

Financing Health Services: Where Can We Find the Money?

William Scanlon

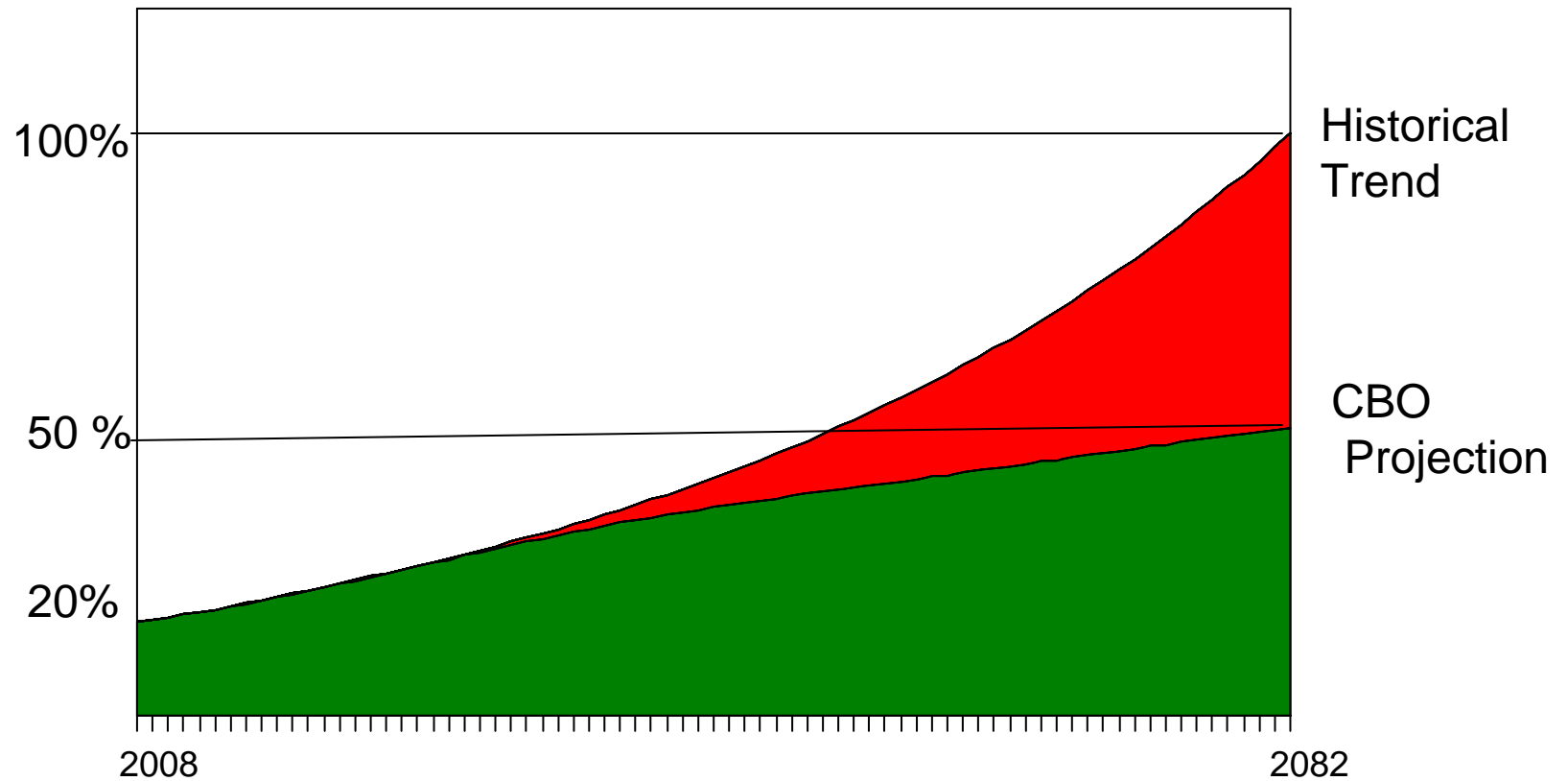
Presented at

