

# **Health Policy 201– Health care finance**

Ellen Andrews, PhD  
CT Health Policy Project  
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Throwing money at a problem has a bad rap – it's like  
firefighters throwing water on a fire

-- Rep. Barney Frank

We can't afford any more of your savings.

-- OPM staffer

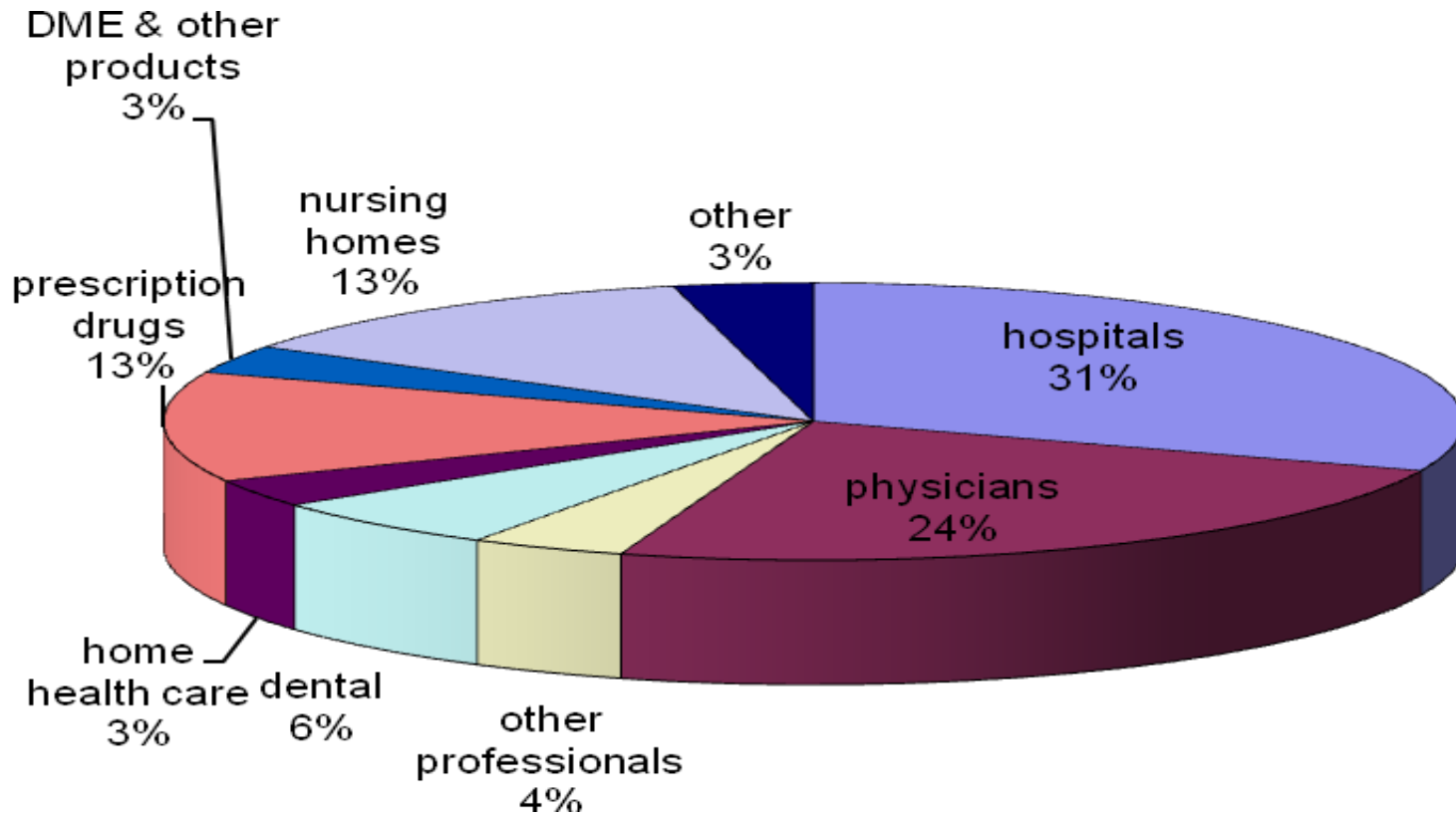
# health care not like other sectors

- Consumers don't see the full bill – no “skin in the game”
- Moral hazard
- Adverse selection
- Nearly impossible to price shop
- Providers drive demand
- Insurance spreads the costs
- But we pay the full bill – taxes, lost wages, out of pocket

