U.S. Health Care Costs: Trends, Drivers and State Actions

National Conference of State Legislatures

September 26, 2023

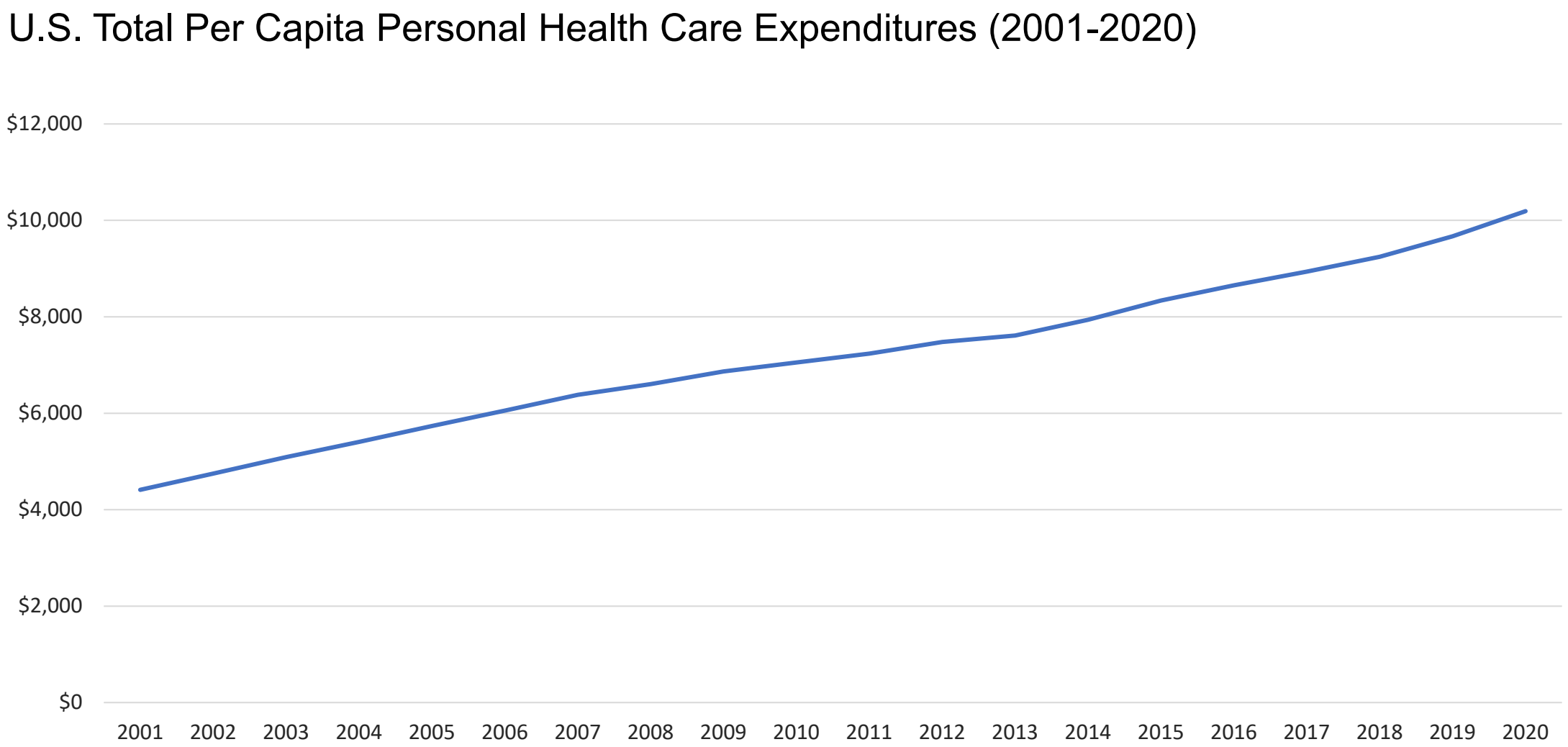
bailit health

Agenda

1. U.S. health care costs and spending trends
2. Key drivers of health care costs
3. State policy options

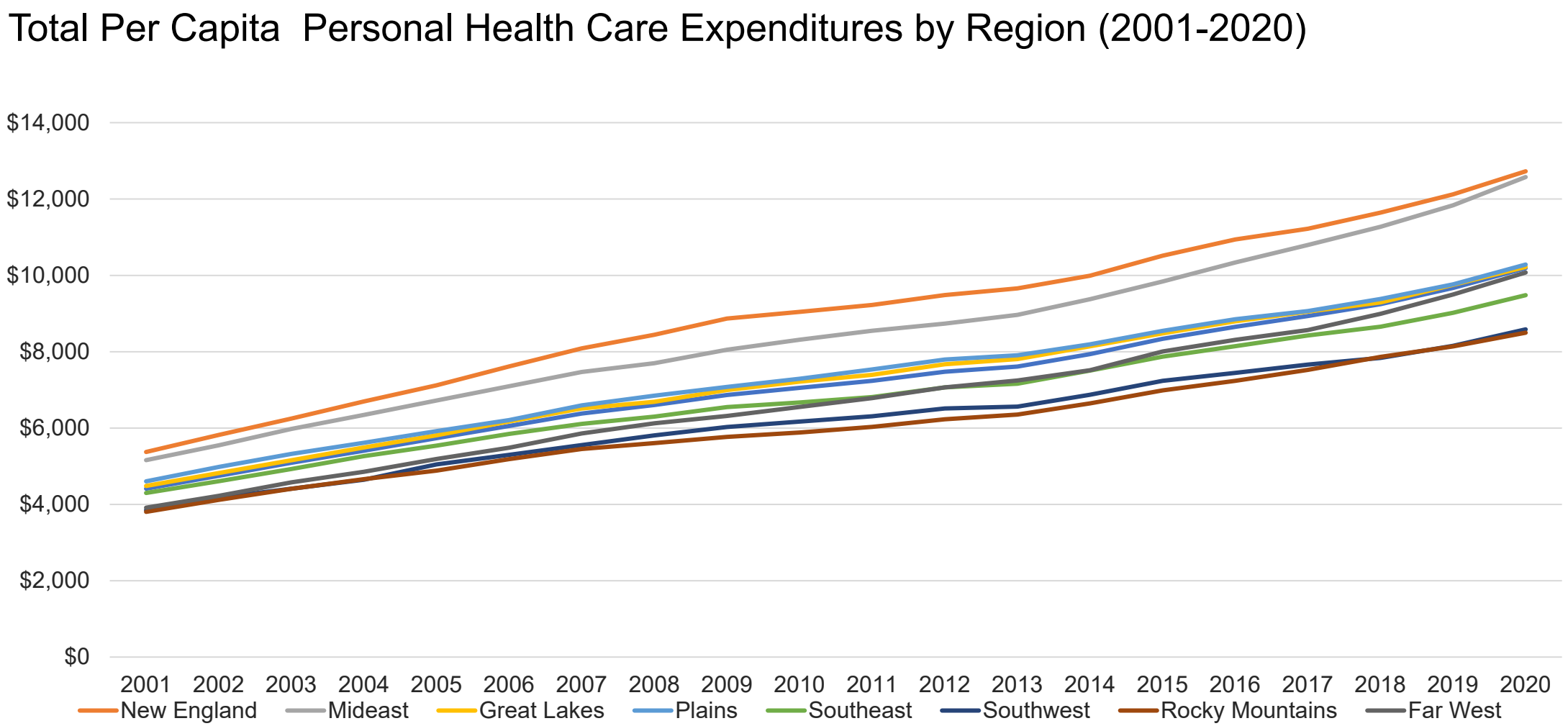
U.S. Health Care Costs and Spending Trends

U.S. Health Care Spending Is Increasing



Source: CMS Health Expenditures by State of Residence, 1991-2020, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/state-residence

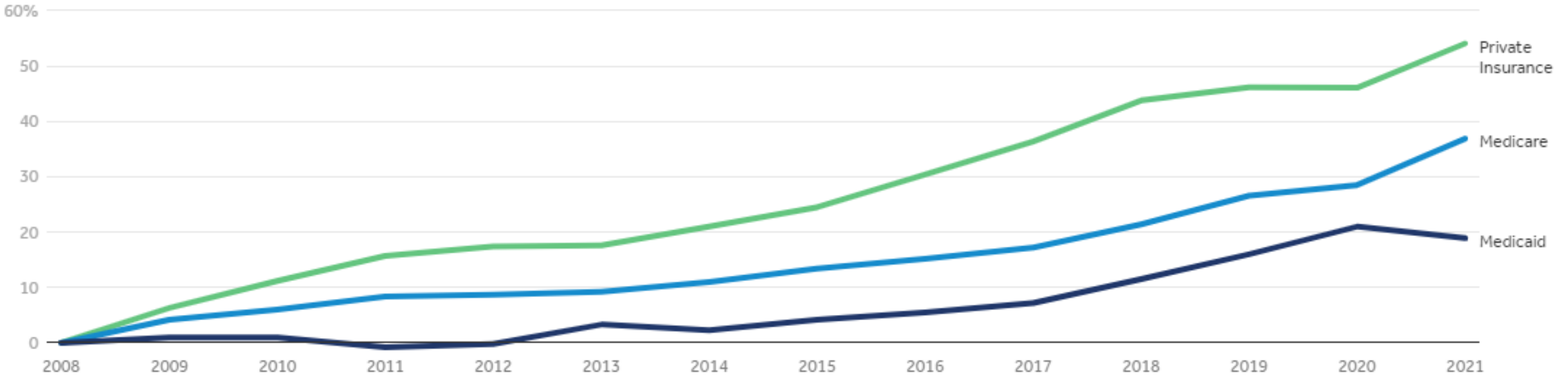
Health Care Spending is Increasing Across All U.S. Regions



