HEALTH CARE COSTS:
A Consumer Perspective

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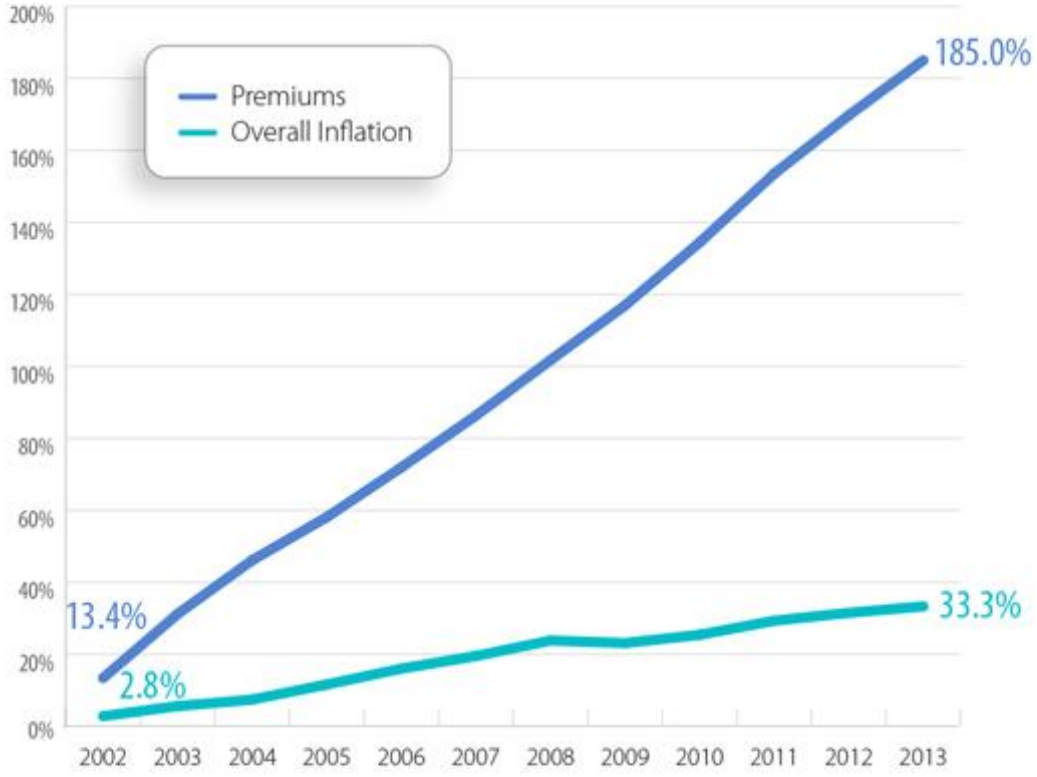
Biggest Congressional Action for Consumer Protections; Coverage Expansion; Cost Containment

Prior to ACA, Health Care Costs Up and Up

- Over the last ten-fifteen years, health premiums for employer coverage have climbed up and up:
  - Nationally up 191% from 1999 to 2014
  - In California, up 185% in only ten years
- The increases were worse in California:
  - California premiums historically were below the national average
  - Now California premiums are about 10% above the national average

Cumulative Premium Increases Compared to Inflation

Family Coverage, California, 2002 to 2013



Sources: CHCF/NORC California Employer Health Benefits Survey: 2007–2013; CHCF/HSC California Employer Health Benefits Survey: 2005–2006; CHCF/HRET California Employer Health Benefits Survey: 2004; Kaiser/HRET California Employer Health Benefits Survey: 2002–2003; California Division of Labor Statistics and Research, Consumer Price Index, California Average of Annual Inflation (April to April) 2002–2013.

Average Monthly HMO Premiums, Single Coverage

California vs. United States, 2000 to 2013

*Estimates are statistically different between California and US.

