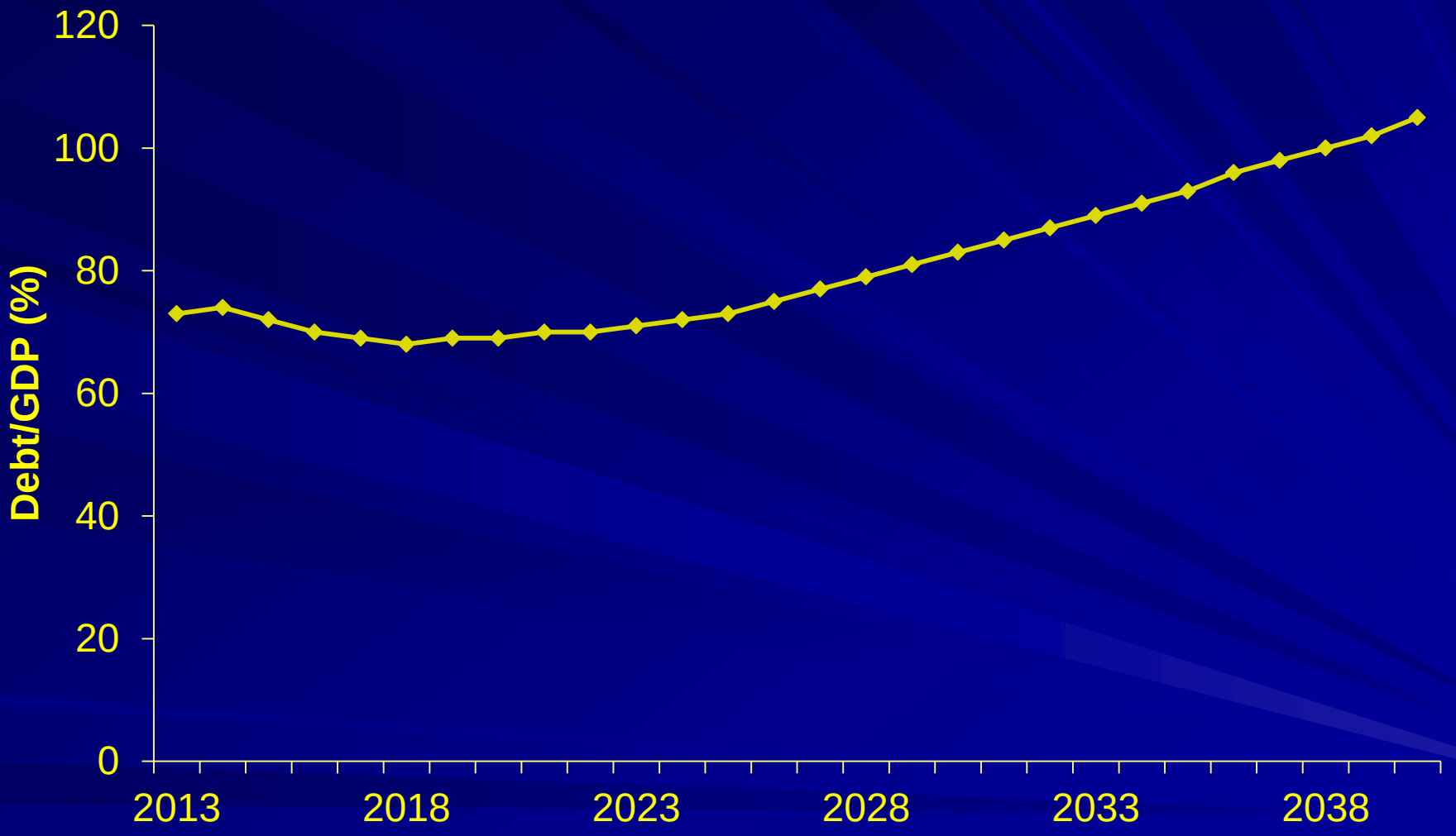
Medicare's Challenge

Excess spending growth per beneficiary (percentage points)	Medicare share of GDP in 2035 (%)
2	7.9
1	6.4
0.5	5.7
0	5.1

Share in 2013 projected to be 3.7 percent. To remain at 3.7 percent of GDP in 2035, Medicare needs to grow at a rate of 1.5 percentage points below GDP. Faster GDP growth would imply slightly lower Medicare shares for any amount of excess spending growth.

SOURCE Congressional Budget Office; see note 15 in text. Congressional Budget Office. Long-term budget outlook 2012. Washington (DC): CBO; 2012.