16th Annual Princeton Conference

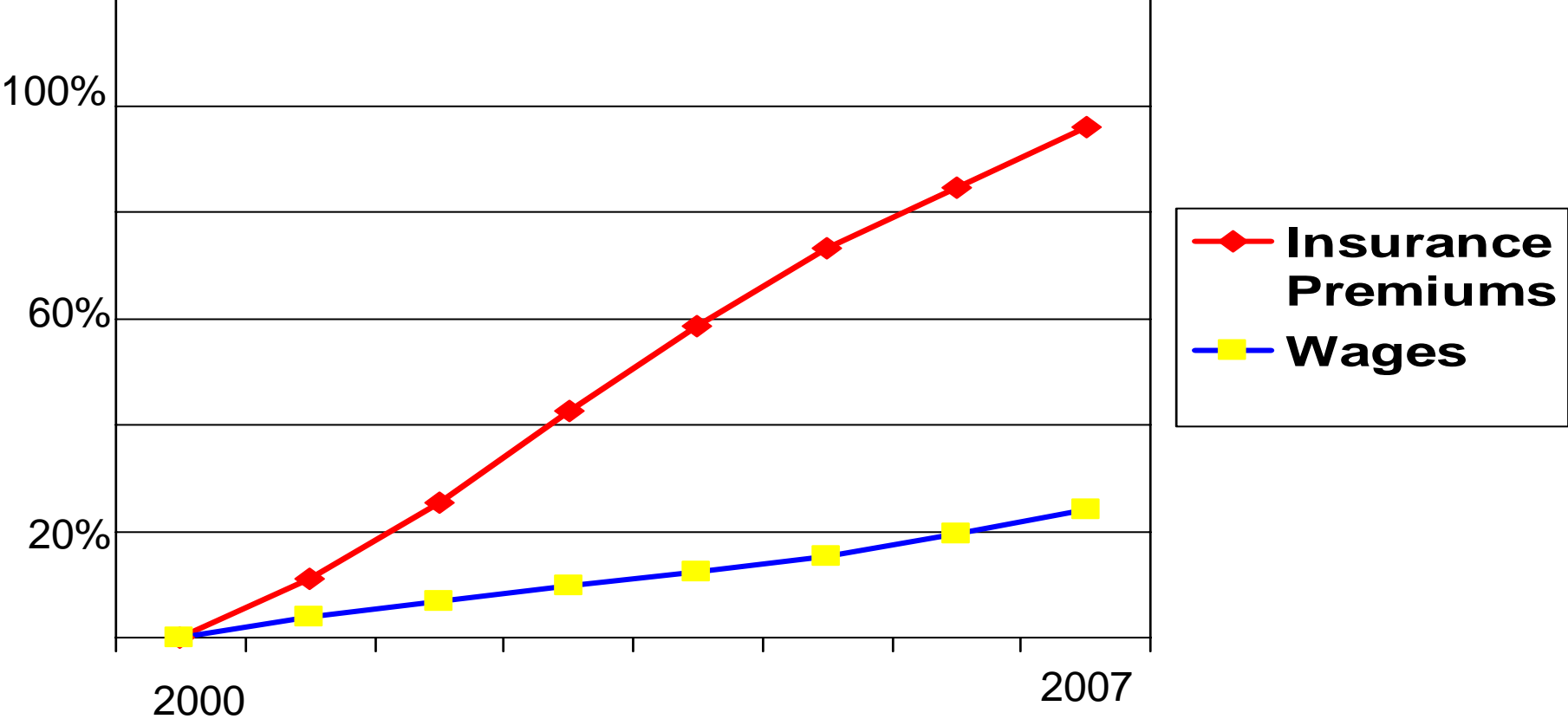
**How Will We Meet the Health Service
Needs of an Aging America**