# health care not like other sectors

- Expanding supply is expensive and highly regulated
- Strong incentives to “blow leaves onto others’ lawns” = cost shift
- Tax incentives make buying more health care more attractive than wages
- Essential spending – consumers in need will prioritize
- Easier to ignore/delay costs when healthy

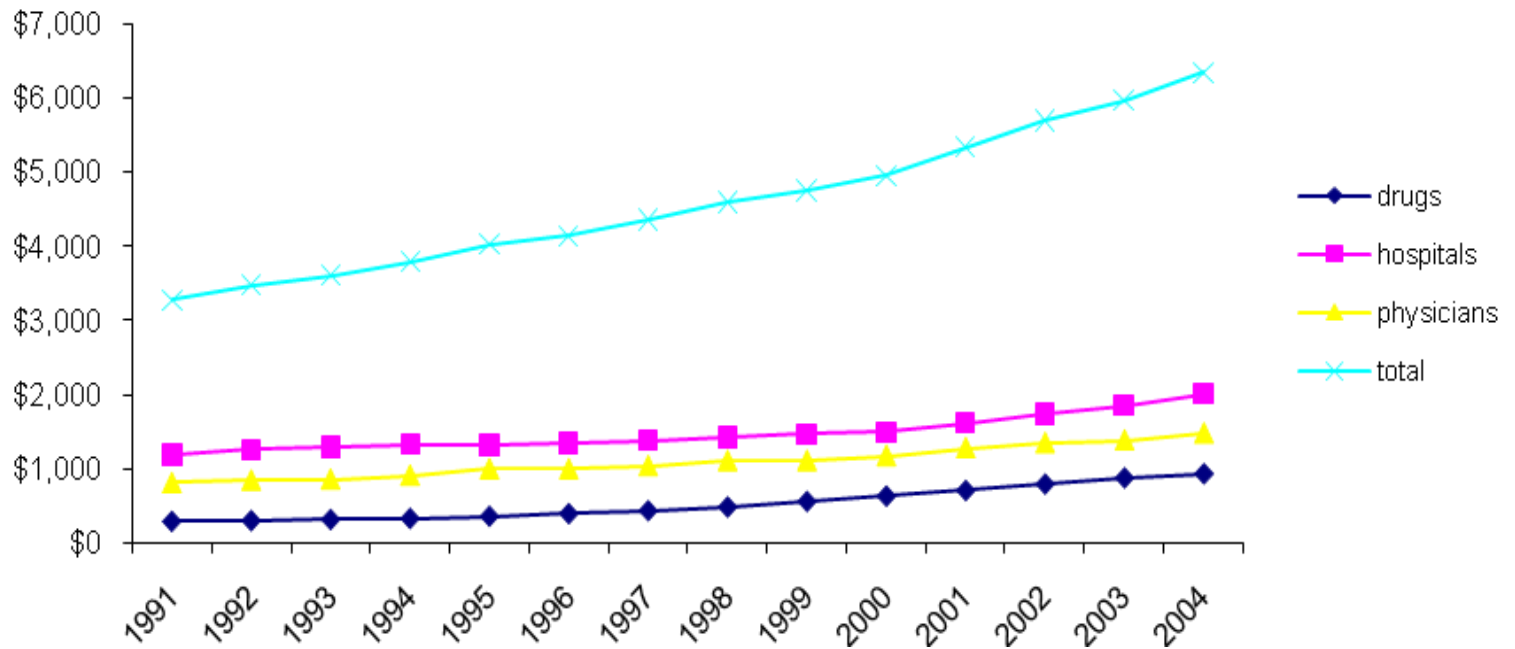
# where do CT health care dollars go?



