

Affordability of Health Care Services.

2023 Princeton Conference

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Arnold Ventures Health Care

Arnold Ventures is a philanthropy dedicated to addressing some of the most pressing problems in the United States.

Health Care Objective > Reduce health care spending for patients, employers, and taxpayers while maintaining access to needed, high-quality care and supporting health care delivery system reform.

Approaches > Research, policy development, technical assistance and education, visibility and communications, advocacy. We work at both the Federal and State level.

Commercial sector prices	Drug prices/ FDA clinical trials	Provider payment incentives & Medicare sustainability	Care for complex populations
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Affordability

- > Federal debt held by the public is projected to rise from 98% of gross domestic product (GDP) in 2023 to 118% in 2033.¹
- > Medicare's Hospital Insurance Trust fund is projected to be insolvent by 2031.²
 - > Payroll tax would need to be increased immediately from 2.9% to about 3.6% or spending would need to be reduced by 15.6%.³
- > Medicare Part A is financed largely by payroll tax revenue, whereas general revenue finance large shares of Parts B and D.⁴
- > The average premium for family coverage has increased 20% over the last five years and 43% over the last ten years; in 2022 average premiums exceeded \$22,000.⁵

Access

- > 100M+ Americans carry medical debt – the most prominent form of debt in the U.S. – which is estimated to total \$195B.⁶
- > 4 in 10 adults with employer-sponsored insurance report having trouble affording their medical bills.⁷
- > Nearly 1/3 of adults reported not taking their medication as prescribed in 2018 because of cost.⁸

Unnecessary spending

- > Overpayments to Medicare Advantage are projected to cost taxpayers over \$20B annually.⁹
- > Hospital consolidation raises hospital prices without resulting in gains in quality. 90% of hospital markets are considered highly concentrated.¹⁰
 - > Commercial inpatient hospital rates range from about 150% - 220% of Medicare.¹¹
 - > Commercial outpatient hospital rates from about 160% - 350% of Medicare.¹¹
 - > RAND found that private insurers paid more than 200% of Medicare.¹²

Unnecessary spending (Continued)

- > List prices for 25 brand-name drugs with the highest total Medicare Part D spending in 2021 increased by an average of 226% - or more than tripled – since they first entered the market.¹³
- > Average net prices of brand-name prescription drugs paid by Medicare Part D plans, which account for rebates, more than doubled over the last decade.^{14, 15}
- > Anticompetitive behaviors by brand-name drug manufacturers extend monopoly pricing power. 75% of new patents between 2005 and 2015 were for existing drugs already on the market.¹⁶

