

United States Health Care Financing and Spending: The Flow of Money

Robert Saunders

Research Director, Payment and Delivery Reform

Duke-Margolis Center for Health Policy

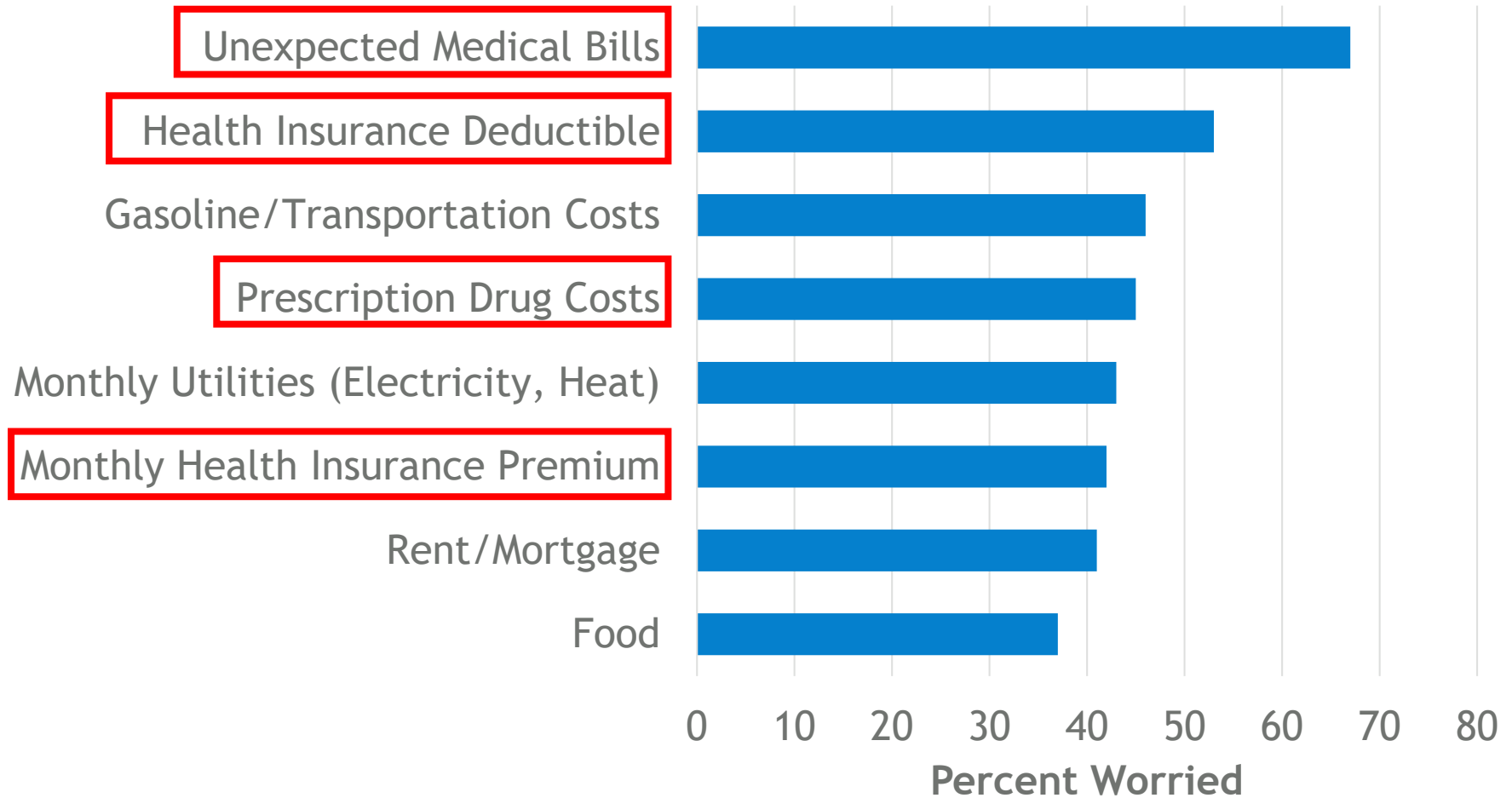
March 6, 2020

Conclusions

- US health care financing is complex, including many public and private sector players
- Health care costs are high, and there are many drivers of cost
- Multiple new strategies are being implemented to try and reduce costs; we're still learning what works

Why Do We Care About Health Care Costs?

People Worried About Health Care Costs



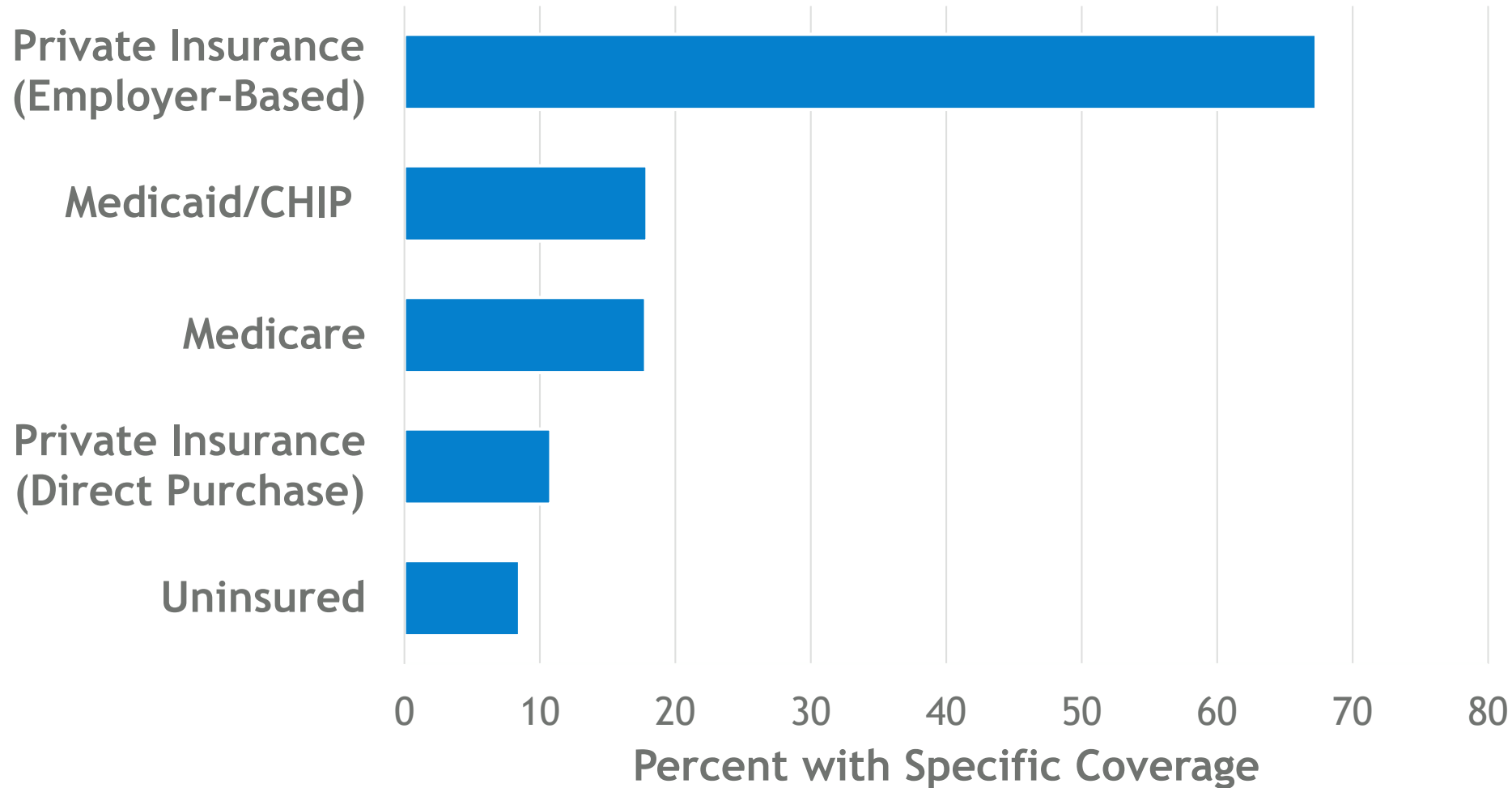
Presentation Overview

- **Who purchases health insurance coverage?**
- How do we pay for health care?
- How much does health care cost? What are we getting from our spending?
- Why are costs so high? How do we reduce them?

Many Kinds of Health Insurance and Different Ways to Get It

- Many **employers/businesses** purchase health insurance for their employees.
- The federal government provides **Medicare** for those age 65 or older or those with certain disabilities.
- State and federal governments provide **Medicaid** for certain lower-income people (exact eligibility criteria varies by state).
- Some people purchase **individual private health insurance** for themselves and family (such as through the state or national insurance exchanges).
- Some people don't have any health insurance (**uninsured**). They pay the full cost of health care services directly to providers.

