

Overview of the Health Care Marketplace: Structural, Legal and Policy Issues

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Health Care Competition Policy: What's the Point?

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- Cost

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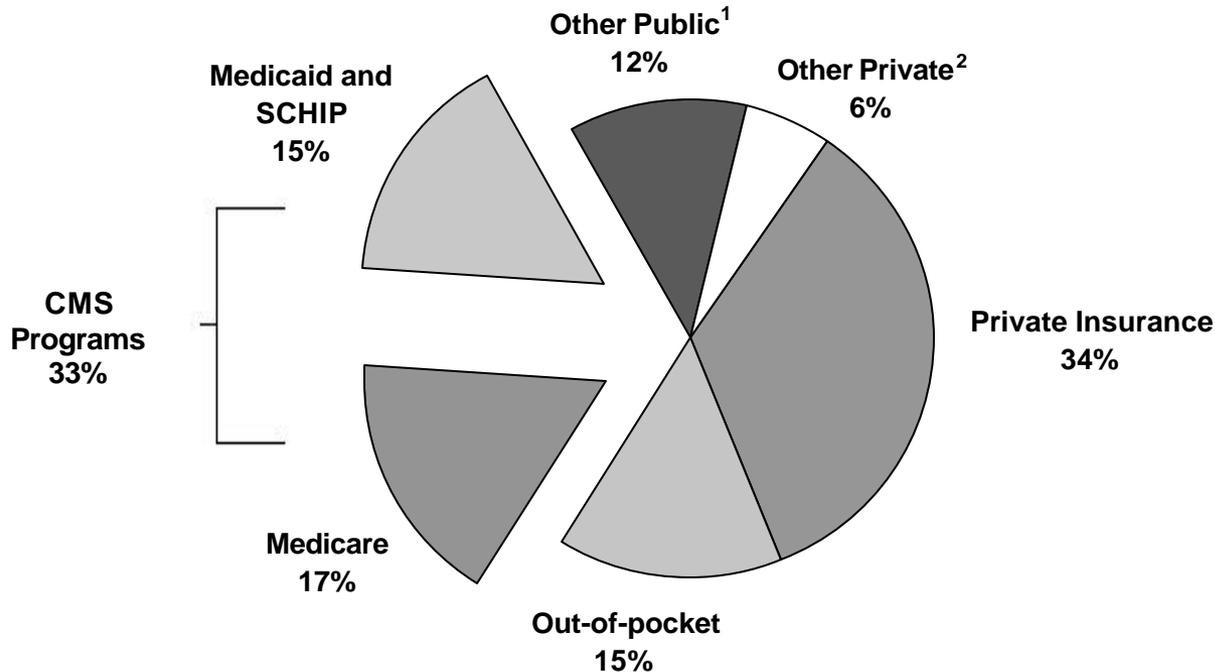
- Cost
- Coverage

Health Care Competition Policy: What's the Point?

- Cost
- Coverage
- Quality

Cost: How are we doing?

The Nation's Health Dollar, CY 2000



Total National Health Spending = \$1.3 Trillion

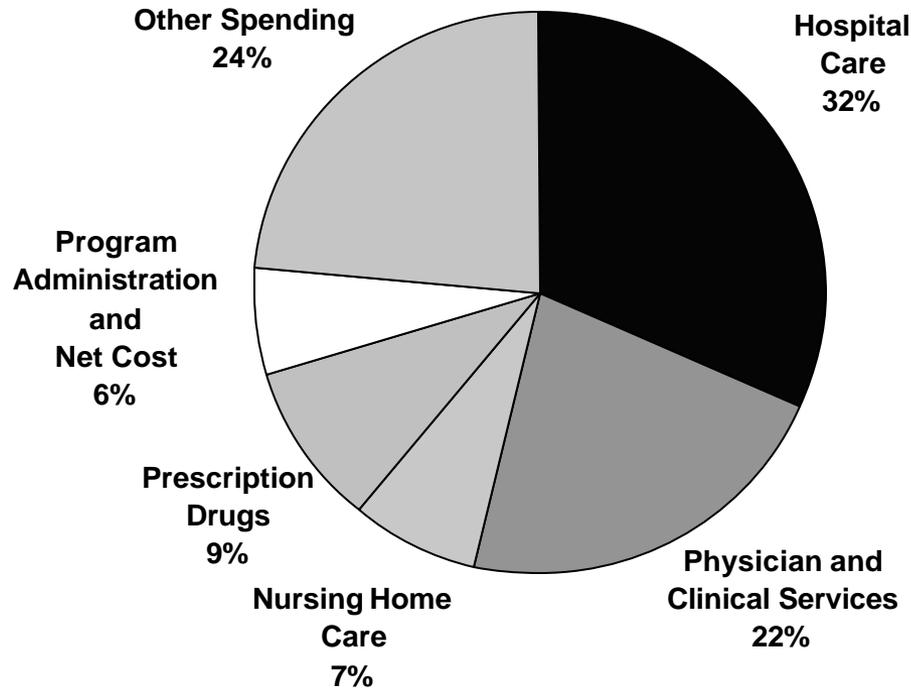
¹ Other public includes programs such as workers' compensation, public health activity, Department of Defense, Department of Veterans Affairs, Indian Health Service, and State and local hospital subsidies and school health.

² Other private includes industrial in-plant, privately funded construction, and non-patient revenues, including philanthropy.

Note: Numbers shown may not sum due to rounding.

Source: CMS, Office of the Actuary, National Health Statistics Group.

The Nation's Health Dollar, CY 2000



Total Health Spending = \$1.3 Trillion

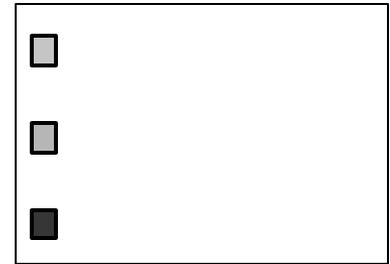
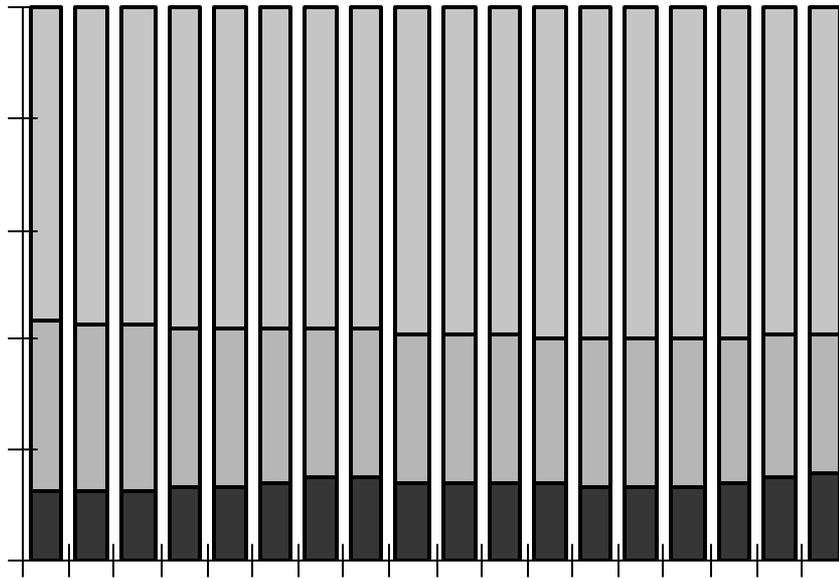
Note: Other spending includes dentist services, other professional services, home health, durable medical products, over-the-counter medicines and sundries, public health, research and construction.

Source: CMS, Office of the Actuary, National Health Statistics Group.

