



Health Care Costs 101: What's a State to Do?

May 11, 2022



Health care costs have increased at a greater rate than the rest of the economy. If the cost of other goods had risen as quickly as health care costs in the post–World War II period, a dozen eggs now would cost how much?

- A. \$20
- B. \$55
- C. \$40

Trivia!

- **Breaking Down Health Care Spending: Drivers and Trends**
 - Michael Chernew, PhD, Professor, Department of Health Care Policy at Harvard Medical School
- **Panel: State Legislative Perspectives**
 - Grant Thomas, Director, Georgia Office of Health Strategy and Coordination
 - Senator Bryan Townsend, Majority Leader, Delaware Senate
- **Q&A**



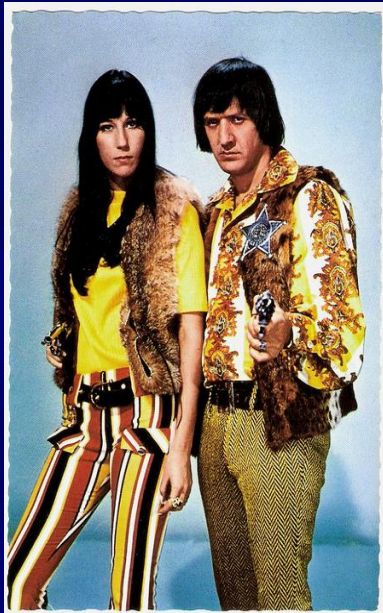
Agenda

Health Care Costs 101

Michael Chernew

Health spending growth exceeds income growth (per capita, inflation adjusted)

1970s



2.6%

1980s



3.2%

1990s



1.1%

2000s



2.7%

2010s



0.3%

Source: Spending data obtained from Centers for Medicare & Medicaid Services National Health Expenditures Data, 1960-2019. Health expenditures and GDP both measured in real dollars using Federal Reserve GDP deflator.

Why Does Spending Grow?