Many Kinds of Health Insurance and Different Ways to Get It



Presentation Overview

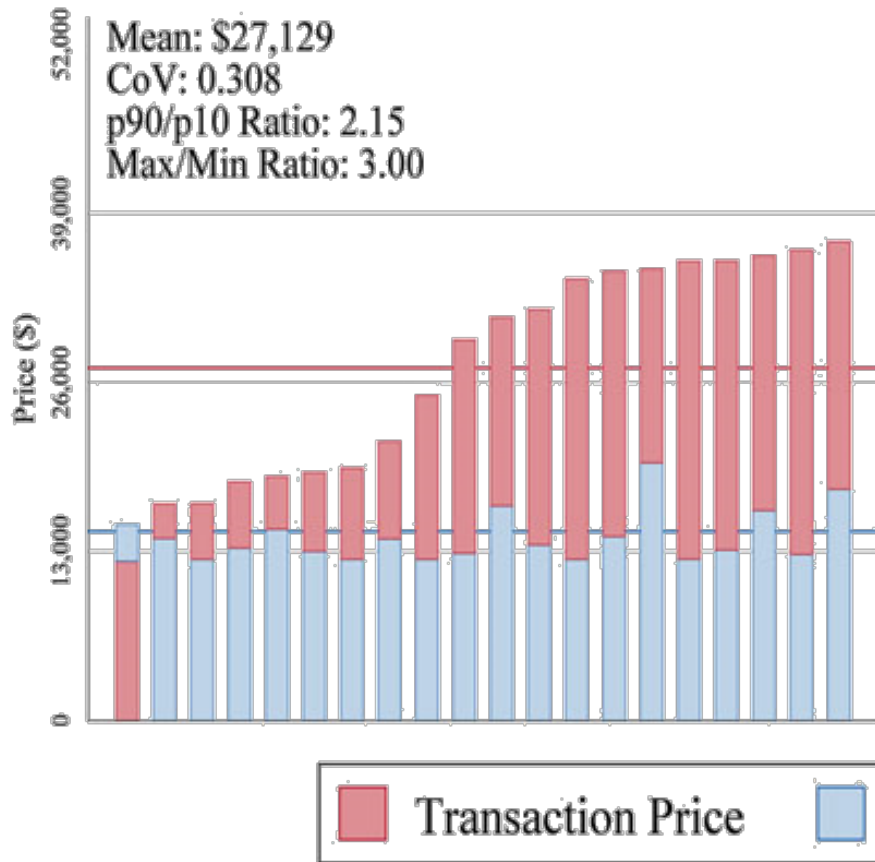
- Who purchases health insurance coverage?
- **How do we pay for health care?**
- How much does health care cost? What are we getting from our spending?
- Why are costs so high? How do we reduce them?

How Does Private Insurance Pay Hospitals, Doctors, and Others?

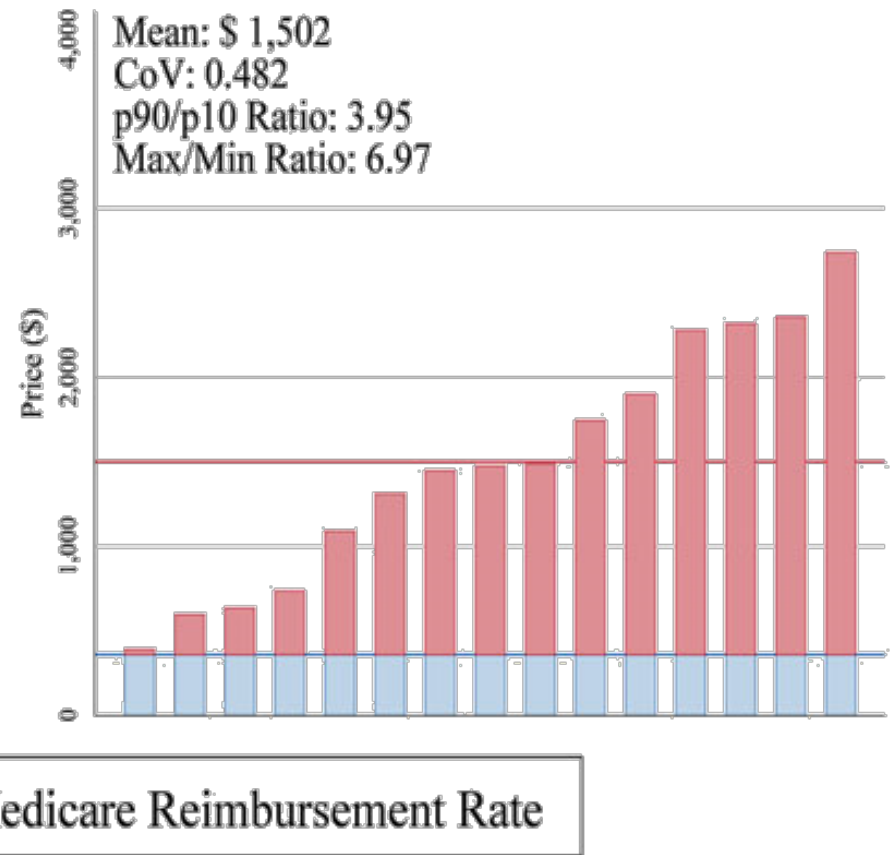
- Private health insurance companies negotiate rates with providers
 - *Example:* A physician may charge \$500 for a clinic visit, but the insurance company pays them a negotiated rate of \$300.
 - *Nuance:* The only people who pay the full charge are those without insurance.
- Negotiated rates are only for hospitals or clinicians part of an insurer's "network"
 - Providers accept a lower rate in an insurer's network to get greater volume of patients (as patients pay less money to visit in-network providers)
 - **Surprise bills happen when someone accidentally receives care from someone out of network**

