



RHAS

RAND Health Advisory Services

Beyond “repeal and replace”: Fixing cost of care rather than coverage

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Philadelphia, April 4, 2017

Presentation overview

A quick ACA run-down

It's cost of care, stupid

Where do we go from here

In spite of its name, the ACA mostly reforms insurance coverage rather than care

- Coverage expansion
- Insurance market regulation
- Marketplace/Exchanges

Coverage expansion uses three levers

- Medicaid expansion
 - Federal subsidies to cover people with income up to 138% of the Federal Poverty Line (FPL)
 - \$33,600 household income for a family of 4
 - 32 states so far accepted expansion
- Individual mandate to carry health insurance
 - Penalty of up to \$2,085 or 2% of income in 2016
 - Hardship exemptions
- Subsidies
 - Tax credits for people between 100 and 400% FPL, who have no employer coverage and are ineligible for Medicaid
 - \$24,300 to 97,200 for a family of 4
 - Effectively caps premiums and co-pays relative to income

Insurance regulations aim at standardizing individual market plans

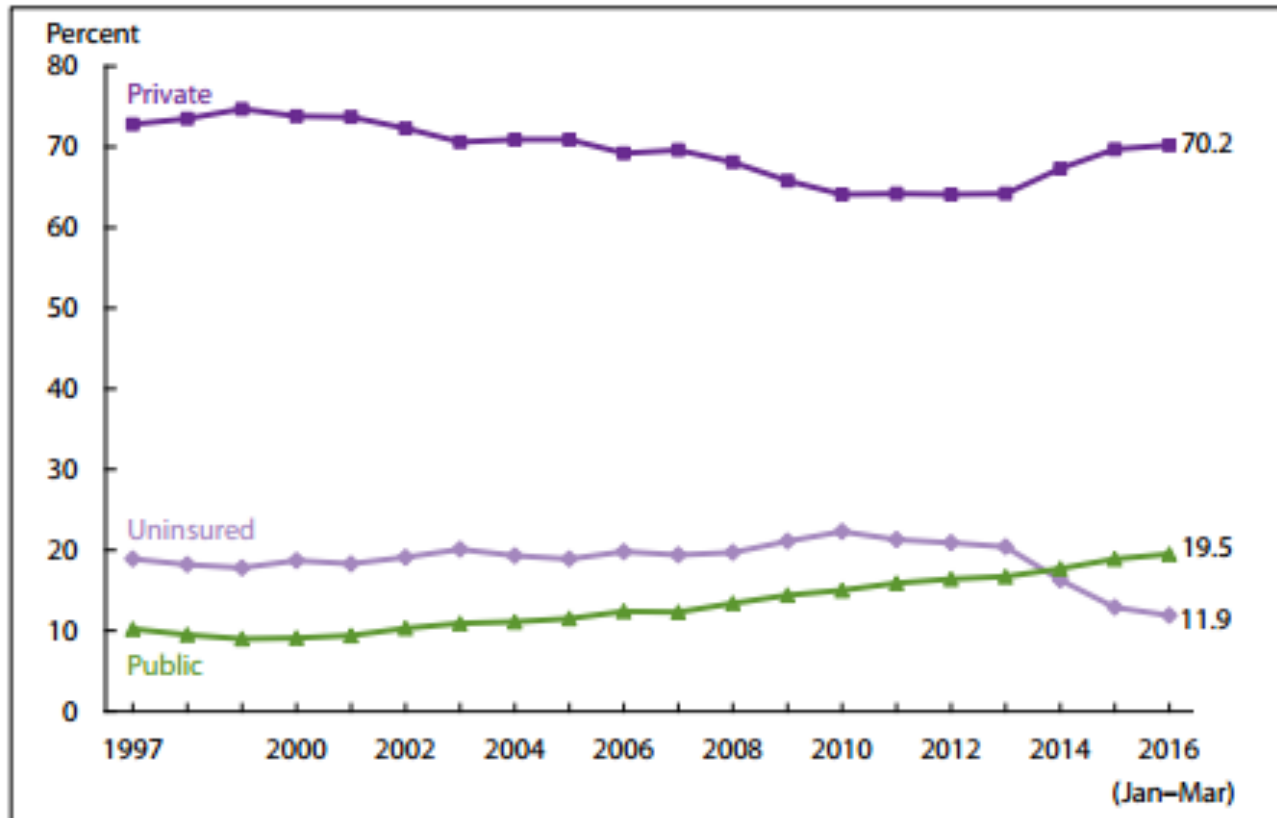
- Guaranteed issue and renewability
- No exclusion of pre-existing conditions and lifetime limits
- Community rating and limits to variation of premiums
 - Based on age, region, family structure, and smoking status
 - Not based on health status
- Annual regulatory review of premium increases
- Standardized actuarial values
- Essential Health Benefits