■ Technology



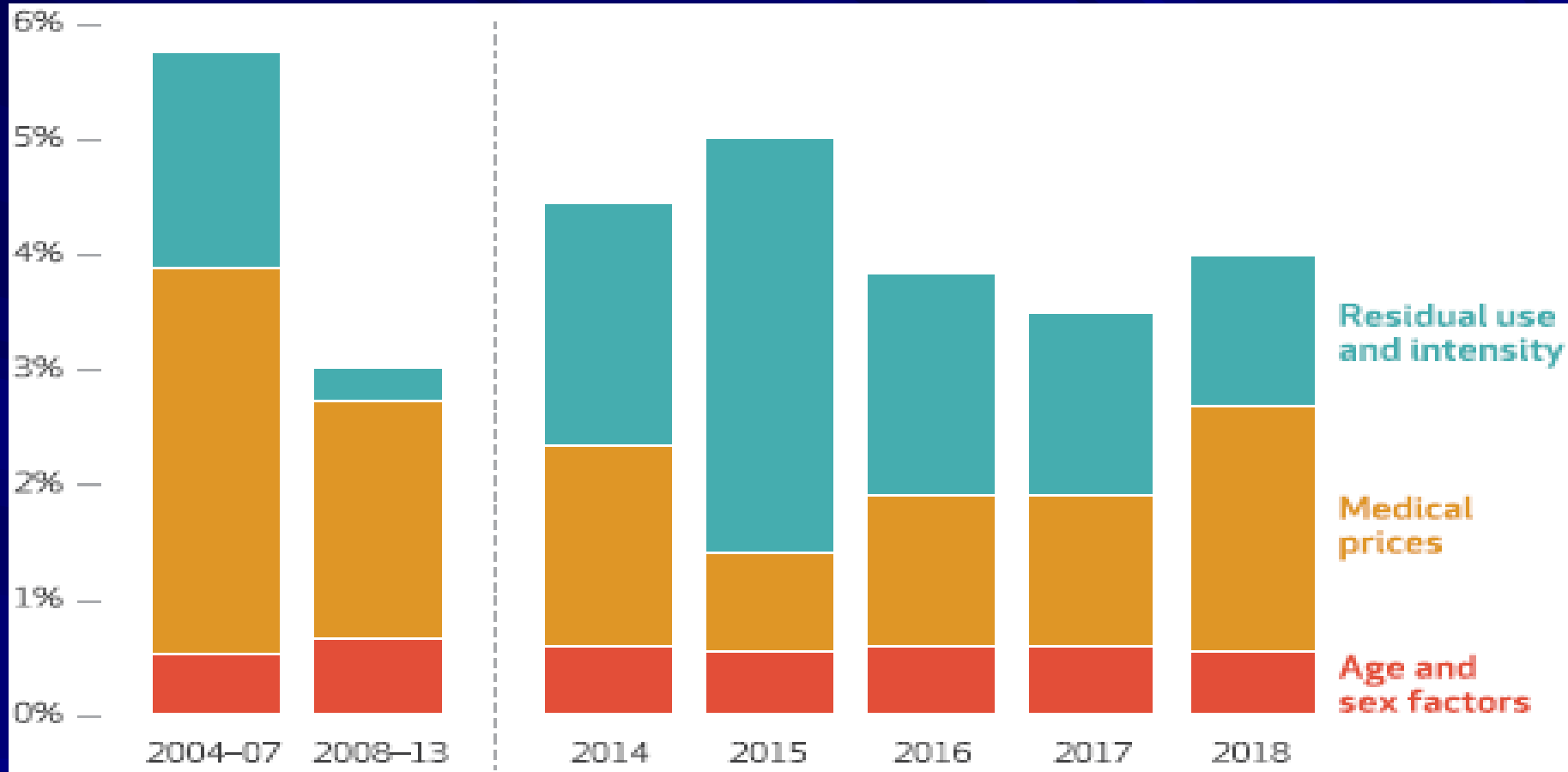
■ Prices



■ Aging



Prices and Utilization Drive Spending Growth



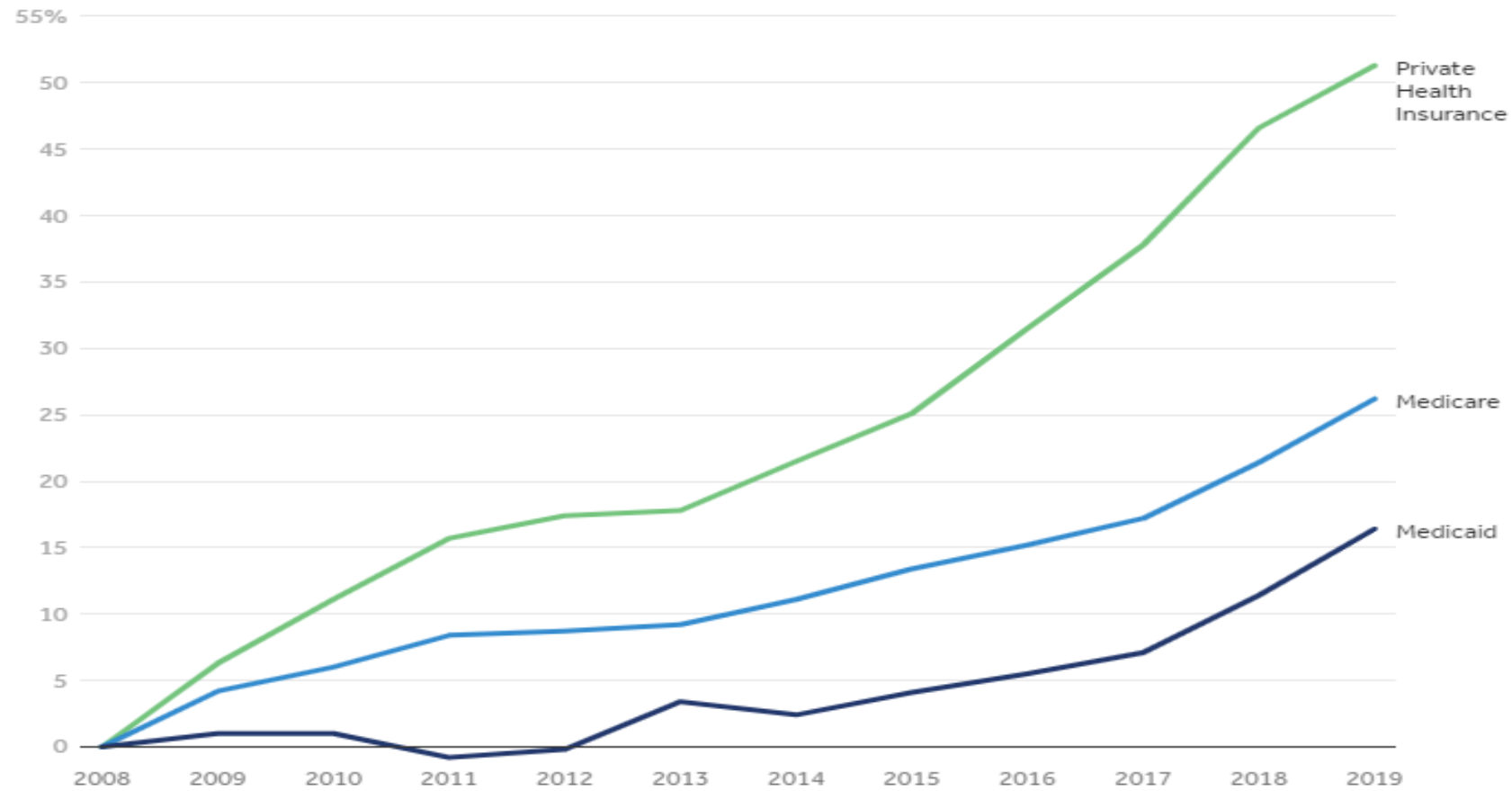
CPI Increase
(%/YR)

2.3 1.3

1.6 0.1 1.3 2.1 2.4

Spending Growth Varies by Payer

Cumulative growth in per enrollee spending by private insurance, Medicare, and Medicaid, 2008 - 2019



Source: [Source: KFF analysis of CMS National Health Expenditures Accounts](#) •

Peterson-KFF

Technology
(common across sectors)

