



Unit Prices for Health Care: *Why They're So High, and Ways to Bring them Down*

Chapin White, RAND

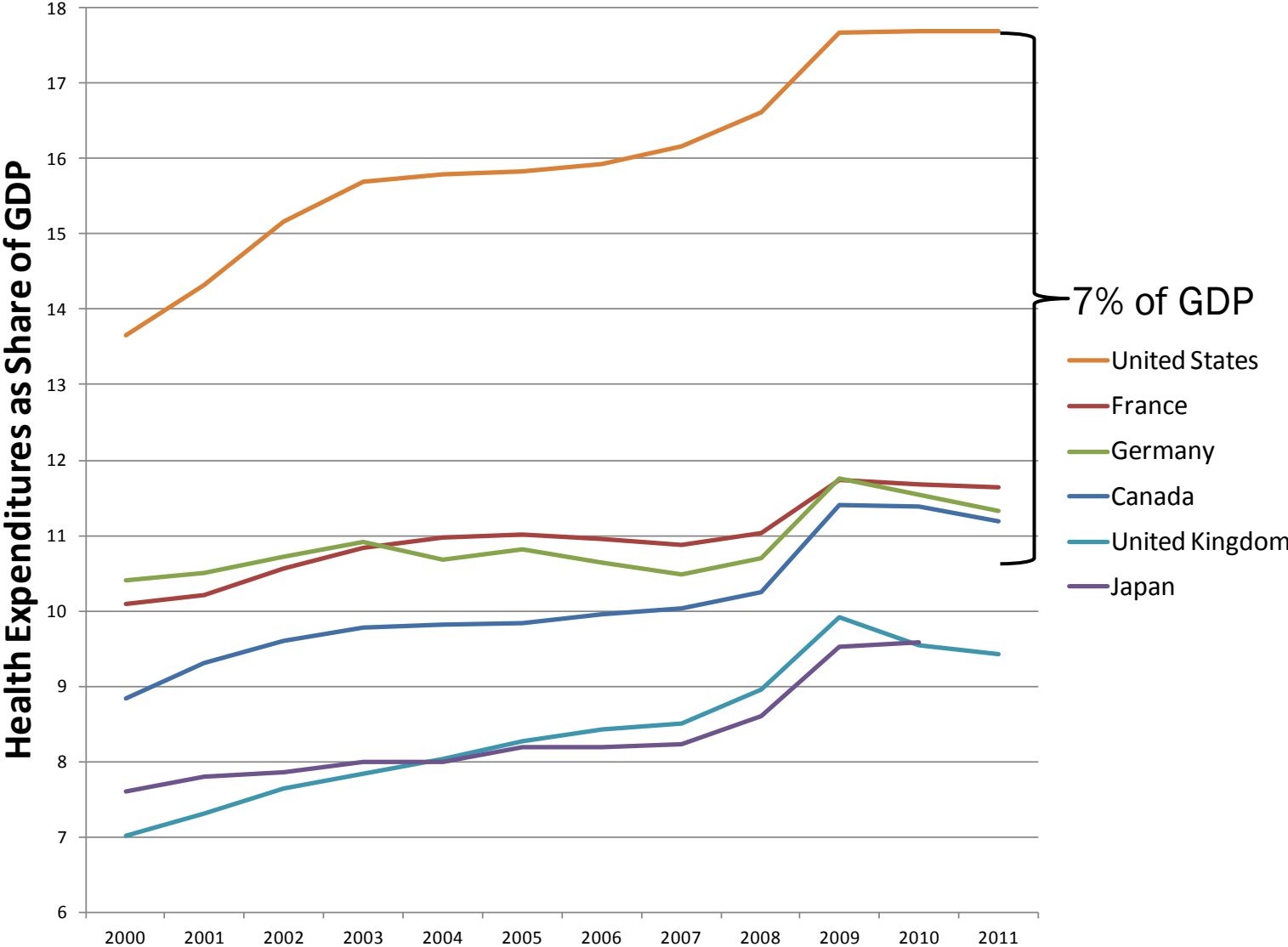
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ConsumersUnion Health Care Value Hub

November 6, 2015



How Big is the Spending Problem?