May 20, 2009

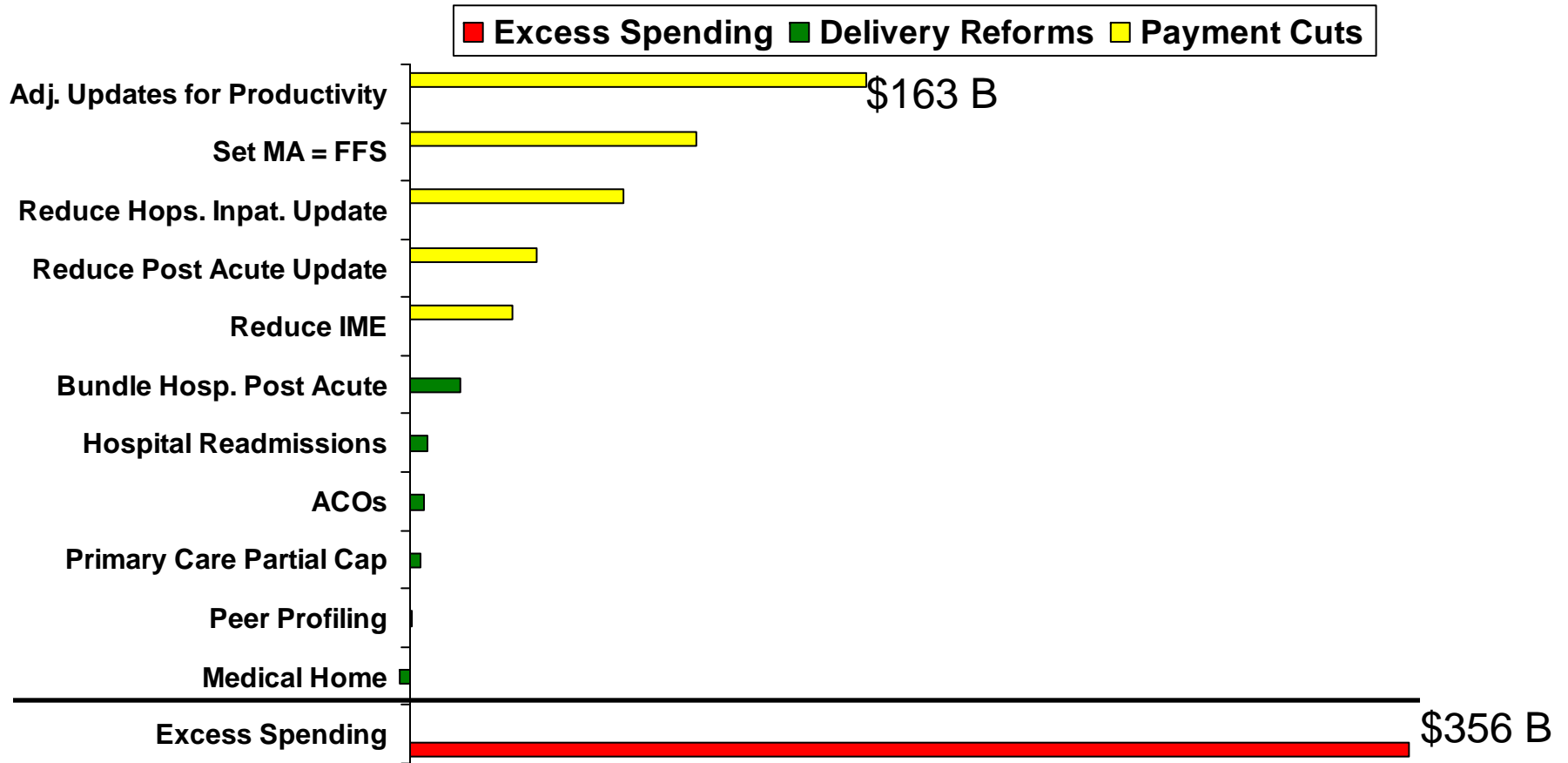
Health Spending as Share of Economy



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.

by Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan, *Health Affairs*, Vol. 22. No 3, 2003.