Source: CMS Health Expenditures by State of Residence, 1991-2020, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/state-residence

Commercial Insurance Spending has Typically Grown Much Faster than Medicare and Medicaid Spending

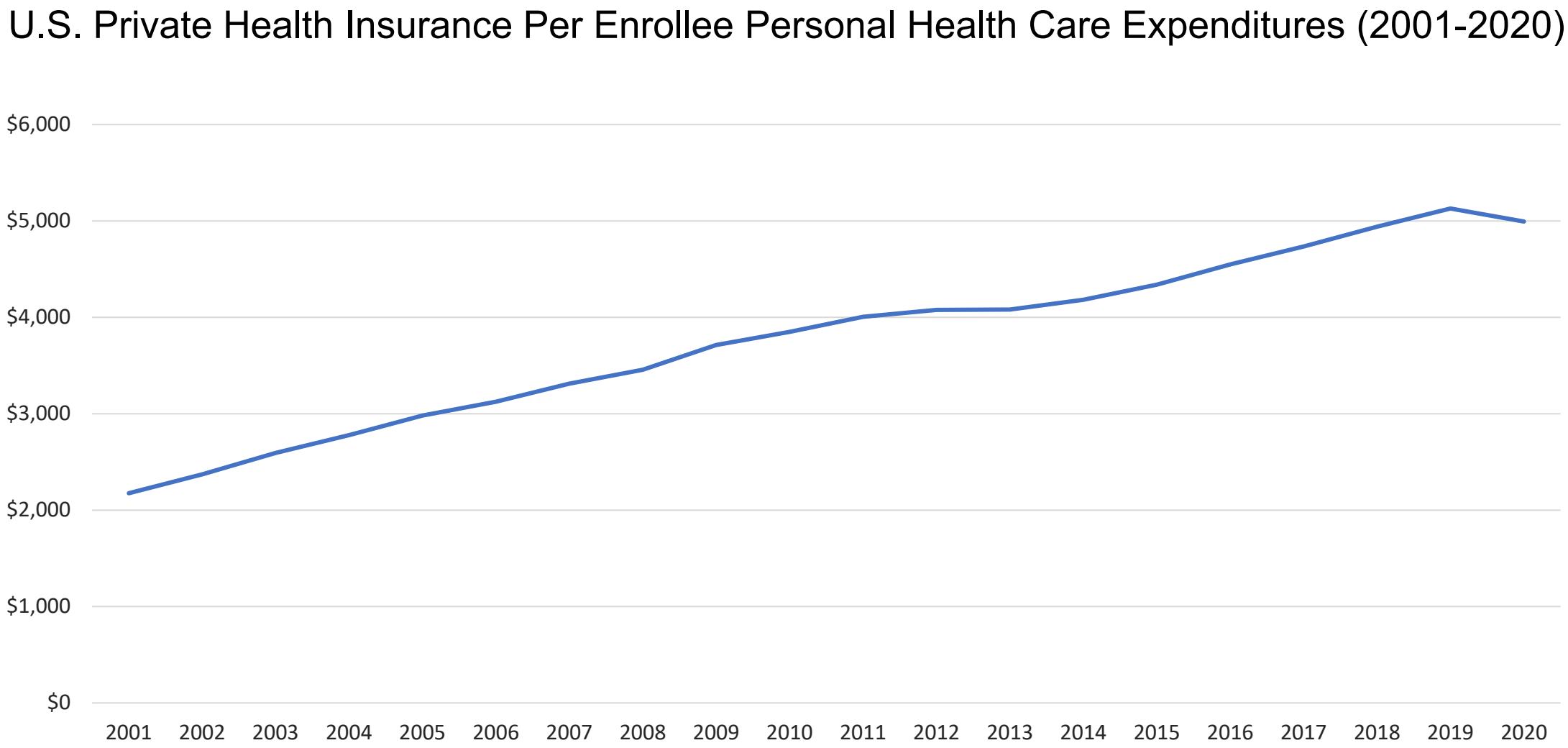
Cumulative growth in per enrolled person spending by private insurance, Medicare, and Medicaid, 2008-2021



Source: KFF analysis of National Health Expenditure (NHE) data • Get the data • PNG

Peterson-KFF Health System Tracker

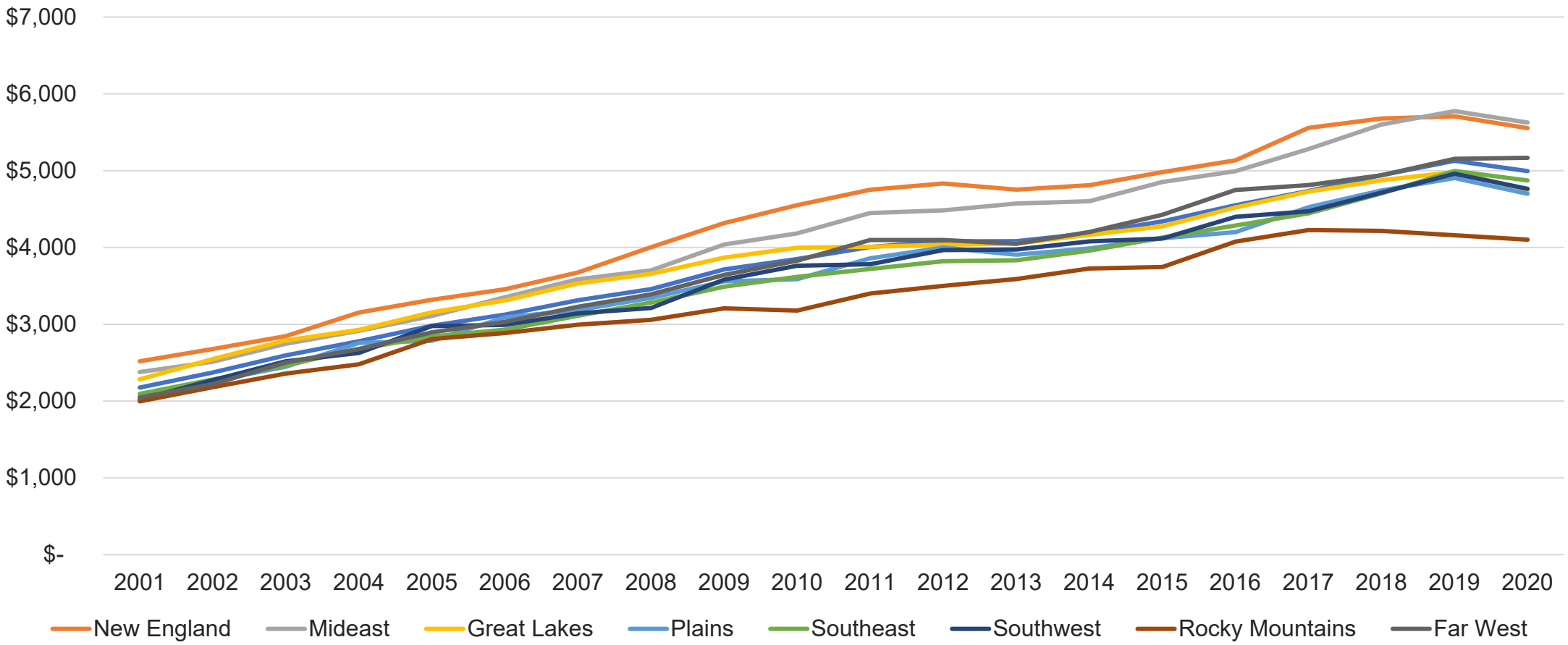
Commercial Health Insurance Spending on Medical Care is Increasing



Source: CMS Health Expenditures by State of Residence, 1991-2020, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/state-residence

Commercial Health Insurance Spending on Medical Care is Increasing Across All U.S. Regions