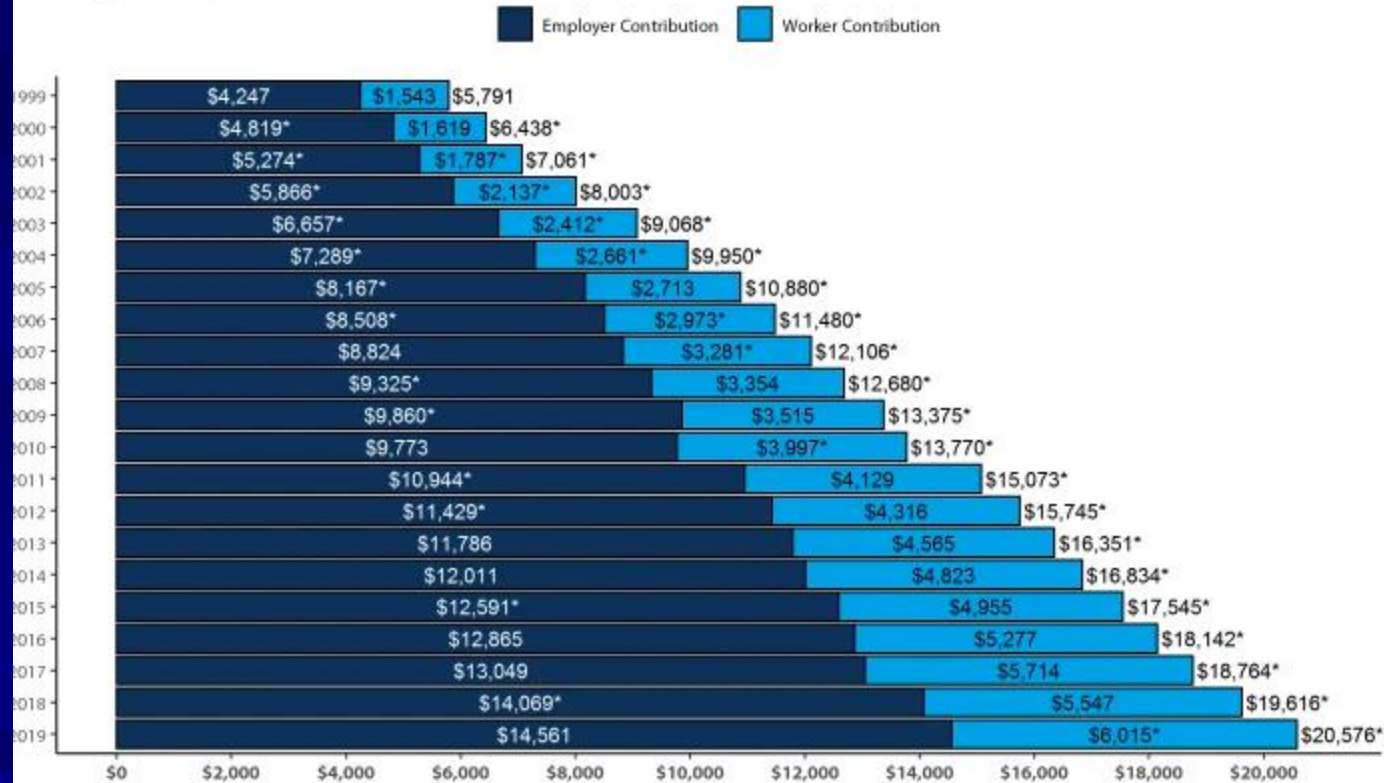
Types of technology changes

- 1951 - 1971 : little ticket items
 - lab tests
 - X-Rays
- 1971 - 1981 : big ticket items
 - CABG
 - C-section
 - radiation & chemotherapy for breast cancer
- Early and Mid 1990s
 - Pharmaceuticals
- 2000's
 - Imaging
 - Biologics

Commercial Markets

Rapid Growth in Commercial Premiums

Average Annual Worker and Employer Contributions to Premiums and Total Premiums for Family Coverage, 1999-2019

