Is Our Health Care Sustainable?

Board of Visitors
Boston University School of Medicine
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Sustainability Defined

- Maintaining something, keeping it in existence, supplying it with necessities
- Enjoying political and financial support adequate to finance and deliver health care as usual—business as usual—in the decade ahead with no more than moderate adaptations.

3 Viewpoints on Sustainability

1. Physicians, hospitals, other **caregivers**—will we be able to garner revenue needed to survive and steadily improve both quality of patient care and our incomes?
2. **Payers**—will we be willing and able to supply the revenue that caregivers expect and patients require?
3. **Patients**—will enough of us be protected against health costs, and be able to obtain needed, competent, and timely care?

Summary of Risks to Health Care's Sustainability

1. **External**
   - The economy—robust or struggling?
   - Payers—will they be able and willing to finance business as usual?
2. **Internal**
   - Will health costs continue to rise much faster than GDP?
   - Will insurance coverage stabilize or drop?
3. **Value** for money—will health care provide enough value, to enough Americans?

QUESTION:
Early Assessment of Sustainability

- How would you assess the sustainability of today’s U.S. health care on a five-point scale, A – B – C – D – E ?

A = Today’s U.S. health care is essentially very sustainable with at most minor modifications

B – C – D

E = Today’s U.S. health care is not sustainable and will require major modifications

QUESTION: Between today and the spring of 2015, which of these events do you consider likeliest?

A. **Stable** health share of economy + **drop** in share uninsured	**B**. **Stable** health share of economy + **rise** in share uninsured
C. **Rising** health share of economy + **drop** in share uninsured	**D**. **Rising** health share of economy + **rise** in share uninsured

Where the money goes—

Personal Health Spending by Type of Care, 2005

Category	$ billion	share of health $
Hospital care	**$589**	**30%**
Physician + related services	**426**	**22%**
Nursing home + home health	**171**	**9%**
Prescription drugs	**224**	**12%**
All other personal health care	**254**	**13%**
Personal health care subtotal	**$1,664**	**86%**

QUESTION: Do you think that a particular sector faces a greater threat to its sustainability?

Category	$ billion	
Hospital care	**$589**	**A**
Physician + related services	**426**	**B**
Nursing home + home health	**171**	**C**
Prescription drugs	**224**	**D**
NO one sector faces a particularly great threat		**E**

Financial Coverage

- 45 million (1 in 7) are uninsured
- Some 30 million are financially under-insured
- Lack of insurance by sector
  - Pharmaceutical 75 million
  - Dental 100 million
  - Long-term care 200 million+
- Out-of-pocket co-payments, co-insurance, and deductibles are rising, as are employee shares of premiums

QUESTION: Do today's coverage gaps or the risk of greater gaps threaten sustainability of U.S. health care in the next decade?

A = Trivial threat to sustainability

B – C – D

E = Dramatic threat to sustainability

External Economic Influences

- **Reasons for optimism**
  - Entrepreneurial innovation of U.S. economy
  - Resilience and drive of market have been proven repeatedly
  - Even if U.S. living standards decline relative to other nations, they'll still be very high as measured in real income per American

External Economic Influences

- **Reasons for pessimism**
  - Living beyond our means
    - federal deficit = 4 percent of GDP
    - trade deficit approaching 6 percent of GDP
  - Low domestic savings → borrow from others, who might not lend in future
  - Tools to fight recessions—low big deficits and low interest rates—are being used aggressively during ostensibly good times

