Addressing Prices to Improve Value

Sherry Glied
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Outline

- The US healthcare system is underperforming
- It’s not waste and inefficiency
- It’s not high utilization
- It’s prices
  - We know more about options for addressing the price problem
    - Consumers
    - Public payers
    - Private payers
Per Capita spending $2000 PPP

Male Life Expectancy at 40

United States

Australia

Germany

Japan

Sweden

33 years – 73
$1700
2006

Per Capita Spending $2000 PPP vs. Male Life Expectancy at 40

- United States
- Switzerland
- Canada
- Sweden
- Australia
- New Zealand
- United Kingdom
- Netherlands
- Italy
- Sweden
- Norway
- Denmark
- France
- Germany
- Canada
- Australia
- New Zealand
- United Kingdom
- Netherlands
- Italy
- Sweden
- Norway
- Denmark
- France
- Germany
2016

Per Capita Spending $2000 PPP

Male Life Expectancy at 40

United States
39 years – 79
$7125

33 years – 73
$1700

Sweden

Switzerland

United Kingdom

Canada

Australia

Japan

New Zealand

Italy

Germany

Netherlands

France

United States

39 years – 79
$7125

33 years – 73
$1700
Something is Wrong

- Costs have grown much, much faster than elsewhere
- Quality has not
- What’s the problem?
Peter Orszag: If the US moved toward “the proven and successful practices adopted by lower-cost areas… some economists believe health care costs could be cut by 30 percent… without compromising the quality of care.”

You’ve been duped.”

According to a study of 8 countries, 25% of all U.S. hospital spending consists of administrative costs, including salaries for staff who handle coding and billing.
Why? Excess Service Use

How to Stop the Overconsumption of Health Care

by Eve A. Kerr, MD and John Z. Ayanian, MD

DECEMBER 11, 2014
Why? We Pay More

It’s The Prices, Stupid: Why The United States Is So Different From Other Countries

Higher health spending but lower use of health services adds up to much higher prices in the United States than in any other OECD country.

by Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan
How to Contain Prices – Consumers?

• Transparency – unstructured market
  – Very little use of tools, very little effect on choices, very few savings (Desai et al., 2017)

• Disclosure – FAIRHealth

• Reference pricing – highly structured market
  – Savings in lab tests, drug classes, selected elective surgeries (JC Robinson, various)
  – Limited scope, lots of effort
Consumer transparency is good in itself but nothing suggests that it will substantially change expenditures.
How to Contain Prices – Medicare?

Change in Medicare HI Payments Under ACA

- Reduction
- Original
- Post-ACA

$Billions

0 2 4 6 8 10 12 14 16


-16% -14% -12% -10% -8% -6% -4% -2% 0%

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Private Payers Follow Medicare - Physicians

[Chart showing trends in mean payments over years for different types of procedures (Private Procedures, Private Non-Procedures, Medicare Procedures, Medicare Non-Procedures).]


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Private Payers Follow Medicare - Hospitals
Public payment levels – especially for Medicare – are an important driver of private payment levels. Price containment in Medicare yields private dividends.
Prices – Private Competition

• Theory is strong but evidence is weak
• Success depends on acceptance of narrow networks
  Marketplaces ✓ Employers?
Is Competition the Answer?

Exhibit 1: Annual inpatient bed days in community hospitals, by bed size category, selected years 1975–2013

In many places, hospitals that don’t consolidate will simply close.

SOURCE Authors’ analysis of data from National Center for Health Statistics. Health, United States, 2015, Table 82 (see Note 10 in text).
What to do as Competition Fades?

- Rate setting
  - Theory??
  - Methods?

<table>
<thead>
<tr>
<th>Location</th>
<th>Health Spending per Capita</th>
</tr>
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<tbody>
<tr>
<td>Delaware</td>
<td>$8,480</td>
</tr>
<tr>
<td>Maryland</td>
<td>$7,492</td>
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<tr>
<td>New Jersey</td>
<td>$7,583</td>
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<td>$7,730</td>
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<tr>
<td>Virginia</td>
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</tbody>
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Mixing Competition and Regulation

• Price-setting for specific services and situations
  – Procedures with limited competition in market
    • Based on prices prevailing in competitive markets with geographic adjustment as needed

• Competitive bidding for marketplaces or MA coverage in less well population areas
• We spend too much for too little benefit
• It’s really tough to do better on the volume side
  – Efficiency levels – relative to the economy and other countries – are already high
  – Consumers have very limited ability to control prices
• Price containment requires public/private efforts
  – Narrow networks for private competition
  – Antitrust enforcement
  – Targeted tools where needed
    • Narrow rate setting, competition for the market
Thank you!

sherry.glied@nyu.edu