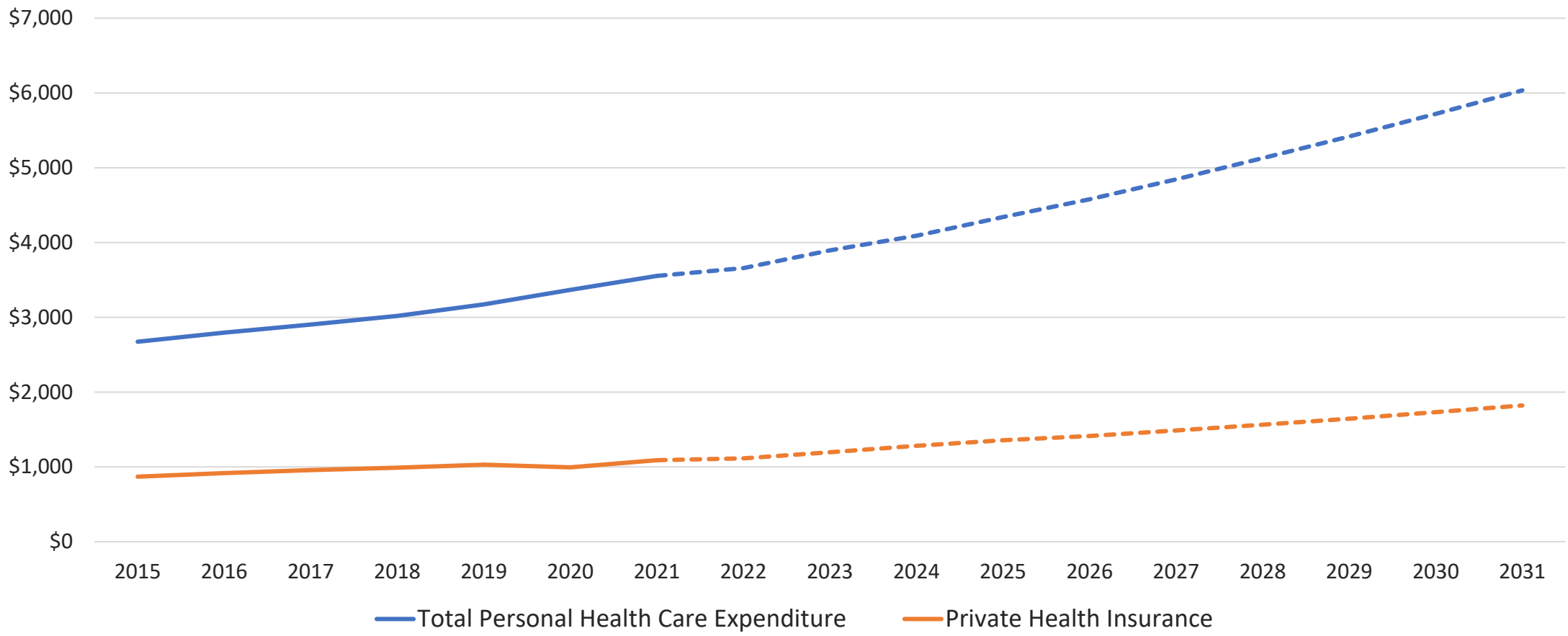
U.S. Regional Private Health Insurance Per Enrollee Personal Health Care Expenditures (2001-2020)



Source: CMS Health Expenditures by State of Residence, 1991-2020, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/state-residence

Total and Commercial Insurance Spending Increases are Expected to Continue

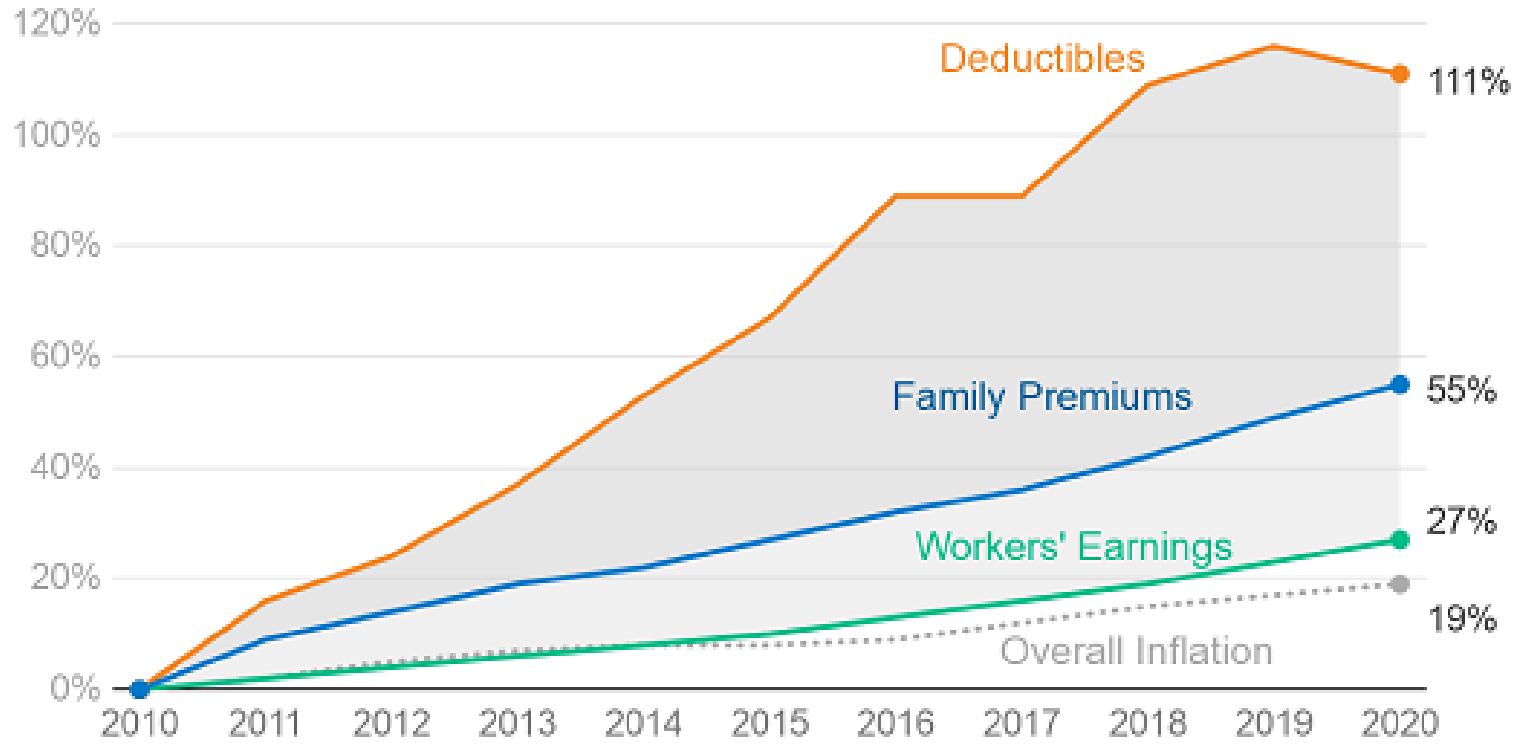
National Health Expenditures: Historical and Projected (2015-2031)



Source: CMS Projections of National Health Expenditures, 2015-2031, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected

Employee Deductibles and Premiums have Risen Much Faster than Wages

Employer Premiums and Deductibles Have Risen Much Faster than Wages Since 2010



NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

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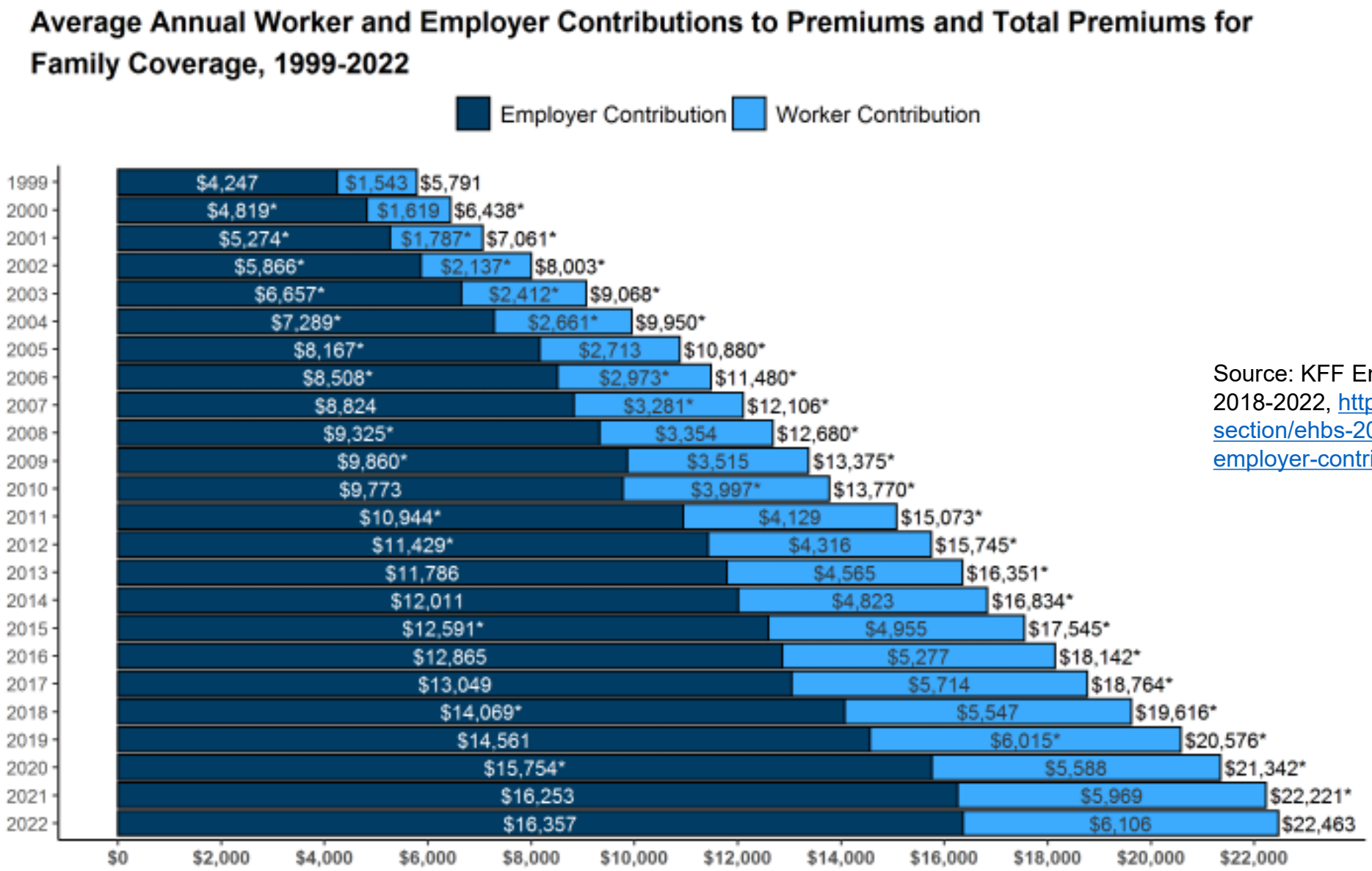
U.S. Employees and Employers are Paying More for Health Insurance Premiums



Source: KFF Employer Health Benefits Survey, 2018-2022, https://www.kff.org/report-section/ehbs-2022-section-6-worker-and-employer-contributions-for-premiums/

Impact on Small Businesses and Their Employees

- According to a national 2022 Small Business for America's Future survey:
  - **Nearly half** of small business owners have increased the prices of their goods or services to offset healthcare costs, **38%** have delayed growth opportunities, and **28%** have held off on hiring new employees
  - **53%** have thought about no longer providing health insurance for their employees due to the rising cost of coverage, and **74%** thought about reducing how much their business contributes to the cost of health insurance
  - **More than half** said employees raise the possibility of not being able to afford medical expense
  - **Four in ten** have forgone offering health insurance altogether, and nearly 80% said it was because the cost was too high.

Source: Small Business for America's Future, Survey: Healthcare Costs Putting Financial Pressure on Small Business, October 2022, https://www.smallbusinessforamericasfuture.org/healthcare-costs-putting-financial-pressure-on-small-business

High Health Care Costs Impact Access to Care

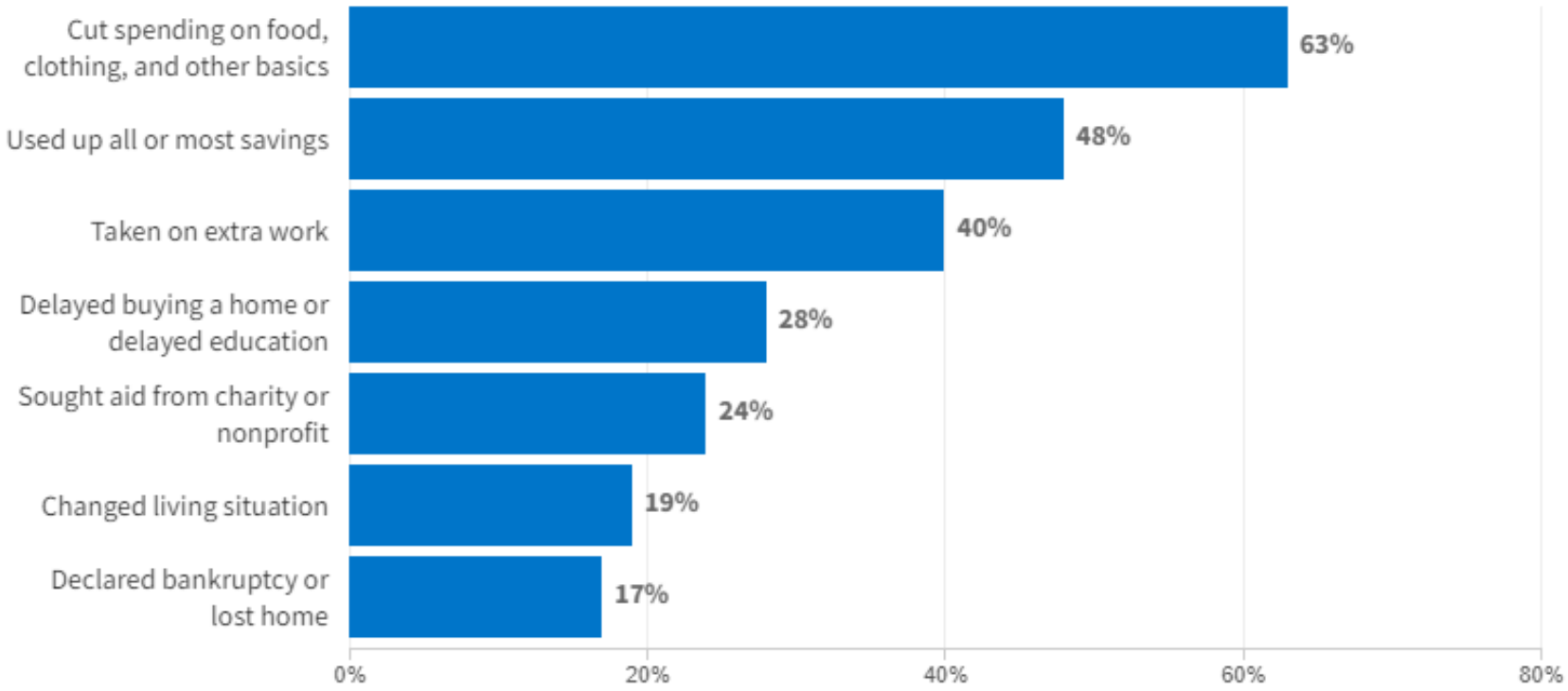
- **Affordability of premiums and out-of-pocket costs are a concern, particularly for those with private health coverage**. About half of adults with commercial insurance *rated their insurance negatively* when it comes to premiums and out-of-pocket costs.
- **Cost barriers result in delayed or foregone care**. Almost one in five adults with commercial insurance reported *skipping or delaying a doctor's visit* in the past year because of the cost, while much smaller shares of those with Medicaid (10%) and Medicare (5%) reported such actions.
- **Health care debt is a burden for a large share of Americans**. About four in ten adults (41%) reported having *debt due to medical or dental bills*.
  - Urban Institute data show the share of medical debt in collections and median amount in collections by county, state and national levels

Sources: KFF Survey of Consumer Experiences with Health Insurance. June 15, 2023, https://www.kff.org/mental-health/poll-finding/kff-survey-of-consumer-experiences-with-health-insurance/; KFF Health Care Debt In The U.S.: The Broad Consequences Of Medical And Dental Bills, June 16, 2022, https://www.kff.org/health-costs/report/kff-health-care-debt-survey/, Urban Institute, Debt in America: An Interactive Map, https://apps.urban.org/features/debt-interactive-map/?type=medical&variable=medcoll

Individuals with Medial Debt Face Difficult Tradeoffs

What People Sacrificed

Share of indebted adults who have done the following because of health care debt:



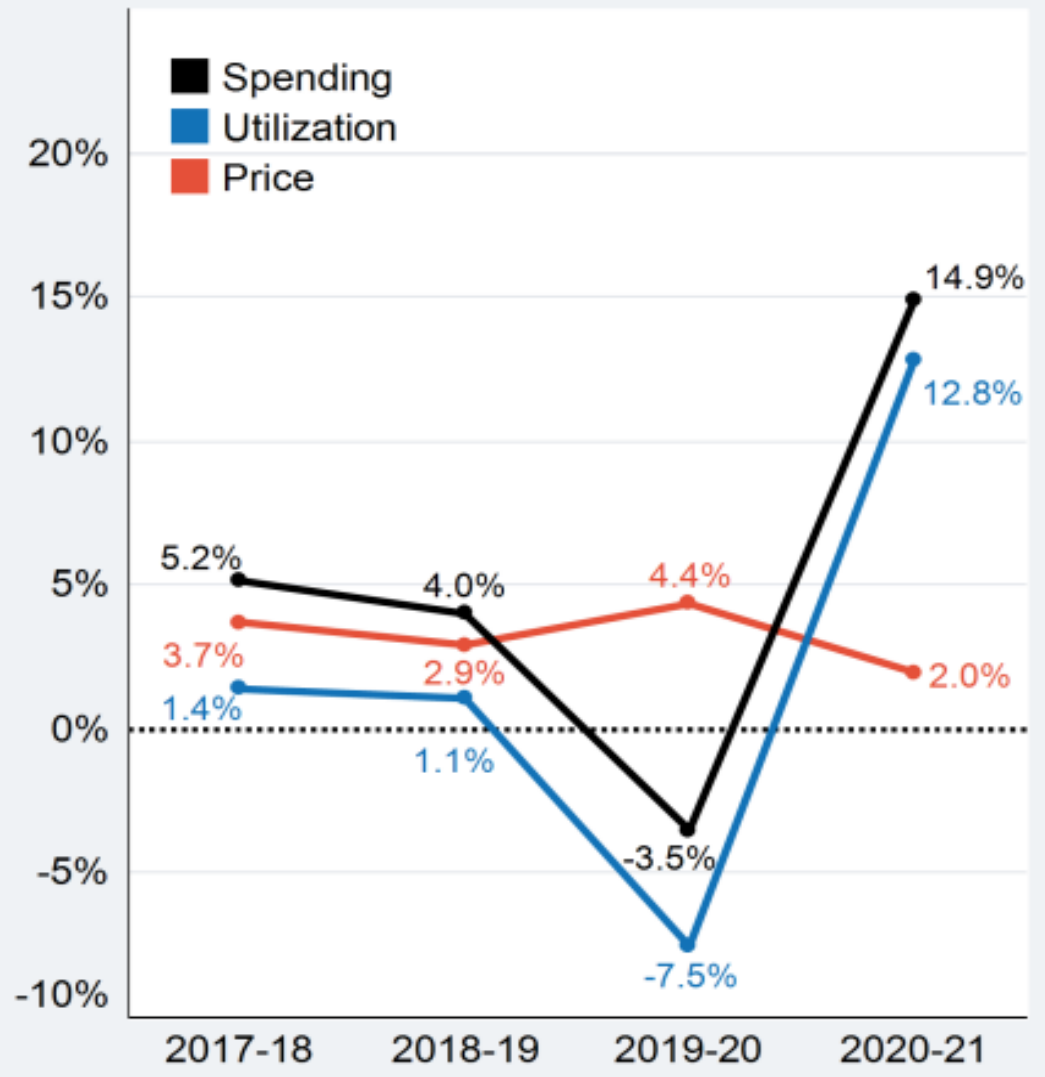
Source: KFF Health Care Debt Survey of 2,375 U.S. adults, including 1,674 with current or past debt from medical or dental bills, conducted Feb. 25 through March 20. The margin of sampling error for the overall sample is 3 percentage points.

Credit: Daniel Wood/NPR and Noam N. Levey/KHN

Key Drivers of Health Care Costs

Commercial Market Health Care Spending: Price vs. Utilization

Annual Percent Change in **Spending per Person**, Utilization and Price

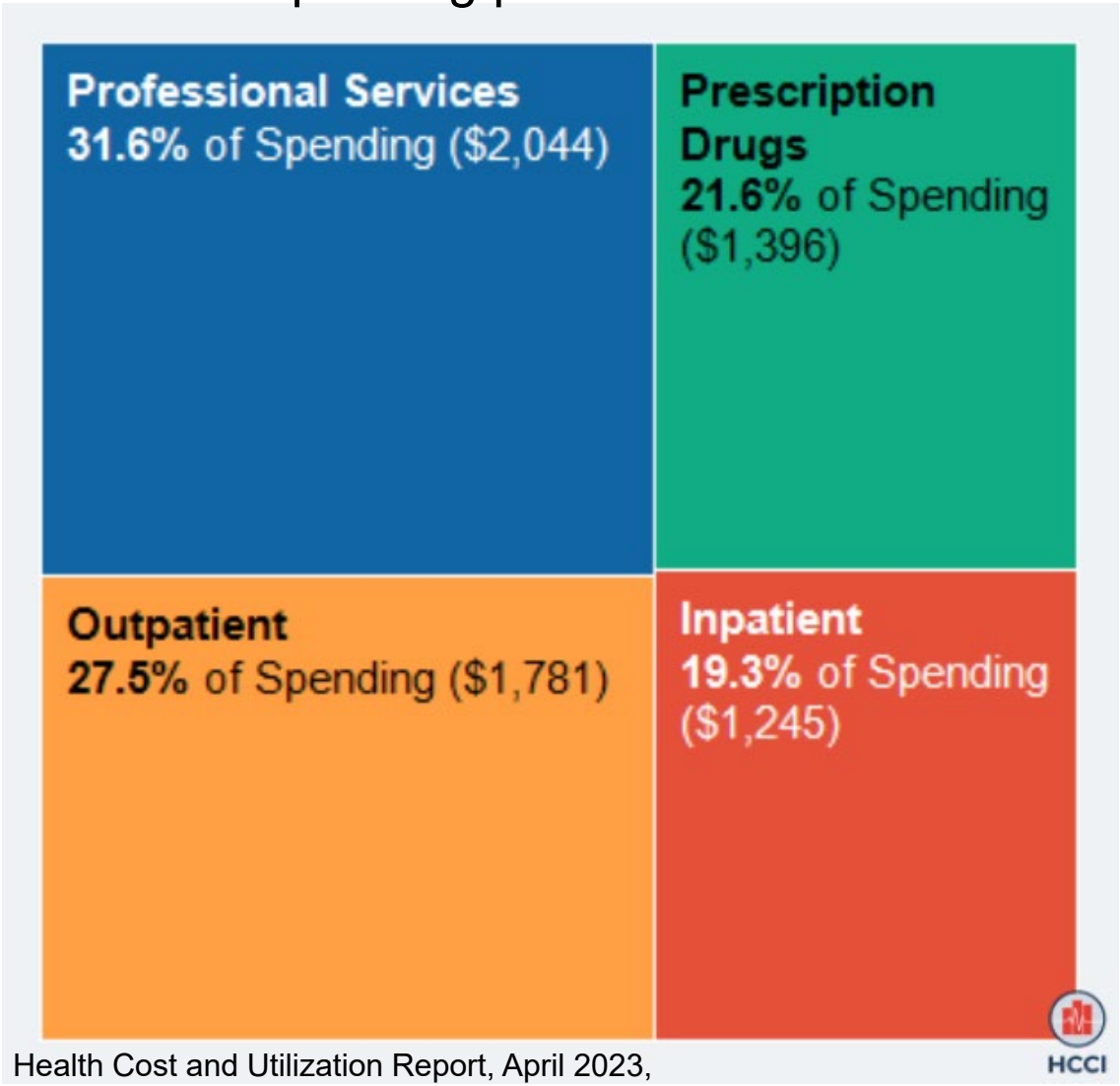


Commercial market spending growth is largely driven by **increasing prices**, rather than utilization

Source: Health Care Cost Institute, 2021 Health Cost and Utilization Report, April 2023, https://healthcostinstitute.org/health-care-cost-and-utilization-report/annual-reports