Our Debt is Unsustainable

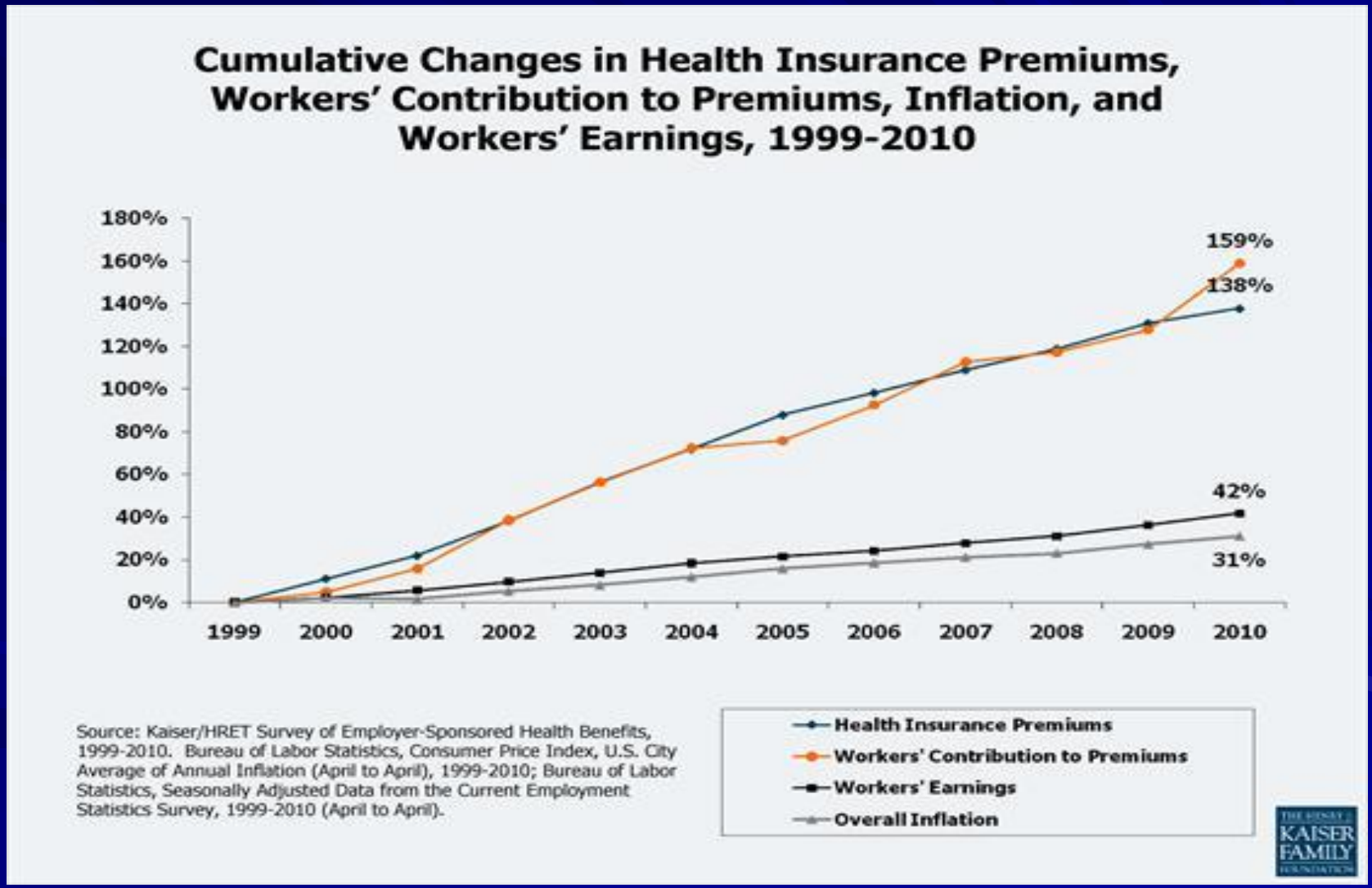


Source: Congressional Budget Office. The 2013 Long-Term Budget Outlook.
https://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO-1Column_0.pdf

This policy debate is less about health and more about taxes

Pressure from Private Payers to Continue

Private Health Care Spending is not Sustainable



Benefit Design Options

- Higher co-premiums / premium support
- Higher copays, co-insurance or deductibles
  - Reforming Medicare supplemental market
- Reference pricing
- Tiered networks
- Value Based Insurance Design (VBID)

Private Payment Reform

- Global payment models
  - Alternative Quality Contract
- Insurer / provider partnerships
  - Aetna
- Medical home based models
  - Carefirst

Basic Features

- Transfer risk to providers
  - But built on FFS chassis
  - Primary care focused
- Include P4P
- Data support
- Assignment rules
  - Beneficiary designated (AQC)
  - Payer assigned
    - ACO attribution
    - Episode attribution (Arkansas)

Payment Reform Summary

- Can slow spending
  - Providers capture efficiencies
  - Payers only capture savings if they lower payment rates

  ➔Discipline in global rates is key
    - ➔Fragmentation requires attention to market failures
    - ➔Bigger can be better with the right rules

Summary

- Delivery system is key to success
  - Incentivize efficient practice
  - Focus on accountability for person level spending (Total Medical Expense)
  - Focus on trajectory (vs. level)
- Be aware of spillovers
  - Free riders / general equilibrium effects
  - Connections between services

END