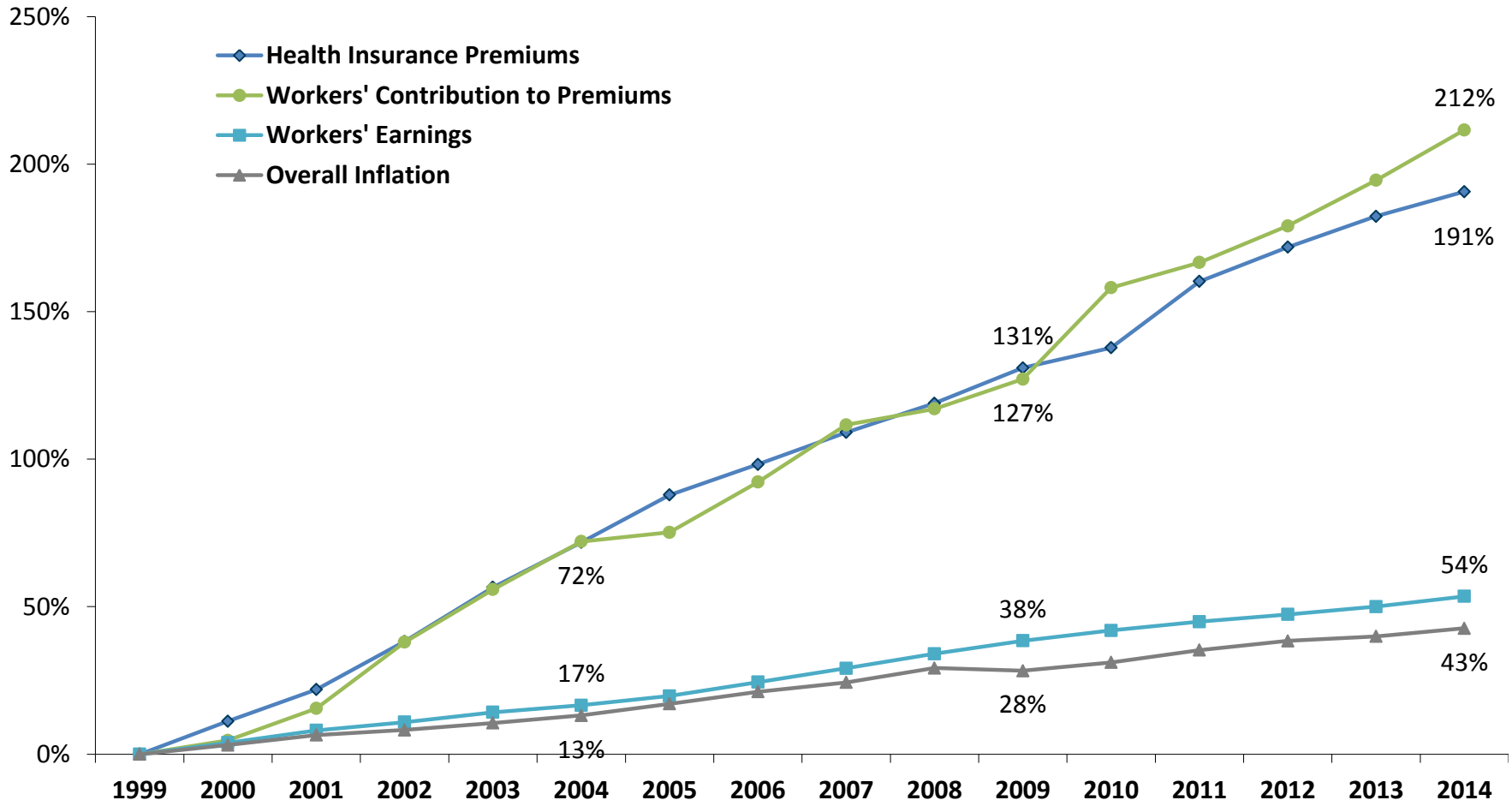
Notes: Annual rate of change for HMO single premiums should not be calculated by comparing premiums from one year to the next, due to both the survey's sampling design and the way in which plan information is collected. Rates of change in family premiums are collected directly as a question in the survey (no change data for single premiums are collected).

Sources: CHCF/NORC California Employer Health Benefits Survey: 2007–2013; CHCF/HSC California Employer Health Benefits Survey: 2005–2006; CHCF/HRET California Employer Health Benefits Survey: 2004; Kaiser/HRET California Employer Health Benefits Survey: 2000–2003; Kaiser/HRET Employer Health Benefits Survey: 2000–2013.

How Consumers Experience Cost

- In employer-based coverage:
  - Share of premium
  - Increased cost-sharing (deductibles, co-pays, etc)
- In individual market
  - Pre-ACA: Higher premiums, higher cost sharing, reduced coverage/benefits
  - Post-ACA:
    - For those subsidized, sliding scale premiums tied to income but still high; For unsubsidized, moderate premium increases
    - High cost sharing compared to employer coverage, narrow networks, skinny formularies

Cumulative Increases in Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2014



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2014 (April to April).