Prices Paid by Private Insurance Vary Dramatically

Panel A: Knee Replacement Prices



Panel B: Lower Limb MRI Prices



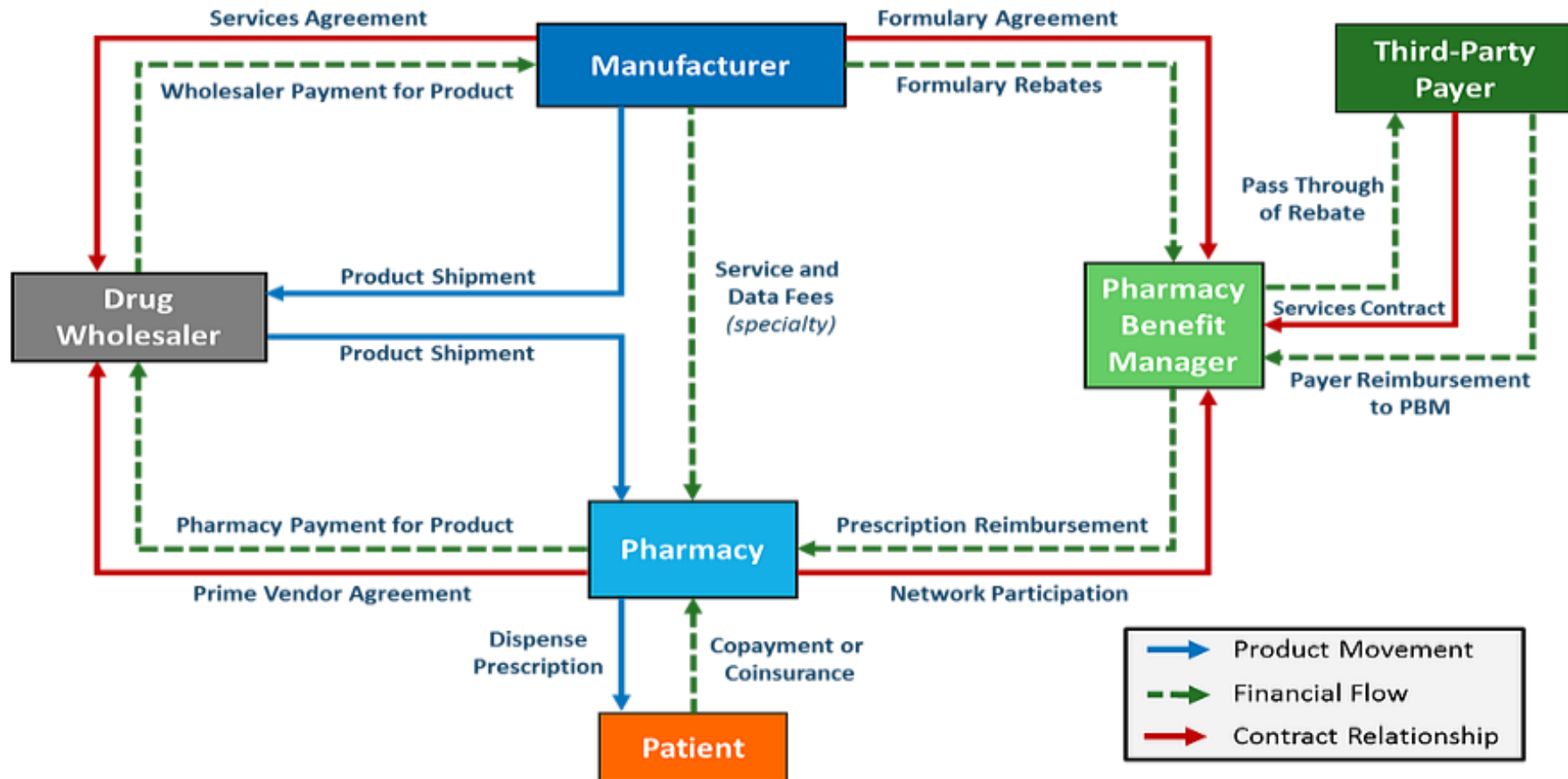
Medicare Pays Providers Differently

- Medicare is provided by the federal government; it is the same in all states.
- Traditional Medicare pays providers based on a national fee schedule that is adjusted for local factors and other factors about the health care organization.
- Sometimes Medicare is administered by private health insurance plans (Medicare Advantage), and they pay providers differently.

Medicaid Has Another System

- Medicaid is provided by the states (with funding split between state and federal government)
 - Each state has a different program
- Sometimes administered by state governments with a set fee schedule, sometimes administered by private health insurance plans (who contract and negotiate with providers)

Drug Are Completely Different



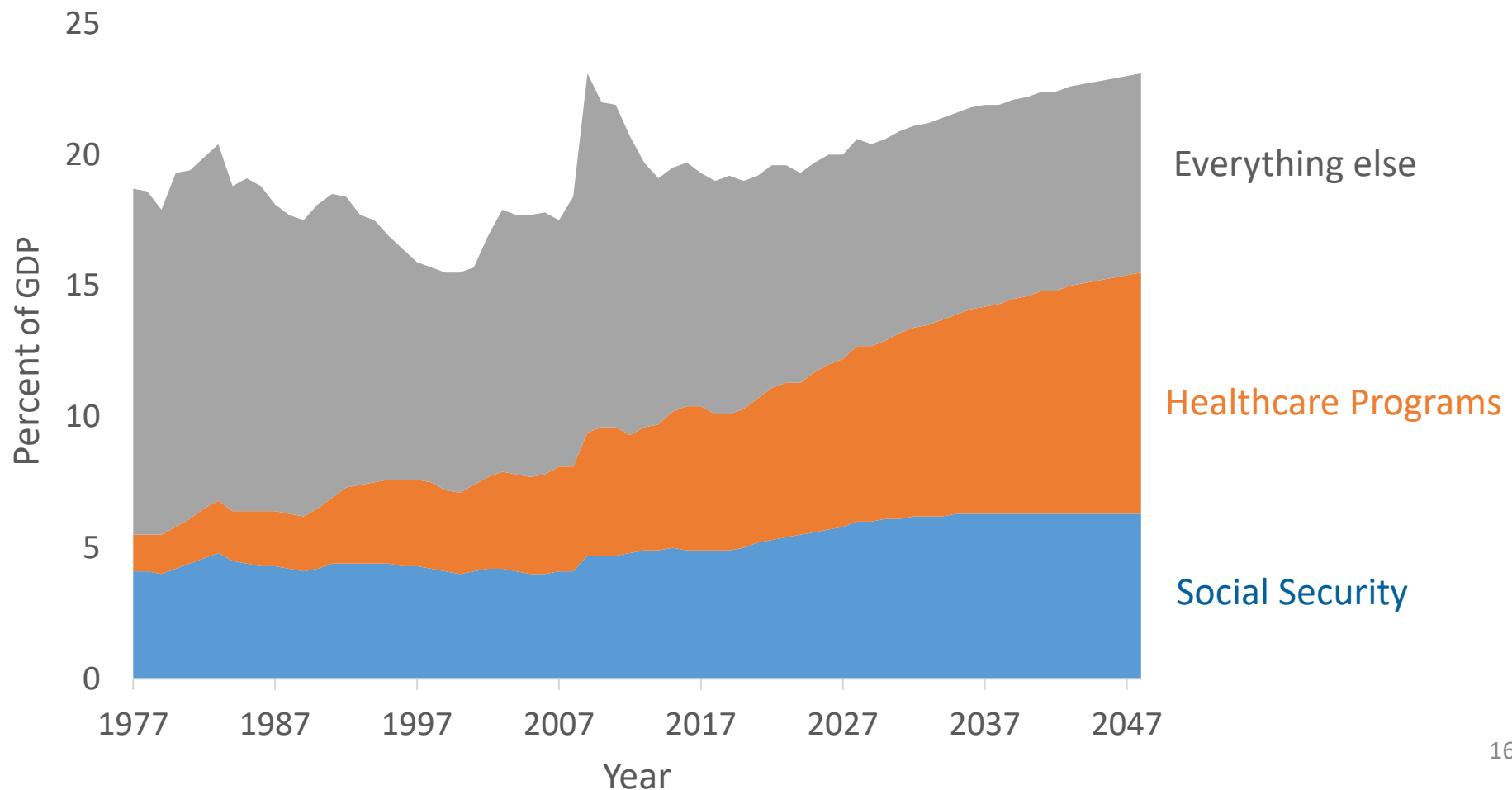
How Do We Pay for Pandemics?

- People use their health insurance for their care
 - Can be expensive! Hospitalized patients with severe pandemic flu can run up a \$200k bill.
- In addition, federal agencies, such as CDC, FDA, NIH, ASPR, DoD, USDA, provide resources and services:
 - surveillance; laboratory testing; stockpiling drugs, personal protective equipment, and supplies; approving screening tests, vaccines, and drugs; research and development of vaccines; grants to localities and health systems for public health emergency infrastructure; coordination; and other activities.
- Much public health provided and operated by states and localities

Presentation Overview

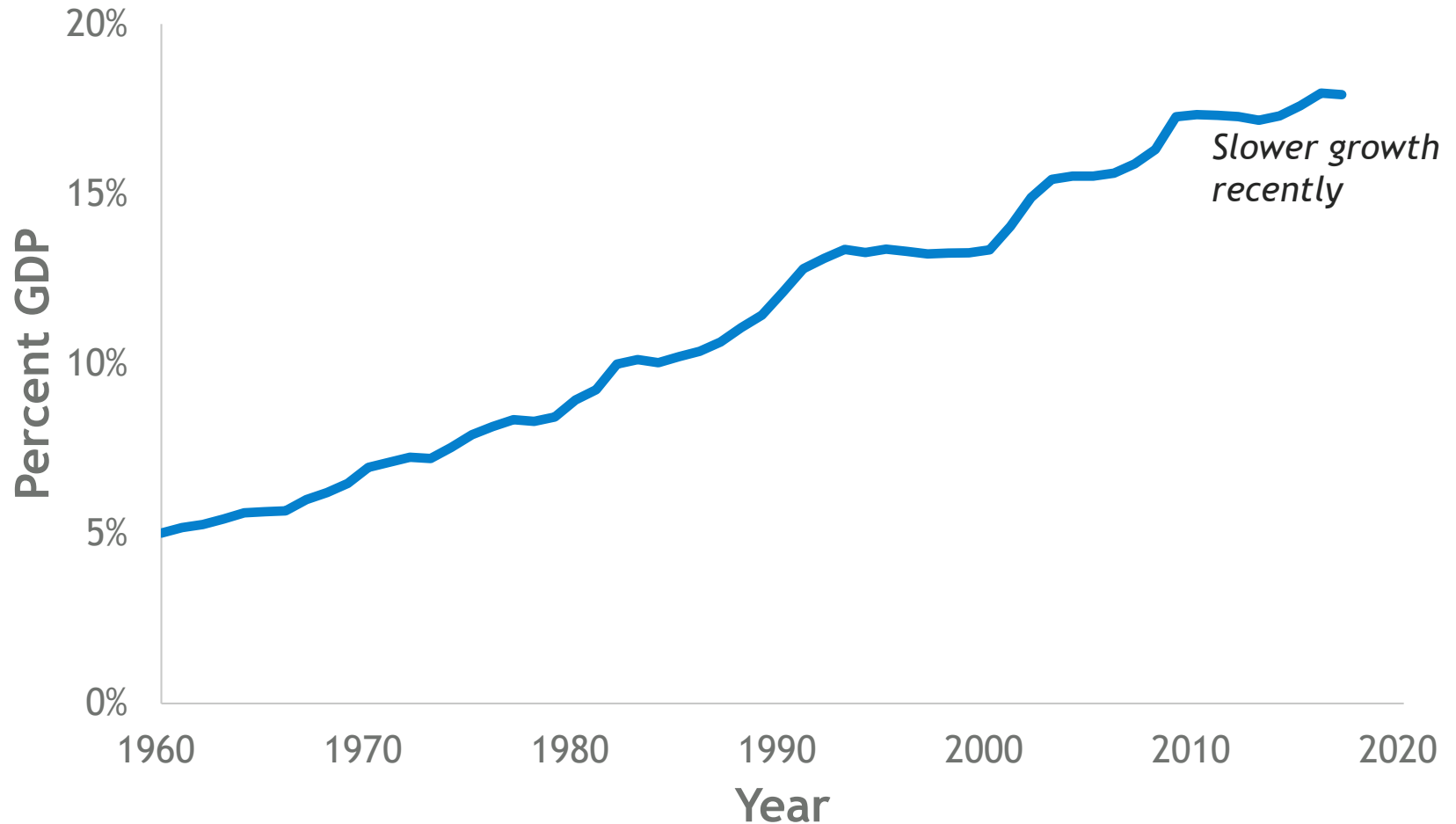
- Who purchases health insurance coverage?
- How do we pay for health care?
- **How much does health care cost? What are we getting from our spending?**
- Why are costs so high? How do we reduce them?