Commercial Health Care Spending by Service Category

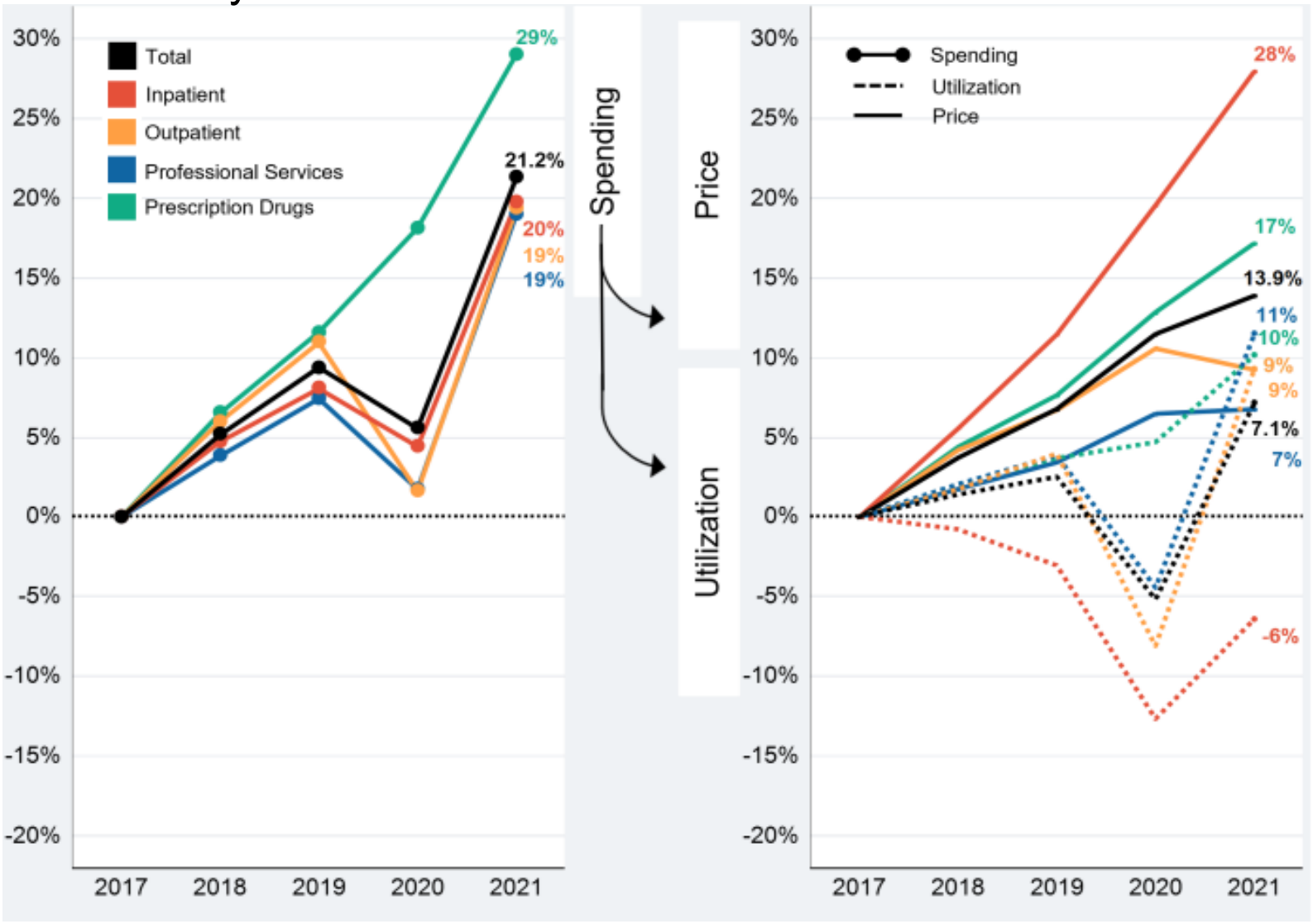
Share of Spending per Person in 2021



Source: Health Care Cost Institute, 2021 Health Cost and Utilization Report, April 2023, https://healthcostinstitute.org/health-care-cost-and-utilization-report/annual-reports

Commercial Health Care Spending by Service Category: Price vs. Utilization

Cumulative Percent Change in **Spending per Person**, Utilization and Price by Service

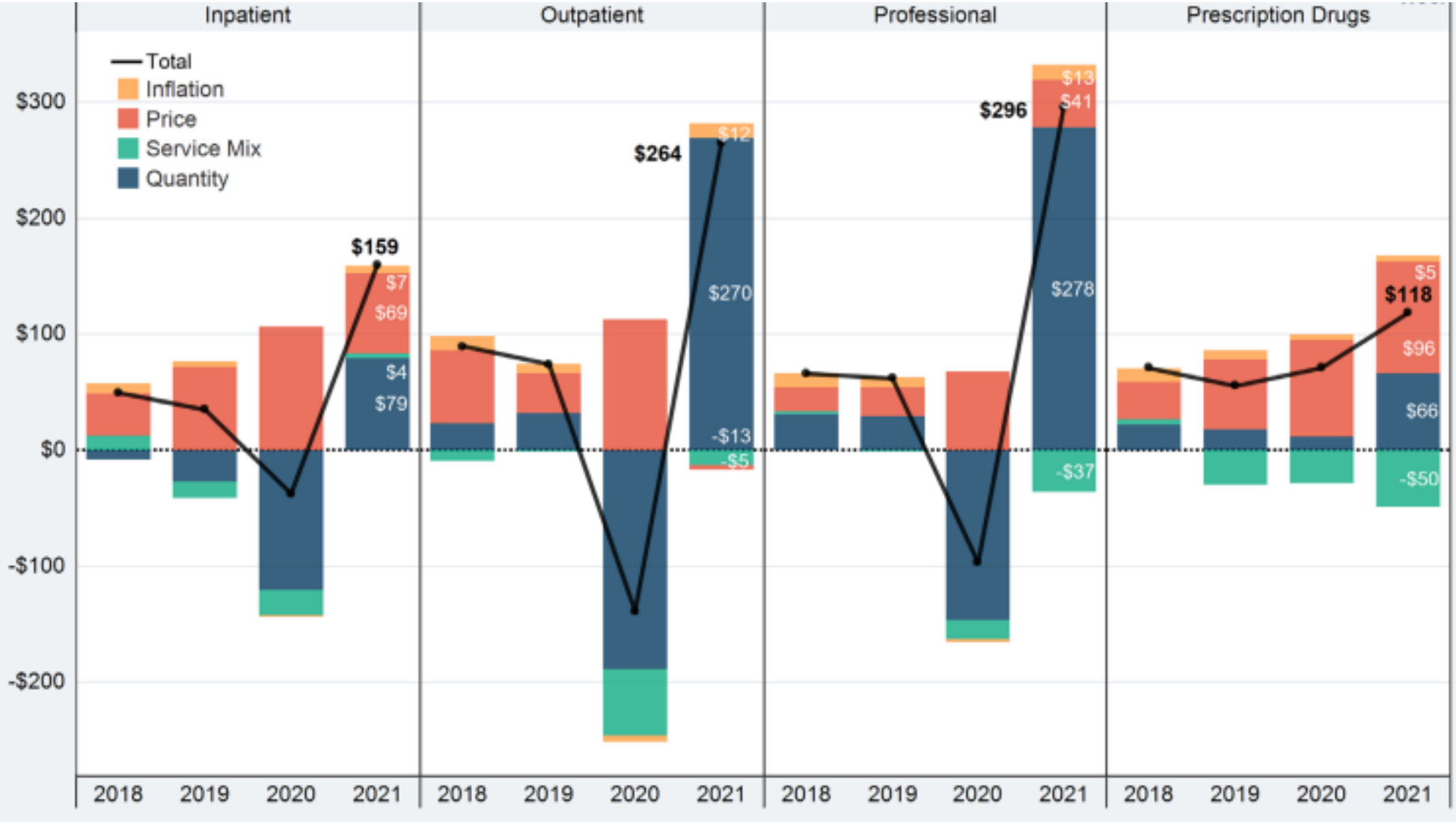


Between 2017-2021, spending increases were largely driven by **rising prices** for services within each category.

Source: Health Care Cost Institute, 2021 Health Cost and Utilization Report, April 2023, https://healthcostinstitute.org/health-care-cost-and-utilization-report/annual-reports

