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
• 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
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%

Why Does Spending Grow?

- Technology
- Prices
- Aging

What's the Big Deal About Digital Health?
Understanding This Revolution in Healthcare
Prices and Utilization Drive Spending Growth

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 •
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
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.

Health Care Cost Institute “2019 Health Care Cost and Utilization Report”
More Markets are highly concentrated

% of MSAs with HHI over 2,500

Physicians are increasingly working for hospital systems

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