Health Care Consuming More of Federal Budget



Source: Congressional Budget Office, 2018 Long-Term Budget Outlook.

Also Larger Percent of the Economy...

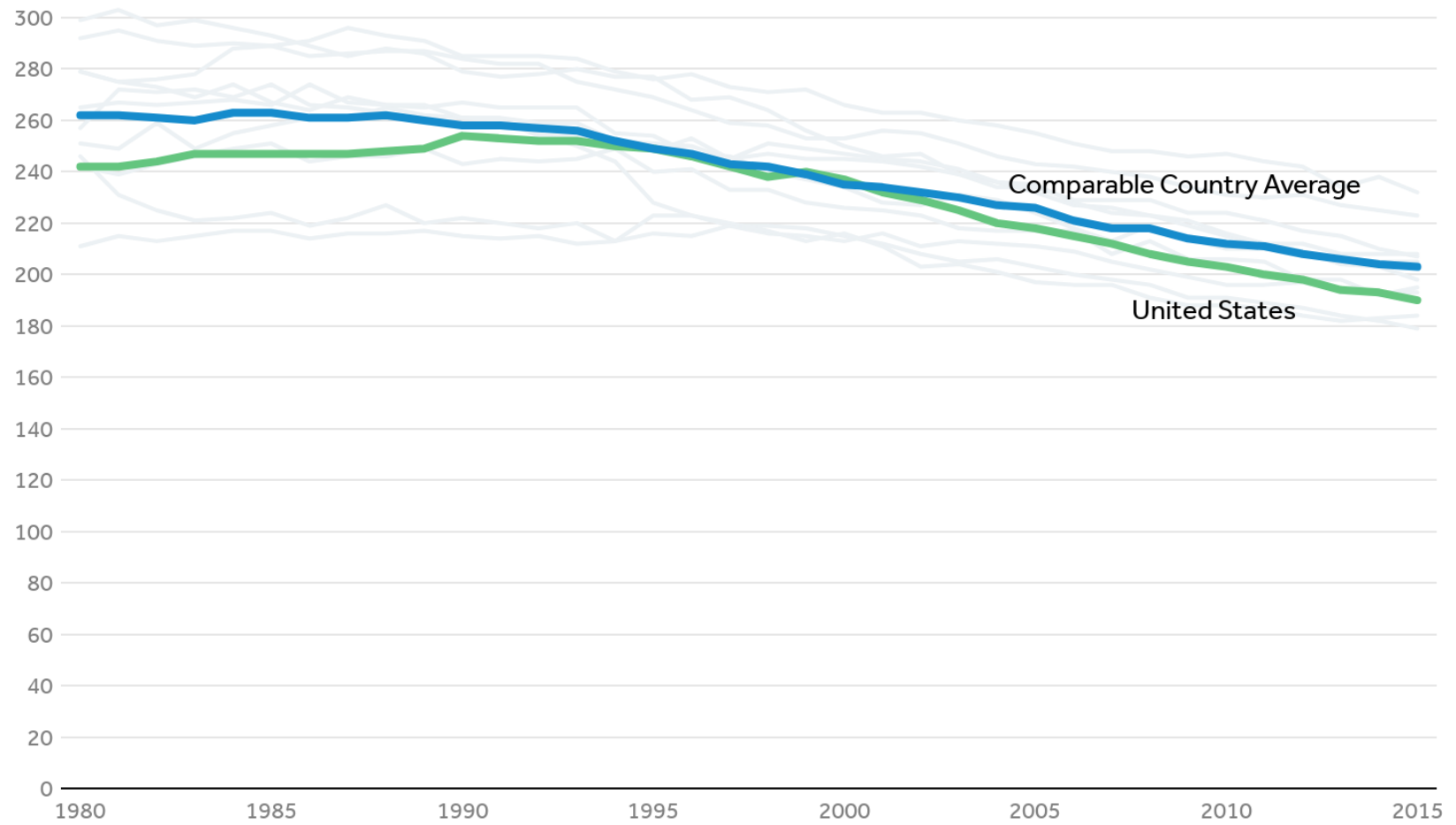


Quality of Care Is a Mixed Bag

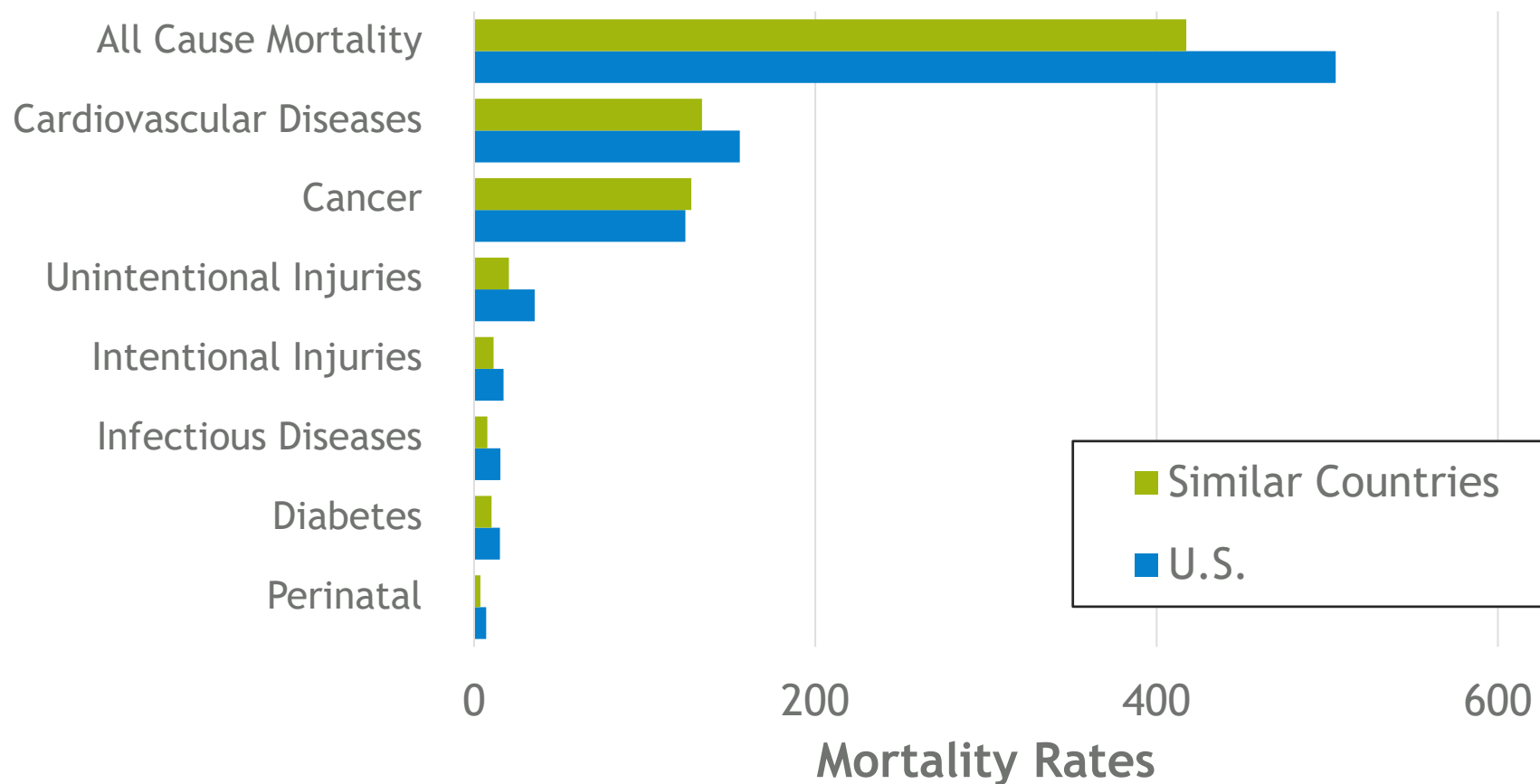
- The U.S. does well in some areas compared to other countries
 - Cancer screening and survival rates; some highly technical areas
- The U.S. does less well in chronic disease management
 - Struggle with coordination of care and more basic things
- The U.S. continues to struggle on coordinating between mental and physical health

Lower Cancer Mortality than Other Countries...