Prices as a Cost Containment Tool

- Politics of constraining payment levels
- Getting relative prices “right” critical
 - By service
 - By patient need
 - By market

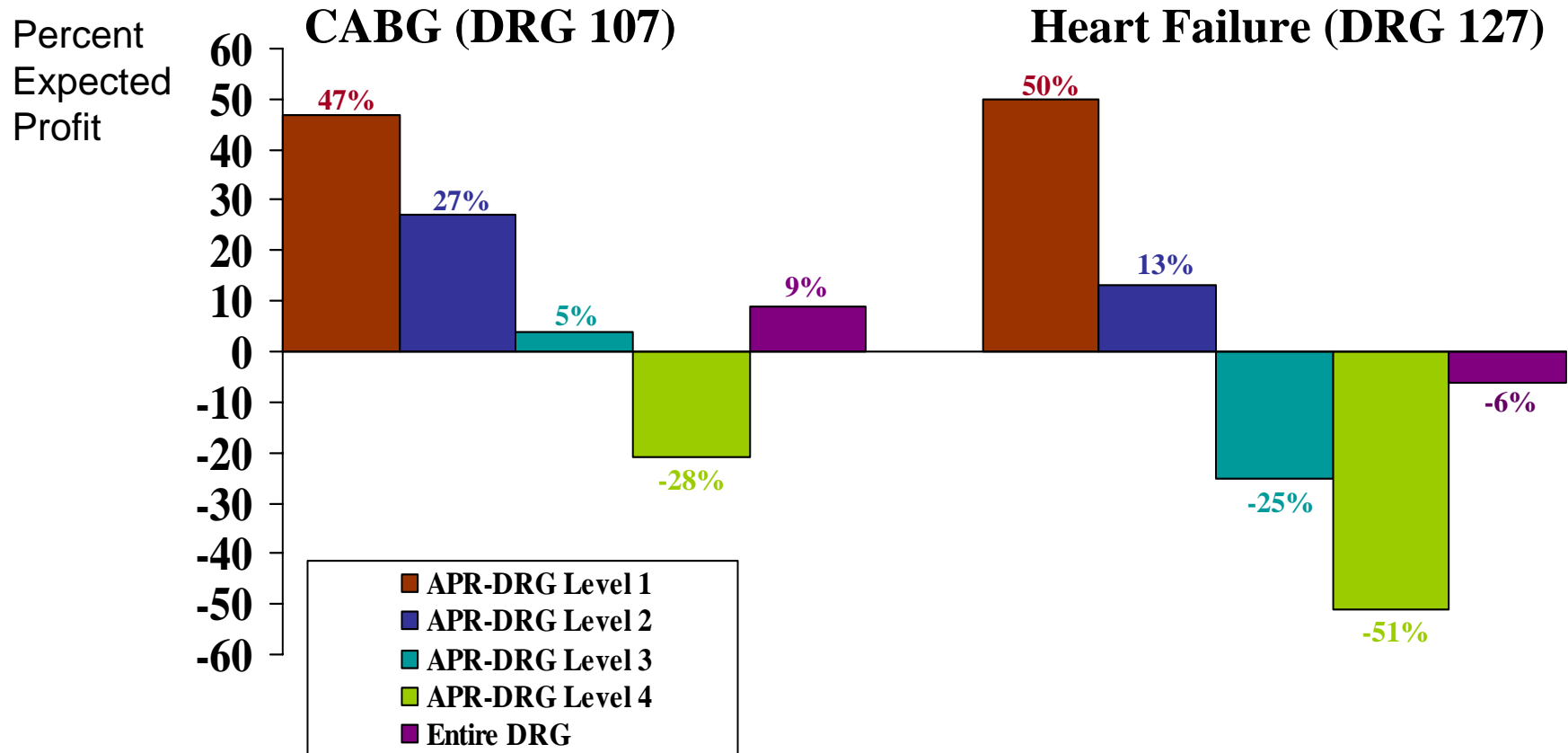
Inappropriate Relative Prices:

What Can Happen?