Exchanges facilitate obtaining coverage

- Eligibility determination
- Calculation of subsidy
- Consumer decision support
 - Filtering by plan type
 - Bronze, Silver, Gold, Catastrophic
 - Quality data
- Enrollment

As a consequence, uninsurance rate dropped substantially

Figure 1. Percentage of adults aged 18–64 who were uninsured or had private or public coverage at the time of interview: United States, 1997–March 2016



NOTE: Data are based on household interviews of a sample of the civilian noninstitutionalized population.
SOURCE: NCHS, National Health Interview Survey, 1997–2016, Family Core component.

- ~21M fewer uninsured than in 2010

But what about cost of coverage?

- For some, cost of coverage clearly went up
 - More comprehensive coverage
 - Different rating method
- On average, cost of coverage increased over time
 - Substantial increases for 2017 publicized, but still in line with Congressional Budget Office projections
- It is debated whether cost increased faster or slower than under counterfactual assumption
 - More comprehensive coverage means higher cost
 - Broader risk pool and increased transparency could have driven cost down

Presentation overview

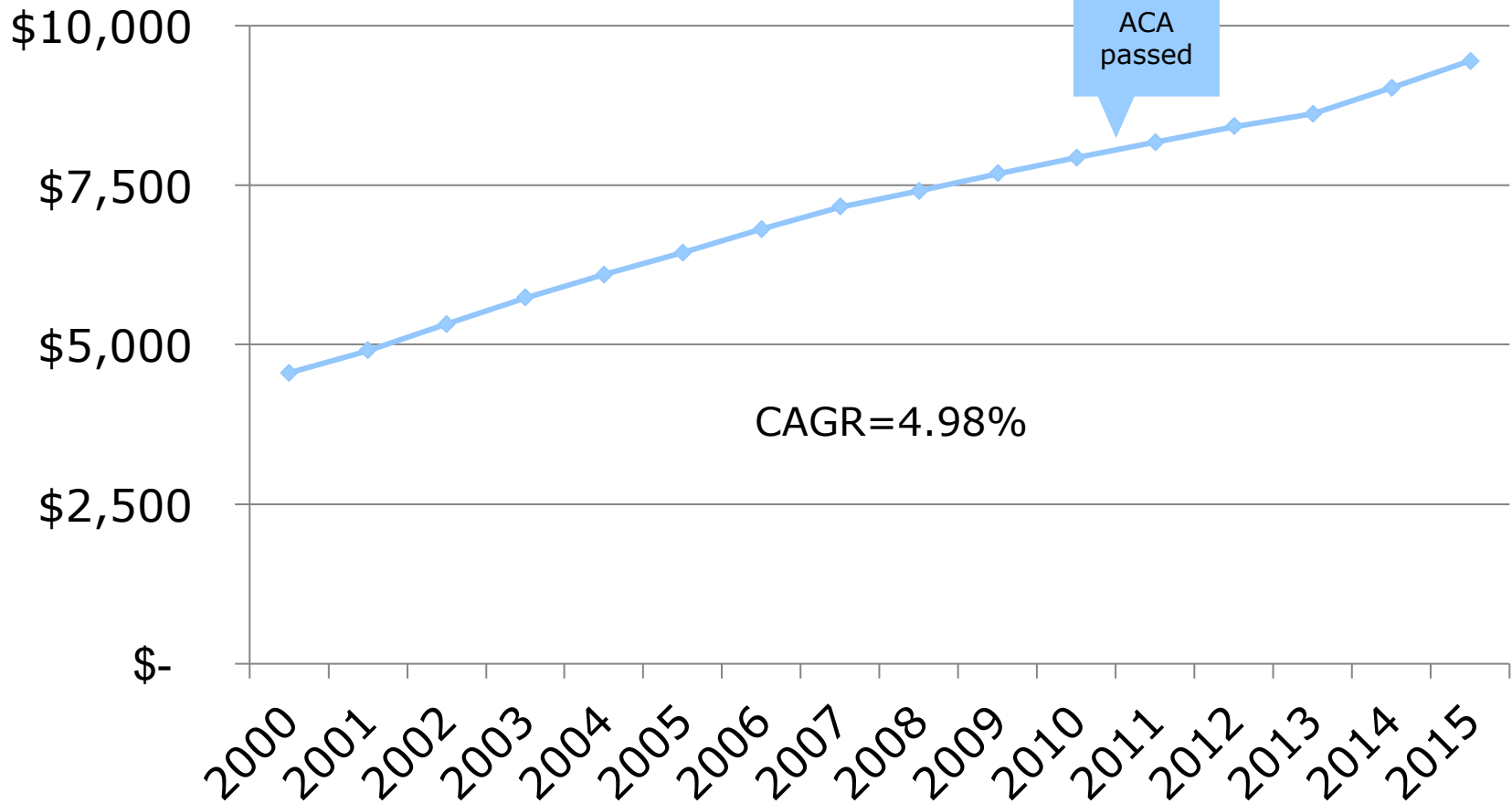
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The ACA did not make care more affordable