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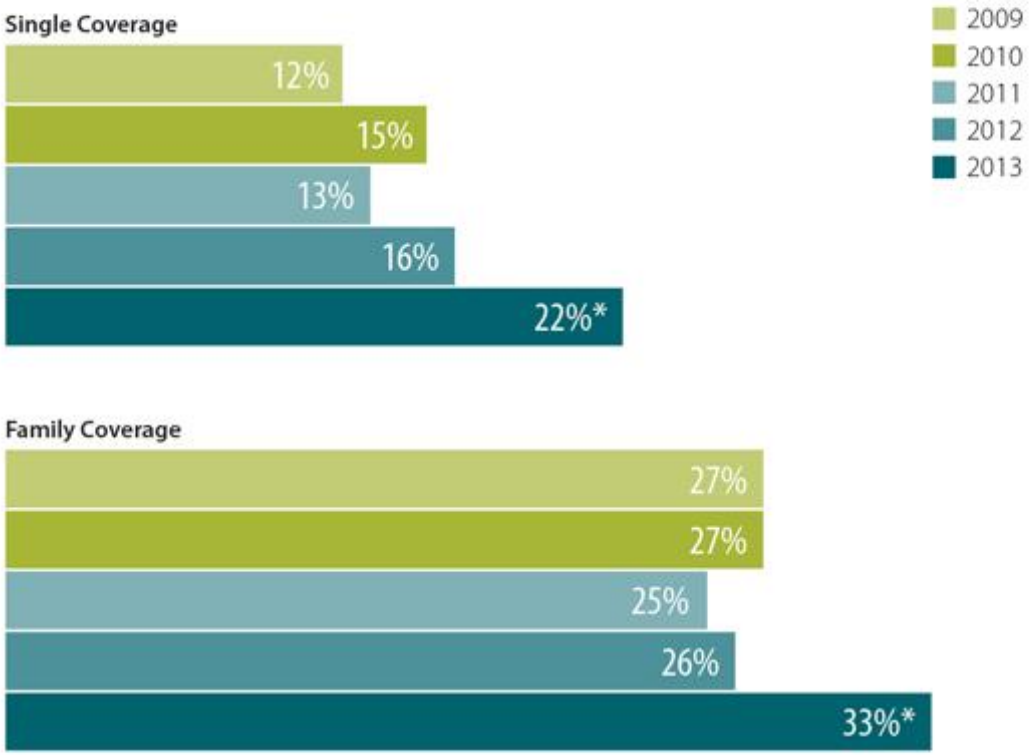
Employers Cost Shift to Workers

Sometimes Faster than Premiums Rise

- As premiums in California climbed from $163 per month to $555 per month , 185% in the last decade, employers have shifted a higher and higher proportion of costs to workers, increasing
  - Worker share of premium
  - Deductibles, including mega-deductibles of $2,000 plus
  - Copays for drugs and other care
- Californians with employer based coverage are paying more for the same or more limited benefits.

Worker Share of Premium, Single and Family Coverage

California, 2009 to 2013

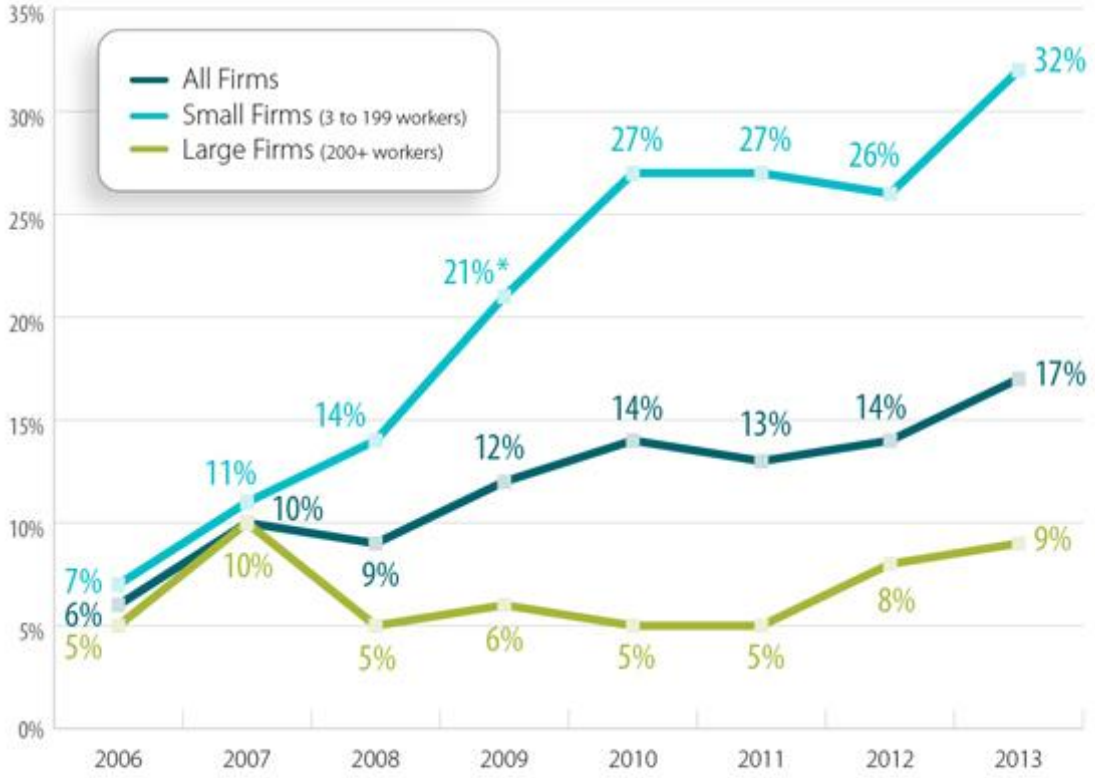


*Estimates are significantly different from previous year shown.