Causes and Consequence of Health Costs

Drivers of Commercial Health Costs

Mechanically: High prices that reflect bargaining power

- Empirical evidence suggests multiple sources

Drivers of Commercial Health Costs

Consolidation in many forms

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Consolidation in many forms

- Within market M&A

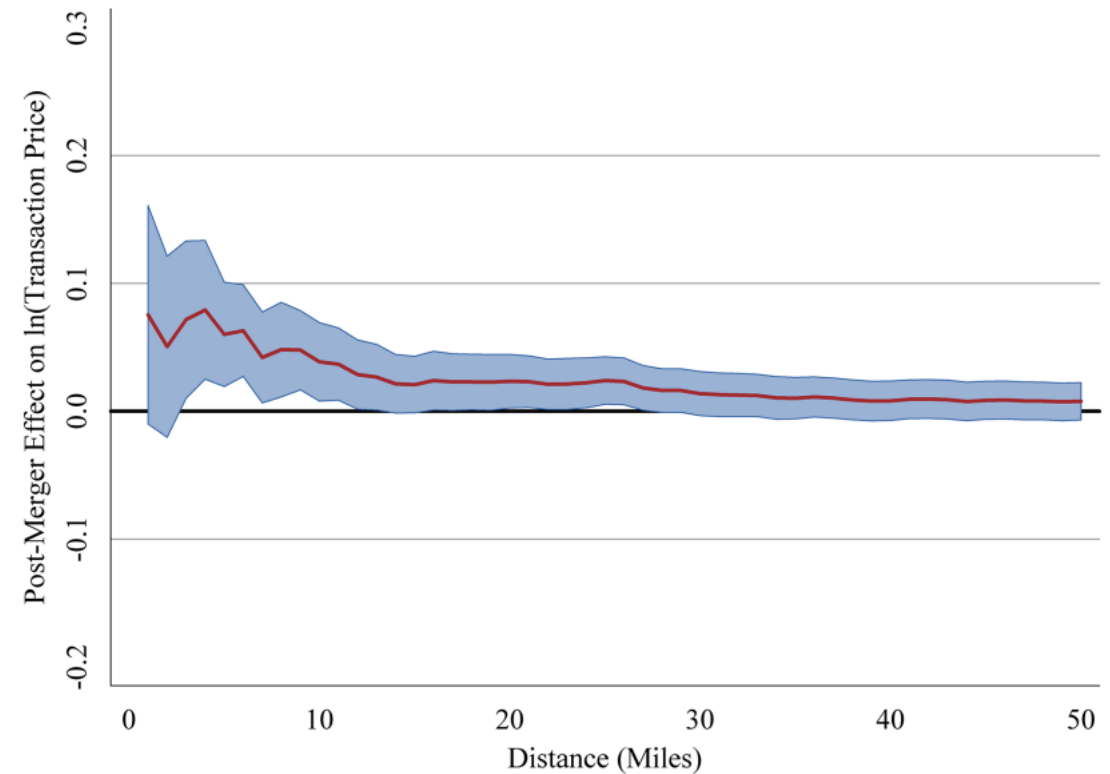


FIGURE X

How Merger Coefficient Changes for Mergers Between Hospitals of Different Geographical Proximity

Source: Cooper, Z., Craig, S. V., Gaynor, M., & Van Reenen, J. (2019). *The price ain't right? Hospital prices and health spending on the privately insured. The quarterly journal of economics*, 134(1), 51-107.