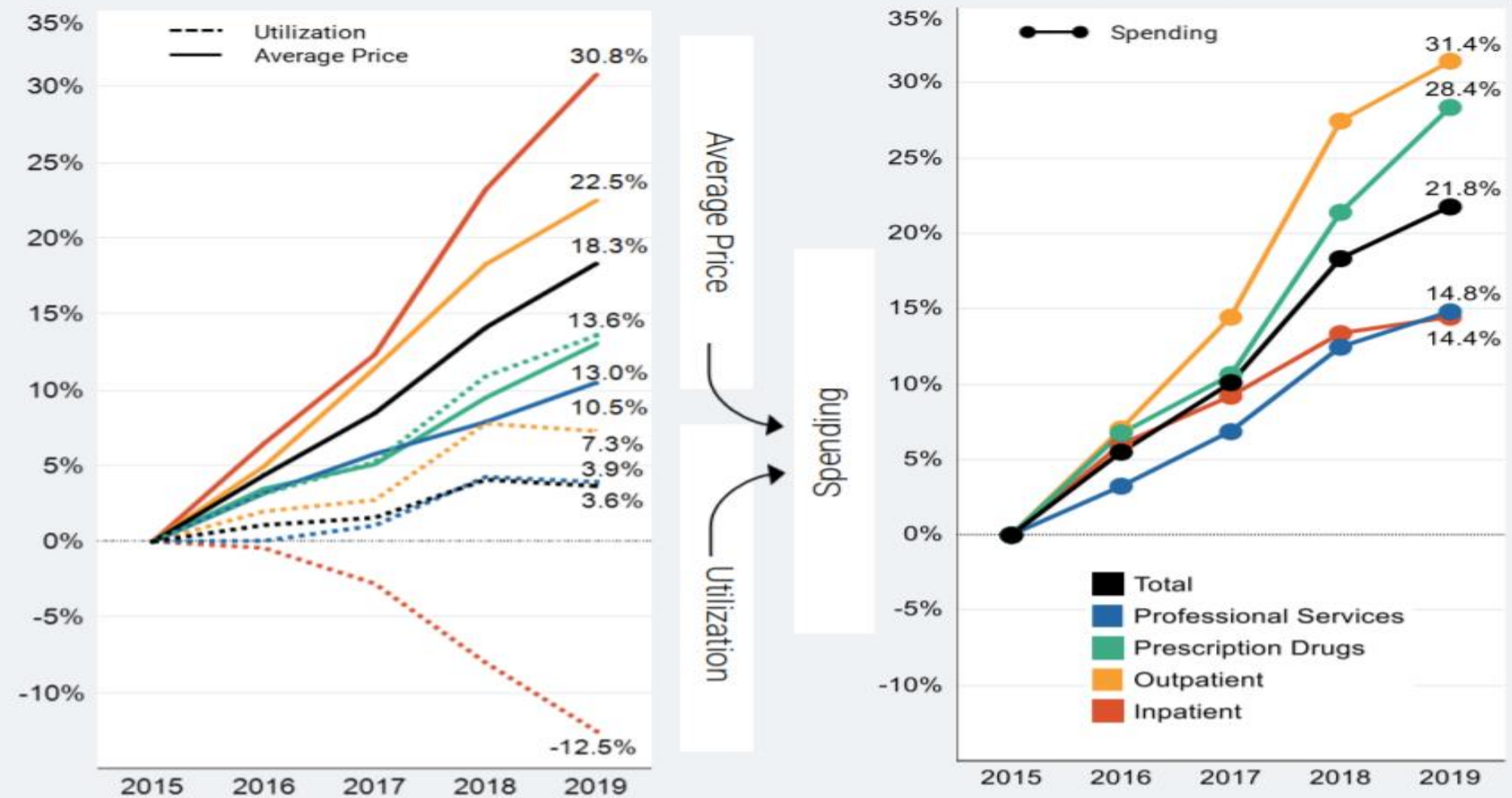


* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

SOURCE: KFF Employer Health Benefits Survey, 2018-2019; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017