The Specialty Hospital Story

Relative Profitability Within DRGs

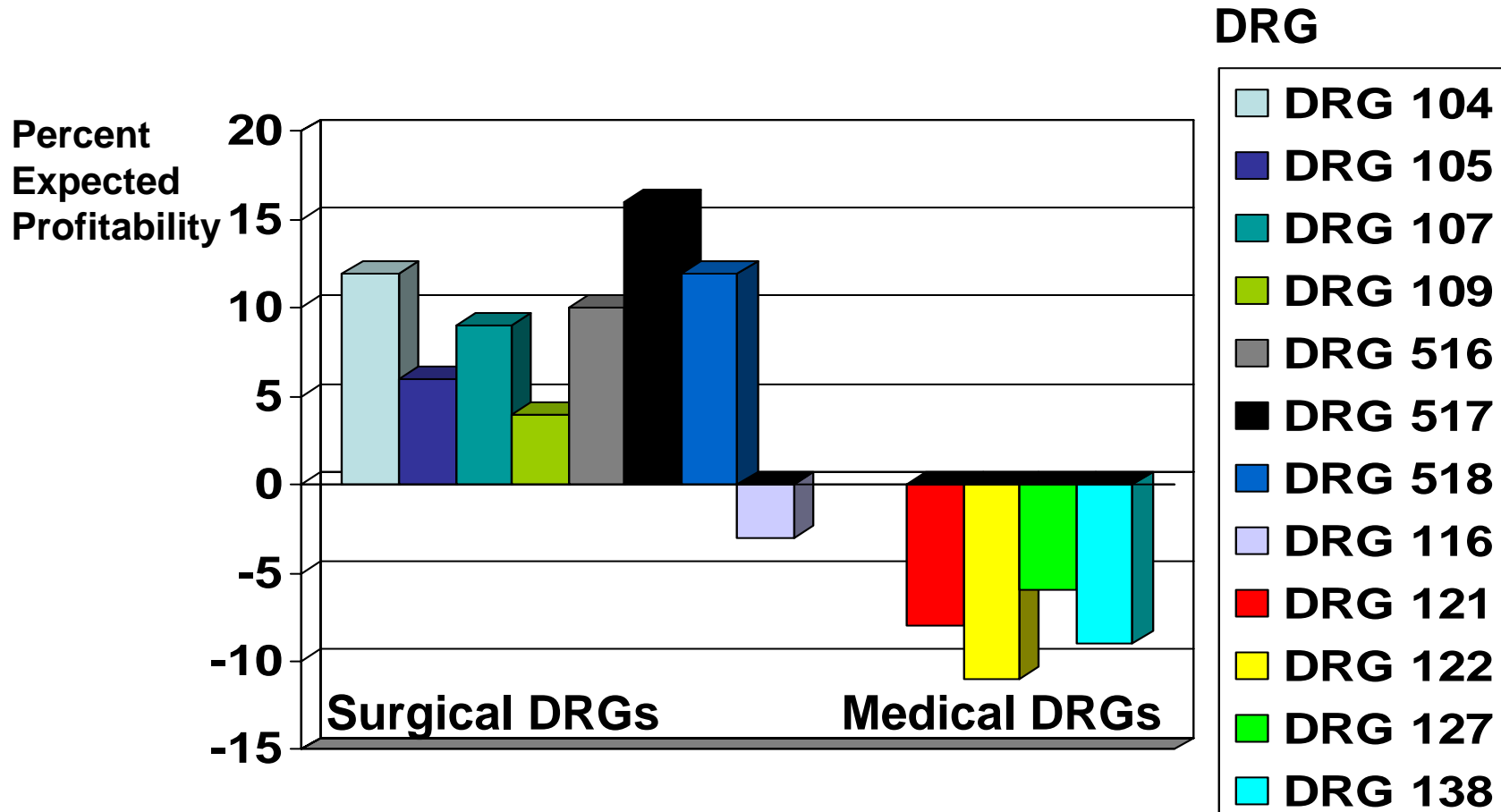
Cardiac DRGs



Source: MedPAC

Relative Profitability across DRGs

Cardiac DRGs



Source: MedPAC

United States General Accounting Office