Source: 2004 CMS National Health Accounts

# trends

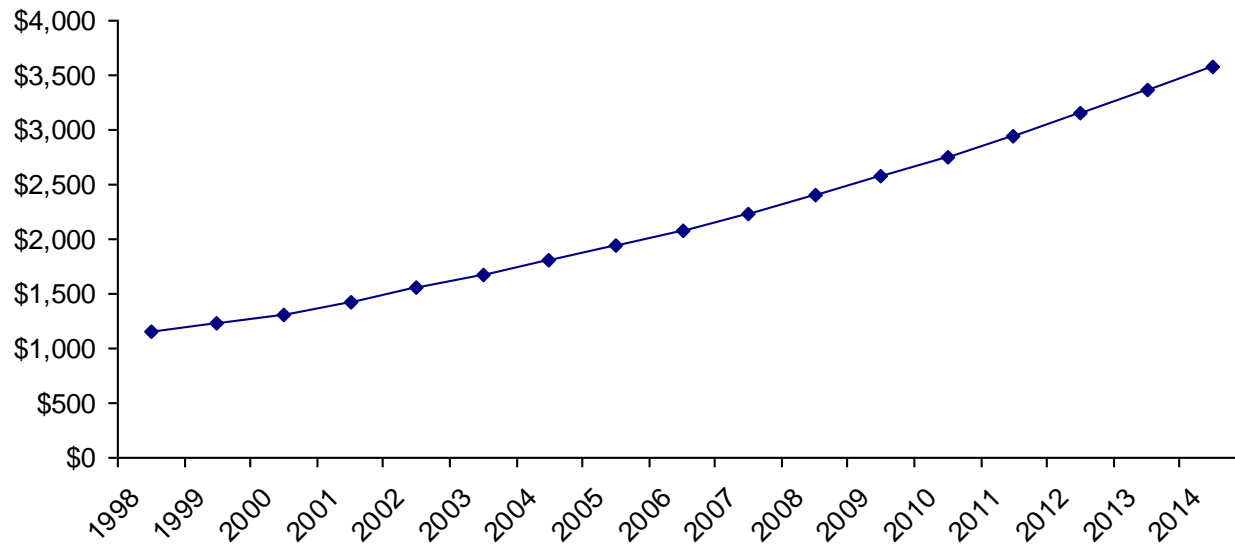
CT per capita health spending



Source: CMS National Health Accounts

# it is going to go up

## US health care spending projections



Source: CMS

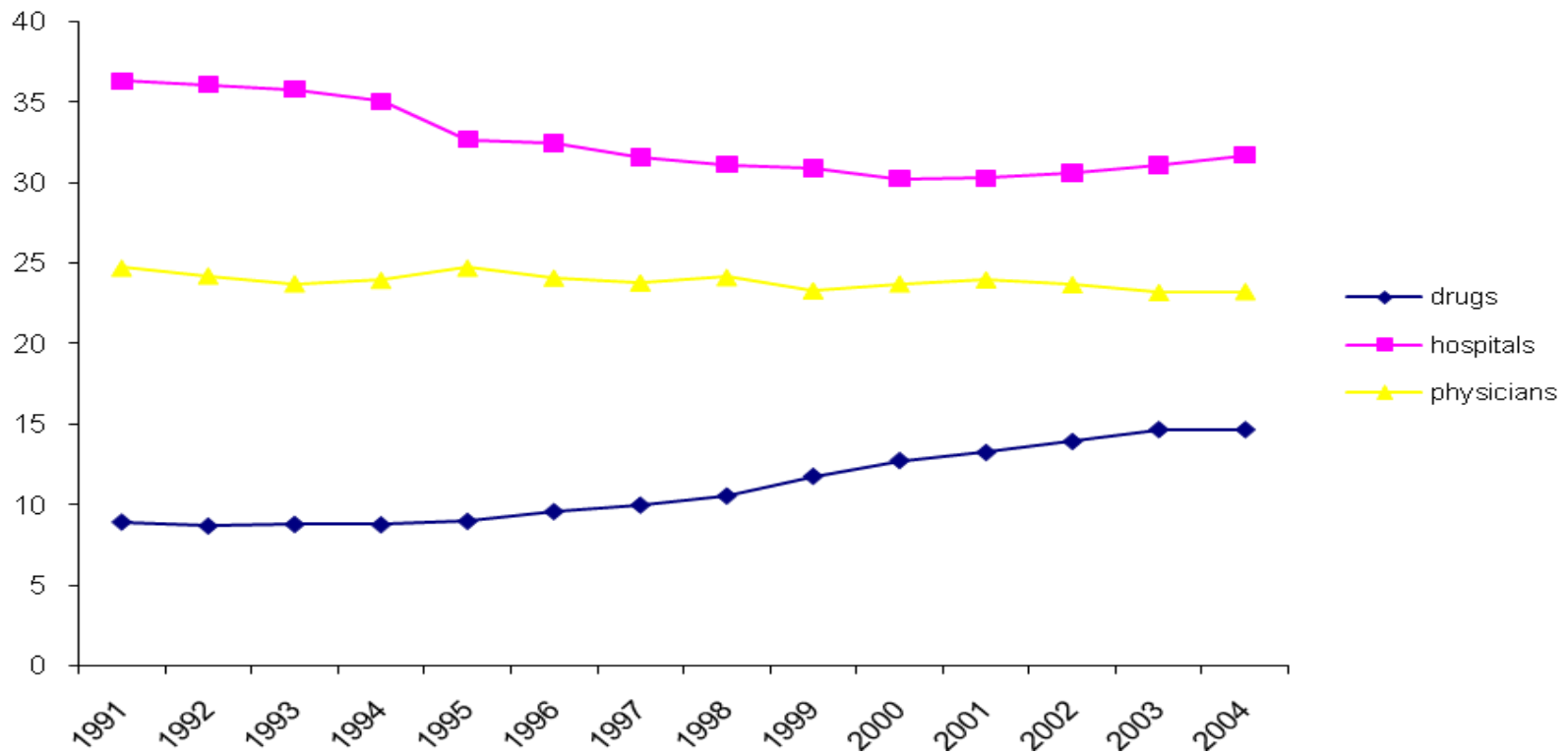
# cost drivers

- New technology
- Prices
- Utilization
- Rising incomes
- Ownership interests, incentives
- Fragmentation of system
- Tax subsidies
- Aging population