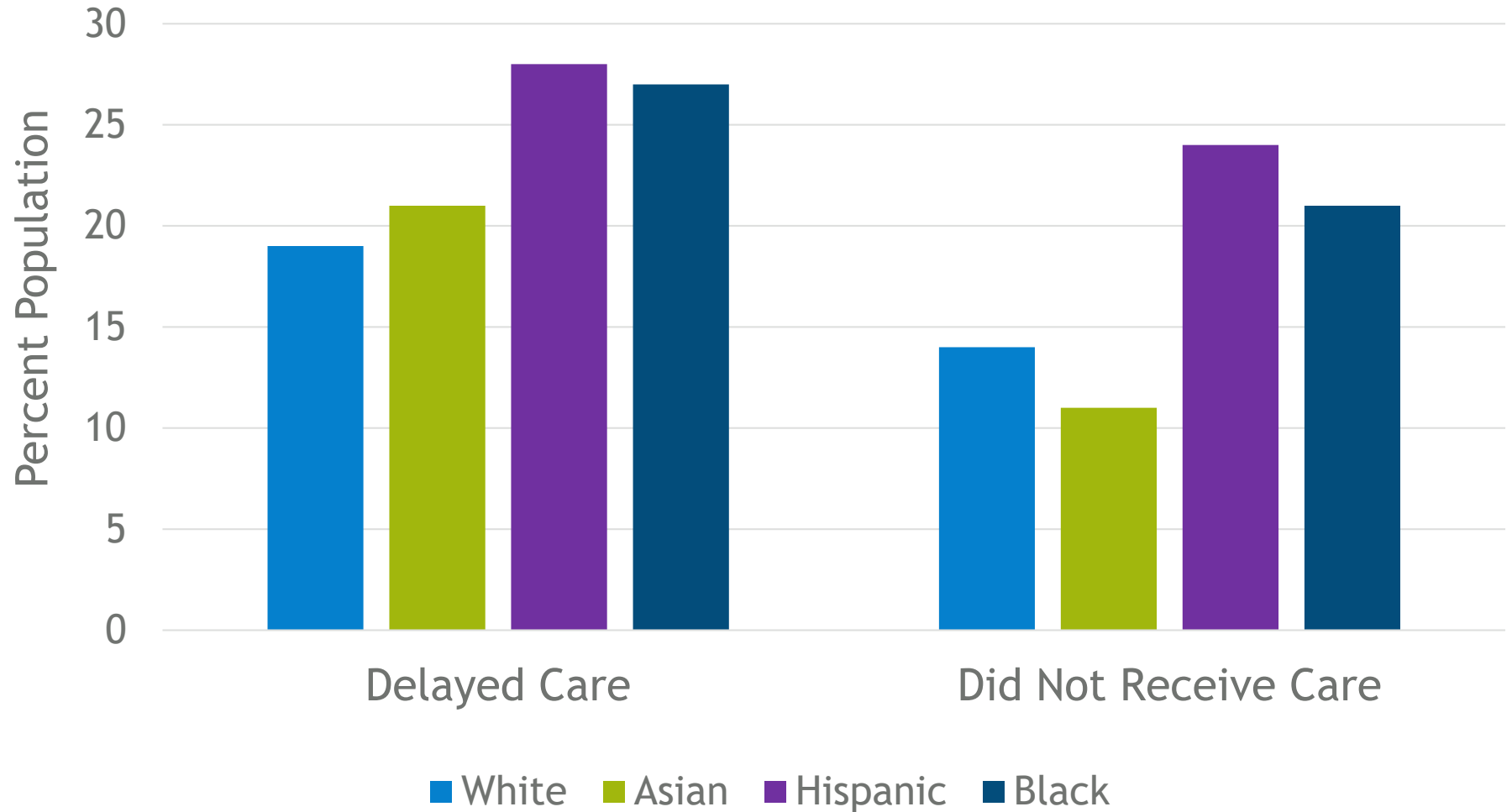
Age-adjusted neoplasms mortality rate per 100,000 population 1980-2015