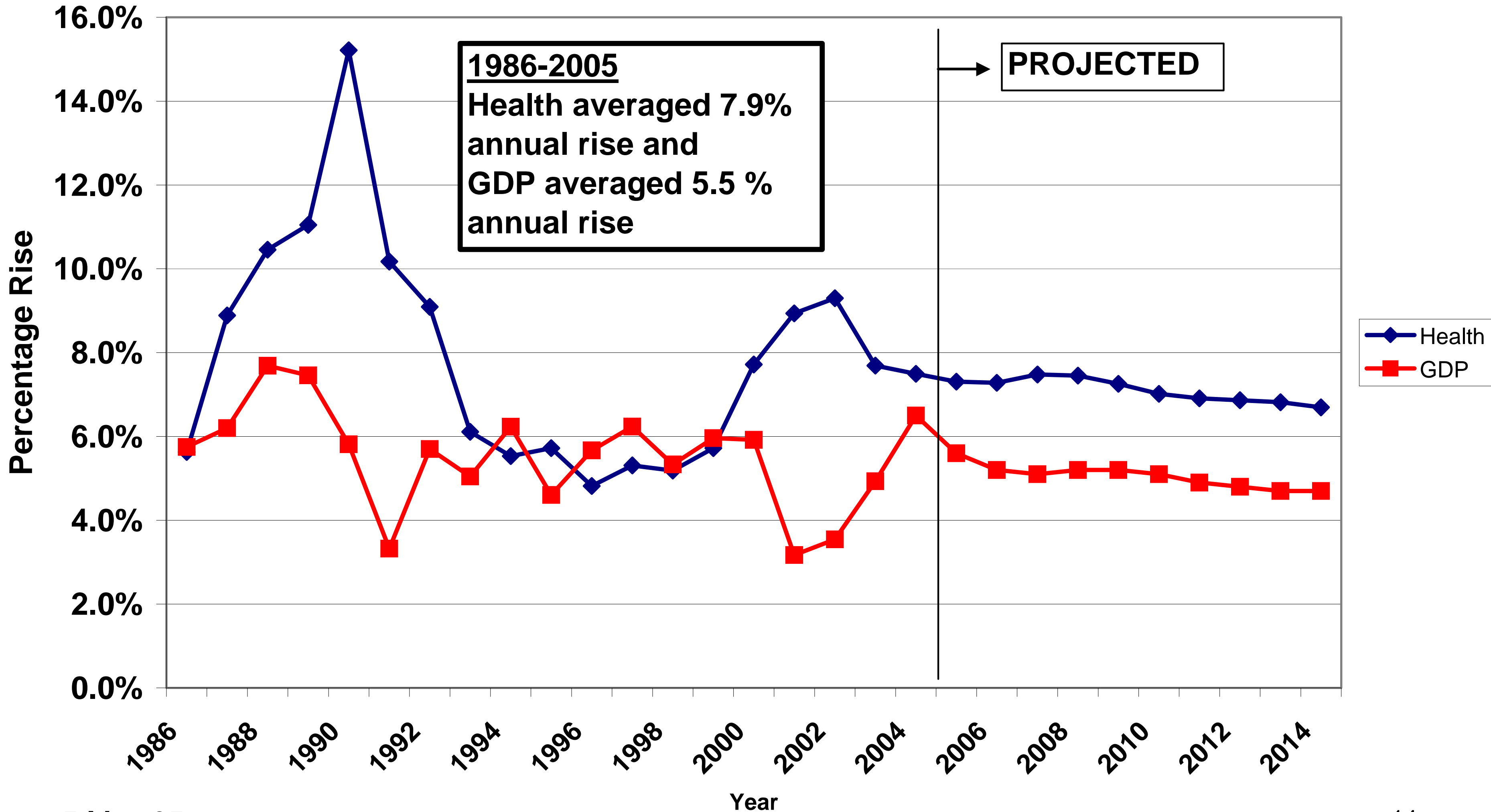
QUESTION: How would you assess the robustness of the U.S. economy and its vulnerability to serious recession in the next decade?

- **A** = very robust economy, facing little threat of a destabilizing recession—one entailing an actual drop in real GDP

B – C – D

- **E** = unstable and vulnerable economy, facing serious threat of destabilizing recession

Percentage Rise in Health Spending and GDP, U.S. 1985 - 2014



Health Care's Capacity to Respond to a 5% Drop in Real GDP

- A substantial (5%) drop in real GDP, whether gradual or sudden, would probably boost pressure to slow the rise in health spending, or even to cut spending.
- In response to this pressure, physicians and hospitals might react flexibly and successfully to protect themselves and their patients. Or they might not.

QUESTION: How do you assess physicians' and hospitals' current abilities to react to a 5% drop in real health spending?