Drivers of Commercial Health Costs

Consolidation in many forms

- Within market M&A ✓
- Cross market M&A ✓

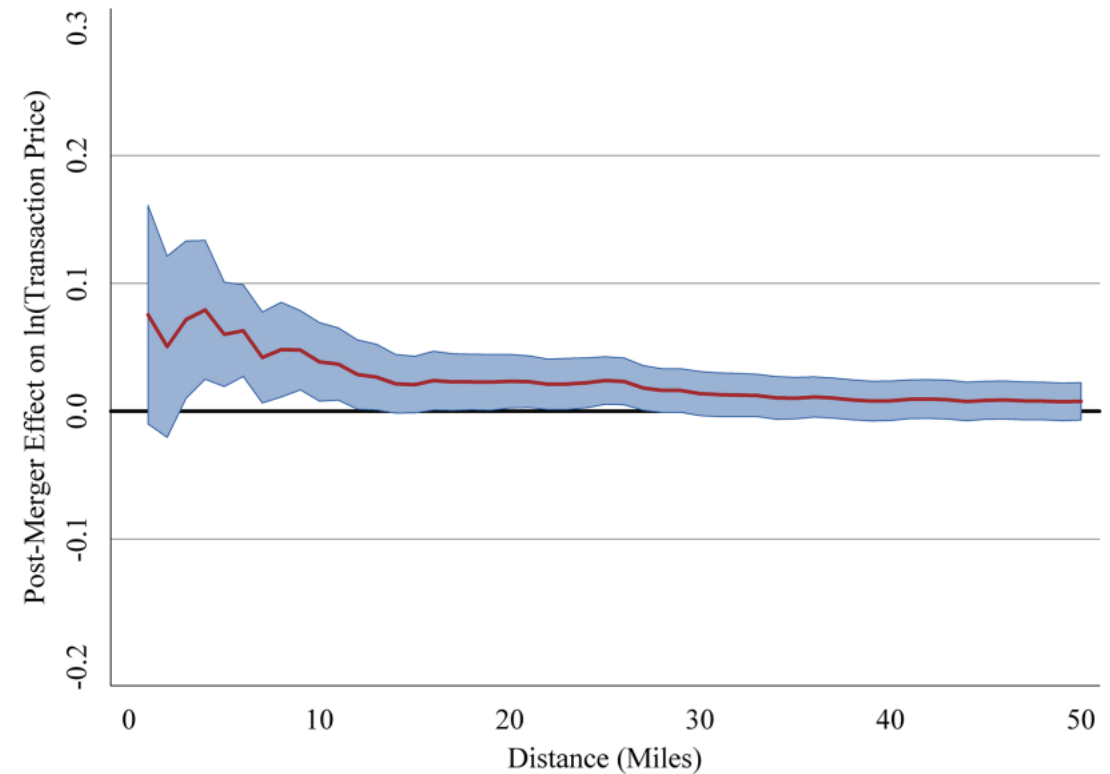


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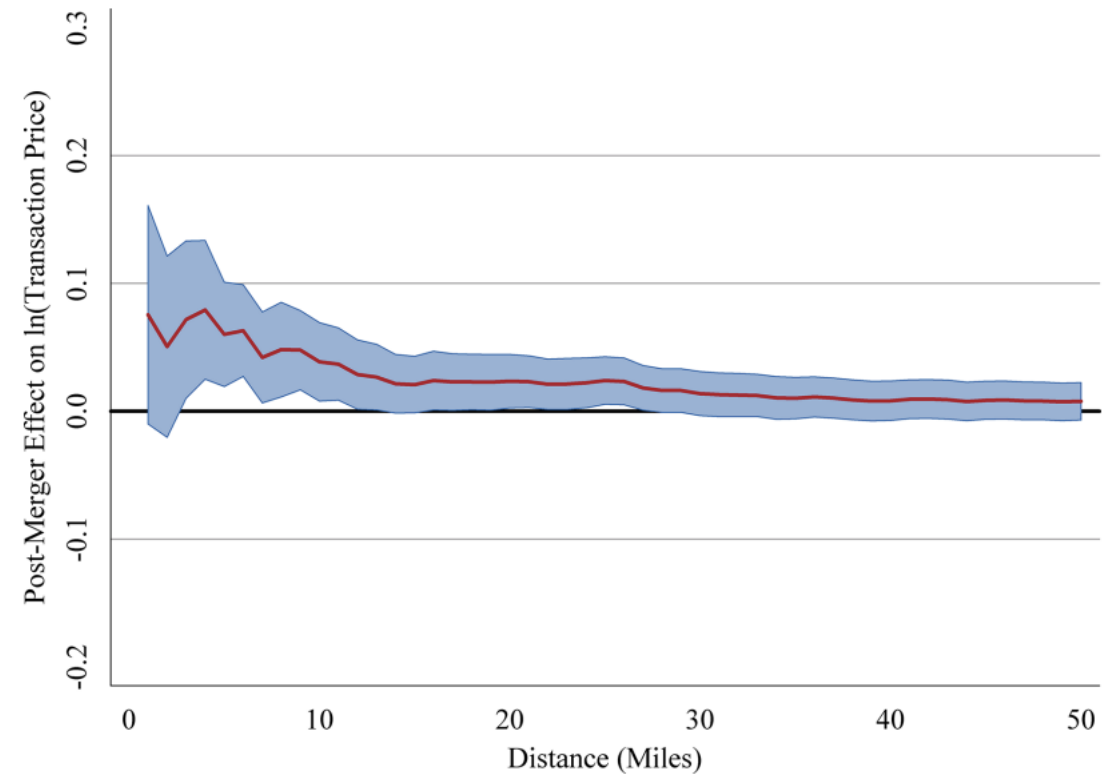


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- Insurance market consolidation (slightly more nuanced)