GAO

Report to the Secretary of Health and
Human Services

April 1988

MEDICARE

Refinement of Diagnosis Related Groups Needed to Insure Payment Equity



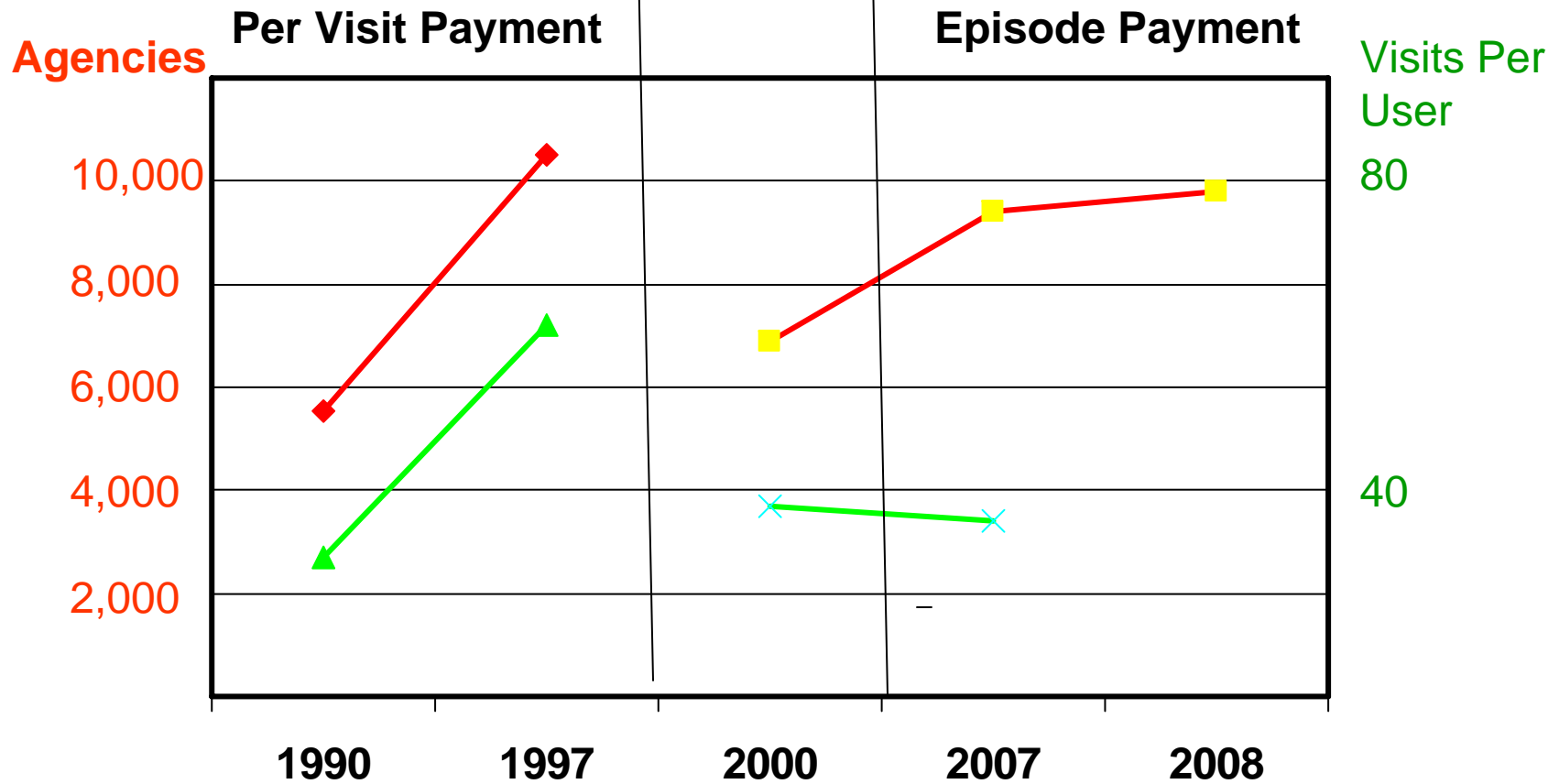
Some Other Potential Medicare Payment Modifications