- **A** = high current ability to react in ways that minimize harm to all patients and to caregivers themselves

B – C – D

- **E** = low current ability to minimize harm to all patients and to caregivers themselves

Where the money comes from—

Sources of revenue to finance U.S. health care, 2005

Source of revenue	$ billion	% of revenue
Medicare	$332	17%
Federal Medicaid	182	9%
State Medicaid	135	7%
Private insurance	691	36%
Out-of-pocket	262	14%
Other public + private	336	17%
Total	$1,936	100.0%

Will some payers face greater pressures to slow growth in revenue?

- Whether the U.S. economy thrives or not, payers are experiencing varying levels of difficulty in generating increased revenues to finance health care. Consider
  - Federal worries about Medicare costs
  - Missouri's recent vote to eliminate its Medicaid program in 2008
  - Cities' and towns' difficulties in finding dollars for employees' health insurance
  - General Motors' $5 billion yearly obligation for workers' and retirees' health care

QUESTION:

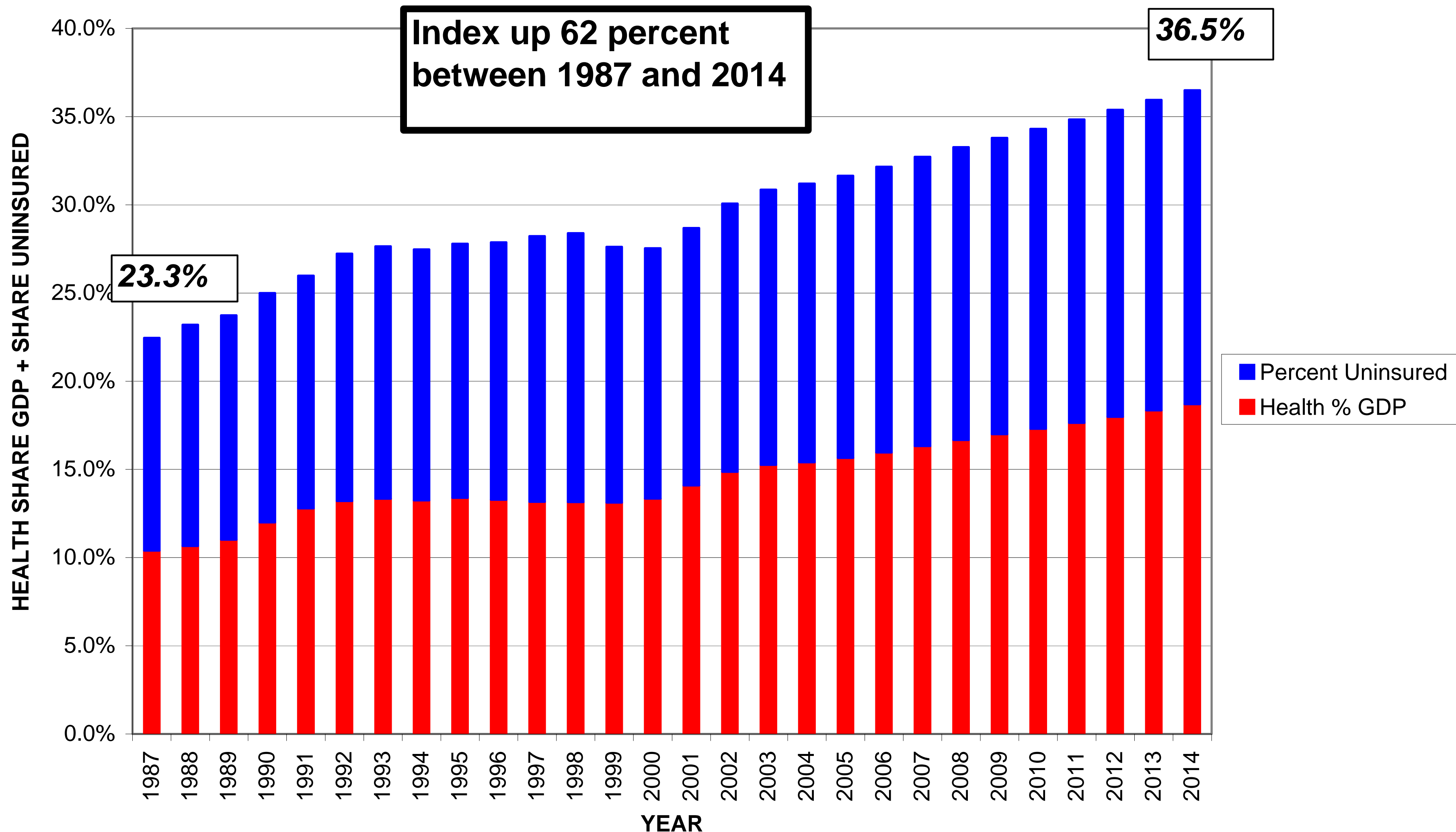
Which source of revenue faces the greatest risk of constraint in the next decade?