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$$7\% * 18.0T / 321m$$
$$=$$
$$\$3900 \text{ per person}$$

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=

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=

higher taxes, premiums, out-of-pocket
lower wages

Why is the U.S. So Different?

- Aging
- Obesity/drinking/smoking
- Technology
- Malpractice
- Unit prices
- Administrative costs

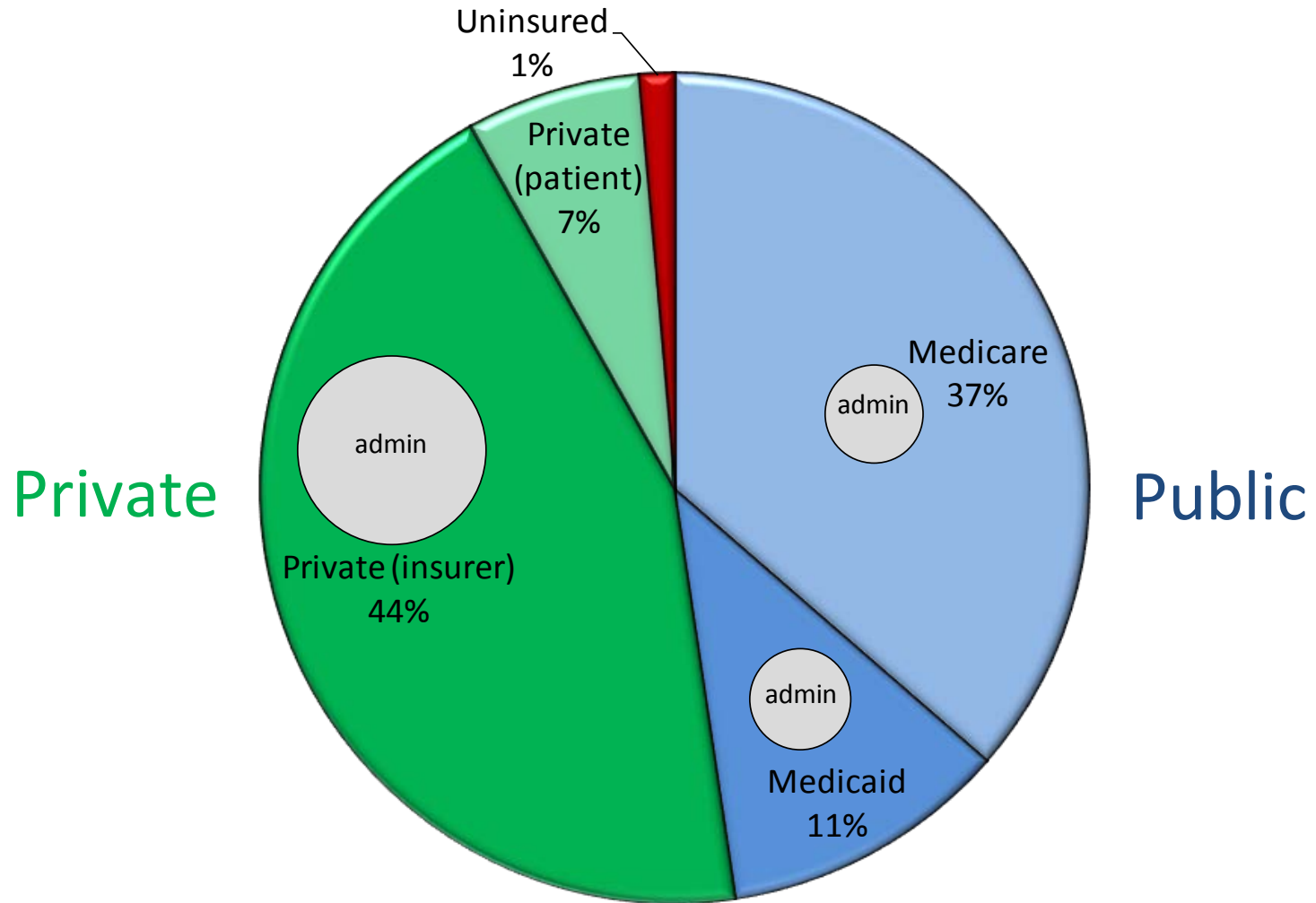
Why is the U.S. So Different?