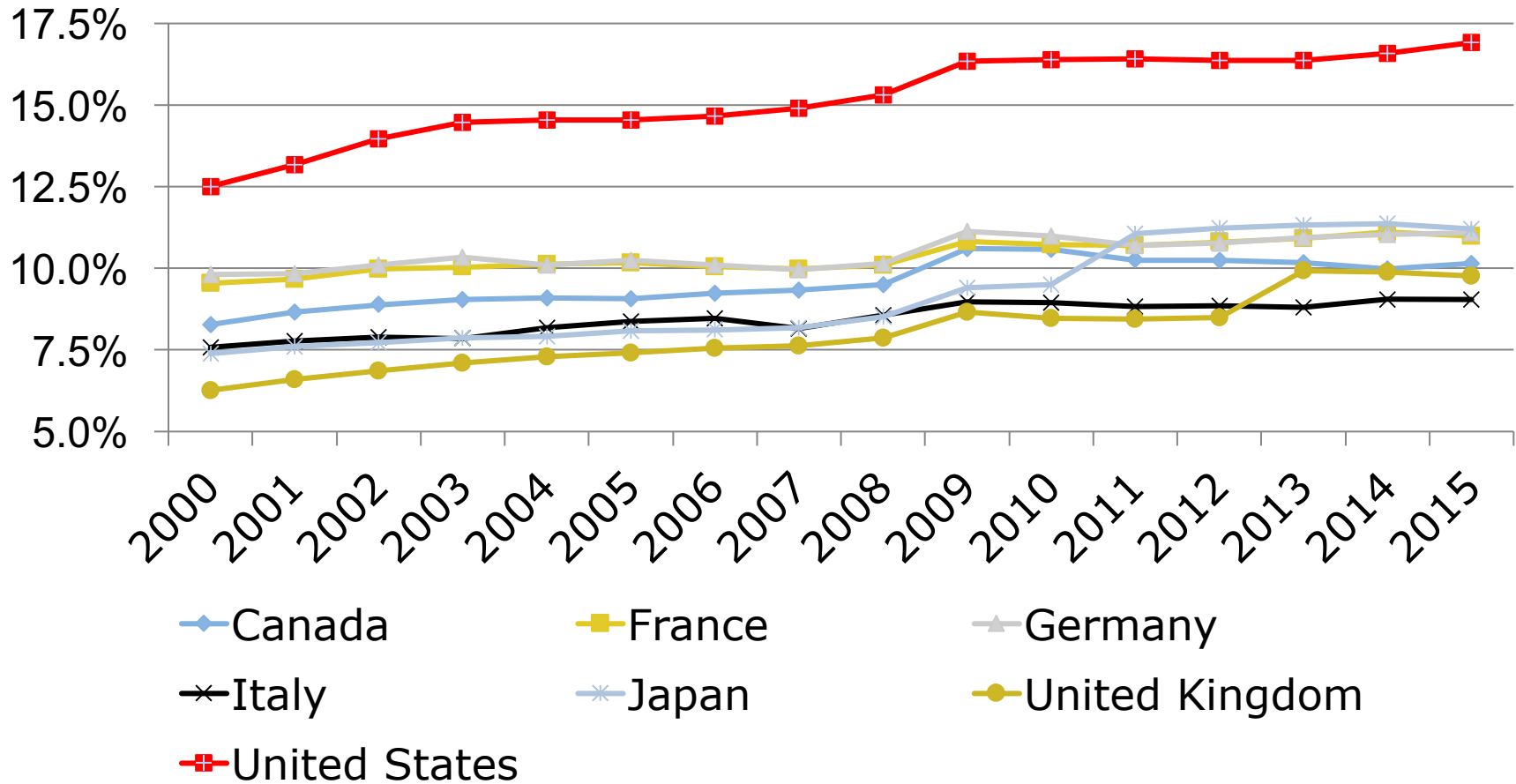
U.S. Per Capita Healthcare Spending



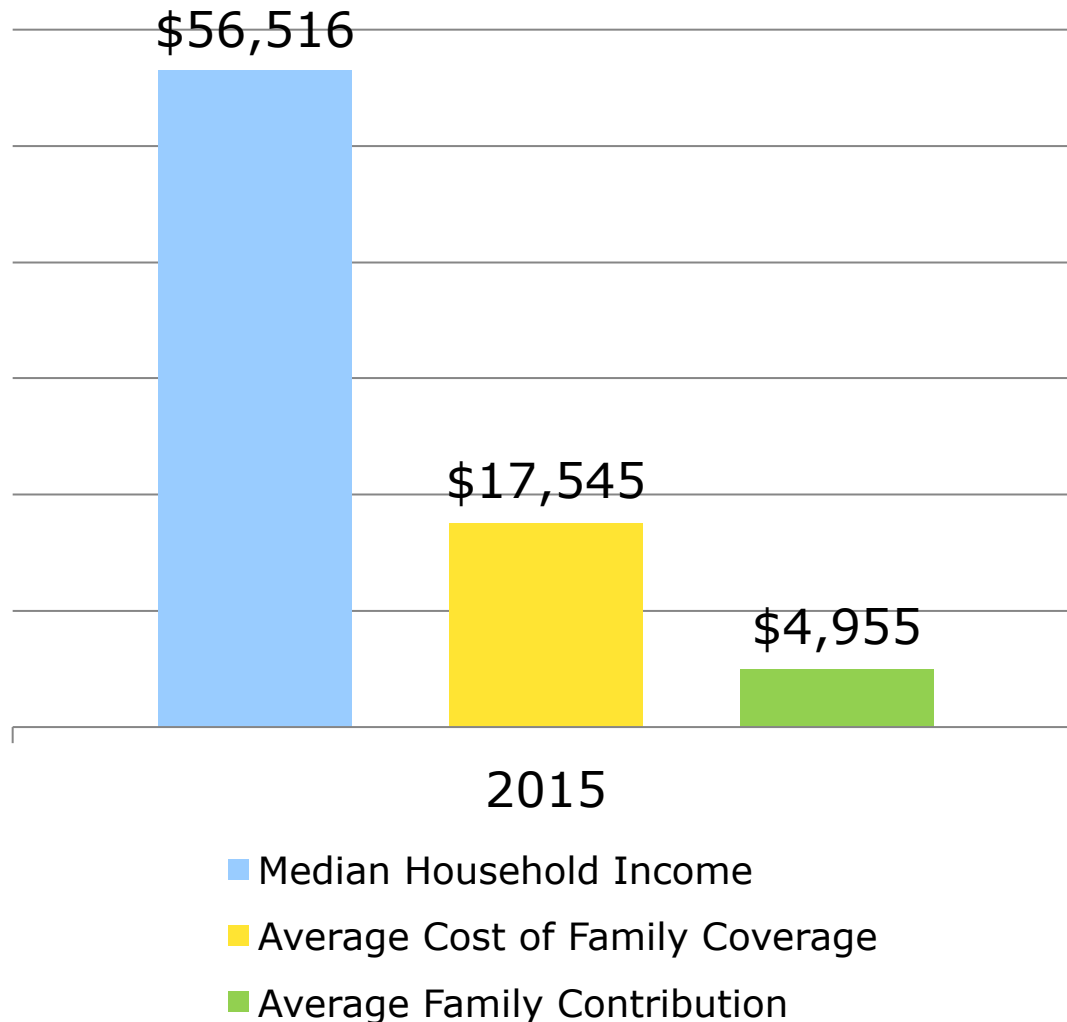
Source: OECD Health Data 2016, US\$ in current PPPs

Difference in spending is widening compared to other G7 countries

Healthcare Spending in %GDP



This trend makes unsubsidized healthcare unaffordable for the average U.S. family