Drivers of Spending Changes Across Service Categories

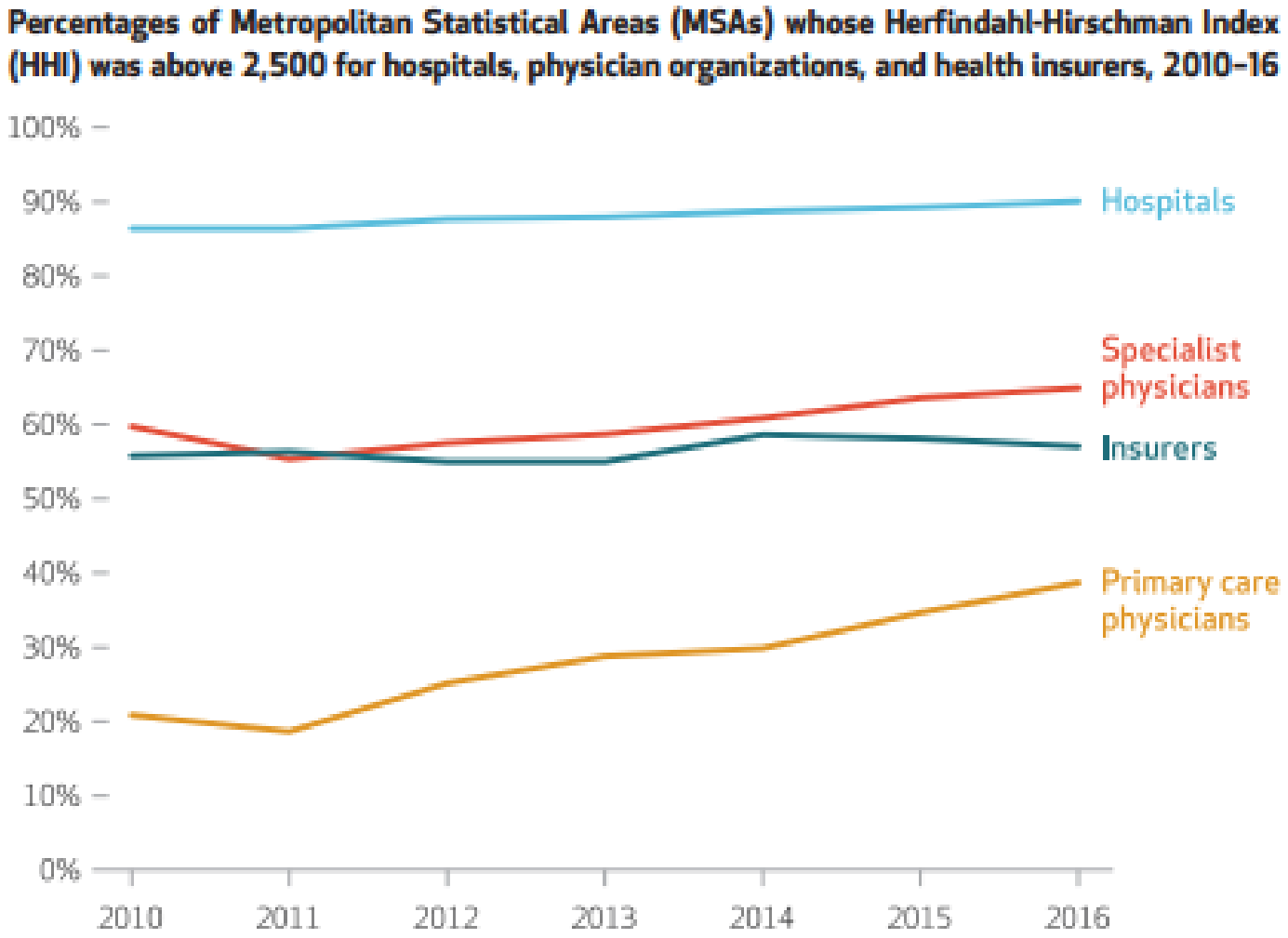
Cumulative Change in Total Spending per Person and Contributing Factors by Service



Prices largely *contributed positively* to spending in all years in all categories.

Source: Health Care Cost Institute, 2021 Health Cost and Utilization Report, April 2023, https://healthcostinstitute.org/health-care-cost-and-utilization-report/annual-reports

Health Care Consolidation Trends



% of markets that are highly concentrated:

90% of hospital markets

65% of specialty physician markets

57% of insurer markets

39% of primary care markets

Source: Fulton, BD. Health Care Market Concentration Trends in the United States: Evidence and Policy Responses. Health Affairs. 2017;36(9):1530-1538

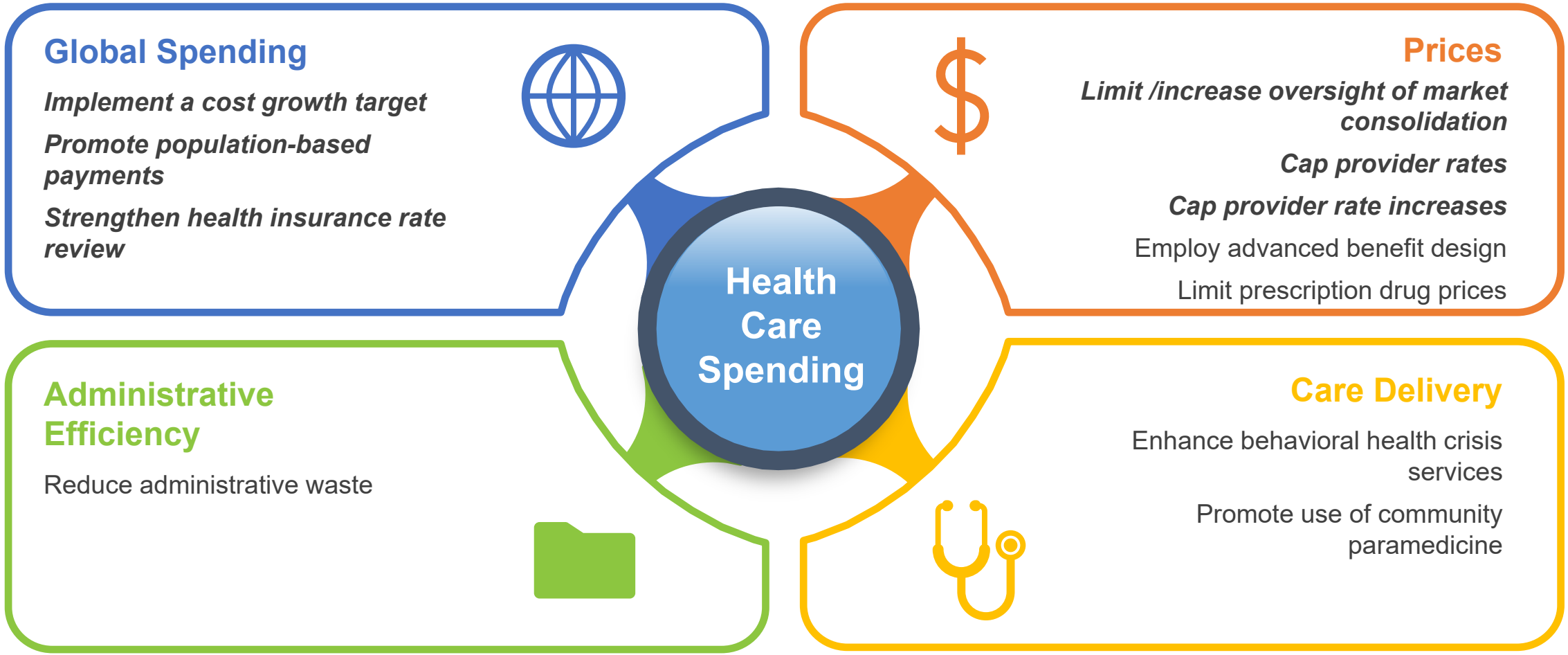
A wide body of research has shown that provider consolidation – both horizontal and vertical – leads to higher health care prices for private insurance.

State Policy Options

Ways to Influence Health Care Spending

1. **Global Spending**
   Address spending overall, without targeting specific areas
2. **Prices**
   Address the prices that providers charge for services, or that consumers pay for care
3. **Care Delivery**
   Decrease utilization of avoidable and unnecessary services
4. **Administrative Efficiency**
   Reduce administrative waste in the system

State Strategies to Slow Commercial Market Health Care Cost Growth



Source: Ann Hwang, Amy M. Lischko, Tom Betlach, and Michael H. Bailit, *State Strategies for Slowing Health Care Cost Growth in the Commercial Market*, *The Commonwealth Fund*, February 2022.

Tools to Address Provider Consolidation

- Pre-transaction review and approval of proposed transactions
  - Give state authorities notice, review, and approval authority over broad range of health care transactions, such as vertical acquisitions of physician groups, hospital mergers, private equity roll-up deals to acquire multiple smaller practices and merge them.
  - Many of these proposed transactions can “fly under the radar” of federal antitrust authorities.
- Banning anti-competitive contract terms between providers and physicians
  - Prohibit anticompetitive health plan contracting terms (all-or-nothing contracts, anti-tiering or anti-steering, most-favored nations, or gag clauses) using states’ consumer protection and antitrust laws

Implementing a Health Care Cost Growth Target

- A health care cost growth target (sometimes referred to as benchmark) is an annual rate of growth target for a given state.
- Eight states (CT, DE, MA, NJ, OR, RI, WA, CA) have health care cost growth target programs.
  - The targets range from 2.8% to 6%, while most are under 3.4%, and most go down over time.
  - They have typically been pegged to some indicator of consumer well-being.

Why Pursue a Cost Growth Target?

- Setting a public target for health care spending growth alone will not slow rate of growth.
- The target serves as an **anchor**, establishing an expectation that can serve as the basis for transparency at the state, payer and provider levels.
- To be effective, a target must be complemented by supporting strategies, informed by spending analyses to understand cost trends and cost growth drivers.

Implementing Caps on Provider Rate Increases

- Price growth caps place an upper limit on how much an insurer can annually increase the price paid for a service.
  - They do not set prices.
  - Nor do they address already high prices.

- Price growth caps can be structured in a number of ways. For example:
  - Price growth caps can apply to overall prices, or they can be aimed at specific services or providers where price growth has been problematic.
  - The caps can vary based on baseline prices that providers charge, e.g., higher caps for lower paid providers, and lower caps for higher paid providers
- Enforced through insurance regulation.