Source of revenue	$ billion, 2005	
Medicare	$332	**A**
Federal Medicaid	182	**B**
State Medicaid	135	**C**
Private insurance	691	**D**
Out-of-pocket	262	**E**

Some threats to sustainability originate **inside** health care itself

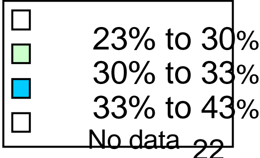
- Rising cost of health care—now 15.6 percent of the economy, and projected to rise by three percentage points to 18.7 percent in 2014
- Rising uninsured share of Americans—now 16.0 percent and projected to rise by almost two percentage points to 17.8 percent in 2014.

HEALTH'S SHARE OF GDP + SHARE OF PEOPLE UNINSURED, 1987 - 2014



Health Care's Share of Economy + Share of People Uninsured, 2005

29% Washington
39% Montana
32% North Dakota
24% Minnesota
32% Oregon
35% Idaho
31% Wyoming
30% South Dakota
28% Wisconsin
28% Michigan
27% New Hampshire
30% Vermont
33% Maine
27% Massachusetts
33% New York
31% Rhode Island
26% Connecticut
32% Nevada
32% California
26% Utah
30% Colorado
28% Nebraska
29% Iowa
30% Illinois
30% Indiana
30% Ohio
31% Pennsylvania
30% New Jersey
23% Delaware
42% West Virginia
28% Virginia
31% Maryland
29% Kansas
29% Missouri
34% Kentucky
31% Tennessee
33% North Carolina
33% South Carolina
32% Arizona
38% New Mexico
38% Oklahoma
38% Arkansas
40% Mississippi
34% Alabama
31% Georgia
40% Texas
38% Louisiana
39% Florida
33% Alaska
27% Hawaii



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Benchmark QUESTION: Please compare health care and defense spending in 2005