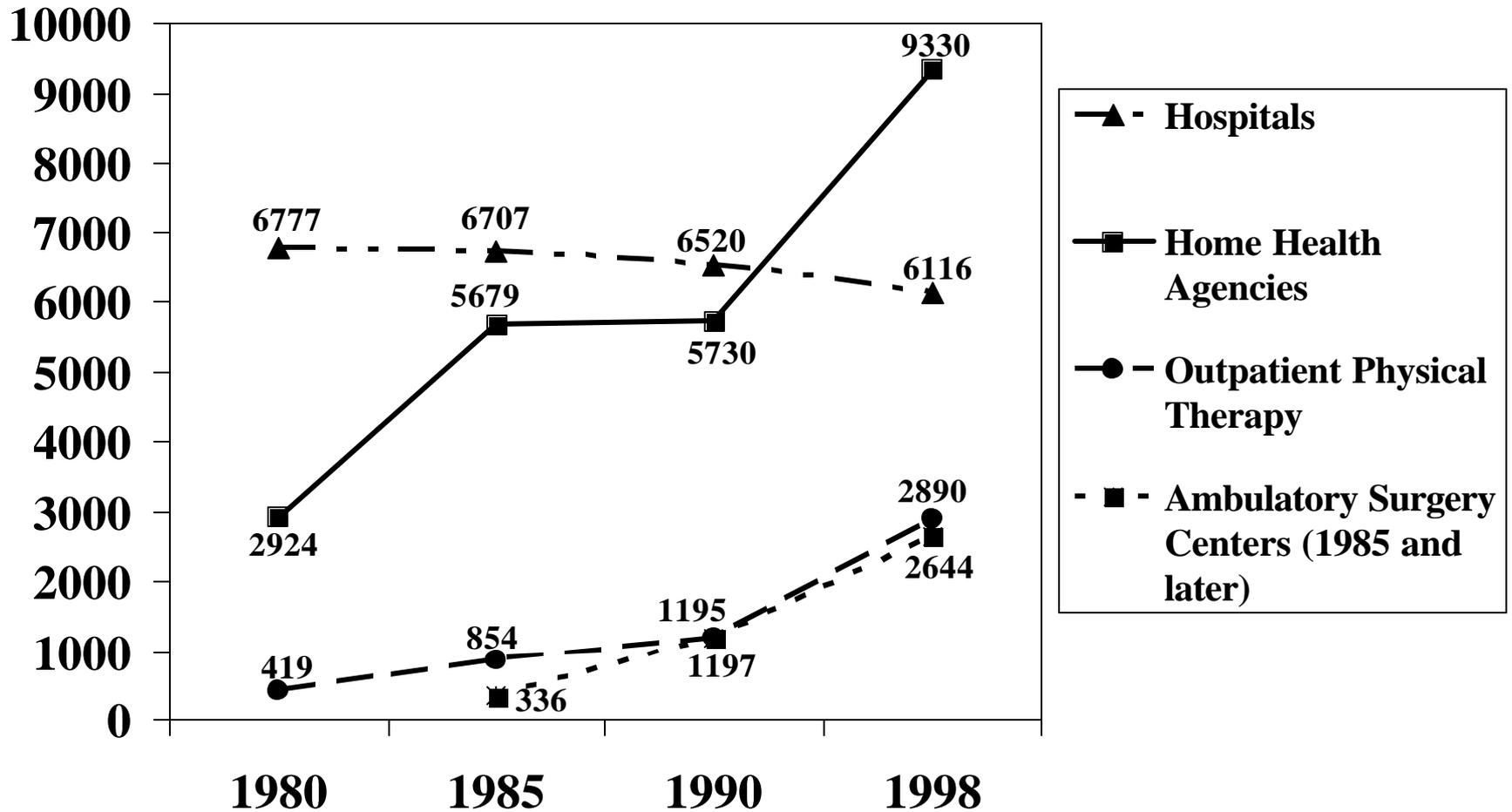
Medicare Providers:

| | |
|---------|----------------------------|
| 6,100 | Hospitals |
| 15,000 | Skilled nursing facilities |
| 9,300 | Home health agencies |
| 167,000 | Clinical laboratories |
| 400 | Prepaid organizations |
| 920,000 | Physicians |

Number of Hospitals

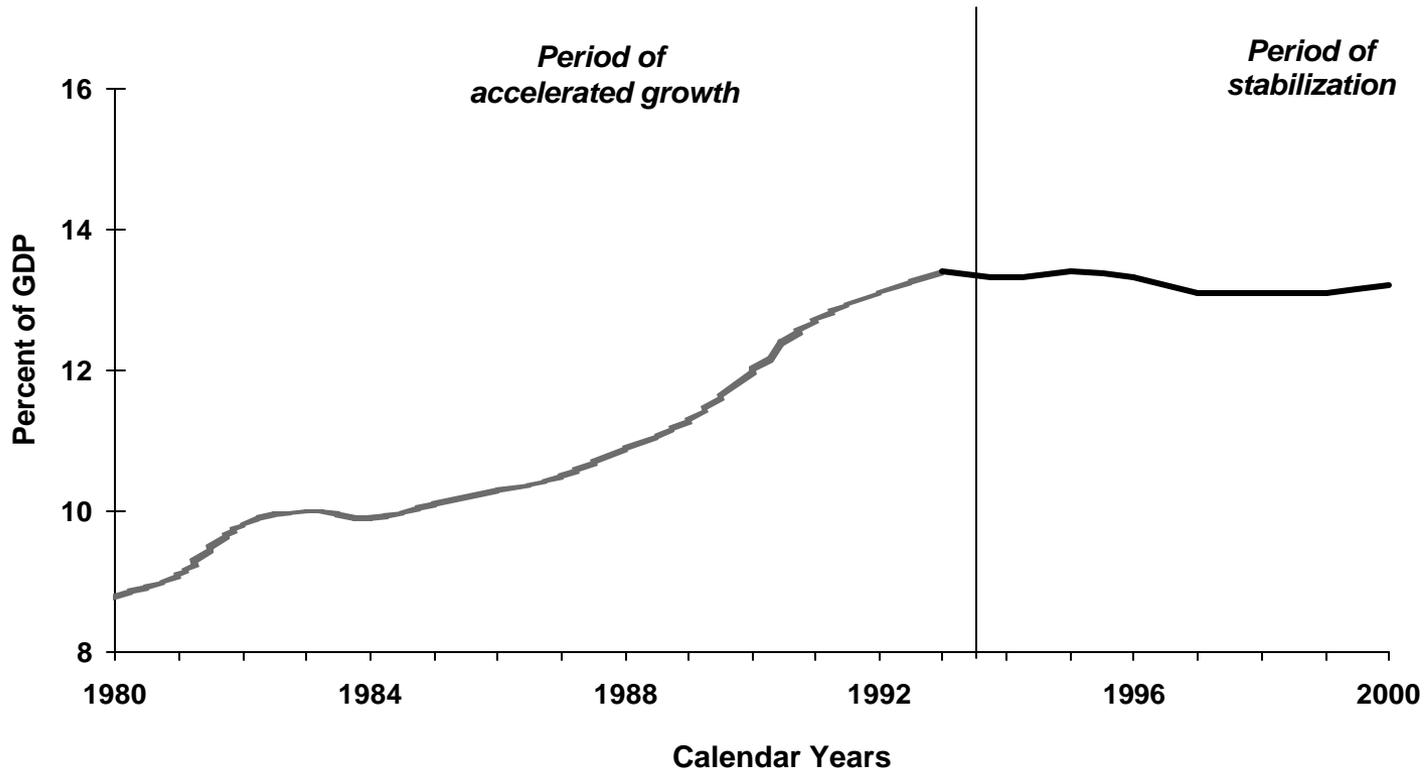


Inpatient and Outpatient Medicare Providers: 1980-1998



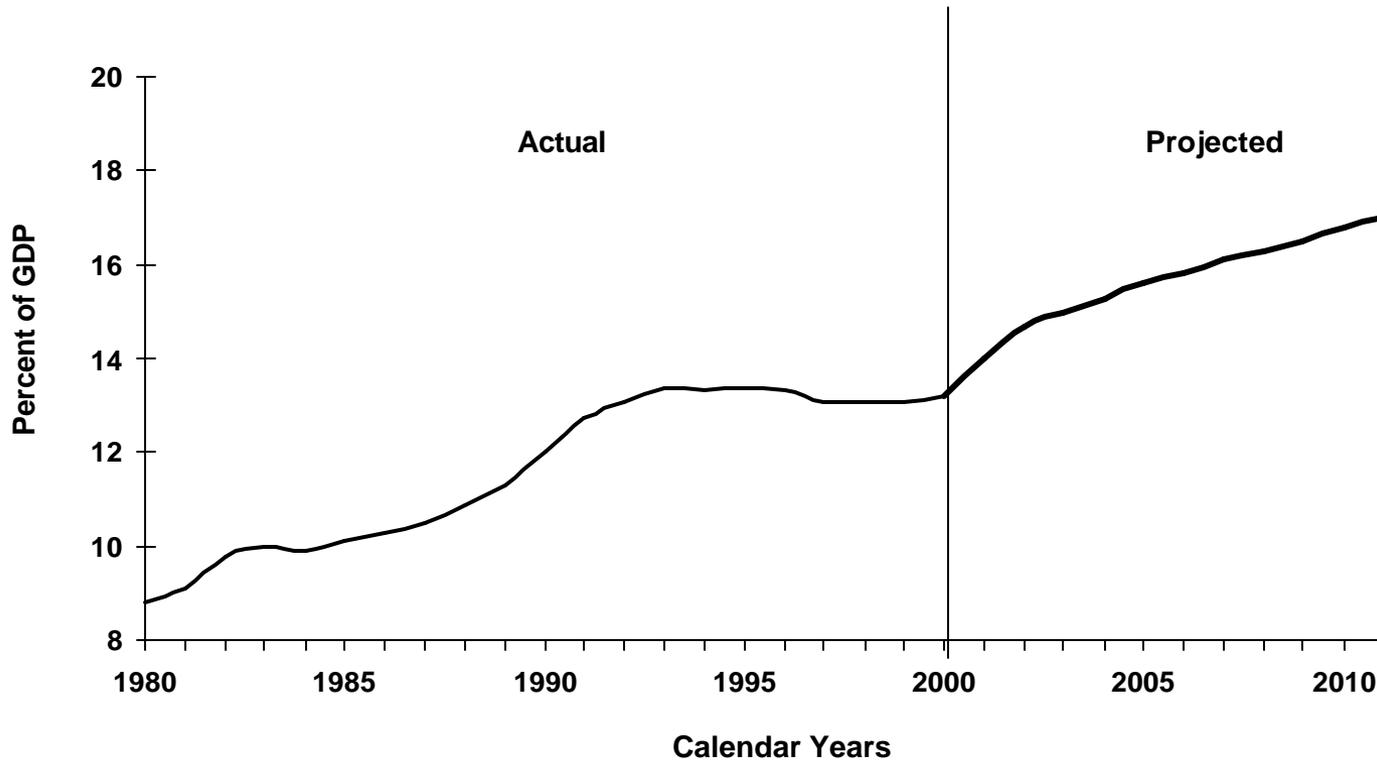
Source: 1999 HCFA Data Compendium

National Health Expenditures as a Share of Gross Domestic Product (GDP)