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“Unit Prices”

- Definition: payment per unit of service
 - includes out-of-pocket payments by patient and payments by health plan
- How related to total health care spending?
 - $S = nQP(1+a)$
 - total health care spending equals the product of:
 - population (n),
 - quantity of services per person (Q)
 - unit prices (P)
 - administrative loading (1+a)

The Health Care Pie



Health Spending by Patient's Primary Source of Coverage, 2013

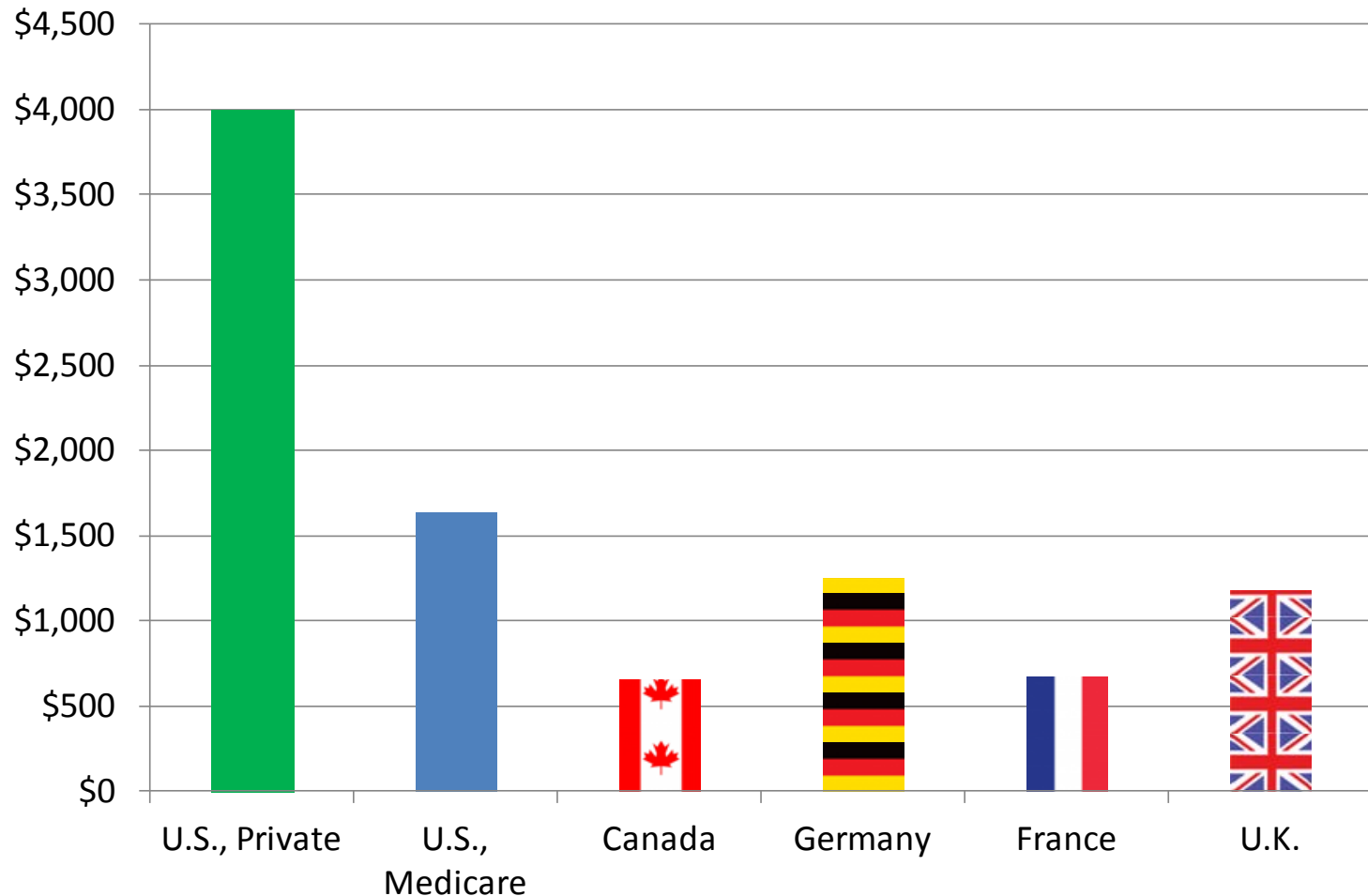
Source: Author's calculations using National Health Expenditures and MEPS-NHEA.