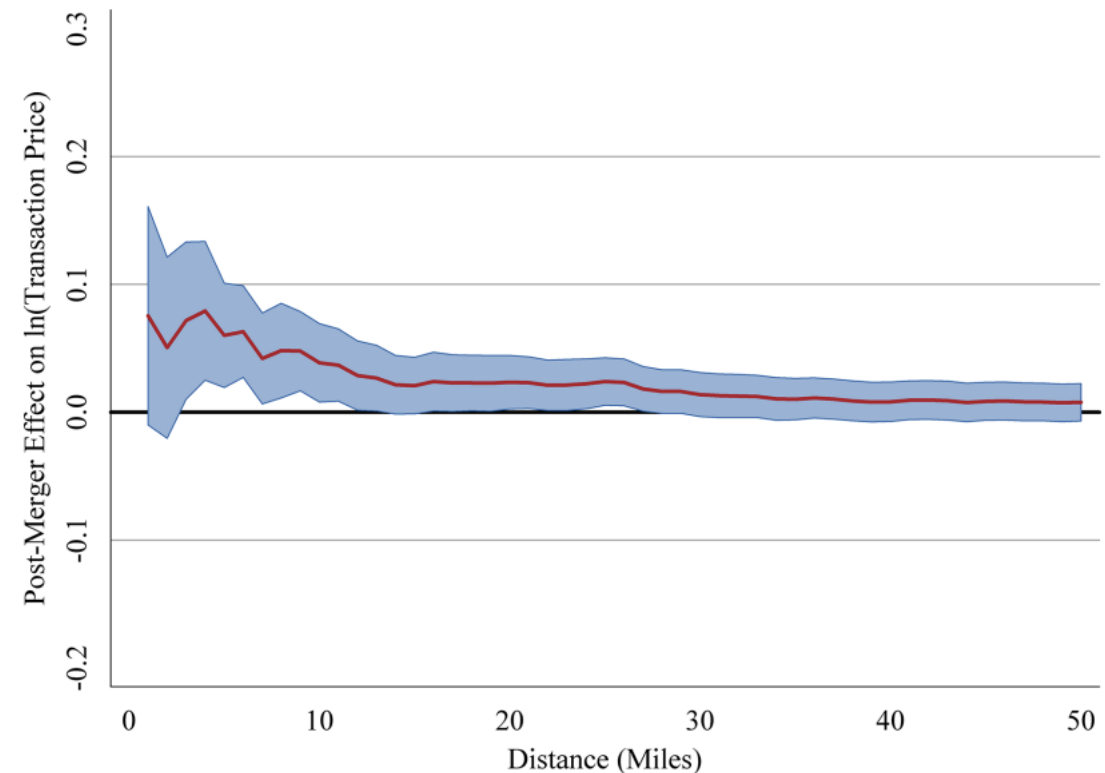


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- *Newer focus: Consolidation through many small transactions (PE)*

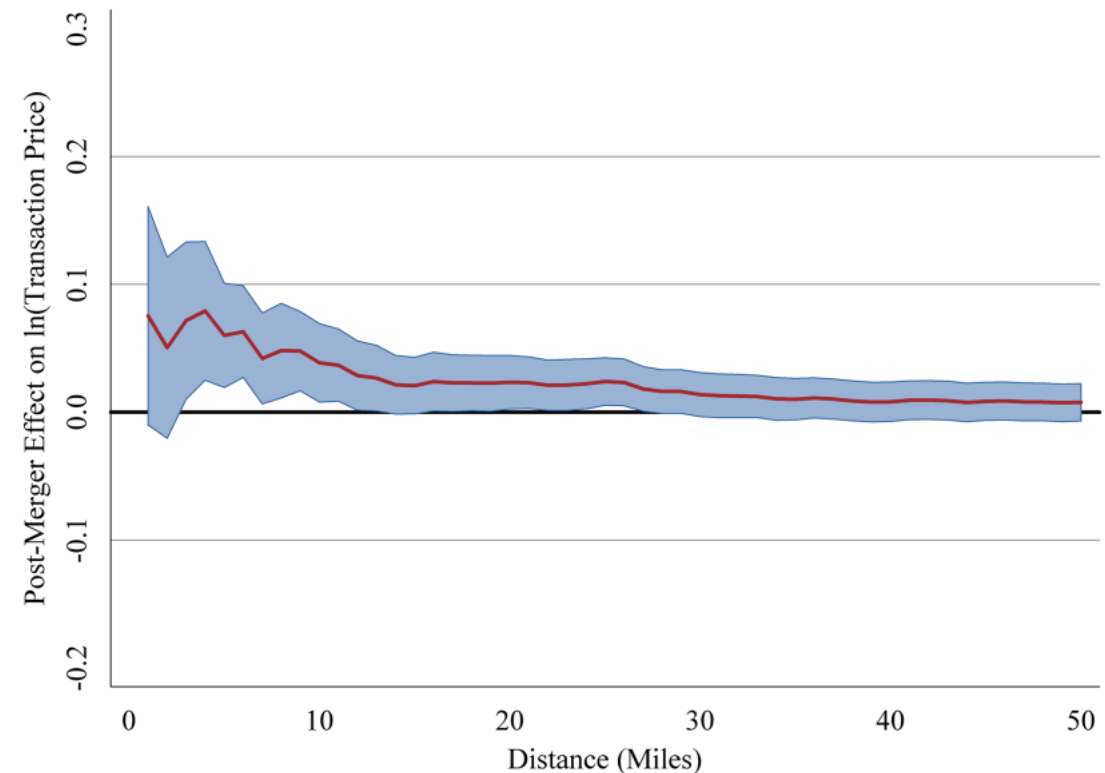


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Drivers of Commercial Health Costs

Other contributors

- Employers offer modest pushback (subsidy, small size, geographic distribution of employees)
- High value placed on choice and “star” providers by enrollees
- Political/public sympathy for providers?

Drivers of Public Health Costs

A mixed bag...

