Financing Health Services: Where Can We Find the Money?

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How Will We Meet the Health Service Needs of an Aging America
May 20, 2009
Health Spending as Share of Economy

Historical Trend

CBO Projection
Growth in Health Insurance Premiums versus Wages 2000-2007
CBO Budget Options to Reduce Excess Medicare Spending*
2015-2019

* Excess defined as Medicare growth exceeding GDP growth + 1 percentage point

Source: CBO, Budget Options Health Care, Dec. 2008
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.

Prices as a Cost Containment Tool

• Politics of constraining payment levels

• Getting relative prices “right” critical
  – By service
  – By patient need
  – By market
Inappropriate Relative Prices: 
What Can Happen?

The Specialty Hospital Story
Relative Profitability Within DRGs

Cardiac DRGs

Percent Expected Profit

CABG (DRG 107)

Heart Failure (DRG 127)

Source: MedPAC
Relative Profitability across DRGs
Cardiac DRGs

Source: MedPAC
MEDICARE

Refinement of Diagnosis Related Groups Needed to Insure Payment Equity
Some Other Potential Medicare Payment Modifications

• Skilled Nursing Facilities (MedPAC, June 2008)
  – Therapy payments based on need not use
  – Non-therapy ancillaries payments based on need

• Imaging Services (MedPAC, Jan. 2009)
  – Payments more closely tied to actual equipment costs
Bundling:
A Cautionary Tale

Home Health
Episode Payments
Medicare Home Health
Pre and Post PPS

Agencies

Per Visit Payment

Episode Payment


Per Visit Payment

Episode Payment

Visits Per User

80

40
Getting prices right/defining bundles requires DATA!!!
Risk Adjusting for Hospital Mortality

Model uses:

- Dx plus Demographics
- + Present on Adm.
- + Lab Values

C Statistics

0.7 0.75 0.8 0.85 0.9

Perfect Prediction = 1.0

The Timeliness of ARRA

Meaningful Use:

is (among other things)

- the capacity and willingness to transmit requested information about patient condition (pre and post) and about service characteristics for payment and analysis

- the ability to adjust data submissions quickly as requested information is modified
Making right prices/well-defined bundles work requires COOPERATION!!!
# Hospital Consolidation

<table>
<thead>
<tr>
<th>MSAs Meeting DOJ and FTC Definition of Highly Concentrated</th>
<th>1990</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of MSAs</td>
<td>71%</td>
<td>88%</td>
</tr>
<tr>
<td>Number of Residents</td>
<td>56.2 million</td>
<td>122 million</td>
</tr>
</tbody>
</table>

Variation in FEHBP Physician and Hospital Fees Across MSAs

Flattening the Curve

Service Production: A New Paradigm

– Personnel
  • Task focused occupations
  • Training to be fully, but minimally qualified
  • Technology dependent
  • Triaging

– Technology
  • Decision support/making
  • Personnel displacing
Thank you