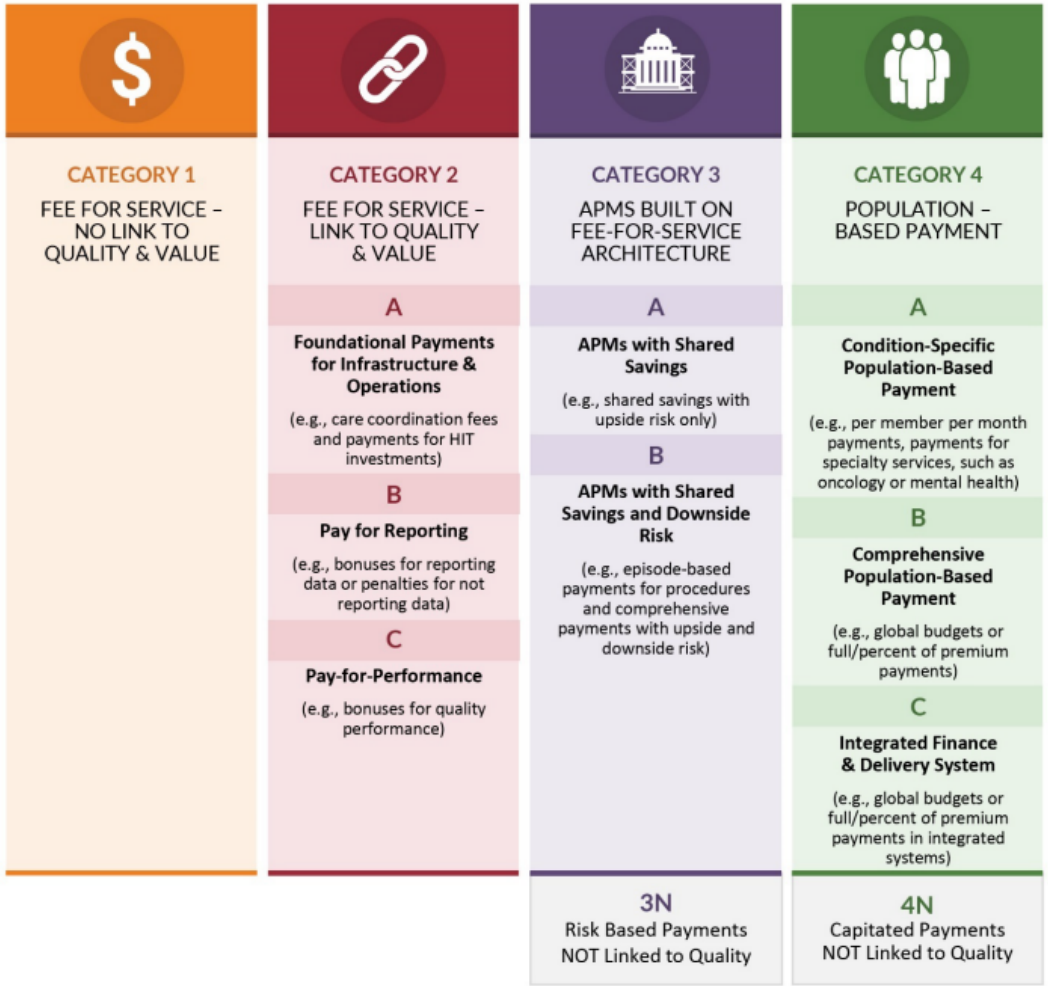
Implementing Provider Price Caps / Reference-Pricing

- Price caps place a limit on the absolute level of provider prices.
- Price growth caps can be applied in one or more of these ways:
  - Broadly across the commercial insured market
  - For out-of-network payments
  - Within a state employee health plan
  - Within a public option
  - To only certain health care services
- Implemented through purchasing authority and/or through insurance regulation.

Strengthening Health Insurance Rate Review

- Use the insurance rate review process to push down premiums in state-regulated health insurance markets.
- Opportunities to strengthen rate review
  - Strengthen statutory authority
    - Establish the ability to consider the "public interest“ or "affordability"
    - Obtain authority over a larger portion of the market
  - Strengthen stakeholder and public engagement
    - Engage the public and promote transparency via public meetings or other advisory structures
  - Build alignment with other cost containment initiatives
    - Increase transparency about cost drivers
    - Enforce or obtain information on progress toward other affordability initiatives
  - Improve monitoring for impact
    - Monitor impact on access, quality and equity
    - Document savings from the program

Increasing Adoption of Advanced Value-Based Payment Models



- Value-based payment (VBP) models that reward providers based on achievement of quality goals and in some cases, cost savings.
- Advanced VBP models are those that move further away from the FFS architecture and increase incentives for improved outcomes and efficiency through the use shared savings/risk or capitation payments.

Examples of Multi-Payer VBP models

- States have tested a variety of multi-payer VBP models, as summarized in the table below

VBP Model	Summary
Hospital global budgets	Fixed payment, determined prospectively, based on historical utilization and adjusted annually based on changing demographics, market share and service mix
Episode-based payment	Bundle payment for all services related to a specific episode of care, usually connected to a specific service or condition
Specialty capitation (specialty prospective payment)	Prospective per capita monthly payment for all the patients for whom a specialty group is accountable (only includes payment for services to be delivered by the specialty group)
Global capitation	Involves a prospective budget and prospective payment
Total cost of care with shared savings	Involves a prospective budget, with fee-for-service payment and retrospective reconciliation

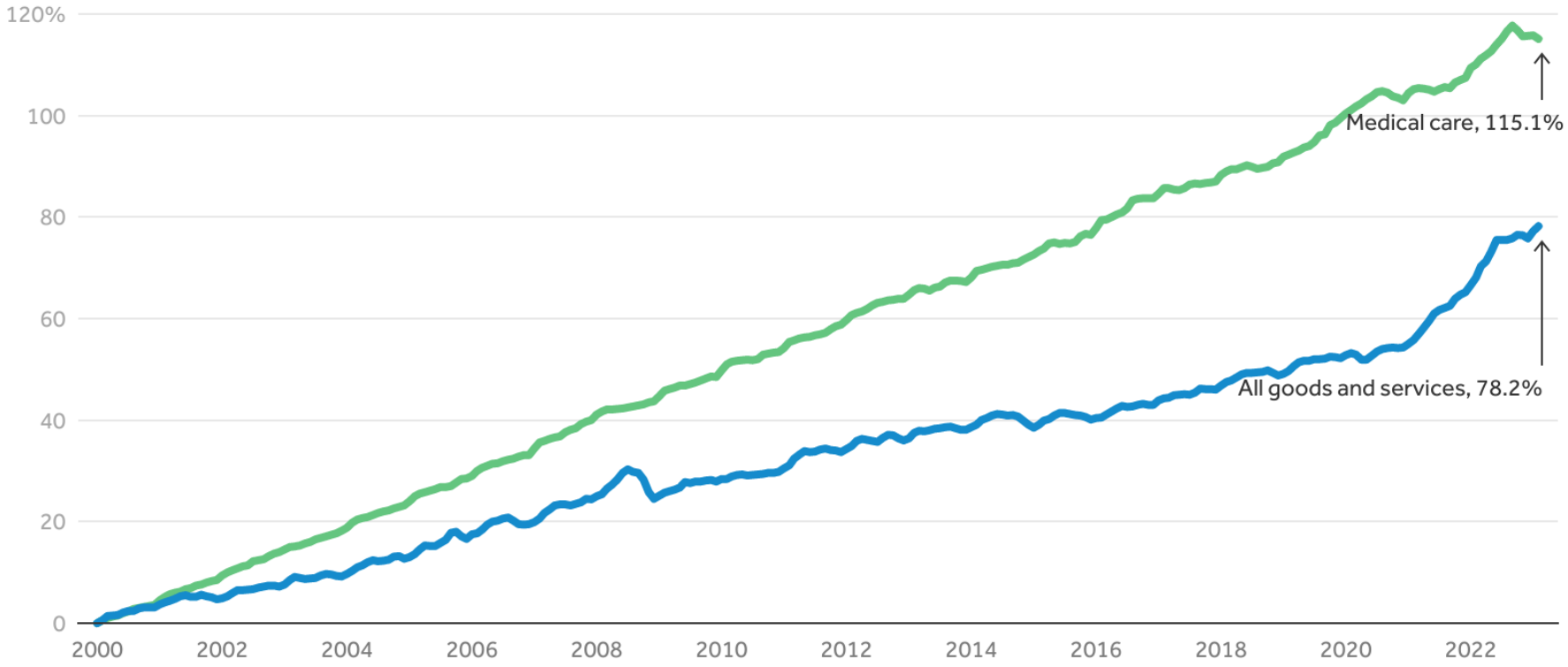
In Summary…

- There are several strategies a state can take to contain health care spending growth.
- Strategies that offer the greatest promise are those that address prices, and areas of spending that data show are high and rising fast.
- There is no magic bullet, and truly addressing health care costs will take significant commitment from all health care stakeholders.

Appendix

Health Care Costs Have Risen Much Faster than the Cost of Other Goods and Services

Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, January 2000 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

Peterson-KFF Health System Tracker