Drivers of Public Health Costs

Partly utilization

- E.g., level and variation of utilization in FFS

Figure 1.
Healthcare Spending by Quarter: MA vs. FFS

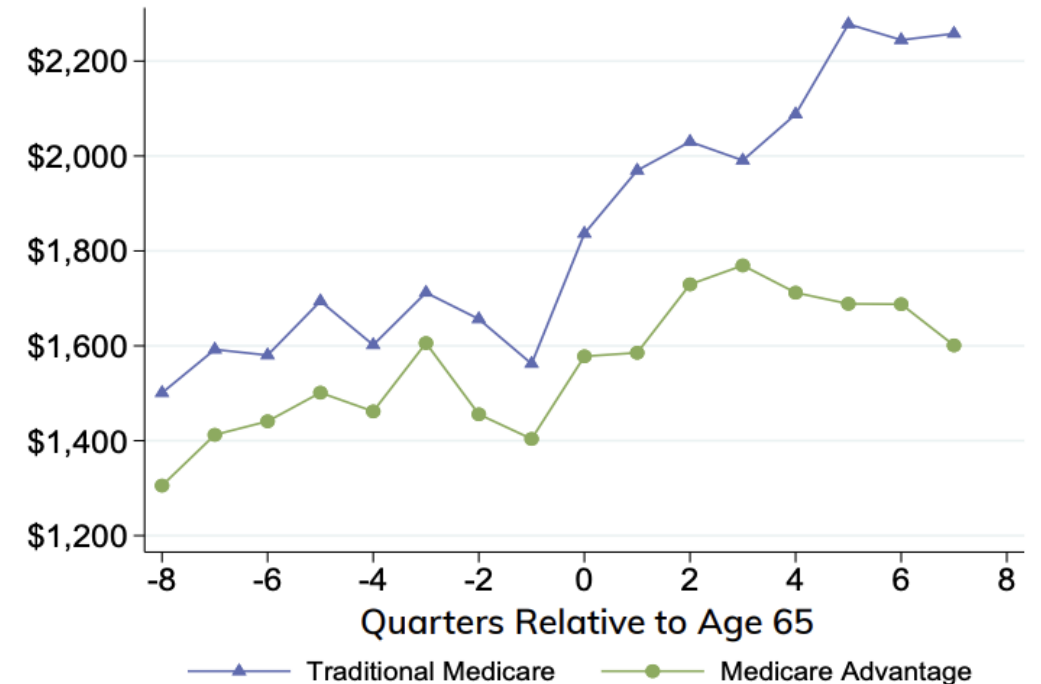


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- E.g., post-acute care in Medicare

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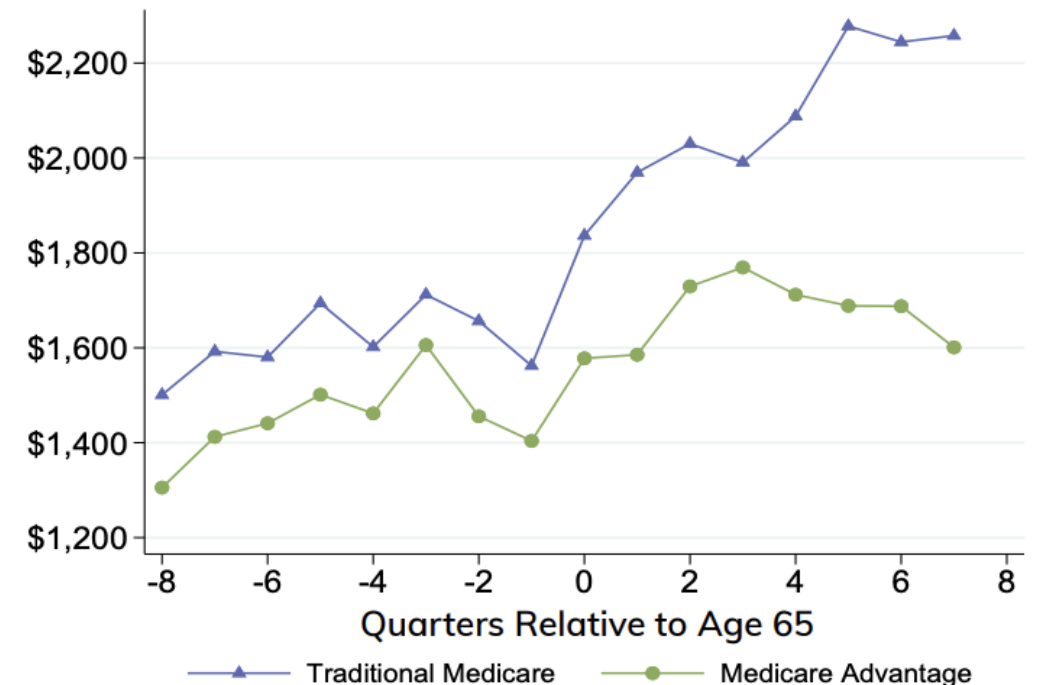


