Options for Lowering Costs for the Privately Insured

April 21, 2021
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Panelists

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Institute Fellow
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**Emily Stewart**
Executive Director
Community Catalyst

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Managing Director
Avalere Health

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**Kate Sullivan Hare, MHA**
Vice President for Policy and Communications
Alliance for Health Policy

@allhealthpolicy
A Public Option and/or Capped Rates as a Response to Market Concentration

John Holahan and Michael Simpson

Research Supported By Arnold Ventures
Interest in public option policies stems from high provider payment rates in many markets, leading to high premiums

Estimates of Private Insurance Prices Relative to Medicare Prices from Various Sources

<table>
<thead>
<tr>
<th>Data source</th>
<th>Ratio of Private Insurance to Medicare Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data source</td>
</tr>
<tr>
<td>Urban Institute</td>
<td>FAIR Health (2017-18)</td>
</tr>
<tr>
<td>Congressional Budget Office</td>
<td>HCCI (2013-14)</td>
</tr>
<tr>
<td>Cooper and colleagues</td>
<td>HCCI (2007-11)</td>
</tr>
<tr>
<td>White and Whaley</td>
<td>Multiple (2015-17)</td>
</tr>
<tr>
<td>Medicare Payment Advisory Commission</td>
<td>2017</td>
</tr>
</tbody>
</table>


Notes: HCCI = Health Care Cost Institute. NA = not available.
Public Option

• Government-run program provide insurance
  • Could be implemented in the nongroup markets or both the nongroup and employer markets

• Would generally set provider payment rates below commercial rates

• Depending on payment rates, public option would be the benchmark premium, affecting coverage and government subsidy costs

• Could reduce participation of private insurers who would find it harder to compete
Capped Rates

- Would limit rates paid by all insurers
- Could be implemented in nongroup and employer markets
- Could be combined with public option, same as Medicare Advantage
- Individuals would benefit while keeping their private insurance
- More insurers could enter and exit in markets than with the public option alone
Key Findings from Urban Institute Studies

• Potentially significant impact on premiums in the nongroup market but small national effects because nongroup market is small; much larger if extended to employer market

• The lower provider payment rates are, the lower premiums will be, and the more savings to households, employers, and government, but the greater the reduction in provider revenues and the more political resistance

• Capped rates result in more savings than with the public option alone because payment reductions apply more broadly

• Policies could exempt rural areas without much effect on national results

• Policies could be limited to highly concentrated insurance and hospital markets and achieve substantial effects on federal spending and national health spending
Effect on National Health Spending

Notes: Reform simulated as fully phased in and in equilibrium in 2022. B = billion.
Avik Roy
President
Foundation for Research and Equal Opportunity
Monopoly Power Threatens Affordable Health Care

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PRESIDENT, THE FOUNDATION FOR RESEARCH ON EQUAL OPPORTUNITY
AROY@FREOPP.ORG
FREOPP: A NEW MODEL FOR BIPARTISAN REFORM

- **Our mission:** We conduct original public policy research that expands economic opportunity to those who least have it

- **Our values:** We advance ideas that advance both conservative and progressive values, at the same time

- **Our focus:** Market-based reforms that improve the lives of Americans whose income or wealth is below the U.S. median

- **Our structure:** Non-profit, non-partisan, 501(c)(3) funded exclusively by charitable donations
HOSPITALS: THE LARGEST NATIONAL HEALTH EXPENDITURE

Prescription drugs as a share of national health expenditures vs. private insurance claims

Sources: CMS, Milliman, AHIP
AVERAGE FAMILIES PAY MORE TO HOSPITALS THAN TO THE IRS

Median household federal tax rate vs. median household’s share of U.S. medical spending (%)

Sources: FREOPP, JCT, CBO, CMS
THE MYTH OF HOSPITAL ‘COST-SHIFTING’

Avg. standardized payment rates per inpatient stay, by primary payer, 1996–2012 (2012 dollars)

Sources: FREOPP, JCT, CBO, CMS
HOSPITAL CONCENTRATION = 44% HIGHER PRICES

Prices charged to insurer:
- Angioplasty: $21,626, $32,411
- Pacemaker Insertion: $30,399, $47,477
- Knee Replacement: $18,337, $26,713
- Hip Replacement: $19,534, $29,140
- Lumbar Fusion: $39,568, $51,998
- Cervical Fusion: $18,370, $23,755

Costs to Hospital:
- Angioplasty: $11,014, $12,238
- Pacemaker Insertion: $19,343, $23,605
- Knee Replacement: $11,870, $12,096
- Hip Replacement: $12,484, $12,728
- Lumbar Fusion: $25,157, $23,987
- Cervical Fusion: $11,220, $12,044

Source: Robinson, AJMC 2011
U.S. LEADS THE WORLD IN GENERIC UTILIZATION

Market share by prescription volume of unbranded generics, 2018

Sources: IQVIA Institute, FREOPP Analysis
BIOLOGIC DRUGS EXPLOIT MONOPOLY PRICING

U.S. net drug spending, biologics vs. small molecules, 2013–2018 (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Molecules</th>
<th>Biologics</th>
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</thead>
<tbody>
<tr>
<td>2013</td>
<td>$170</td>
<td>$90</td>
</tr>
<tr>
<td>2014</td>
<td>$183</td>
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<td>2015</td>
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<td>2016</td>
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<td>2017</td>
<td>$188</td>
<td>$136</td>
</tr>
<tr>
<td>2018</td>
<td>$183</td>
<td>$156</td>
</tr>
<tr>
<td>2019</td>
<td>$185</td>
<td>$171</td>
</tr>
</tbody>
</table>