- 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



Getting prices right/
defining bundles
requires

DATA!!!

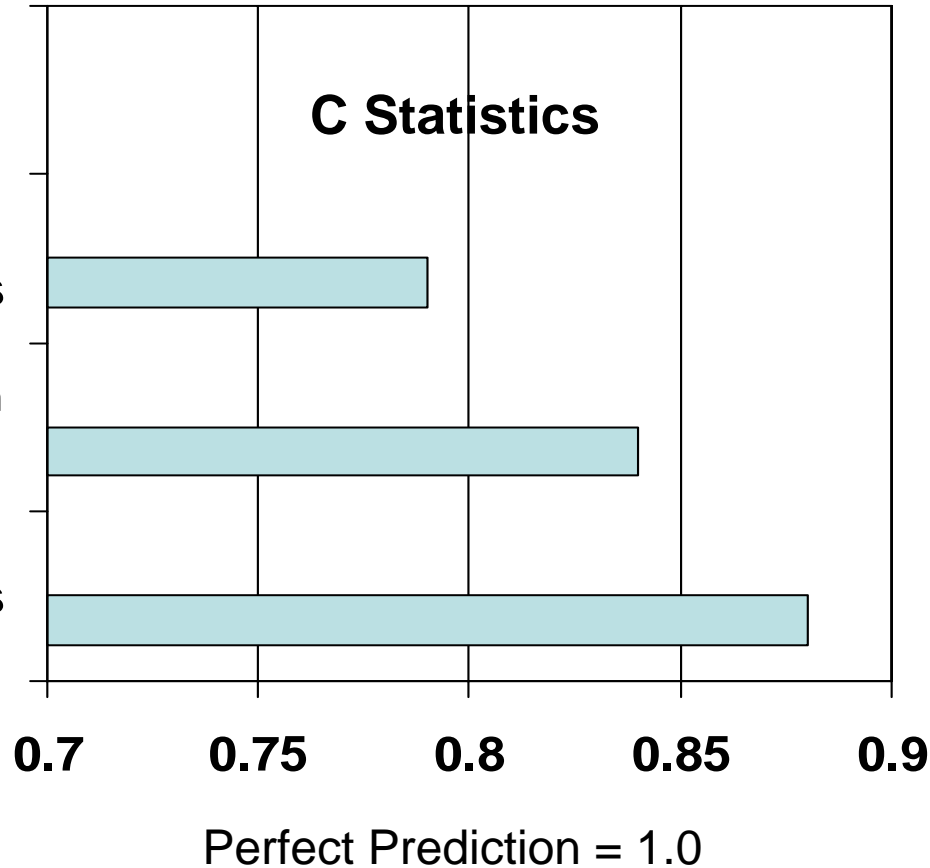
Risk Adjusting for Hospital Mortality

Model uses:

**Dx plus
Demographics**

**+ Present on
Adm.**

+ Lab Values



Source: Pine, M., et.al., "Enhancement of claims data to improve risk adjustment of hospital mortality." *JAMA*: 2007.

