Health Care Spending Growth and Solutions

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Federal Spending on Health as % of GDP

## Medicare’s Challenge

<table>
<thead>
<tr>
<th>Excess spending growth per beneficiary (percentage points)</th>
<th>Medicare share of GDP in 2035 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>7.9</td>
</tr>
<tr>
<td>1</td>
<td>6.4</td>
</tr>
<tr>
<td>0.5</td>
<td>5.7</td>
</tr>
<tr>
<td>0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Share in 2013 projected to be 3.7 percent. To remain at 3.7 percent of GDP in 2035, Medicare needs to grow at a rate of 1.5 percentage points below GDP. Faster GDP growth would imply slightly lower Medicare shares for any amount of excess spending growth.


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## This policy debate is less about health and more about taxes
Two Questions

- What caused the spending slowdown
- Will the slowdown persist
It’s harder to look forward than backwards

Why Slowdown Was Not Simply Due to the Recession?

- Started before the recession (Cutler 2012)
- Affected populations not as strongly impacted by the recession (Ryu et al.)
  - Privately insured (HOLDING BENEFIT GENEROSITY CONSTANT)
  - Medicare
- Observed change in technology introduction (Cutler 2012)

Slowdown may not continue

- Could reflect things we have done or idiosyncratic factors
  - Patent expirations
- Not inevitable natural phenomenon.
  Future policy matters
  - ACA?
  - SGR?

Payment Reform
Payment Reform

- Pay less
  - Reductions in payment to providers
  - Reductions in payment to plans
- Increased rates must be scored by CBO
- Move away from FFS
  - Episode bundles
  - Global payment/ budgets

Wide Range of Public Strategies

- Medicare (A bit of everything)
  - ACOs
    - Shared savings and pioneers
  - Episode bundles
- States
  - ACO like (Oregon)
  - Bundles (Arkansas)
  - Hospital Budgets (Maryland)
Private Innovations

- Global payment models
  - Alternative Quality Contract
- Insurer/ provider partnerships
  - Aetna
- Medical home based models
  - Carefirst

Basic Features

- Payment that spans providers
  - Global or episodes
  - Typically built on FFS foundation
  - Risk adjustment
- Pay for performance
- Technical support
Payment Reform Issues

- Providers capture efficiencies
- Payers only capture savings if they lower payment rates
- Quality: Couple with pay for performance
  - Measures are imperfect
- Organizations needs tools to succeed
- Appropriability
End