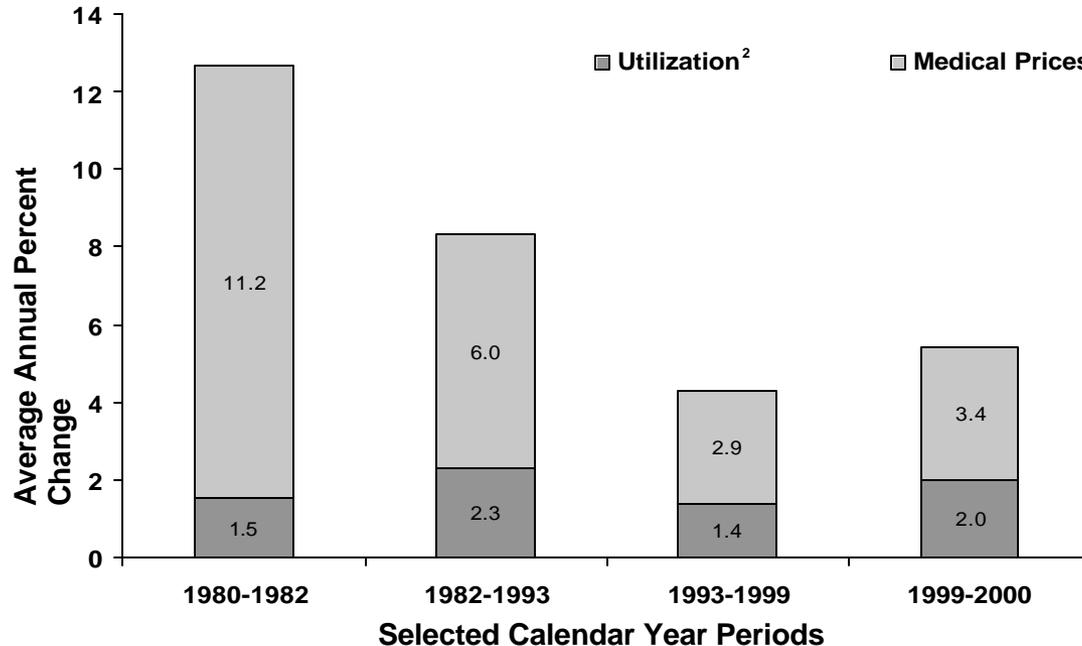
Source: CMS, Office of the Actuary, National Health Statistics Group.

National Health Expenditures as a Share of Gross Domestic Product (GDP)



Source: CMS, Office of the Actuary, National Health Statistics Group.

Factors Accounting for Growth in Personal Health Care¹ Expenditures Per Capita



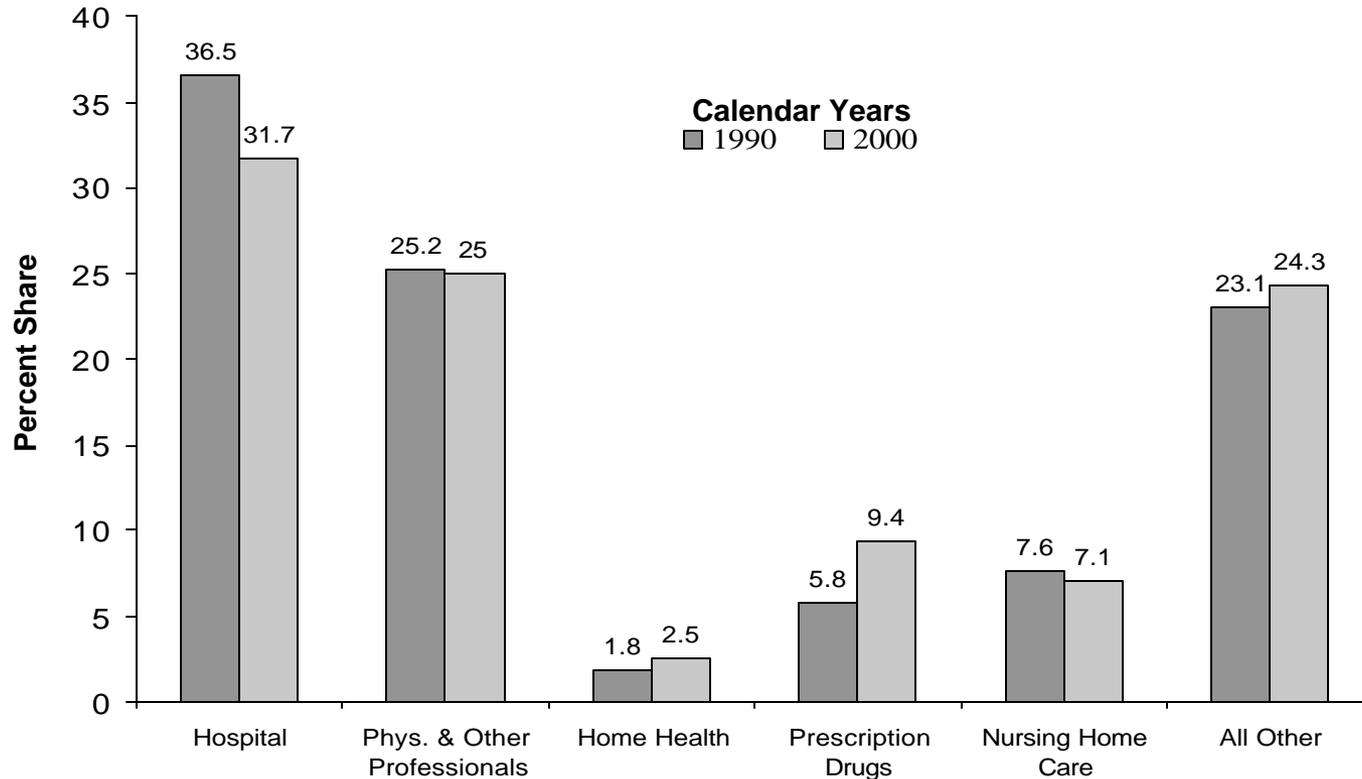
¹ Personal health care spending comprises therapeutic goods or services rendered to treat or prevent a specific disease or condition in a specific person.

² Utilization includes quantity, quality, and mix of services. As a residual, this factor also includes any errors in measuring prices or total spending.

Note: Medical prices are calculated using the personal health care chain-type index constructed from the producer price index for hospital care, nursing home input price index for nursing home care, and consumer price indexes specific to each of the remaining personal health care components.

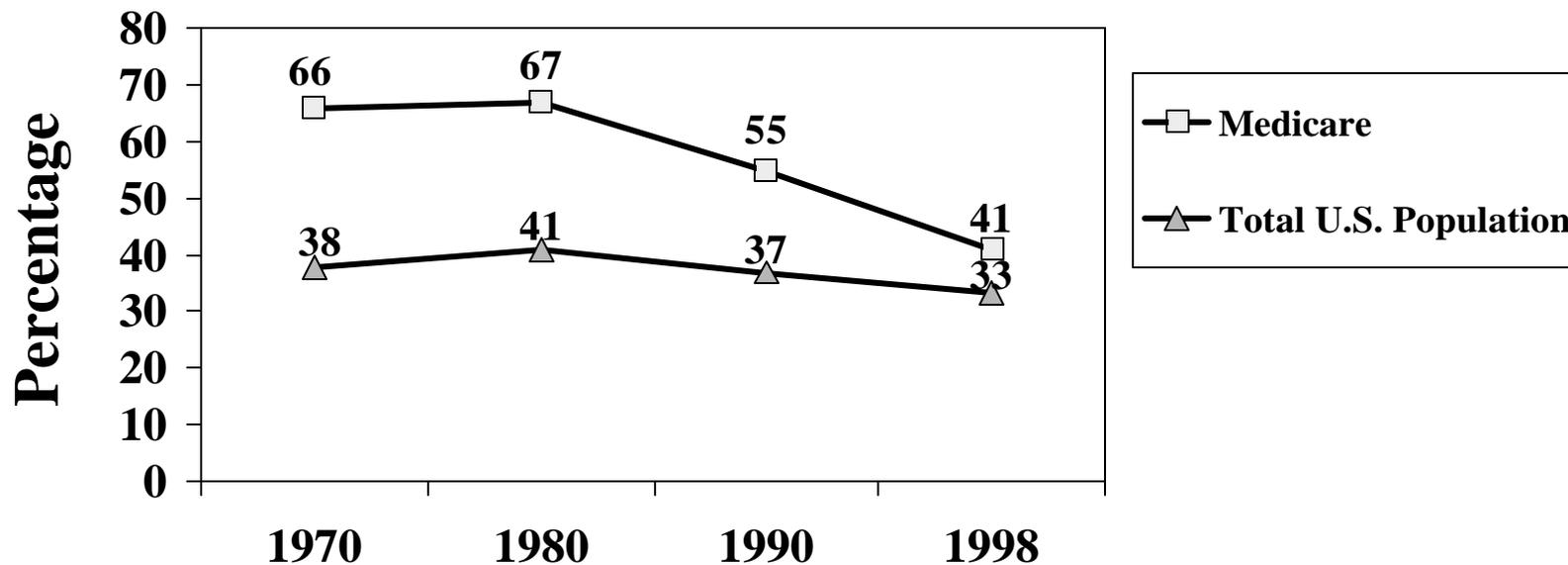
Source: CMS, Office of the Actuary, National Health Statistics Group.