Source: IQVIA Institute
Fred Brentley, MPP, MPH
Managing Director
Avalere Health
Provider Perspective on Competition & Regulation to Improve Affordability
Reality #1: Transparency Mandate’s Impact Mediated by Relative Market Power of Payers and Providers

Transparency Mandate Putting a Spotlight on Unwarranted Variation in Prices…

… But Few Hospitals Fully Complying with Requirements

Negotiated Rates for MRI of Lower Spine

Availability of Payment Rate Data (n = 102 Hospitals)

- Gross charge: 80 hospitals (78%) vs 83 hospitals (81%)
- Discounted rate (uninsured/self-pay rate): 57 hospitals (56%) vs 43 hospitals (42%)
- Payer-specific negotiated rates (2 or more payers): 3 hospitals (3%) vs 35 hospitals (34%)
Reality #2: “Volume-to-Value” Transition Producing Some Results, But Moving at a Snail’s Pace

Proportion of Provider Reimbursements Flowing Through Value-Based Model, by Payer Type

Source: Duke Margolis Center for Health Policy, 2018
Reality #3: Reforms in Nongroup Market Unlikely to Significantly Alter Provider Behavior

Breakdown of Hospital Revenue Sources (2019)


Nongroup segment represents 8-12% of payer mix.
Several States Moving Forward with Expansive Public Option Models

**California**
- CA has created a new council to conduct a feasibility study of a public option in the state
- Legislation has been proposed that would expand access, through a buy-in, to state or municipal employee plans

**Colorado**
- In May of 2020, sponsors of HB 1349, which would have created the CO Health Care Option (i.e., the public option to be offered on the state's exchange), announced the bill would be withdrawn to allow focus on COVID-19
- Under the proposed option, employers could have been required to offer plans through the exchanges and the recommended reimbursement for hospitals was a base rate of 155% of Medicare

**Oregon**
- In July 2019, SB 770 established a Universal Health Care Commission to study a publicly funded, comprehensive healthcare option for all OR residents
- The bill, along with HB 2021, also requires OR to develop a plan for a Medicaid buy-in program or public option with the goal of providing affordable health care to OR residents

**Washington**
- In May of 2020, WA Gov. Jay Inslee (D) stated the implementation of WA's public option, Cascade Care, will take a "preliminary approach" in its 2021 implementation
- Despite scaling back initial implementation due to COVID-19, WA released rate filings for the 2021 plan year, which include standardized options under Cascade Care
- Provider reimbursement under standard plans is capped at 160% of Medicare
Reality #4: Cost-Shifting and Access Challenges Inevitable with Any Large-Scale Payment Reforms

Aggregate Hospital Payment-to-Cost Ratios

<table>
<thead>
<tr>
<th>Year</th>
<th>Medicare</th>
<th>Medicaid</th>
<th>Commercial</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>91.3%</td>
<td>88.9%</td>
<td>128.0%</td>
</tr>
<tr>
<td>2009</td>
<td>90.4%</td>
<td>89.1%</td>
<td>133.8%</td>
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<td>92.7%</td>
<td>93.0%</td>
<td>133.4%</td>
</tr>
<tr>
<td>2011</td>
<td>91.7%</td>
<td>94.9%</td>
<td>134.4%</td>
</tr>
<tr>
<td>2012</td>
<td>86.3%</td>
<td>89.1%</td>
<td>148.9%</td>
</tr>
<tr>
<td>2013</td>
<td>88.2%</td>
<td>89.9%</td>
<td>143.6%</td>
</tr>
<tr>
<td>2014</td>
<td>88.9%</td>
<td>90.4%</td>
<td>143.7%</td>
</tr>
<tr>
<td>2015</td>
<td>88.2%</td>
<td>89.6%</td>
<td>144.1%</td>
</tr>
<tr>
<td>2016</td>
<td>87.2%</td>
<td>88.9%</td>
<td>144.1%</td>
</tr>
<tr>
<td>2017</td>
<td>86.6%</td>
<td>87.6%</td>
<td>144.8%</td>
</tr>
<tr>
<td>2018</td>
<td>86.6%</td>
<td>89.3%</td>
<td>144.8%</td>
</tr>
</tbody>
</table>

Reality #5: Downward Pressure on Provider Rates Likely to Spur Further Consolidation

Hospital-Owned Physician Practices as Percentage of All U.S Practices, 2012 - 2018

Emily Stewart
Executive Director
Community Catalyst

@CommCatHealth
Centering health experience of people.

Nearly 1 in 4 Americans are skipping medical care because of the cost
Published Thu, Mar 12 2020 • 6:01 AM EDT • Updated Thu, Mar 12 2020 • 10:12 AM EDT
Megan Leonhardt
@MEGAN_LEONHARDT

Survey: More Americans fear medical bills than becoming seriously ill
by Alicia Caramenico | Apr 3, 2018 7:57am

Workers With Health Insurance Face Rising Out-of-Pocket Costs
A new survey from the Kaiser Family Foundation shows annual premiums for a family now top $21,000, and deductibles have more than doubled since 2010.

Study: Patient out-of-pocket costs up 4x in 12 years
Aug 30, 2018 | Federal Issues, News, Out of Pocket Costs | Out of Pocket Costs
What has helped.

Coverage expansions.

Financial Assistance.

Limits on out-of-pocket spending.

Wrap around support.
What is missing

- Equity-based, solutions
- System-wide approach
- Built-in policy evolution
Thank You
We value your input!

Please fill out the evaluation survey you will receive immediately after this presentation, or via email this afternoon!

www.allhealthpolicy.org
Thank you for attending.