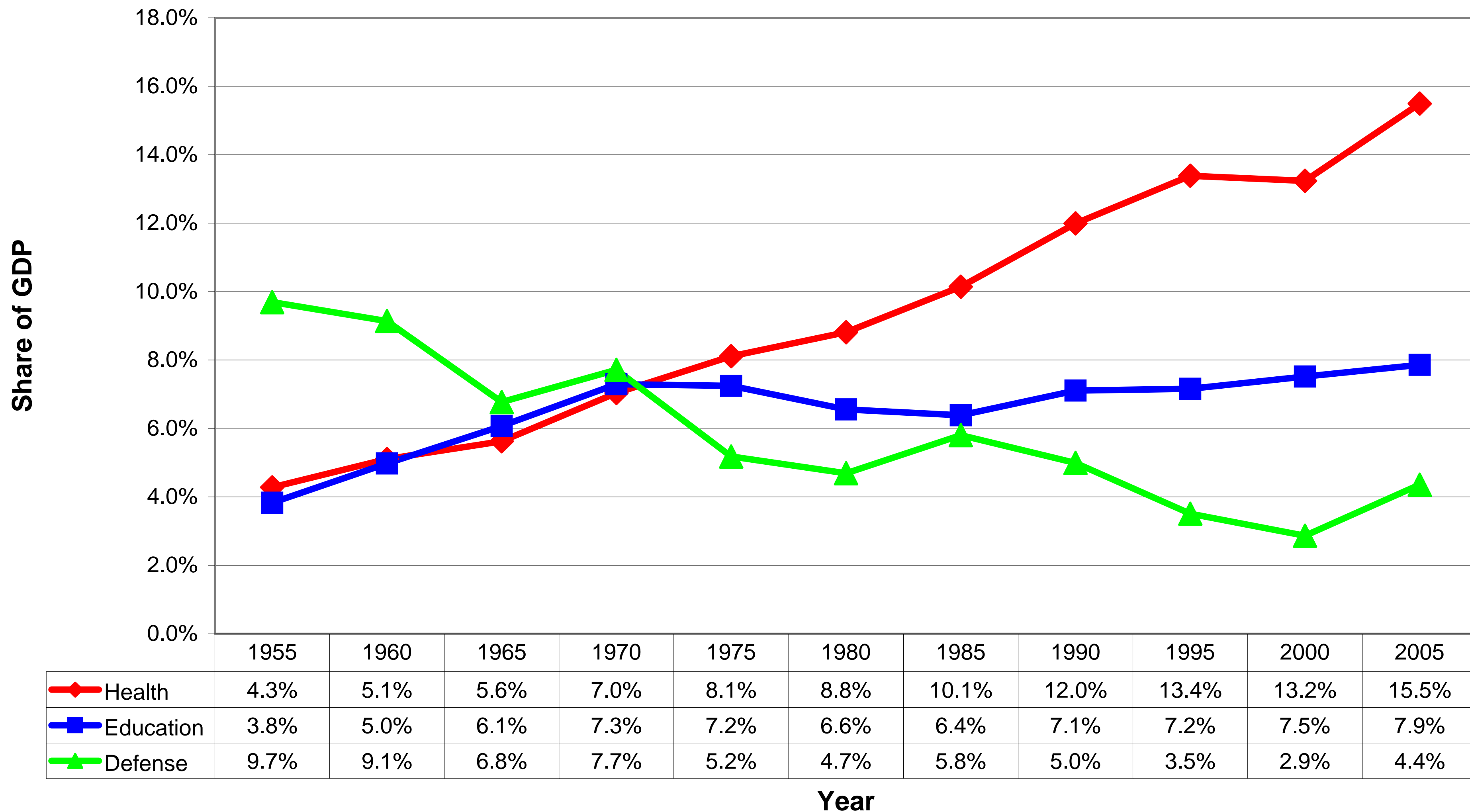
A = defense is about 2X health

B = health and defense are about equal

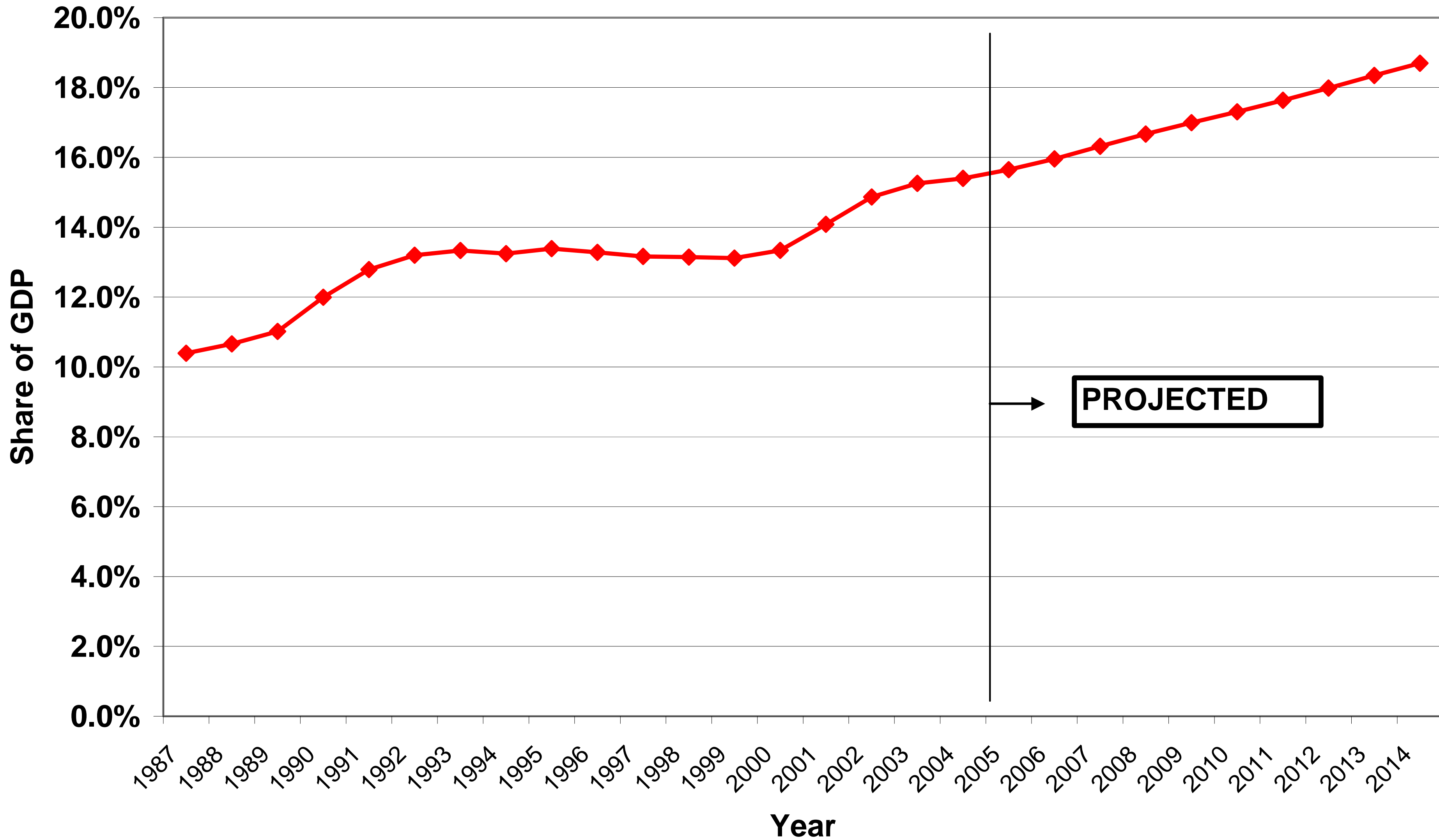
C = health is about 2X defense

D = health is about 4X defense

HEALTH, EDUCATION, AND DEFENSE SHARES OF U.S. GDP, 1955 - 2005



	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005
Health	4.3%	5.1%	5.6%	7.0%	8.1%	8.8%	10.1%	12.0%	13.4%	13.2%	15.5%
Education	3.8%	5.0%	6.1%	7.3%	7.2%	6.6%	6.4%	7.1%	7.2%	7.5%	7.9%
Defense	9.7%	9.1%	6.8%	7.7%	5.2%	4.7%	5.8%	5.0%	3.5%	2.9%	4.4%


Health's Share of GDP, 1987 - 2014
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Share of GDP
PROJECTED
1987
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2012
2013
2014
Year

QUESTION: Which of these possible sources of recent/future increases in U.S. health costs do you think is the most salient?

A Aging population

B New technology boosts outcomes but *inevitably* costs more

C Legacy of open-ended health care spending + stark failure of almost all cost controls

- badly designed cost controls or weak political will to enforce them?

D Waste

E Efforts to boost coverage

A. Share of U.S. population over 65

- 9.2% in 1960
- 12.4% in 2000
- 20.0% in 2030

- But most wealthy European nations now have elderly population shares that approach the level the U.S. will reach in 2030. And they now spend about one-half as much per person as we do.

B. New technology boosts outcomes but *inevitably* costs more

- YES: Implantable defibrillators, left-ventricular assist devices, better stents, better anesthetics, and better meds all cost more—and they're worth it.
- NO: If we rewarded cost-reducing technologies generously, they could cut cost in health care, as they do elsewhere in the economy.
  - How about a Nobel prize for something much cheaper (and just as good) as an existing technology?
  - How about a very big prize for an Alzheimer's drug that really works (and slashes nursing home costs)?