Expenditures for Health Services, by All Payers



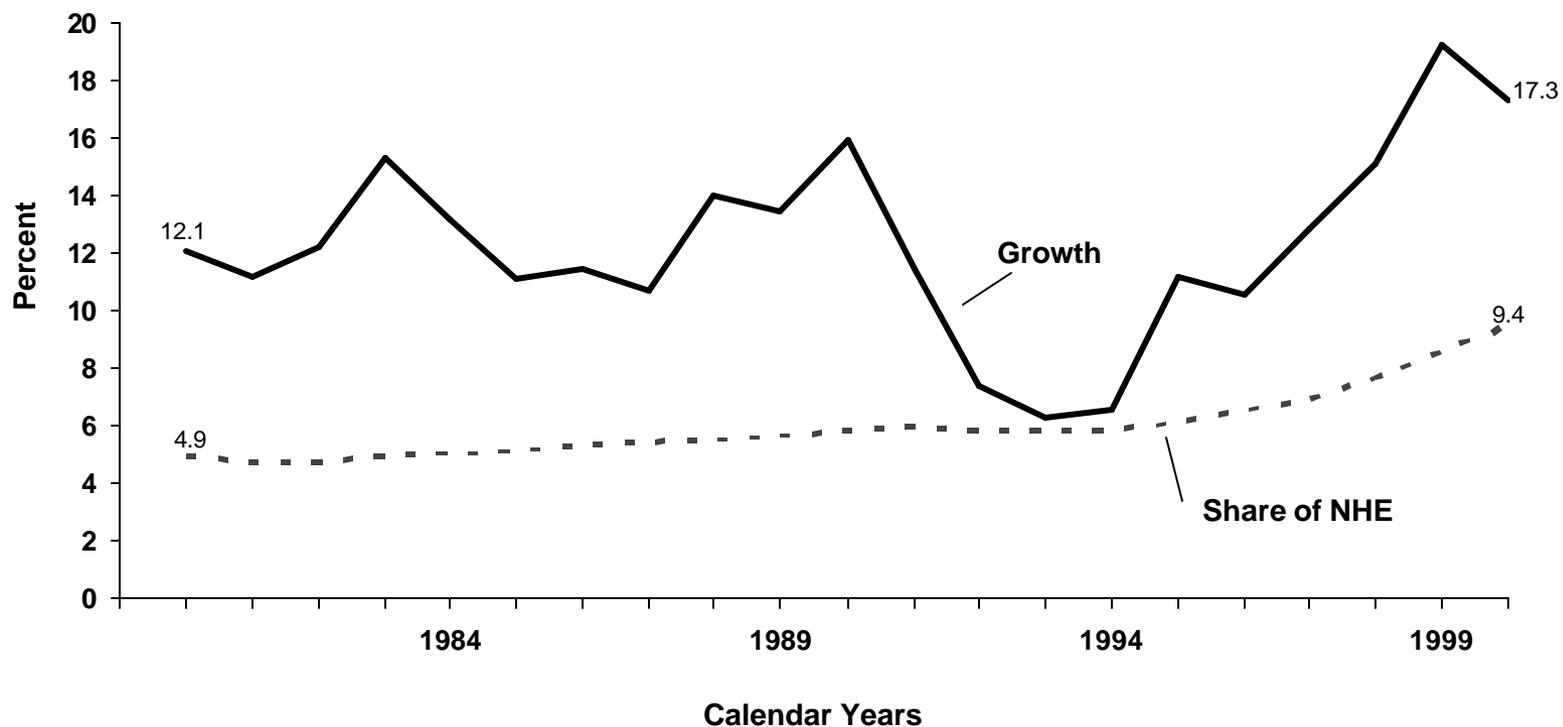
Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

U.S. Health Care Spending: % For Inpatient Treatment



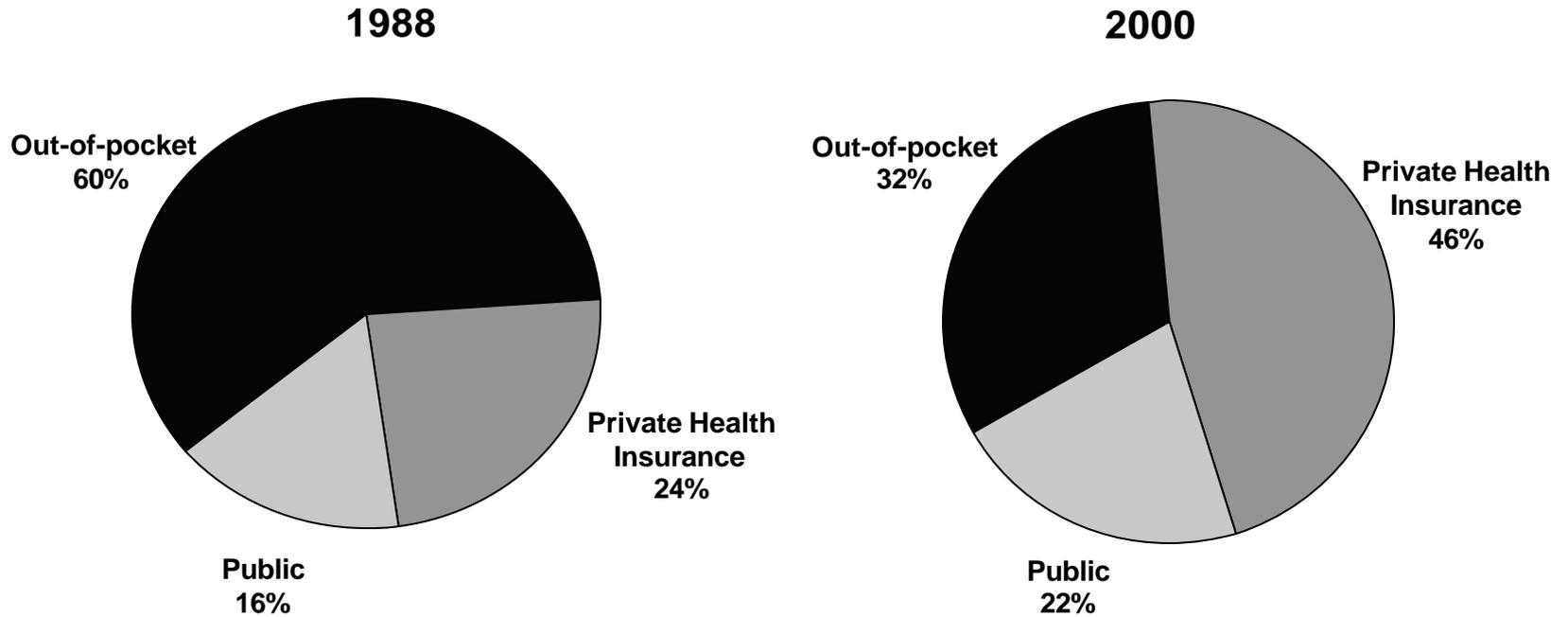
Source: 1999 HCFA Data Compendium; Levit et. al. 21 Health Affairs 172 (2002)

Prescription Drug Expenditure Growth and Share of National Health Expenditures



Source: CMS, Office of the Actuary, National Health Statistics Group.

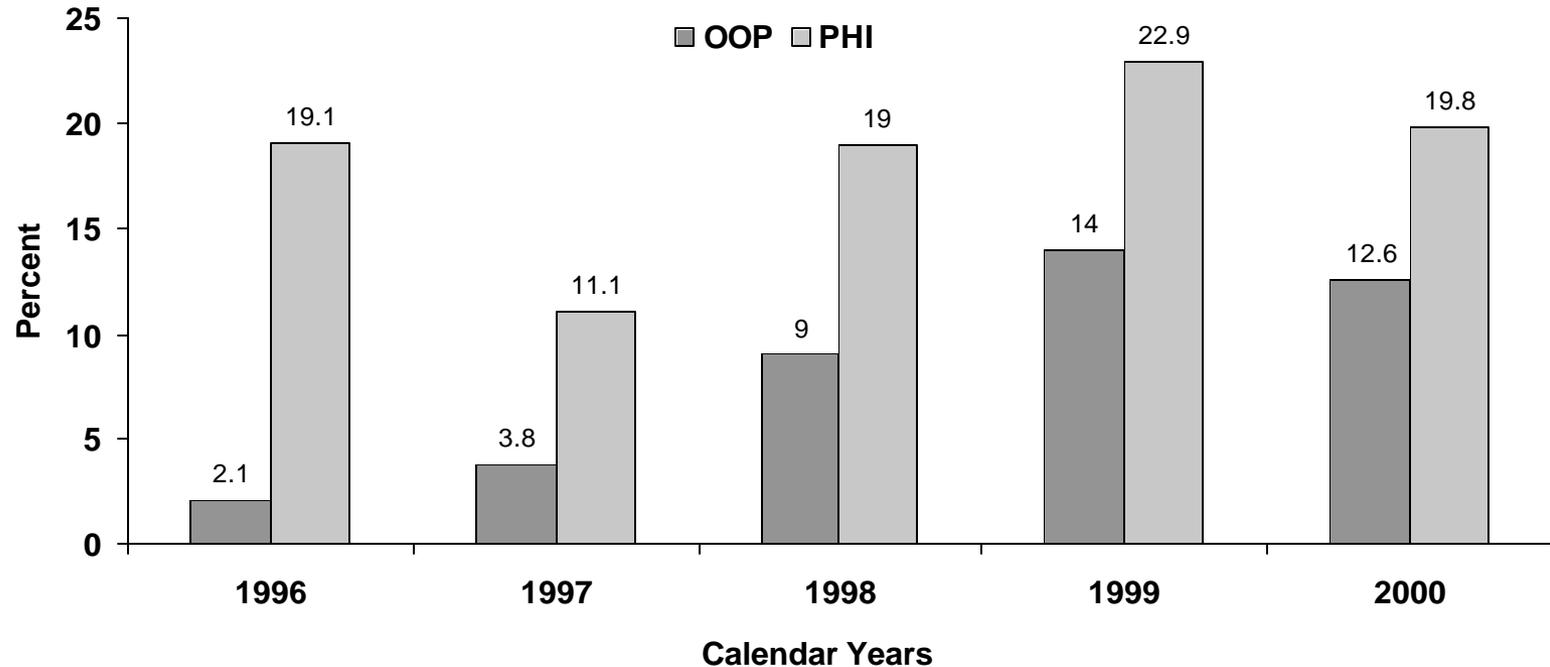
Expenditures for Prescription Drugs, by Source of Funds



Note: Data are Calendar Year.