Prices Explain Recent Commercial Spending Growth

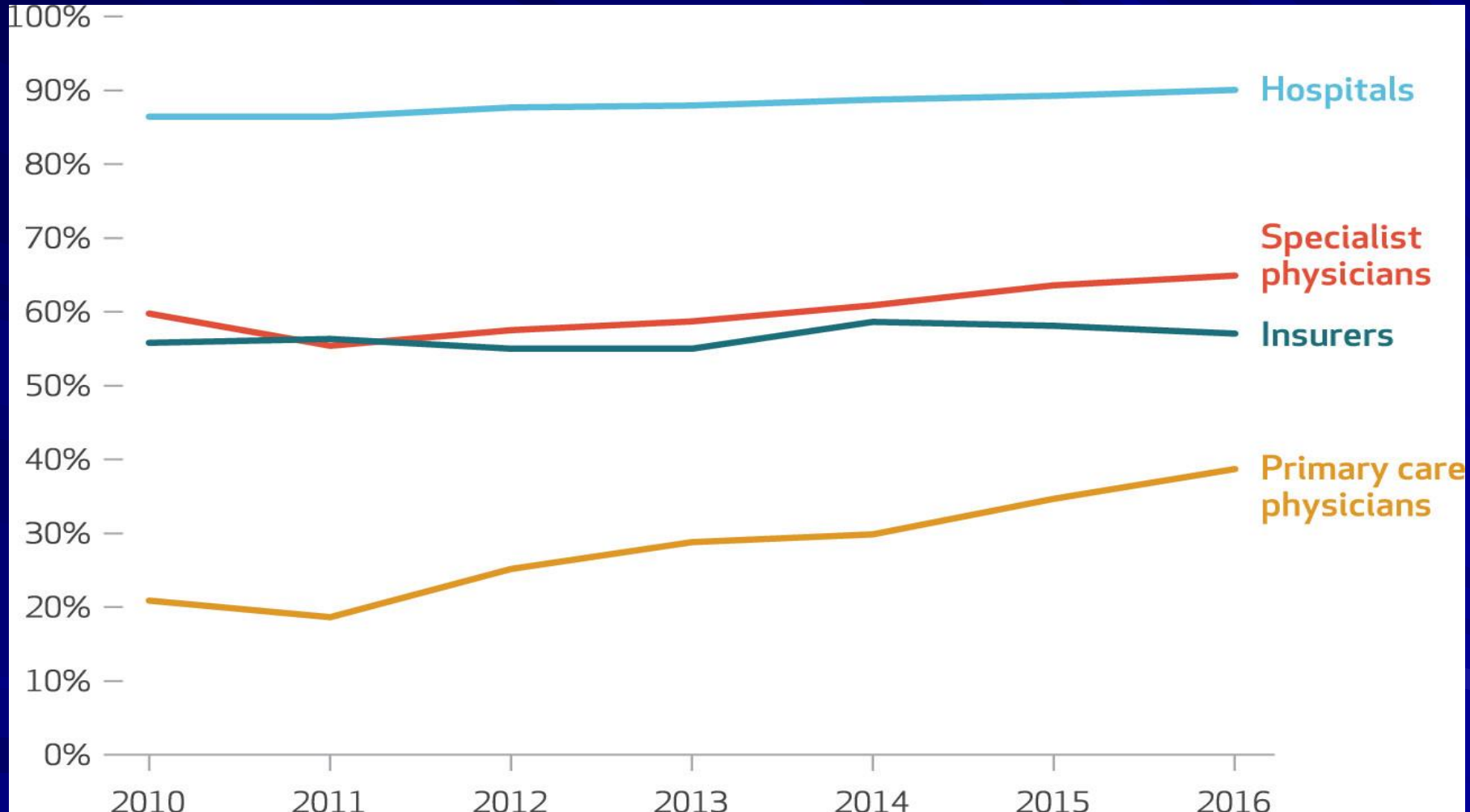
Figure 4: Cumulative Change in Spending per Person, Utilization, and Average Price by Service Category 



Note: All numbers presented in charts are available as downloadable data tables.