Who Sets These Prices?

- Medicare
 - formulas specified by U.S. Congress/CMS
- Medicaid
 - state legislatures/governors/health plans
- Privately insured
 - health plans negotiate with providers

How Bad is the Price Problem?

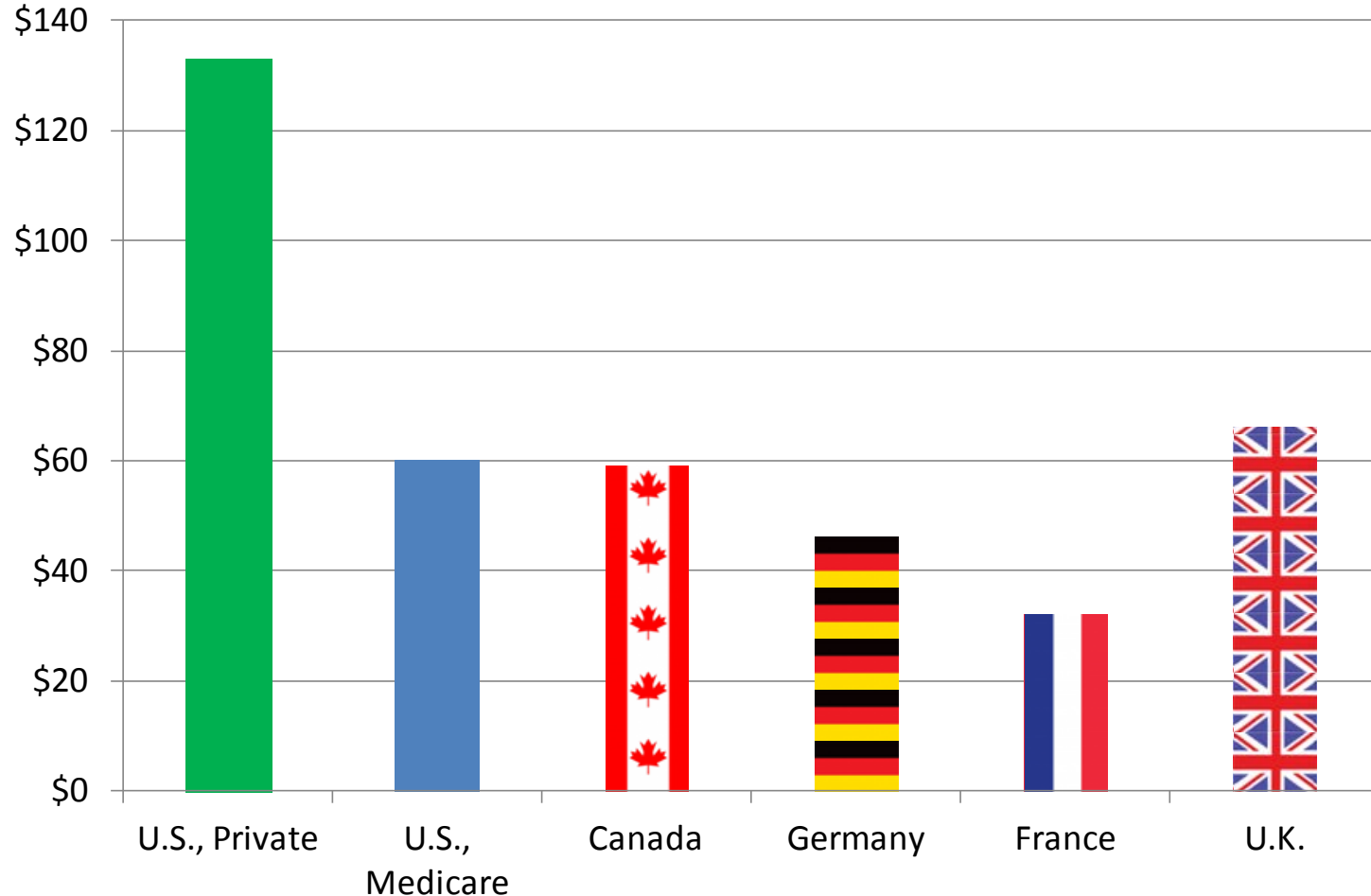
Surgeon fee for hip replacement (2008, US\$)