Source: CMS, Office of the Actuary, National Health Statistics Group.

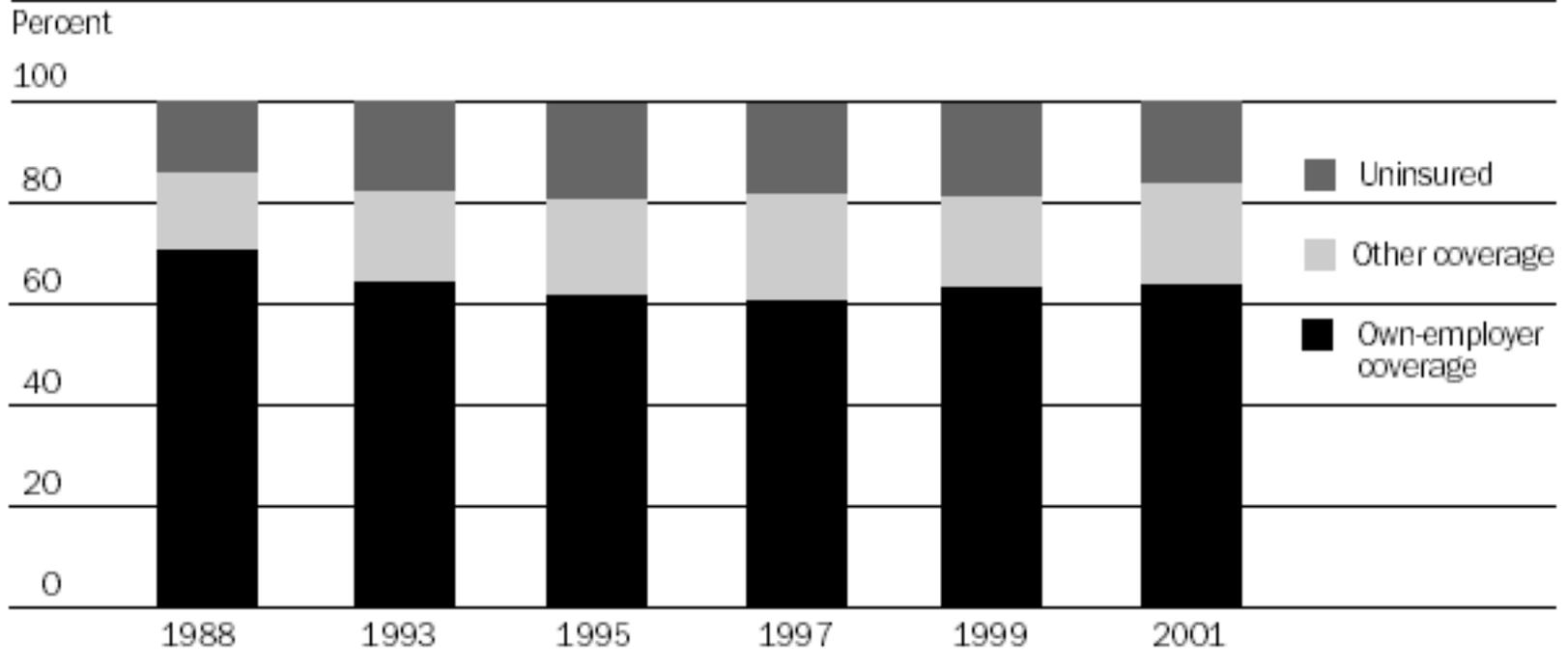
Growth in Prescription Drug Out-of-Pocket and Private Health Insurance Spending



Source: CMS, Office of the Actuary, National Health Statistics Group.

Coverage: How are we doing?

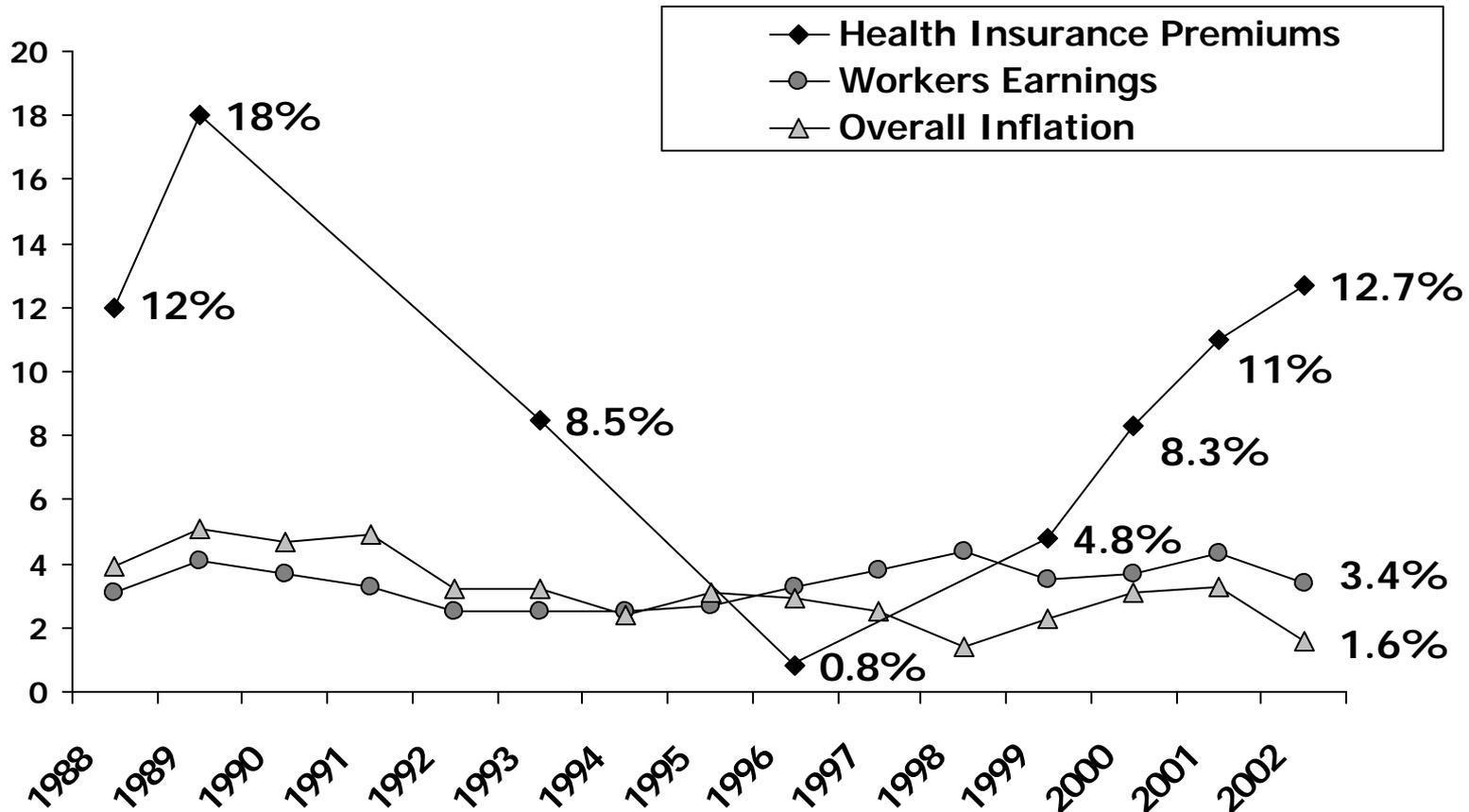
EXHIBIT 2**Sources Of Health Insurance For Wage And Salary Workers, Selected Years
1988-2001**



- Source: Paul Fronstin, Trends in Health Insurance Coverage: A Look at Early 2001 Data, *Health Affairs* (Jan./Feb. 2002)

