Notes on Coverage Proposals

PHILIP ELLIS, PH.D.
OCTOBER 18, 2019

Overview

Will touch on questions across three areas:

- COVERAGE
- COSTS
- FINANCING
**COVERAGE: What do you mean by “universal”?**

- Covering the last few percent of people can be relatively expensive

- What about people who are eligible but not enrolled?
  - For example, millions of people are eligible for Medicaid, not currently enrolled, but could be enrolled if they had a significant health problem

- All else equal, total spending rises when more people are covered
  - Insured people use the ER too

**COSTS: Bending the cost curve?**

- Which curve do you mean? Federal spending or total system spending? Proposals can affect each in different directions

- Health consumption expenditures in the U.S. will total about $45 trillion over the next decade (2020-29)
  - Including tax expenditures, federal costs will be roughly $24 trillion
  - Excludes “Other Third Party Payers”

- Note that the U.S. is an outlier on the level of spending – but in the middle of the pack on growth rates over the last 20-30 years
COSTS: How much are providers paid?

- A crucial question for system and federal costs
- Many analyses have found that private insurance pays higher prices, on average
  - CBO found that Medicare’s hospital prices were about 53 percent of the rates paid under private insurance
  - MedPAC found that Medicare’s rates for physician and professional services were 75 percent of commercial rates paid by PPO plans
- Paying Medicare rates for more or all enrollees would thus be a payment cut for many providers

COSTS: What role for utilization management?

- Private insurers generally use various techniques to control the utilization of services – which Medicare generally doesn’t use
  - Examples include prior authorization, requirements for referrals for specialty care, and step therapy
- Medicare Advantage plans have costs about 10 percent lower, on average, than traditional Medicare
  - That’s even after accounting for higher administrative costs and profits for Medicare Advantage plans
  - Payment rates are similar, so the difference is in quantity and intensity
- Understandably, patients tend not to like these “hoops” – but system costs would probably be higher without them, all else equal
FINANCING: What happens to employer contributions?

- For people with employer coverage, the employer typically “pays” about three-fourths of the premium.
- But economists generally agree that workers really pay for those employer costs via lower wages.
- If a proposal crowds out employer coverage, economists estimate that employees as a group will receive higher cash compensation.
- Not everybody believes economists.
- What happens to employer contributions will play a key role in analyses of who wins and who loses under a proposal.

Discussion

- Questions?
- Comments?
- Thank you