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Drivers of Public Health Costs

Partly utilization

- E.g., level and variation of utilization in FFS

Partly prices

- E.g., post-acute care in Medicare

Partly other design challenges

- E.g., payments to insurers in Medicare Advantage are high

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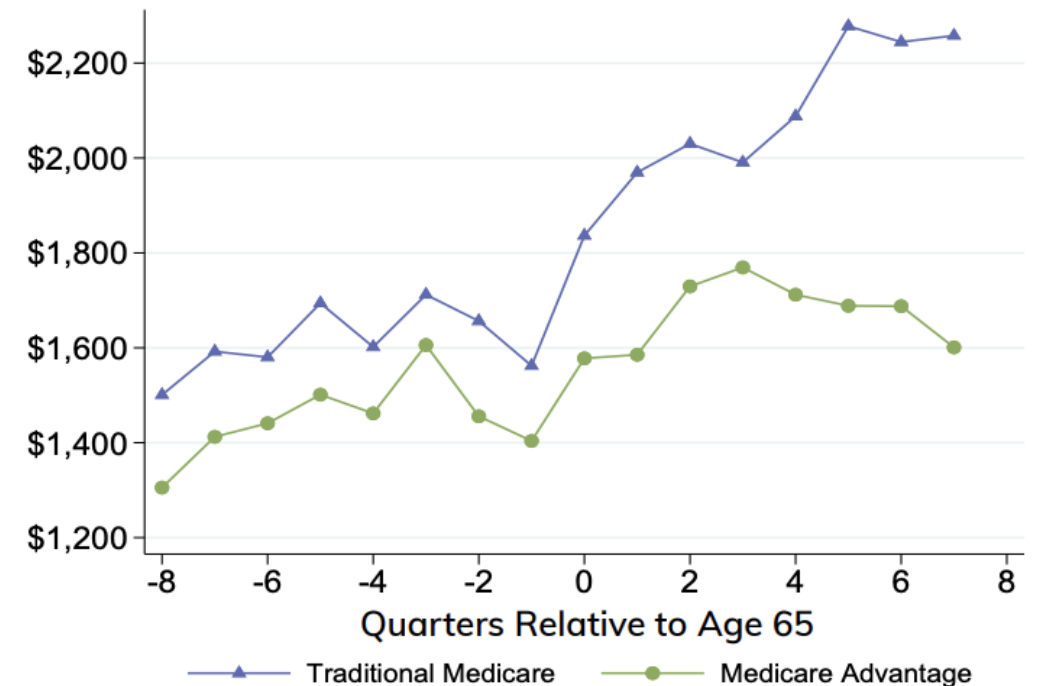


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Consequences

Some are salient

- ESI is expensive.
 - Employees pay \$6,100 for family plan (employers pay ~\$16,000)
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Some are less salient

- Erosion of wage growth (ESI cost is high relative to median HH income ~70k/yr)
- Budget pressure crowds out health and non-health priorities

A Reality Check from Recent Congressional Efforts

- Legislation remains difficult
- Implementation and legal challenges are important

Case Study: Surprise Medical Billing

Very strong market failure argument

- Lack of choice results in above-market prices

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- Contracting reforms or rate setting lose out to provider-preferred arbitration solution
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Outcomes

- Implementation efforts to ensure cost savings have been overturned in court

Current Efforts: Site Neutral

Concept: Medicare payment should be constant across sites of service for many services

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- Full policy: Paying PFS rates for off-campus HOPDs and for certain services at on-campus HOPDs
 - Reduce deficits \$140B/10yrs

Current Efforts: Site Neutral

Concept: Medicare payment should be constant across sites of service for many services

- Full policy: Paying PFS rates for off-campus HOPDs and for certain services at on-campus HOPDs
 - Reduce deficits \$140B/10yrs
- Reality: Maybe can pass site neutral for drug administration at off-campus facilities
 - \$4B/10yr

Looking ahead: priority areas

- > NSA and IRA Implementation
- > Medicare
 - > Medicare Advantage
 - > Sustainability
- > Transparency, prices, and site neutral
- > Patents
- > FDA evidence standards
- > Medicare-Medicaid Integration
- > State: Drug Boards and Prices Policies

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