Chart #1

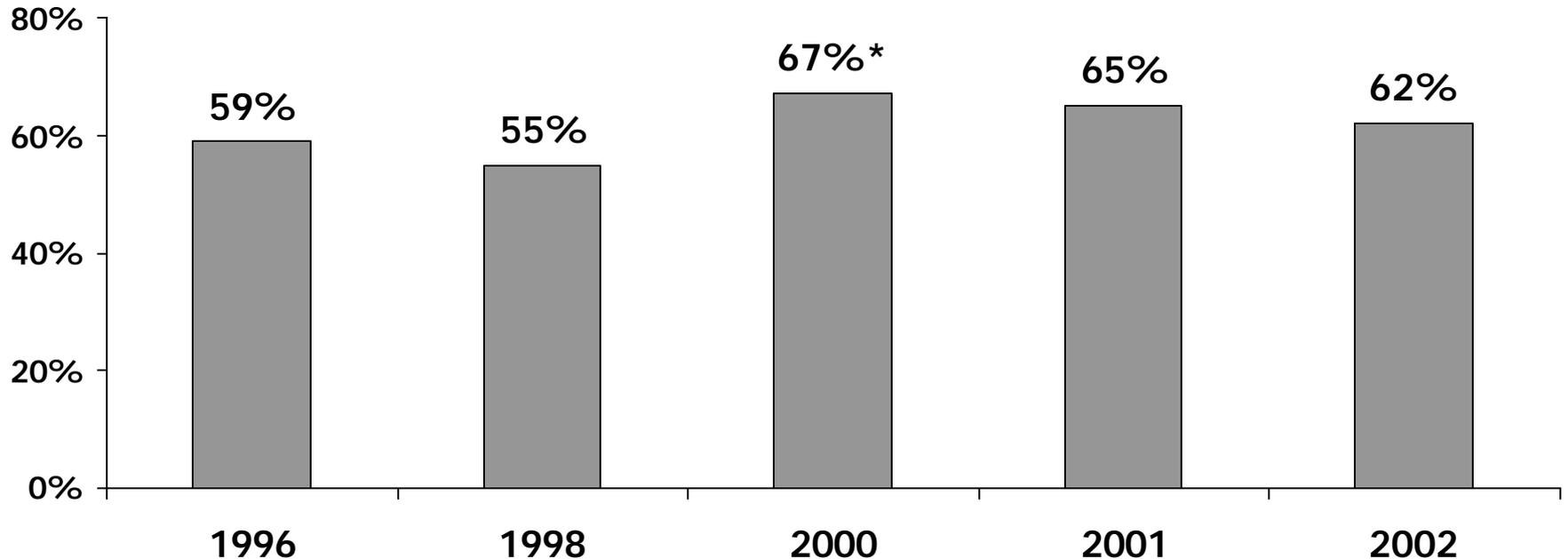
Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2002



Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

Percentage of All Firms Offering Health Benefits, 1996-2002

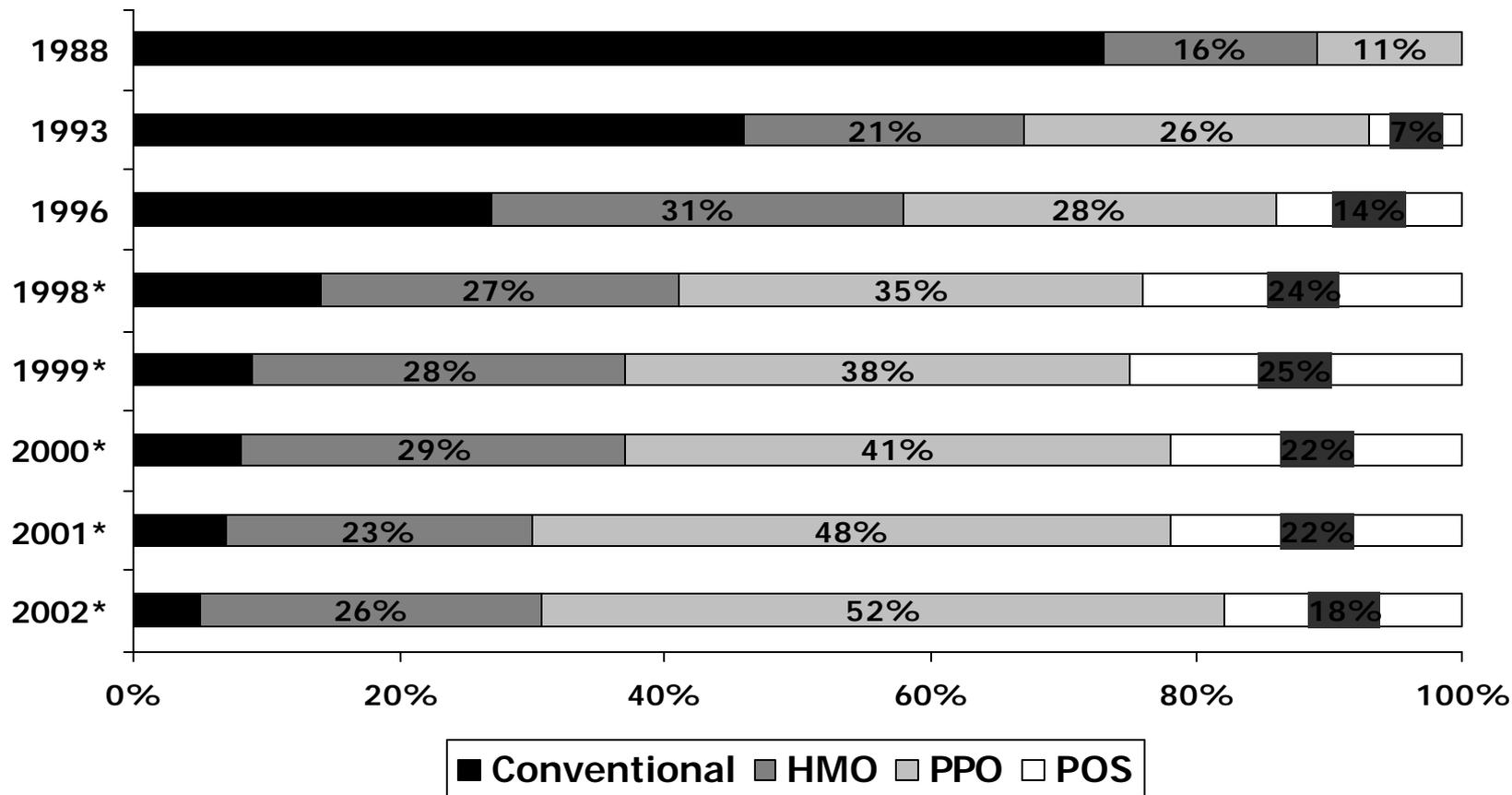


* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

Chart #7

Health Plan Enrollments for Covered Workers by Plan Type, 1988-2002

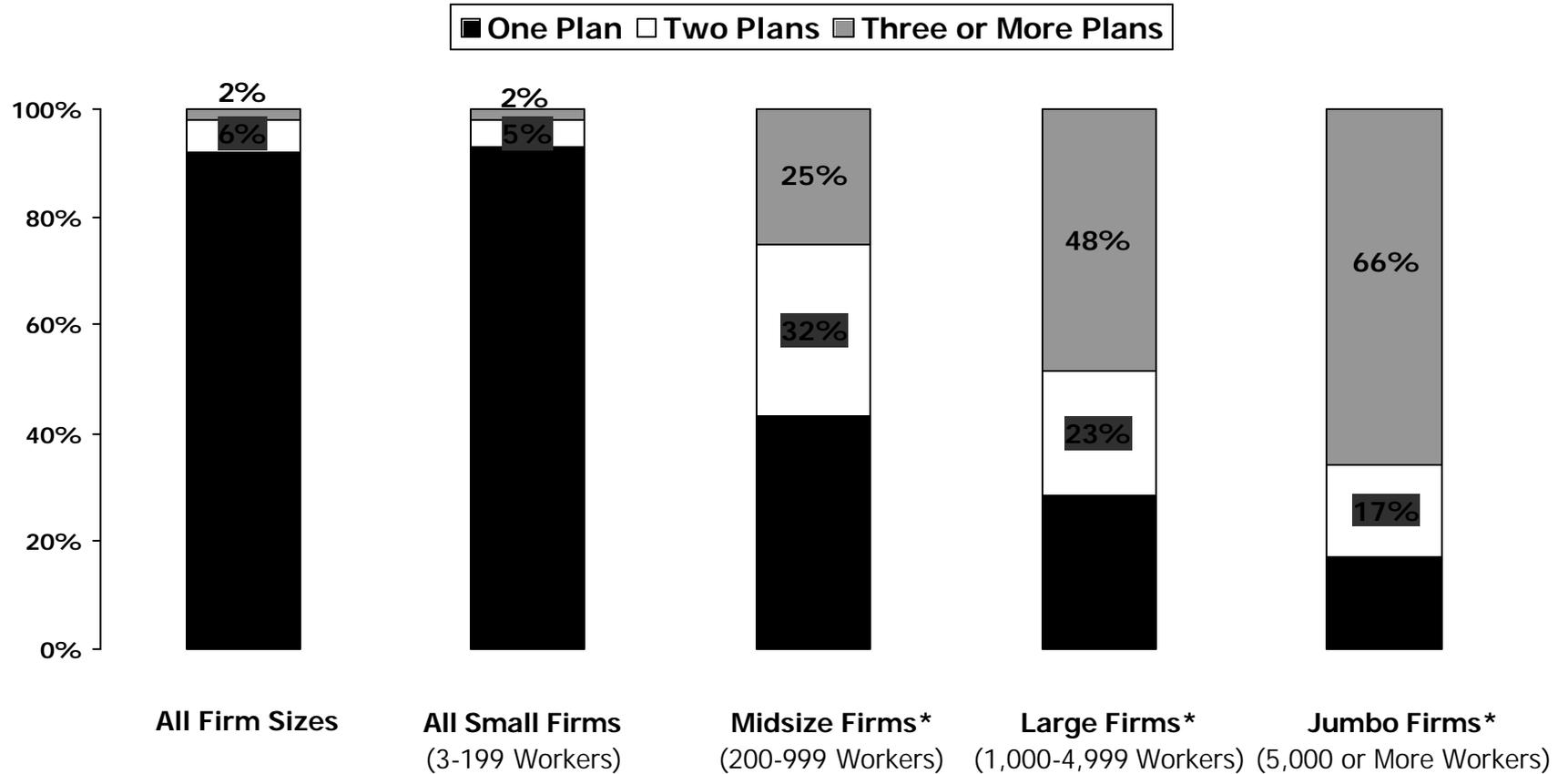


* Distribution is statistically different from the previous year shown: 1996-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2002.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