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

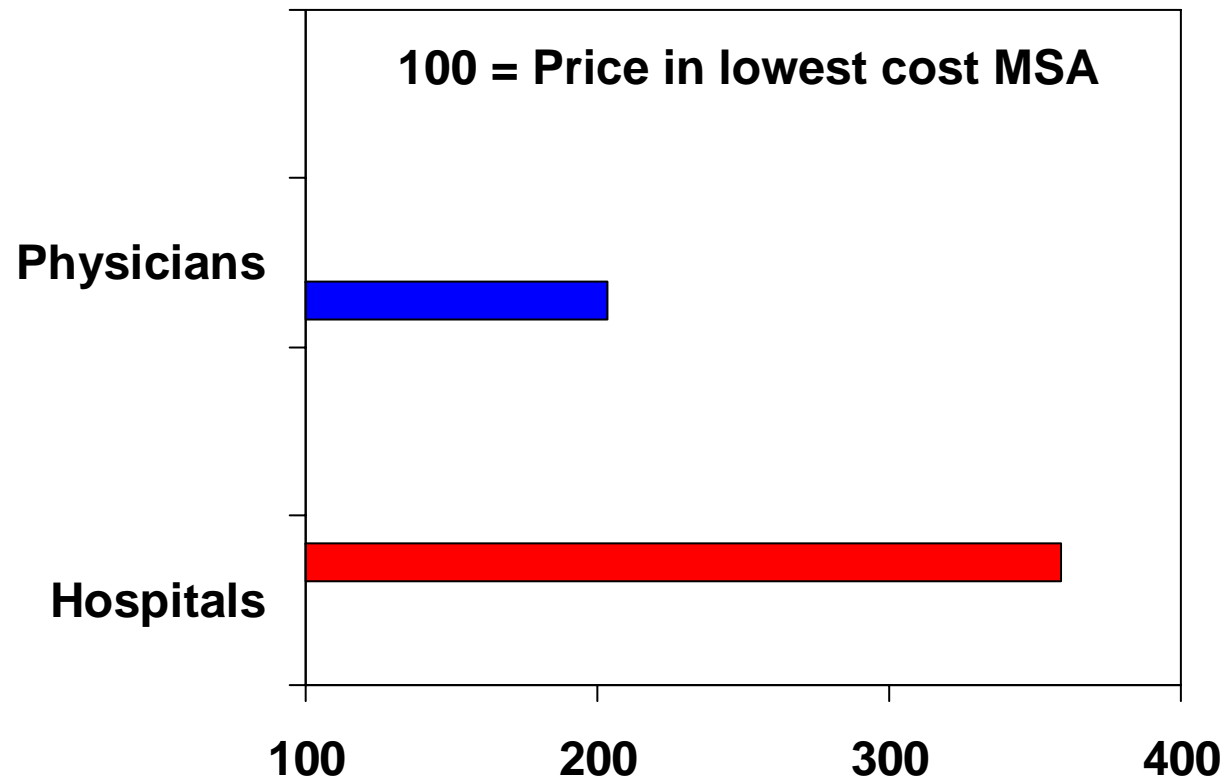
COOPERATION!!!

Hospital Consolidation

MSAs Meeting DOJ and FTC Definition of Highly Concentrated		
	1990	2003
Percentage of MSAs	71%	88%
Number of Residents	56.2 million	122 million

Source: W. Vogt and R. Towns, "How has consolidation affected the price and quality of hospital care." The Robert Wood Johnson Foundation: Research Synthesis No. 9, Feb 2006.

Variation in FEHBP Physician and Hospital Fees Across MSAs



Source: US GAO, "Federal Employees Health Benefit Program: Competition and Other Factors Linked to Wide Variation in Health Care Prices." GAO-05-856, August 2005.

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