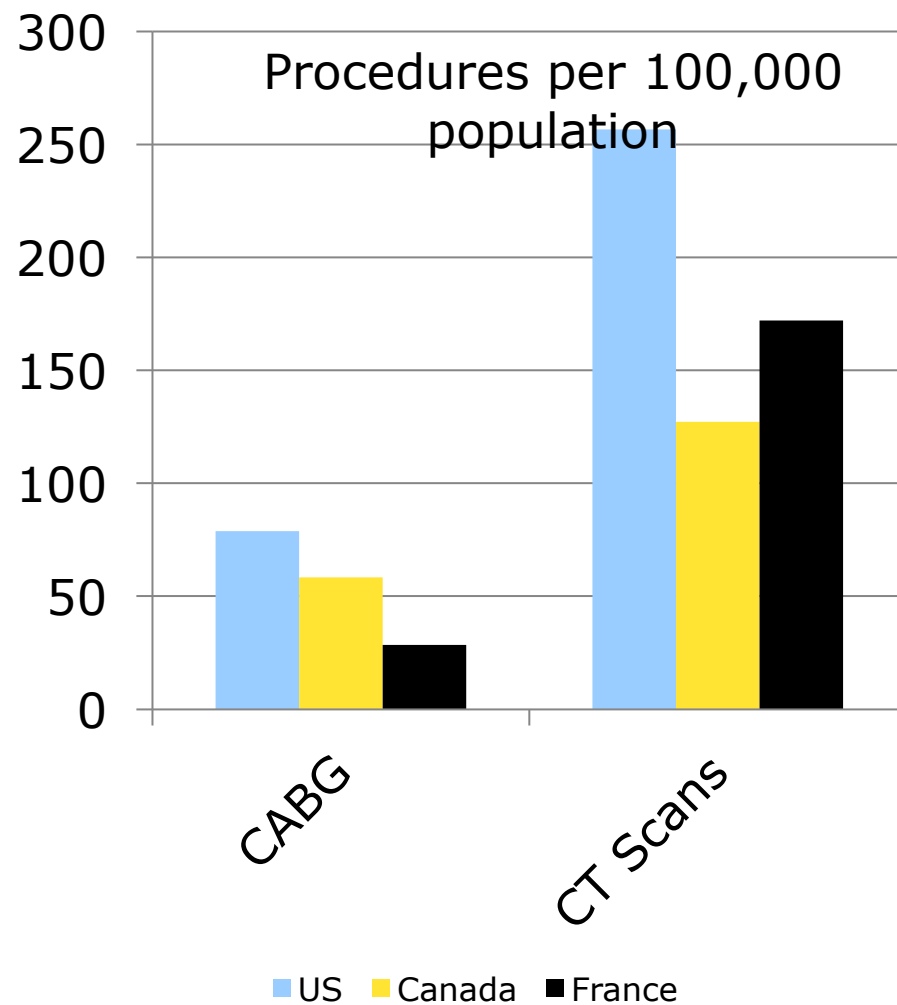
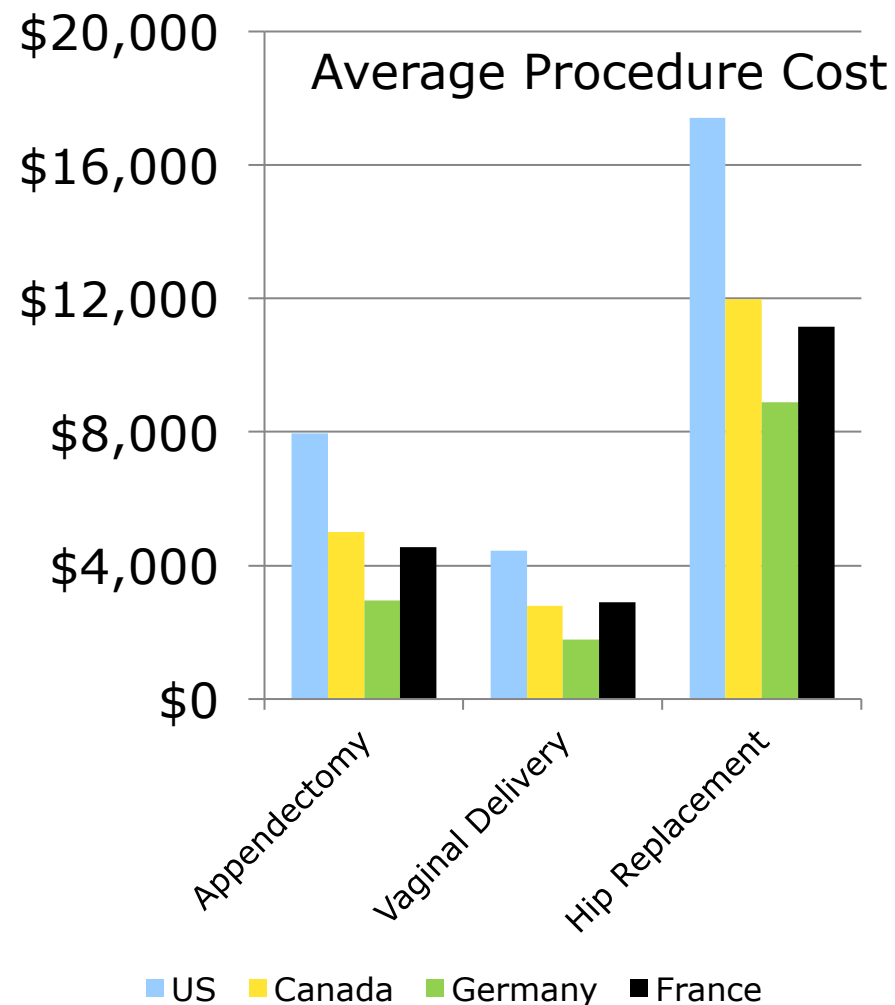
Ratio of cost of coverage to household income doubled from 2000 to 2015 (15-31%)