Chart #8

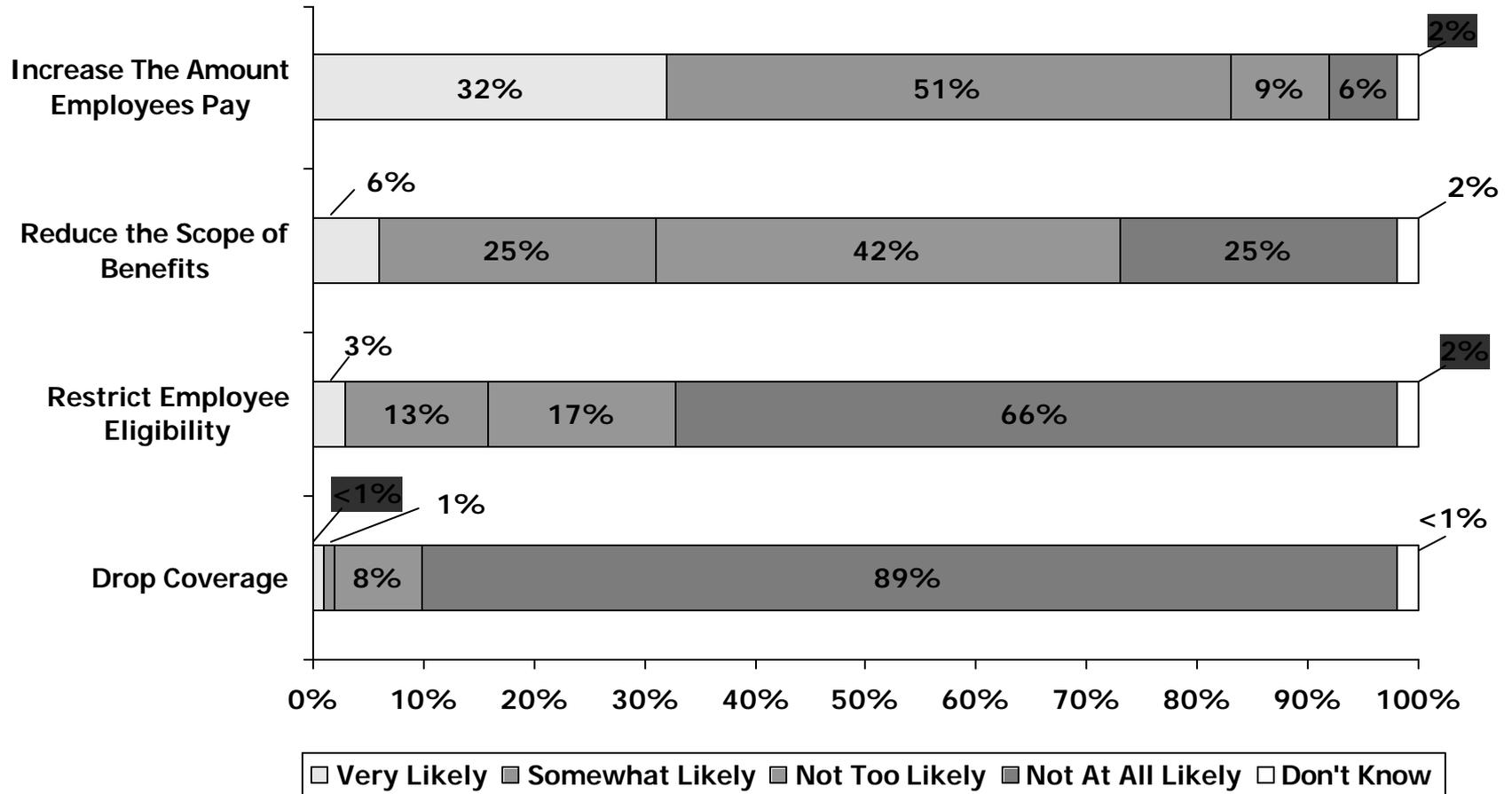
Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2002



* Distribution is statistically different from All Firms.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

Likelihood of Large Employers Making the Following Changes to Employer Health Benefits If the Economic Downturn Continues, 2002



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

Trend toward Defined Contribution Plans?

- Options
 - “Pure” Defined Contribution
 - MSAs
 - Broader, More Flexible but More Shallow Coverage
- Co-insurance vs. Copayment

Policy Tradeoffs

- Adverse Selection vs. Cost-Conscious Employee Purchasing
 - Administrative Complexity vs. Greater Consumer Choice
 - Diminished Cross-Subsidies vs. Forced Purchase of “Gold-Plated” Coverage
 - Diminished Access vs. Entitlement Mentality
- Source: James C. Robinson, Renewed Emphasis on Cost-Sharing in Health Insurance Benefit Design, *Health Affairs* Web Exclusive (2002)

Quality: How are we doing?

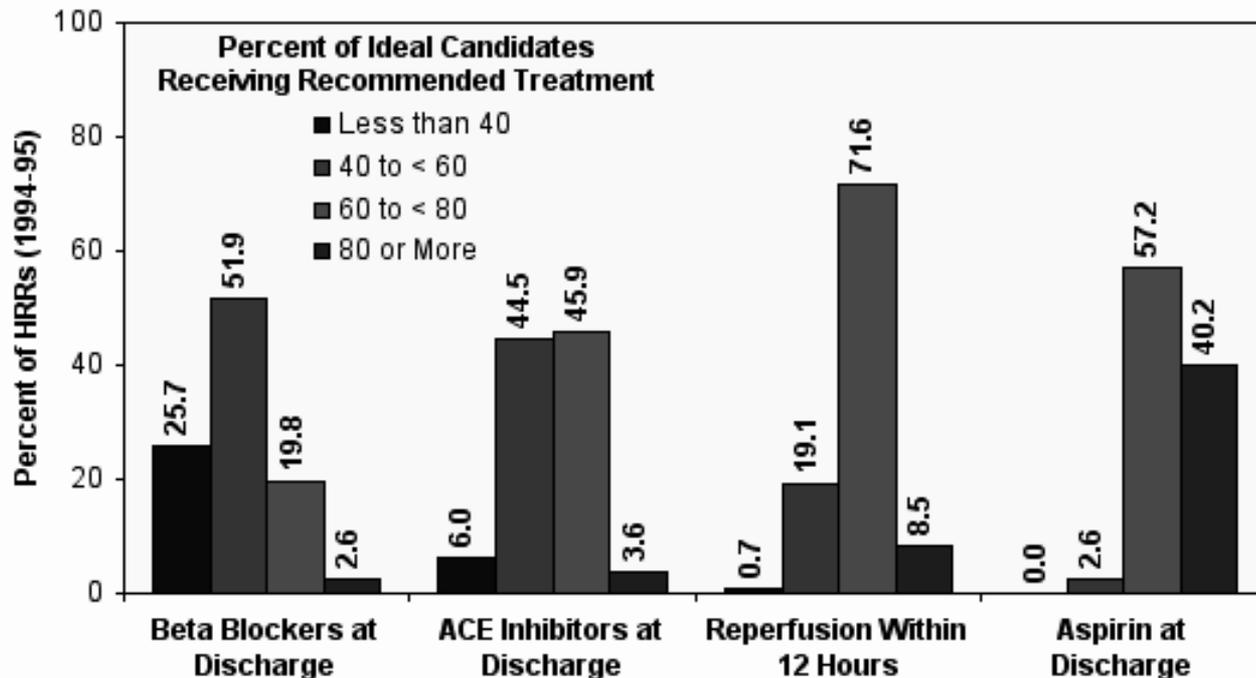
- Safety
- “Appropriateness”

PATIENT SAFETY

- IOM “Extrapolation”: 44,000 – 98,000 deaths from medical errors in 1997
- 7000 deaths annually from medication errors
- Total National Costs of Preventable Adverse Events: \$17 billion - \$29 billion annually