Source: Laugesen and Glied (2011)

How Bad is the Price Problem? (2)

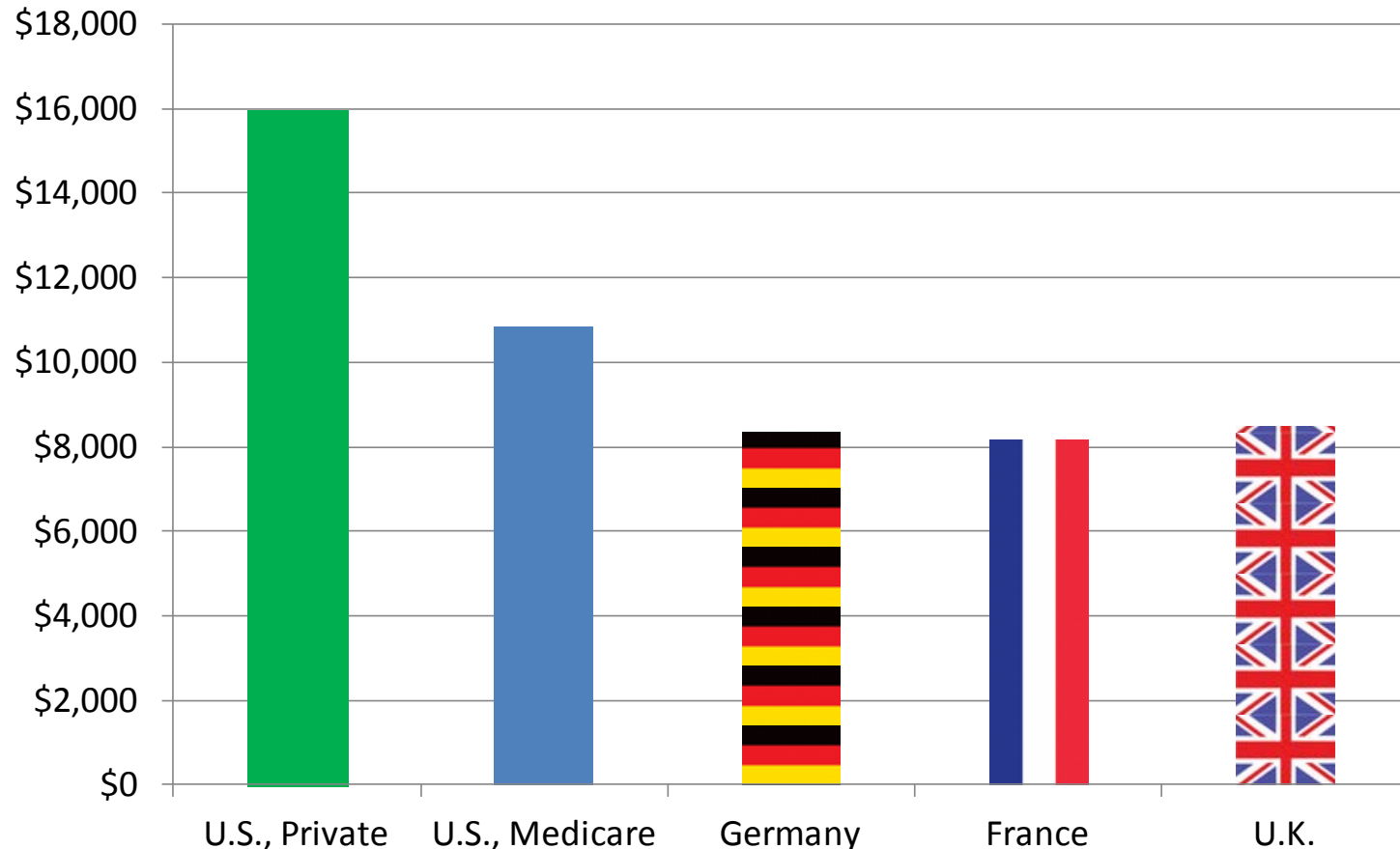
Physician office visit (2008, US\$)