But US Has Higher Mortality for Most Conditions

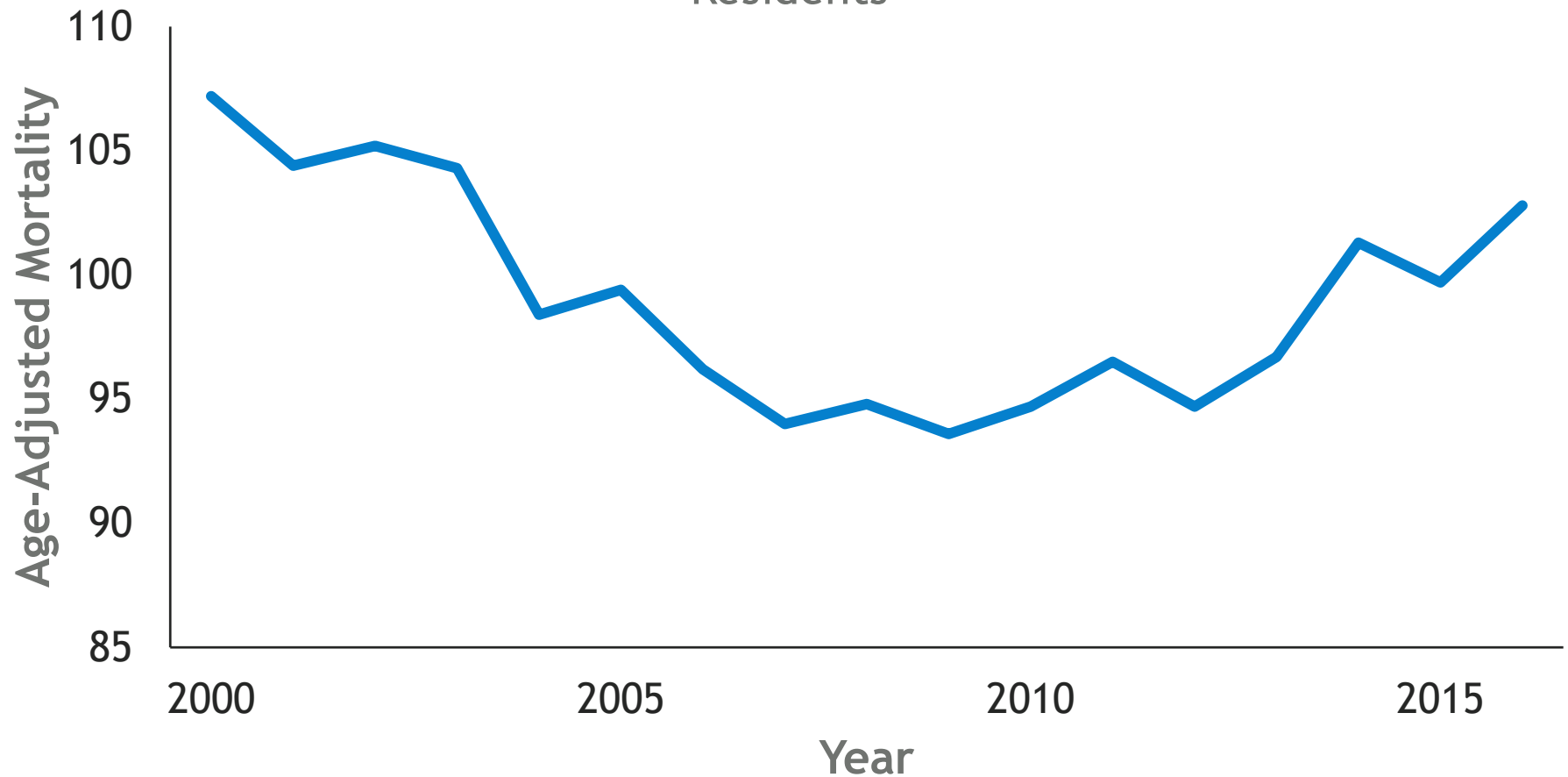


There Are Disparities in U.S. Health Care Access



And Disparities in U.S. Outcomes

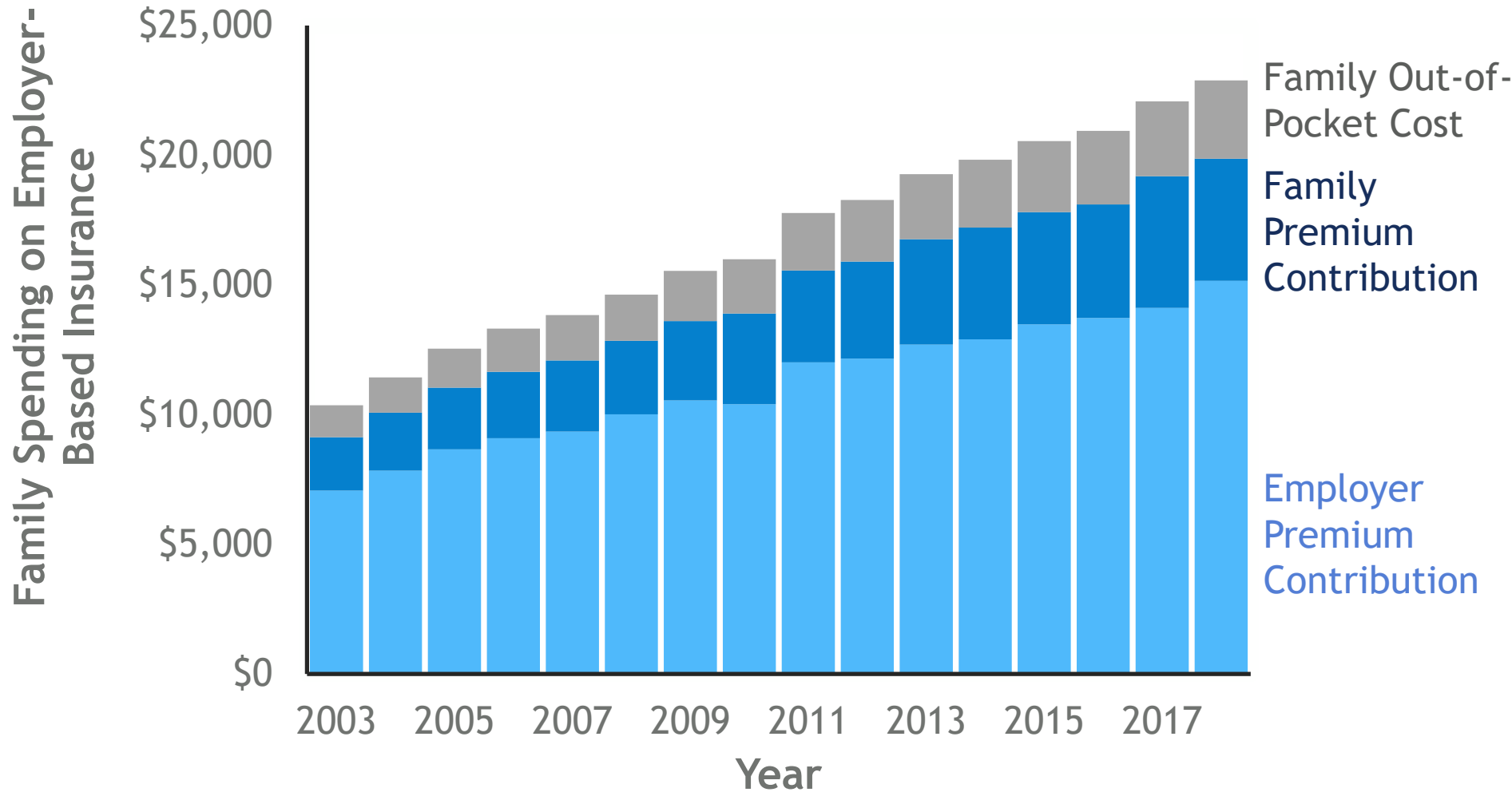
Rising Cardiovascular Mortality for Middle-Aged, Rural Residents



People Care about the Cost They Pay Directly

- *Premiums*: A set monthly payment for health insurance
- *Deductibles*: An amount the individual must pay before using health insurance to cover costs
- *Co-pays/Co-insurance*: A set dollar amount or percentage of costs for services, which varies based on your health insurance plan

Which Has Been Going Up



People Find It Hard to Estimate Their Out-of-Pocket Spending

Explanation of Benefits in front of you

- What would you pay for a primary care visit for flu?
- What would you pay for a ER visit if you're sick in the middle of the night?
- What would you pay for a hospitalization if flu is very bad?

Presentation Overview

- Who purchases health insurance coverage?
- How do we pay for health care?
- How much does health care cost? What are we getting from our spending?
- **Why are costs so high? How do we reduce them?**

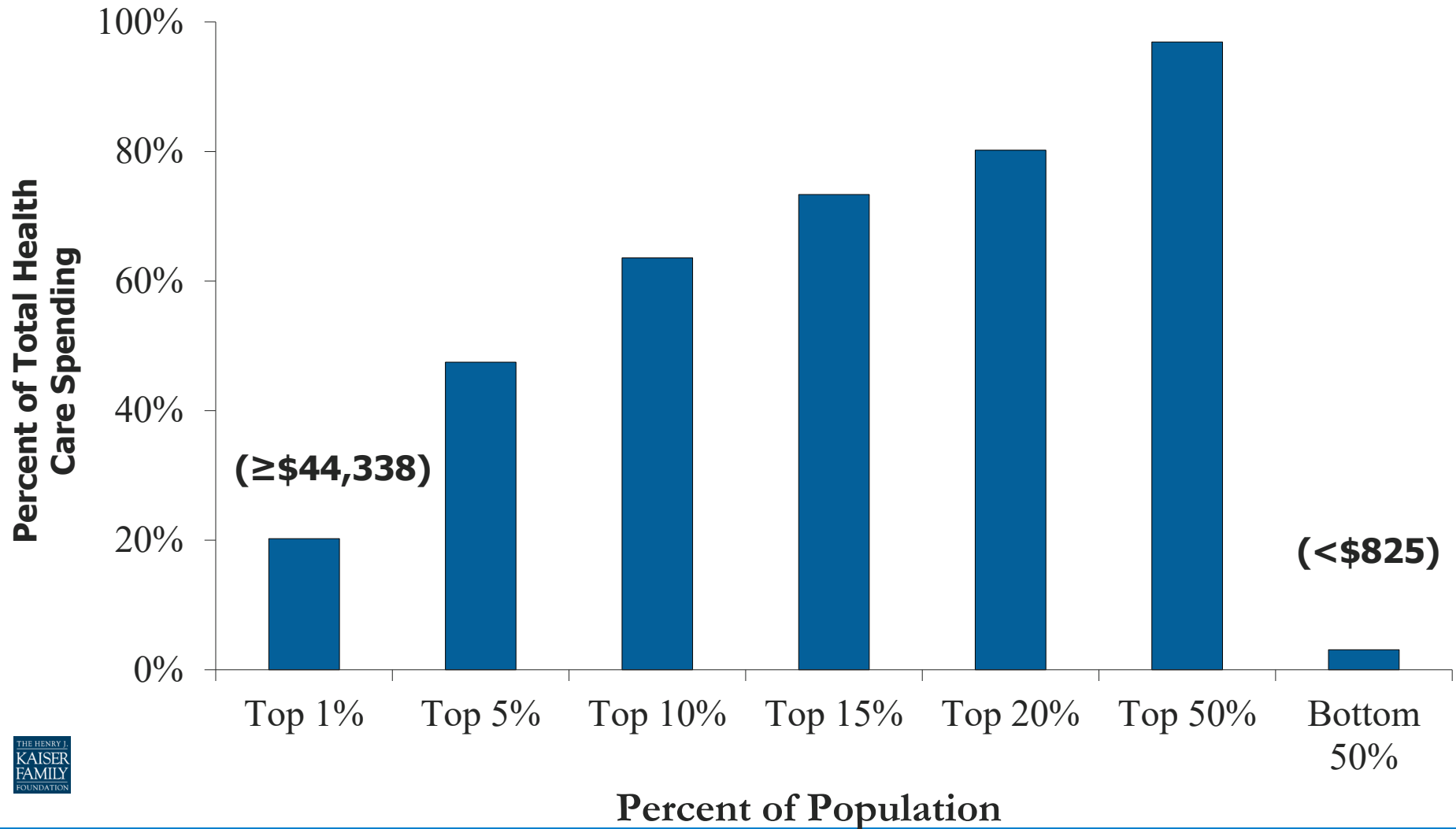
Many Factors Drive High Health Care Spending

- Aging population
- New technologies
- Perverse incentives
- Administrative costs
- Unnecessary services
- Inefficiently delivered services
- Missed prevention
- Fraud
- Prices that are too high
- Social factors affecting health
-

Why is cutting costs hard?