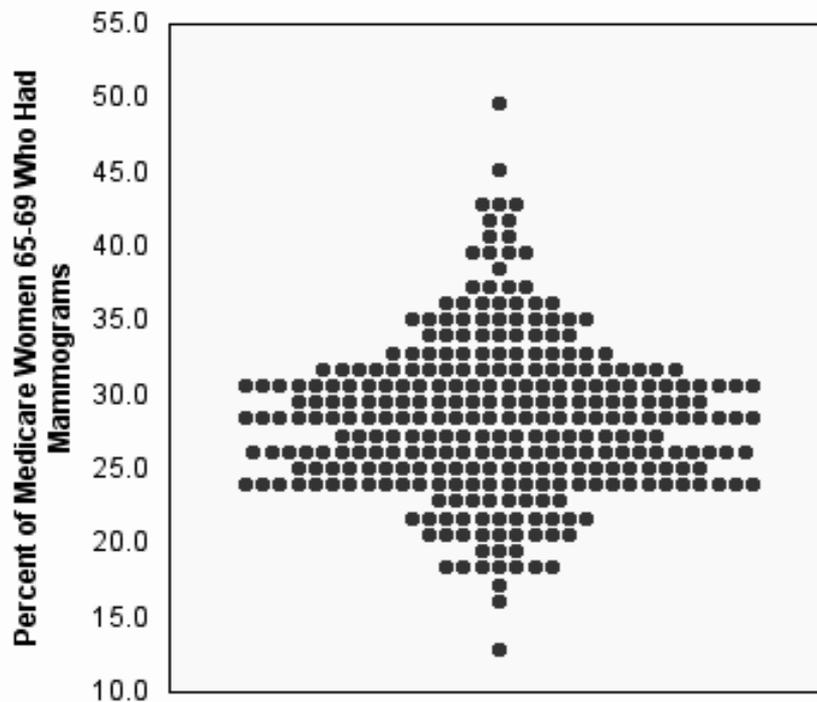
- **Source: Institute of Medicine, To Err is Human: Building a Safer Health Care System (2000)**

Regional Variation in Optimal Treatment for AMI (1994-95)

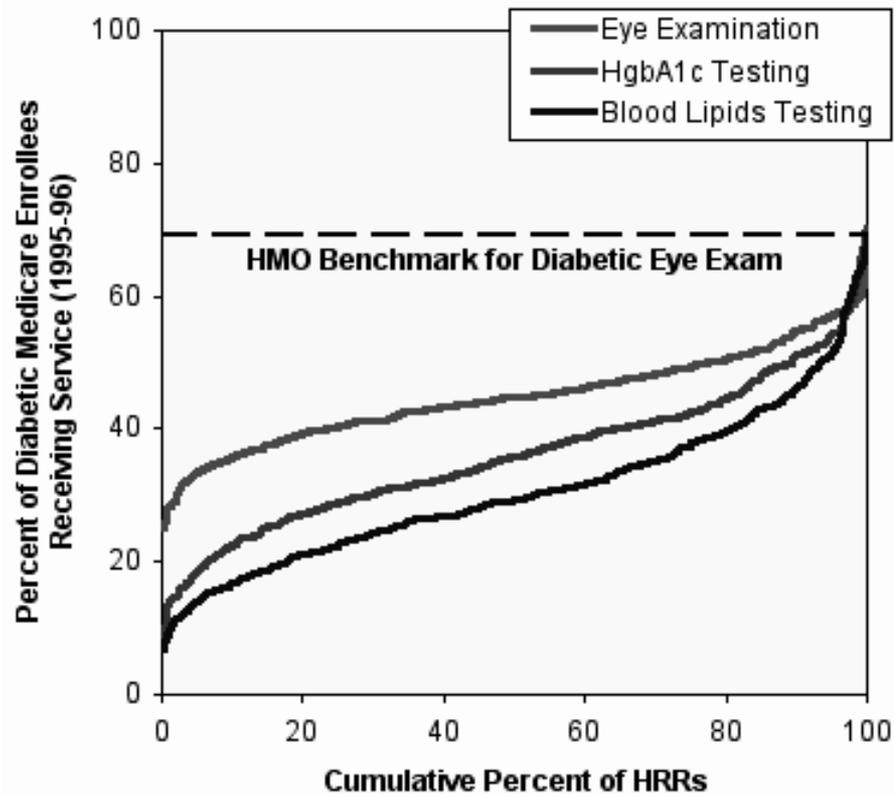


Dartmouth Atlas of Health Care 1999, Figure 7.3.

Percent of Medicare Women 65-69 Who Had Mammograms

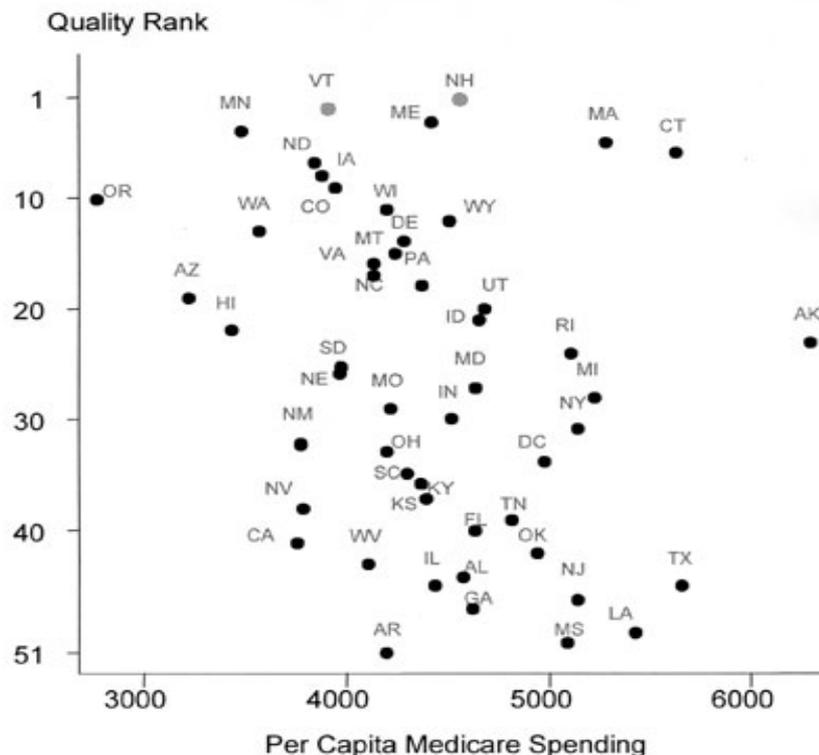


Percent of Diabetic Medicare Enrollees Receiving Service (1995-96)



Per-Capita Medicare Spending and Quality of Care

Figure: Per Capita Medicare Expenditures and Quality of Care



E. Fisher & J. Skinner, Comparing the Health Care of the States (More Spending Doesn't Help) Providence (R.I.) Journal-Bulletin, March 17, 2001

Provider Supply and Utilization

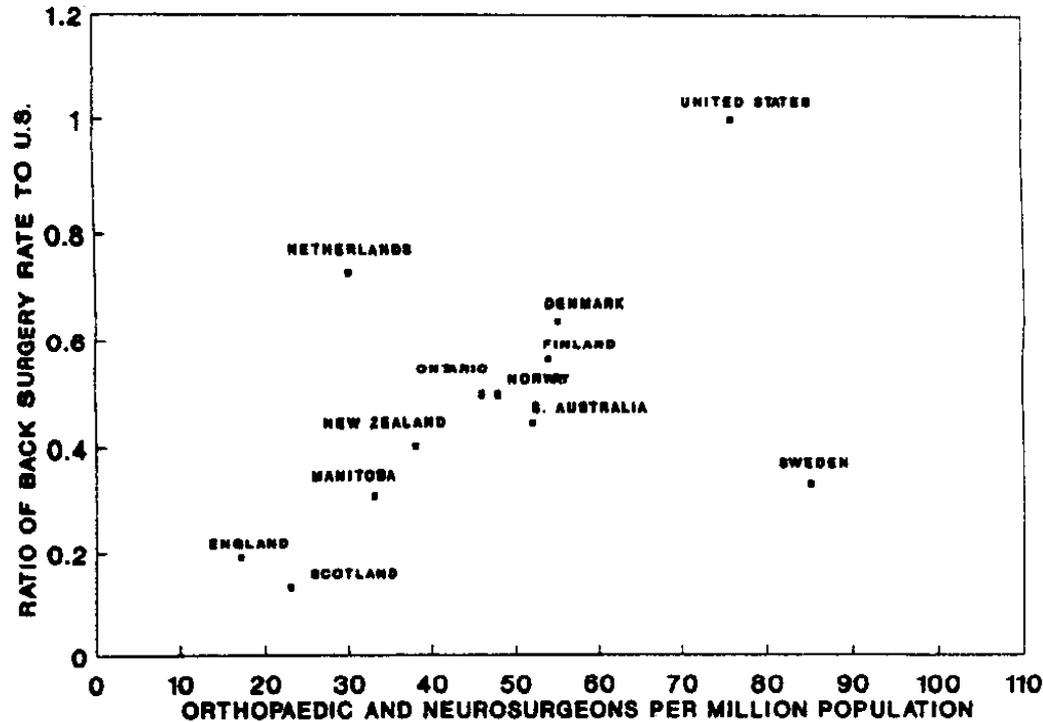


Figure 2. Relationship between relative supply of orthopedic surgeons and neurosurgeons in a country and that country's back surgery rate.

CHALLENGES FOR COMPETITION POLICYMAKERS

CHALLENGE #1: MARKET STRUCTURE [COST]

- Geography
- Demographics
- Differentiated Products
- Technology Growth

CHALLENGE #2: POLITICAL STRUCTURE [COST]

- Conflicting Expectations
- “Accountable” Regulators
- Regulatory and Enforcement Structure
 - Federalism
 - Separation of Powers

CHALLENGE #3: COVERAGE

- Uncooperative, Unpredictable Markets
- Insurance, Information and Risk
- Risk Adjustment

CHALLENGE #4: REWARDING QUALITY

- The Quality/Cost/Coverage Connection
 - Costly Errors
 - Overuse, Underuse, Misuse
- Medical Uncertainty
- Provider Information
- Focus on Systems

CHALLENGE #4 (CONTINUED)

- Can Markets Reward Quality?
 - Demonstrable Differentiation
 - Information Flow
 - Choice/Accountability
- Market Achievements
- Policy Opportunities