Source: Laugesen and Glied (2011)

How Bad is the Price Problem? (3)

Inpatient Hospital Stay (2011 \$USD, casemix-adjusted)



Source: Author's calculations based on the AHA Chartbook, BLS PPIs, and Stargardt, *Health Economics*, 2008.

Where Are Price Hotspots?

	Medicare	Private plans
Primary care physicians	Light green	Yellow-green
Specialist physicians	Light green	Yellow
Hospital inpatient	Light green	Orange
Hospital outpatient	Light green	Red

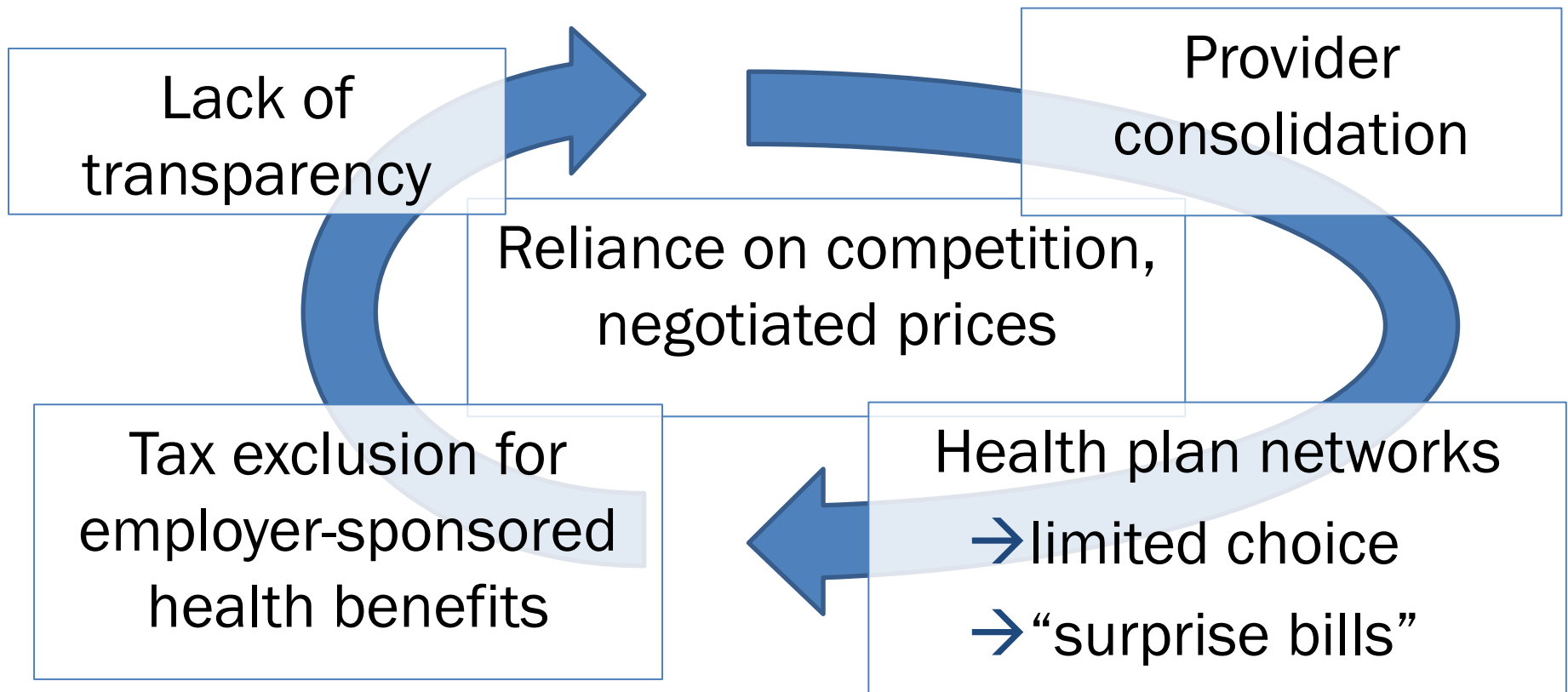
What Drives Prices Up? Part I

Medicare

- Provider pressure
- Federal legislation
 - e.g., “sustainable growth rate” overridden, then repealed

What Drives Prices Up?, Part II

Private



Toolkit: State

- Out-of-network care: limit unit prices
 - limit total price, not just out-of-pocket
 - use Medicare rates as base
 - directly addresses “surprise” bills (Consumers Union, 2015)
 - indirectly curbs in-network negotiated prices (Murray, 2013; Berenson et al., 2015)
 - indirectly curbs premiums

Toolkit: State (Cont.)

- Include unit prices in health insurance premium rate reviews
- Build all-payer claims database (APCD)
 - make data accessible (Tu and Gourevitch, 2014)
 - provide regular reports (OAG Coakley, 2010, 2011, 2013)

Toolkit: Large Employers/Unions

- Get and use a patient-facing price transparency tool (e.g. Castlight)
- Use your self-funded claims data to measure unit prices
 - first, lawyer up
 - then, economist up
 - then, demand accountability from health plan
- Use Cadillac tax as *opportunity* to demand lower unit prices

Toolkit: U.S. Congress

- Weigh in on Medicare payment policy
 - expect more/pay less
 - unit prices are an affordability issue for seniors
- Save the Cadillac tax
- Offer public option in Federal Marketplaces paying Medicare rates
 - for near elderly?
 - for people whose other options are unaffordable?

Toolkit: DOJ/FTC/AGs

- Challenge consolidation
 - “Clinically Integrated Networks” (K&L Gates, 2013)
 - physician offices purchased by hospital systems (Baker, 2013; Baker, 2015)
 - mergers and acquisitions

Toolkit: Find Allies

- Physicians
 - American Board of Internal Medicine (ABIM)
 - Costs of Care (<http://www.costsofcare.org/>)
 - American College of Physicians
- Business
 - National Business Group on Health
 - Pacific Business Group on Health
- Media
 - ProPublica, Vox, Kaiser Health News, Washington Post, NY Times, Time



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