# trends

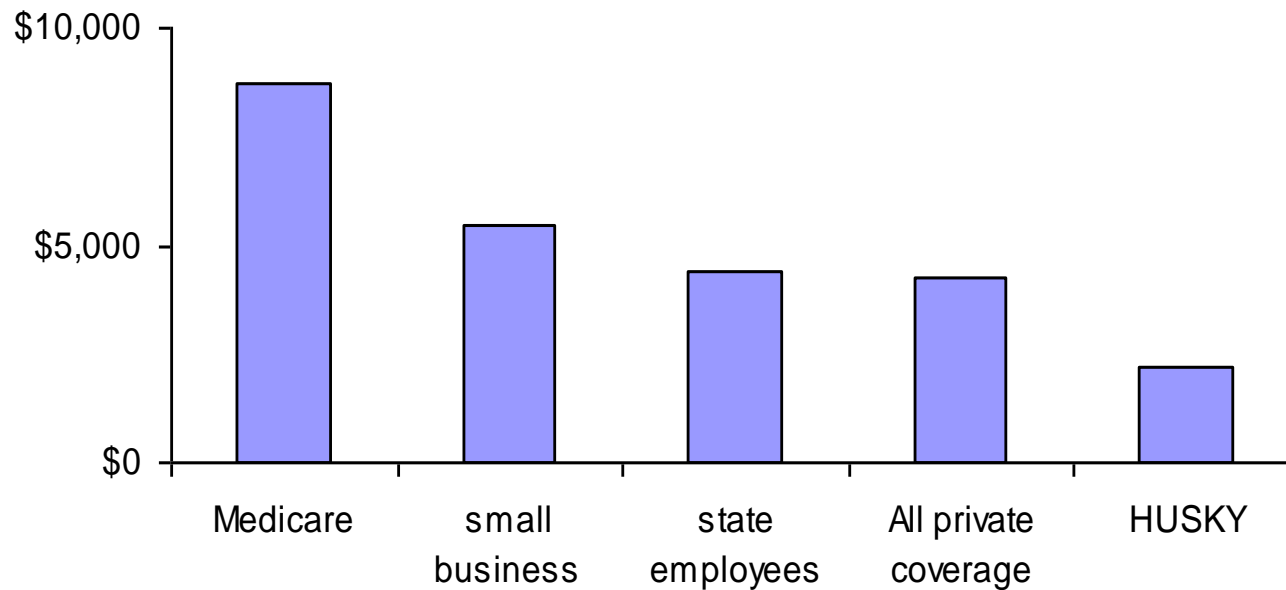
CT spending as % of total, per capita



Source: CMS National Health Accounts

# not all pay/cost the same

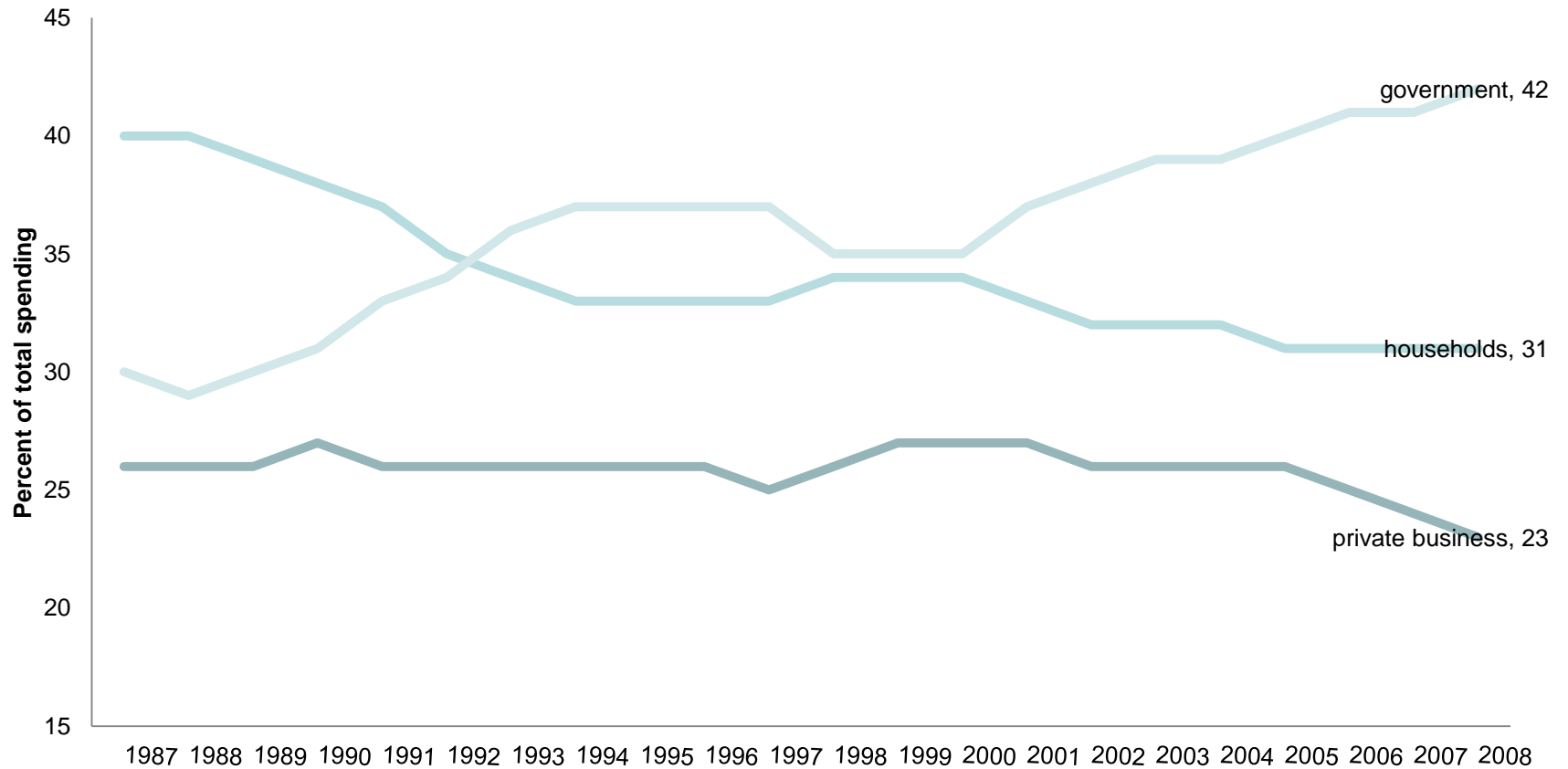
**CT premiums, per person, 2005**



Source: CMS, MEPS, State Comptroller, DSS, OHCA

# who pays?

## US health spending, by payer



Source: CMS National Health Accounts

# burden of health care costs

- Employer costs steady at 7.9% of compensation (2008)
- Households up from 4.9% of personal income in 1987 to 5.9% in 2008
- Federal government spent 36% of revenues on health care in 2008, up from 17% in 2000
- State and local government spending steady at 24% (2008) of revenues

# how providers are paid

- Fee for service
- Capitation
- Bundled payments
- Performance-based payment
- Salary
- Investor
- Global budgets

# payment reform

- Transparency
- “Never events”
- Quality incentives – pay for performance
- Tier and steer
- Consumer incentives, wellness, risk assessments
- Shared savings
- Capitation – bundles and global rates

- It's no use carrying an umbrella, if your shoes are leaking.
  - Irish saying about money

# comparative effectiveness research

- We are being over-treated
- It is harming our health
- Less is more
- Very little science backs up health care treatments
- Most Americans believe more is better and are suspicious of CER
- \$1.1 billion for CER in federal stimulus package
- Not rationing, will improve health