- Every dollar you want to cut is someone's income.
- A small number of people use a lot of health care; most people use very little.
- U.S. health care system is complex—not simple answers or silver bullet solutions.

Health Care Costs Are Highly Concentrated



What is being done to address high costs?

- Reduce prices
 - May cause fewer providers to accept insurance and not promote efficiency
- Payment reforms
 - New payment models being tested to reduce costs and improve outcomes
- Many other ideas being tried out
 - Consumerism (“skin in the game”, higher cost-sharing)
 - Market competition
 - Reference pricing (for particular procedures or tied to Medicare)
 - Drug pricing
 -

Conclusions

- US health care financing is complex, including many public and private sector players
- Health care costs are high, and there are many drivers of cost
- Multiple new strategies are being implemented to try and reduce costs; we're still learning what works

Thank You!

Contact Us



100 Fuqua Drive, Box 90120, Durham, NC 27708
1201 Pennsylvania Avenue, NW, Suite 500
Washington, DC 20004



healthpolicy.duke.edu



Subscribe to our monthly newsletter at
dukemargolis@duke.edu



Durham office: 919-419-2504
DC office: 202-621-2800

Follow Us



DukeMargolis



@dukemargolis



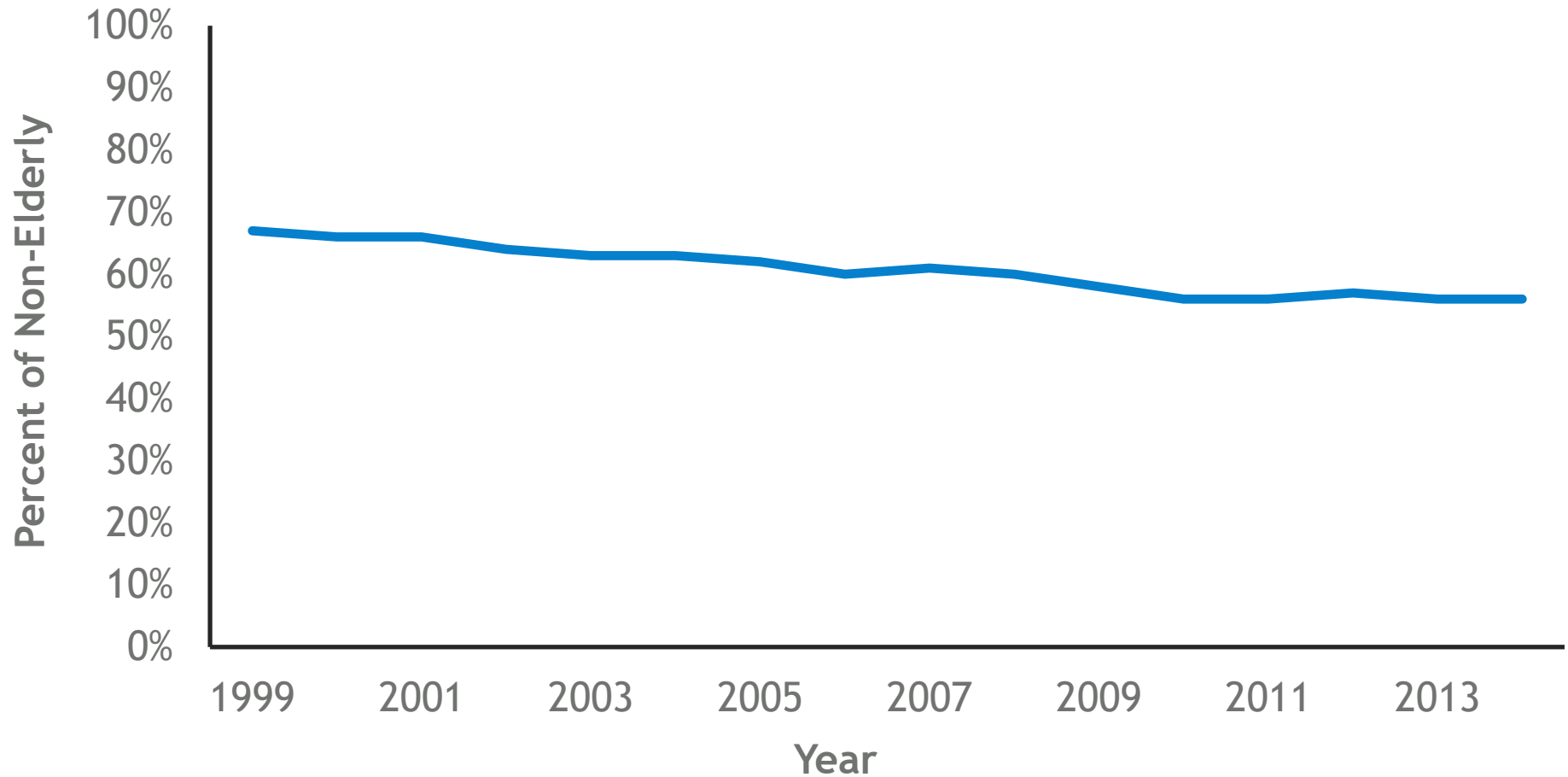
@dukemargolis



Duke Margolis

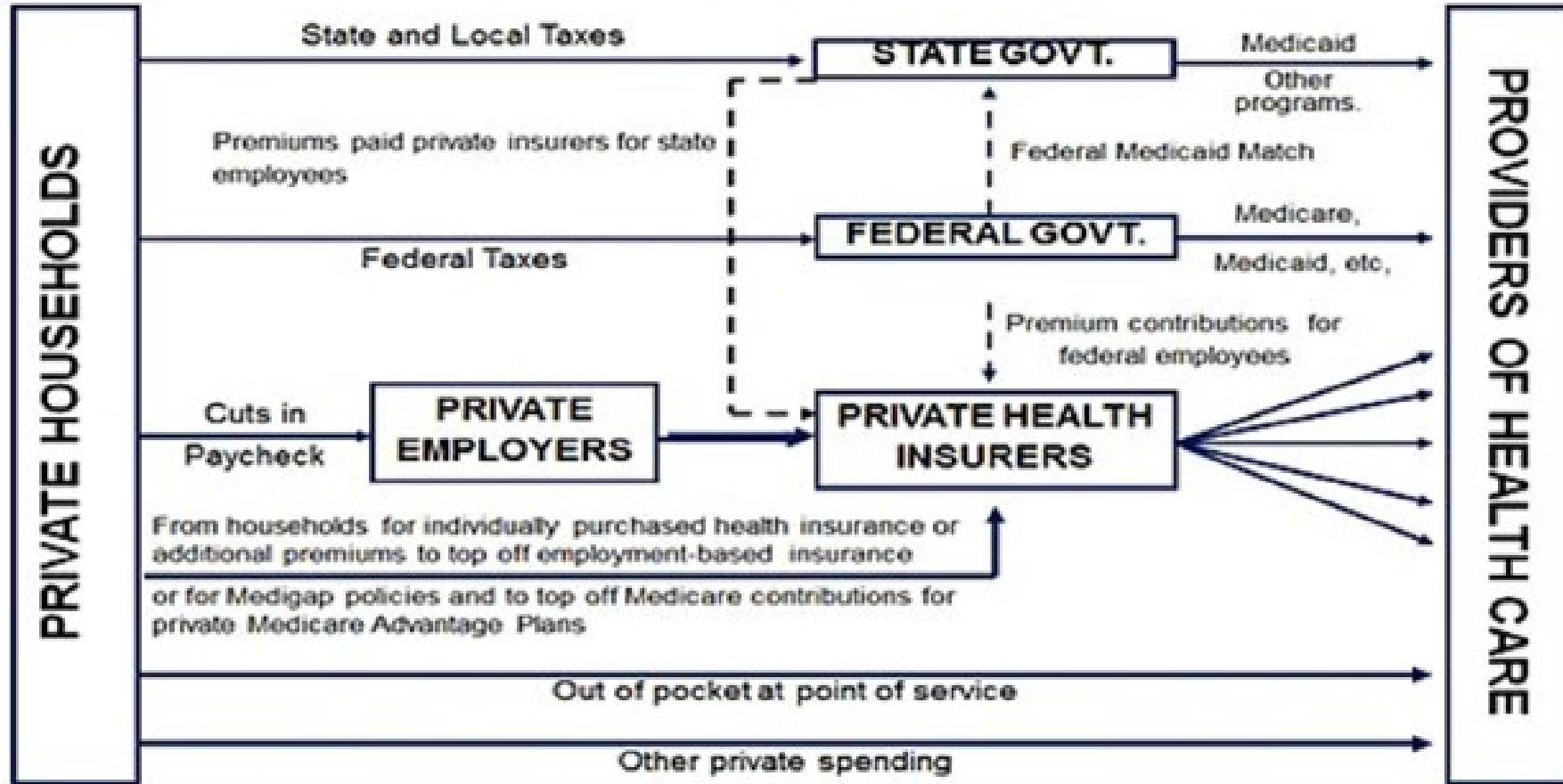
Additional Resources

Employer-Based Insurance Most Common Among Non-Elderly— But Declining

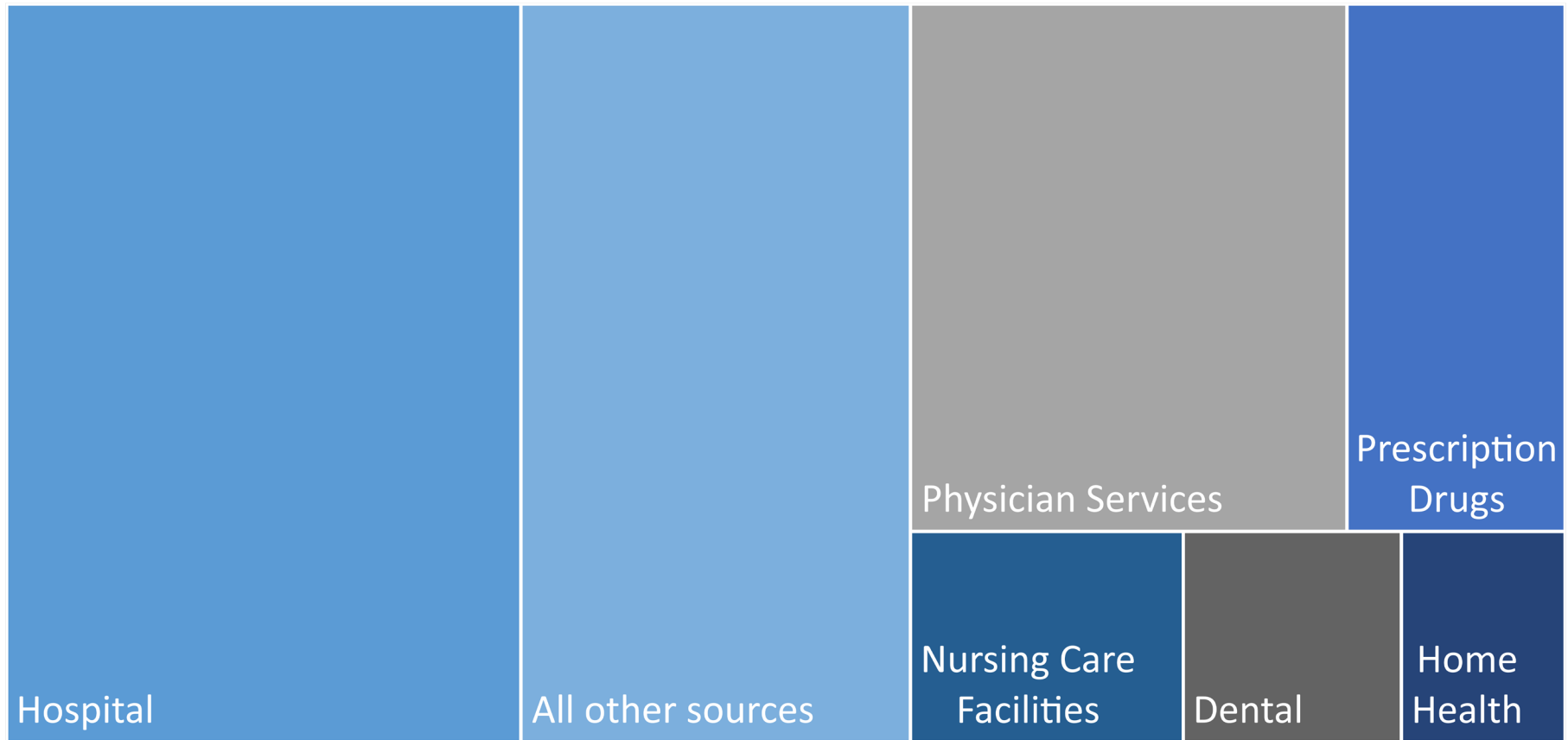


Payment for US Health Care is Complex...

The Flow of Funds in U.S. Health Care

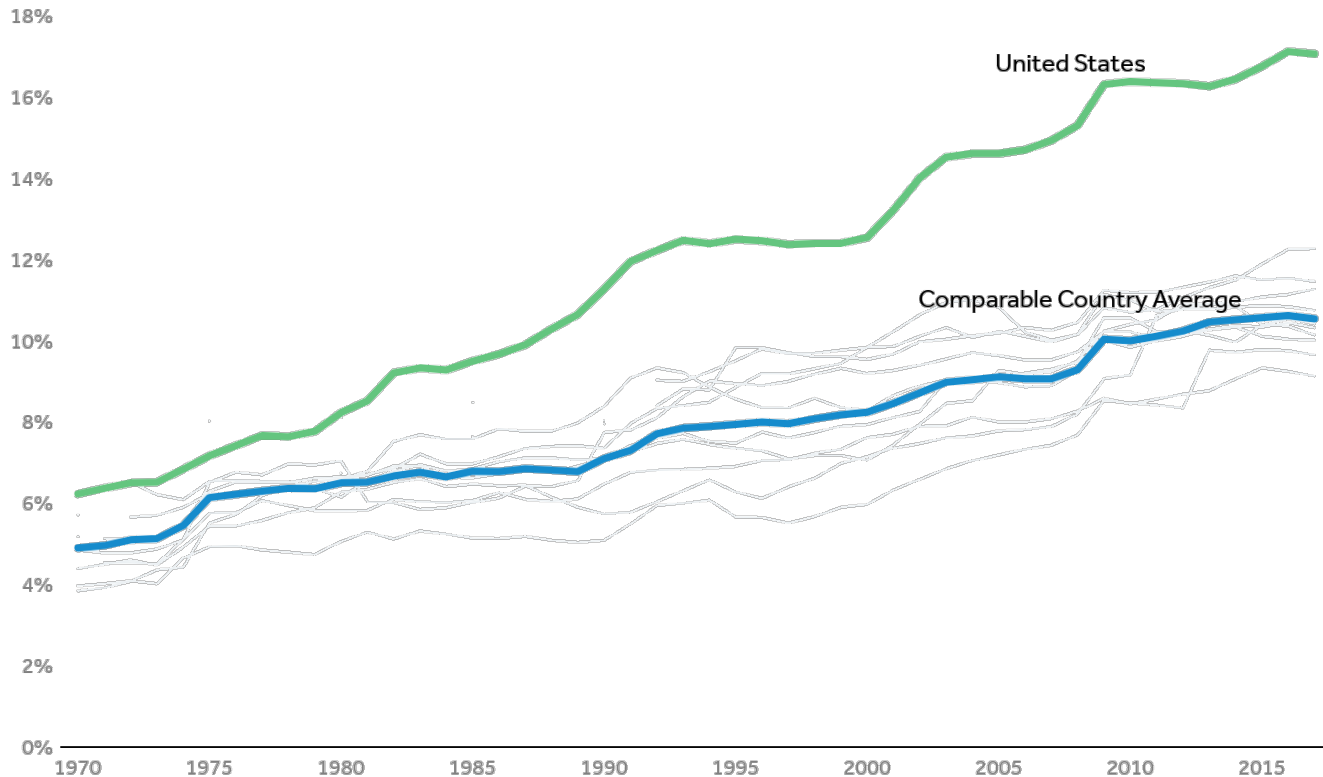


Health care costs are spread across multiple sectors



We Spend More than Other Countries

Health consumption expenditures as percent of GDP, 1970 - 2017



Notes: U.S. value obtained from National Health Expenditure data. Health consumption does not include investments in structures, equipment, or research.

Source: KFF analysis of OECD and National Health Expenditure (NHE) data • [Get the data](#) • [PNG](#)

Peterson-Kaiser
Health System Tracker