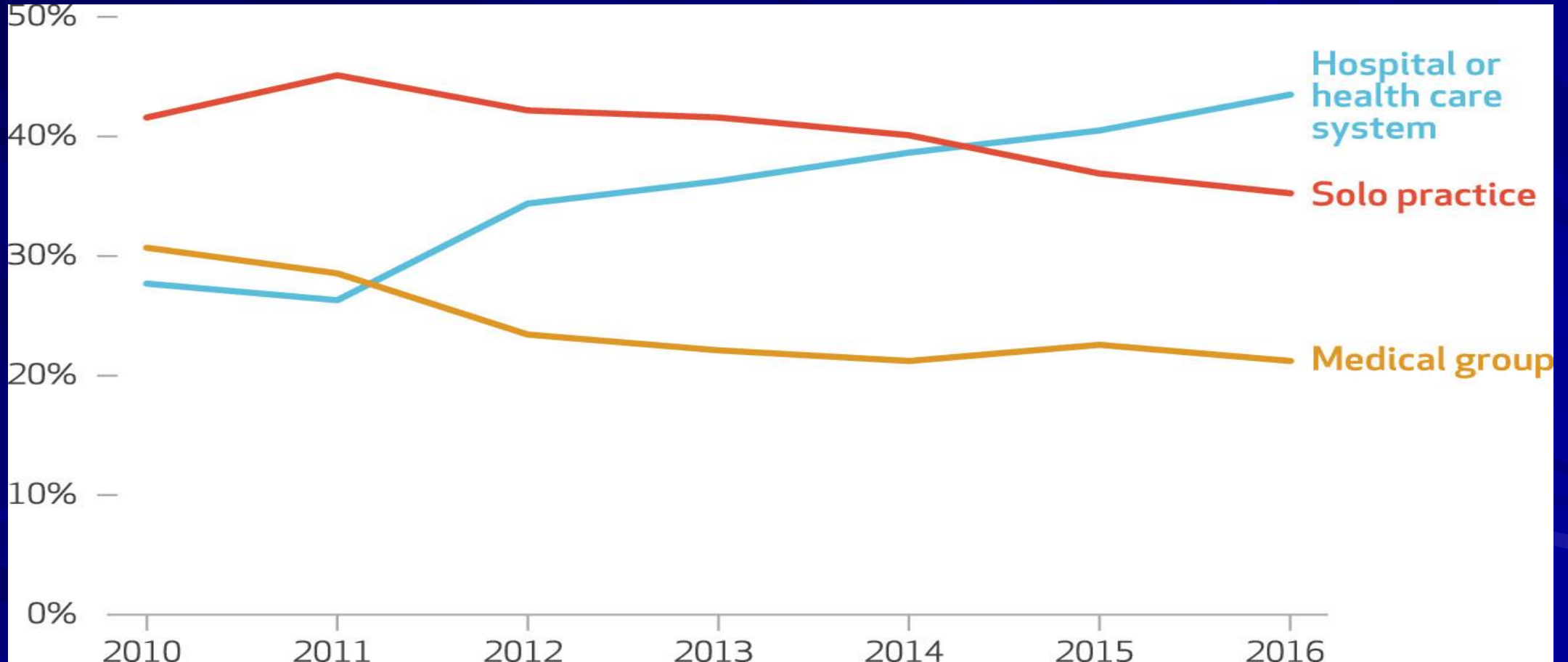
More Markets are highly concentrated

% of MSAs with HHI over 2,500



Source: Fulton BD. Health Care Market Concentration Trends In The United States: Evidence And Policy Responses. Health Affairs. 2017;36(9):1530-1538.

Physicians are increasingly working for hospital systems



Source: Fulton BD. Health Care Market Concentration Trends In The United States: Evidence And Policy Responses. Health Affairs. 2017;36(9):1530-1538.

Medicaid

Medicaid Issues

- Enrollment growth
 - Expansion
- Long term care and social supports
- Behavioral health/ substance use disorders

Expanding Medicaid

- States pay a share of the budget
 - Can be substantial in \$ but not as % of the spending
- Federal government pays a large share of added spending
 - Acts as a stimulus to the economy
- The added economic activity is taxed
- States could actually break even
 - Depends on parameters
 - Depends on state need for stimulus

State Cost Containment Strategies

What Problem Do You Want to Solve

- State budget
 - Medicaid
 - State employees
- High commercial premiums (broadly)

Impact of Price Transparency

- Price transparency is not associated with lower spending:
 - Limited engagement with price transparency tools/ data even when available
 - Benefit design not optimized to leverage transparency
 - Patients listen to doctors

Medicaid Options

■ Medicaid

- Medicaid managed care has mixed results
 - Details matter
- Payment reform to promote efficiency
- Easiest savings are to reduce benefits (each have drawbacks)
 - Formularies
 - Eligibility
- Fee cuts (but already low)

State Employees

- Narrow networks
- Raise cost sharing
- Reference pricing
- Charge higher co-premiums
- Push carriers harder (e.g., with performance guarantees)
- Cap prices (by regulation)

→ All of these have drawbacks

Commercial Prices Broadly

- Anti-trust
 - Is horse out of barn
- Transparency
 - Evidence is not promising
- Regulate prices

Some Things to Think About

- Stability of brick and mortar health care providers
 - Maintaining access to needed services
 - Economic impact of spending
- Health care spending is also health care revenue