Ratio of family contribution to household income tripled from 2000 to 2015 (2.8-8.8%)

“A Decade Of Health Care Cost Growth Has Wiped Out Real Income Gains For An Average US Family”

Auerbach and Kellermann, 2011

Spending is a result of high prices and high procedure volumes



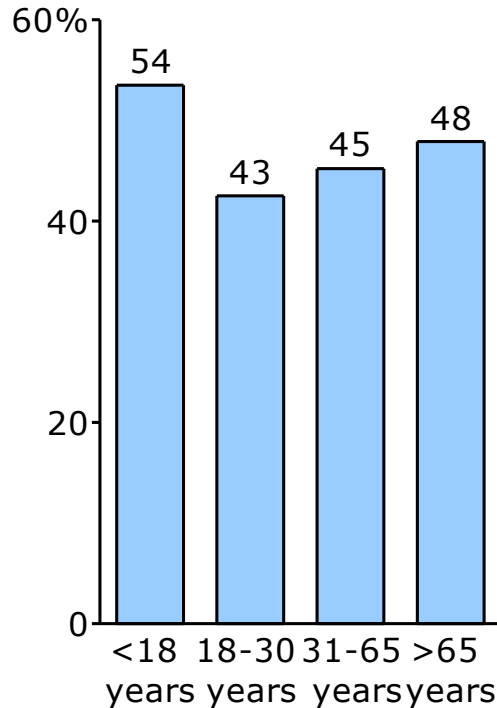
Results in the U.S. are good but not exceptional

Substantial quality gaps

Outcomes comparable to other G7 countries

Satisfaction comparable to other countries

Estimated gap in treatment



Age-adjusted

Quality

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First, let me take out my crystal ball

- Republicans are not likely to try repeal and replace again
 - Too risky for House Leadership
 - Senate not yet on board
 - Competing priorities
- They could try to erode the ACA
 - Also risky if they do not offer an alternative
 - Might happen regardless by accident
- Most likely, not much will change on the coverage side until the 2018 mid-term election

But how about cost of care?

- The ACA has accelerated an irreversible shift from fee-for-service to value-based payment
- This shift will have profound implications for the healthcare system
- 3D Innovation will put cost on a more sustainable path



- De-institutionalize
 - Move patients to less intense sites of care
- De-skill
 - Provide care “at top of license”
 - **Leverage** technology to reduce cost
- De-fragment
 - Integrate information and care delivery across sites

Here are a few examples of what 3D innovation means in concrete terms

De-institutionalize



- Home monitoring to allow for faster hospital discharge and avoid readmissions

De-skill



- Computer-assisted sedation to reduce anaesthesiologist use during minor procedures

De-fragment



- Interoperable electronic medical records to track patients across sites of care

And how about implications for pharma?

- We are seeing an unprecedented wave of innovation in drug treatment
 - Addressing unmet needs
 - Shifting from maintenance treatment to cures
- Faster spending growth is justified, if concomitant to innovation
 - Definition of “concomitant” is in the eye of the beholder
- Pharma could do very well in this transition period if it behaves like a true partner
 - Prudent pricing
 - Accountability for real-world results
 - “Beyond the Pill”
 - Informed dialog

Questions and Discussion

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