C. Legacy of open-ended financing and failure of cost controls

- 1945-1972: most people thought that higher health spending was a very good idea. Hospitals and physicians got used to blank check financing.
- Post-1973, caregivers haven't cheerfully accepted either market or regulatory spending restraints.
  - Caregivers have successfully gamed most cost-cutting methods, though often with great effort.
  - Both physicians and hospitals have understandably gravitated toward more lucrative—and costly—patterns of specialized care—the most specialized in the world.
- Cost controls not politically popular—who gains?

D. Waste—1/2 of health spending?

1. **Clinical**: unnecessary care
   – Sometimes financially motivated
   – Sometimes caused by defensive medicine
2. **Administrative**
   – Owing to complexity
   – And especially owing to payers' mistrust of caregivers
3. **Excess prices**
   – Rx, supplies, some incomes
4. **Fraud, theft**
   – Light punishment, perception that no-one's really hurt

E. Efforts to boost coverage

- Important in 1960s, as Medicare and Medicaid raise spending rapidly
- Seldom important subsequently
  - Medicaid growth, for example, has tended to partly offset drop in private insurance
- New Medicare Rx benefit (Part D) may raise spending, if enough people enroll

QUESTION: Which method of containing cost would be *most effective* + *helpful*?

	Wholesale	Retail
PUBLIC	**A** Payers cut fees to caregivers, Regulate supplies of caregivers	**B** Empower MDs to spend carefully→ they cut clinical waste + paperwork
MARKET	**C** Hospitals, HMOs, and drug makers compete by price	**D** Make patients pay more→ they shop more carefully by price, quality

QUESTION: Which method of containing cost is *most likely to be relied on in next decade*?

	Wholesale	**Retail**
PUBLIC	**A** **Payers cut fees to caregivers,** **Regulate supplies of caregivers**	**B** **Empower MDs to spend carefully→ they cut clinical waste + paperwork**
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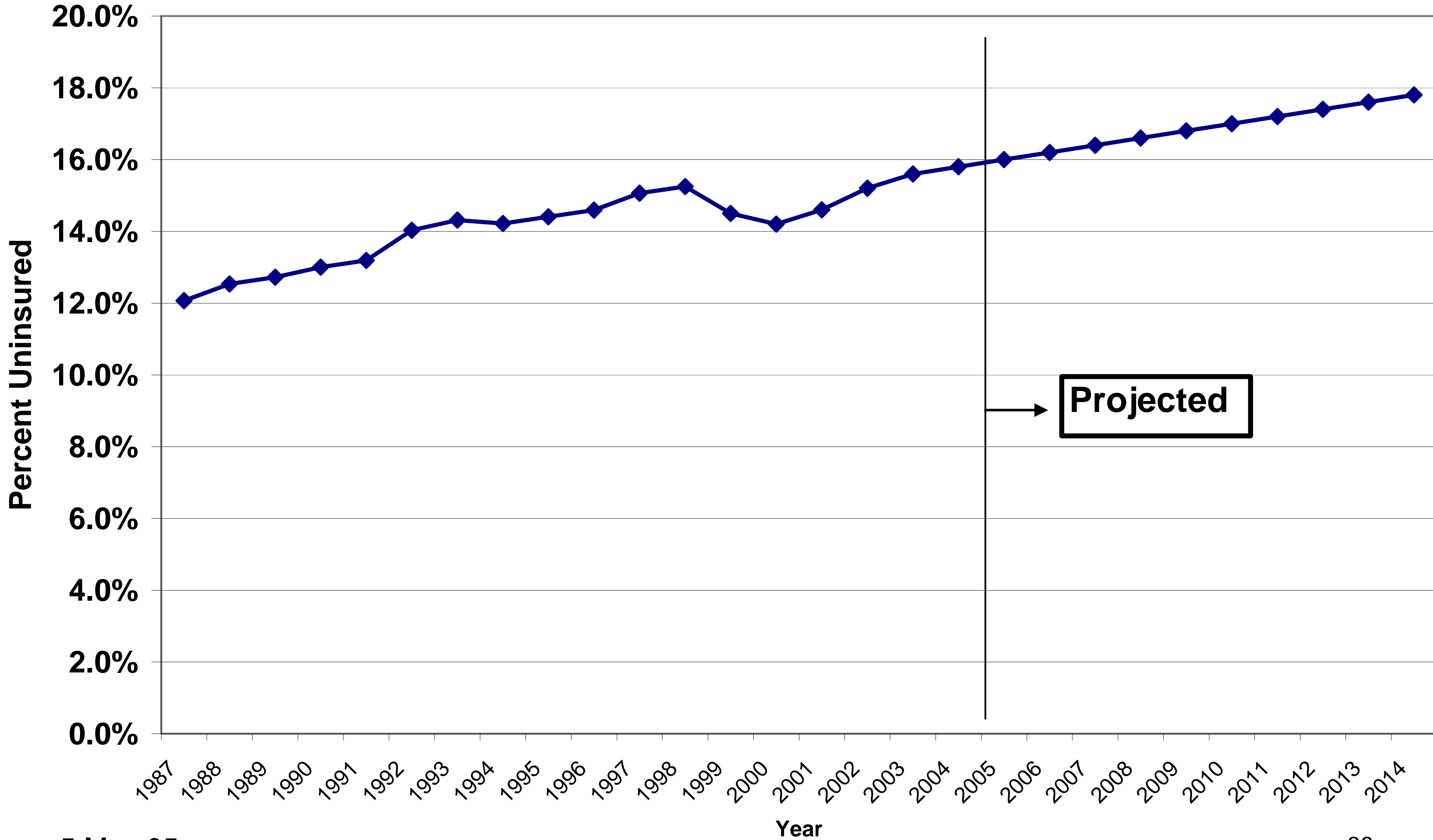
(Detail: methods of containing cost)

