Identifying promising solutions to real problems

Sherry Glied
July 2018
Outline

• Can we go on like this?
• Should we go on like this?
• Why is it happening?
• What can be done?
Been there

• “In the next decade, the problem of costs may be the decisive consideration in the health field.”
Many American employers say the cost of medical care, which has risen more than tenfold in the last two decades, has become an oppressive burden to their businesses.

if the nation’s system of health care is not revamped, “You’ll see a lot of broke companies.”
“The cost of our health care has weighed down our economy and the conscience of our nation long enough.”
Sustainability is not the question – we *can* go on -- we have....

But should we?
Are we getting value? What is value anyway?

I shall not today attempt further to define the kinds of material I understand to be embraced within that shorthand description ["hard-core pornography"], and perhaps I could never succeed in intelligibly doing so.

But I know it when I see it.
This is a value crisis...

• We used to look pretty much like everyone else
• But now we do worse
• And we spend way, way more
It’s not:

- Obesity
- Smoking
- Violence
- Traffic accidents
- End-of-life care
It’s not patient overuse – putting more cost-sharing burden on patients is not going to enhance value
It’s not bad management – we’ve squeezed out obvious inefficiencies

Figure 1: Hospital Management Across Countries

Notes: The bars represent the average management scores by country. The upper bar represents the raw data. The lower bar shows the averages controlling for hospital size (number of employees), specialty, percentage of managers with a clinical degree. Number of observations: 289 Brazil, 175 Canada, 158 France, 130 Germany, 493 India, 166 Italy, 56 Sweden, 184 UK and 327 U.S.
It’s not growing profits – or easily eliminated waste
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

CONCLUSIONS AND RELEVANCE The United States spent approximately twice as much as other high-income countries on medical care, yet utilization rates in the United States were largely similar to those in other nations. Prices of labor and goods, including pharmaceuticals, and administrative costs appeared to be the major drivers of the difference in overall cost between the United States and other high-income countries. As patients, physicians, policy makers, and legislators actively debate the future of the US health system, data such as these are needed to inform policy decisions.
And their consequences... Prices guide investments and decision-making throughout the system – not just how we pay but how much...

<table>
<thead>
<tr>
<th>Technology</th>
<th>Attract more patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support staff</td>
<td>Increase intensity and throughput</td>
</tr>
<tr>
<td>Administrators</td>
<td>Improve coding and collections</td>
</tr>
</tbody>
</table>
Biggest increase in spending 1997-2012 was for tech and other purchases
Another big chunk was additions to support staff.
That’s not happening – to the same extent - elsewhere
What can be done?
Private sector prices today – both relative and absolute -- bear little relationship to efficient, competitive market prices

• Demand side:
  • Informational asymmetries
  • Health insurance and moral hazard

• Supply side:
  • Barriers to entry
  • Small markets and natural monopolies

Recognize that the emperor has no clothes
Consumers can’t solve this problem through price transparency or higher cost sharing

• Most high cost services are unshoppable
  • Very little use of price transparency tools
• Wrong time for shopping
  • Experiencing illness
  • Consulting experts
• Time, attention, expertise
  • Exacerbates disparities

Don’t be distracted by fluff
Government Price-Setting faces serious risks of regulatory failure

- Fundamental challenges
  - Difficulties of price-setting in general
- Nimbleness
  - Technological change
  - Revaluing services
- Capture
  - “Every dollar of health care expenditures is someone’s health care income” -- Uwe Reinhardt
No magic bullet

- Recognize that the emperor has no clothes
- Don’t be distracted by fluff
- We’re from the government.... ? ?

Pursue multiple options
1. **Enhance Competition**

- Antitrust enforcement
- Encourage narrow network plans – so insurers can negotiate more effectively
- Reference pricing
2. Pursue Targeted Regulation

• Markets with limited competition
  • Essential facilities regulation – caps on negotiated prices
• Limit prices for unanticipated out-of-network use
3. New Mechanism Designs

• Two-part pricing
  • Capitation + lower fee-for-service price
• Competitive bidding for services
• Competitive bidding for markets
It’s only sustainable...
If we *choose* to sustain it
THANK YOU