	Wholesale	Retail
PUBLIC	•Medicare prospective payments to hospitals by the diagnosis •resource-based relative value payments to physicians •certificate of need •reward cost-cutting technologies •boost primary care physicians and community hospitals •prescription drug price controls	•squeeze clinical waste through bedside rationing , coupled with end of malpractice system •squeeze administrative waste by improving payer-caregiver trust •develop/disseminate more evidence on what care works, and who needs it •evidence to caregivers on actual cost of each type of care
MARKET	•hospitals compete by price, quality •HMOs compete by price and networks' comprehensiveness •prescription drug insurers compete by price, networks, and formularies	•raise patients' out-of-pocket payments •further de-insure patients by promoting health savings accounts •give patients better information about need for care and caregivers' price and quality

Reduced coverage—the other internal threat to sustainability

- Latest projection: 56+ million uninsured in 2013, up from 45 million in 2003
- Why people lose coverage
  - ! Rising insurance costs to employers and employees
  - Loss of manufacturing and jobs with insurance
  - Growing U.S. income inequality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Projected
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Year

Ways to improve coverage

- Incremental coverage improvements generally require more money
- Employer mandates would increase cost
- Medicaid expansions would increase cost
- Exception: Single payer *promises* to cut administrative waste, capture the money saved, and recycle it to cover more people
- All promise to save some money through prevention and early detection—likely to be one-time savings at best

Methods of improving coverage

	Small, Incremental	Big
Hike Cost	•Subsidize employer, employee purchase	•Medicaid expansions •Employer mandate •Individual mandate
Cut Cost	•Health savings accounts?	•Single payer? •Financially neutral, physician-directed closed systems?

QUESTION: Which method of improving coverage would be *most helpful and effective?*

	Small, Incremental	Big
Hike Cost	**A** Subsidize insurance purchase	**B** Expand Medicaid, employer or individual mandates
Cut Cost	**C** Health savings accounts	**D** Single payer, or financially neutral MD-directed systems

QUESTION: Which method of improving coverage is *most likely to be relied on in the next decade?*

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QUESTION: Repeated Assessment of Sustainability

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Great reasons for optimism

1. Health care is easiest problem to solve in U.S.
   – Not easy—just easier than all the others
2. It’s helpful to set a goal we can attain
   – Probably not immortality
   – How about medical security?
     - Confidence we’ll get the care we need from a competent physician, hospital, other caregiver
     - Without having to worry about the bill when ill
     - And without having to worry about losing coverage, ever