Source: CHCF/NORC California Employer Health Benefits Survey: 2009–2013.

Workers with a Large Deductible ($1,000+), Single Coverage

by Firm Size, California, 2006 to 2013

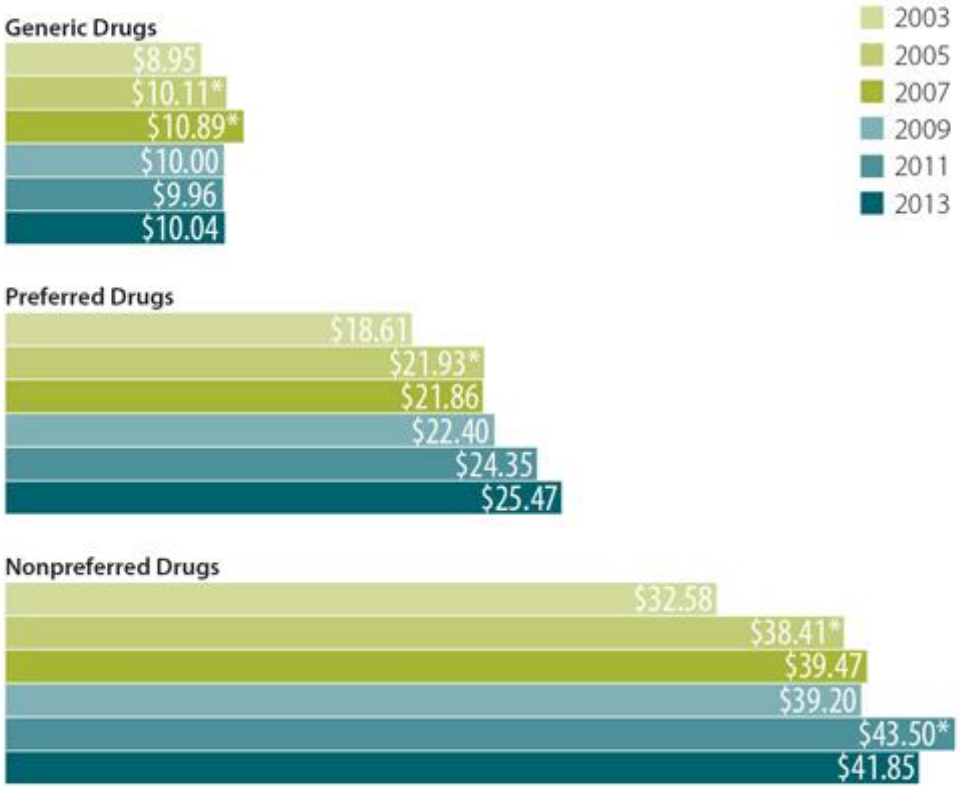


*Estimate is statistically different from previous year shown within firm size.

Sources: CHCF/NORC California Employer Health Benefits Survey: 2007–2013; CHCF/HSC California Employer Health Benefits Survey: 2006.

Average Prescription Copayments, by Drug Type

California, 2003 to 2013, Selected Years



*Estimate is statistically different from previous year shown.

Sources: CHCF/NORC California Employer Health Benefits Survey: 2007, 2009, 2011, 2013; CHCF/HSC California Employer Health Benefits Survey: 2005; Kaiser/HRET California Employer Health Benefits Survey: 2003.

Cost Sharing: Benefit Design Matters

HOW CONSUMERS EXPERIENCE COSTS:

- **Cost-Sharing: Not Just Shifting Costs, Impacts Accessing Care.**
  - Reduces Utilization of Services—Including Needed Care
  - Individuals Have Limited Market Power & Information & Ability to Shop for Value—CalPERS with Its Substantial Market Share still Struggles
  - Consumers Aren't Clinicians—They Rely on Clinicians for Guidance
  - Can Be Prohibitive for Consumers with Lower Incomes
- **Platinum/Gold/Silver/Bronze trade-off: premium vs. cost-sharing**
- **ACA included some overall limits/standards**
  - Minimum Benefit Standards
  - Actuarial Value – 60%
  - Out-of-pocket maximum at $6,350/individual
  - Standardized benefits in Covered California
- **Ongoing issues with cost-sharing—unfair, unclear or surprise bills:**
  - Co-insurance
  - In-network vs. out-of-network cost sharing
  - Prescription drug specialty tiers
  - Other issues (substandard/grandfathered coverage, etc.)

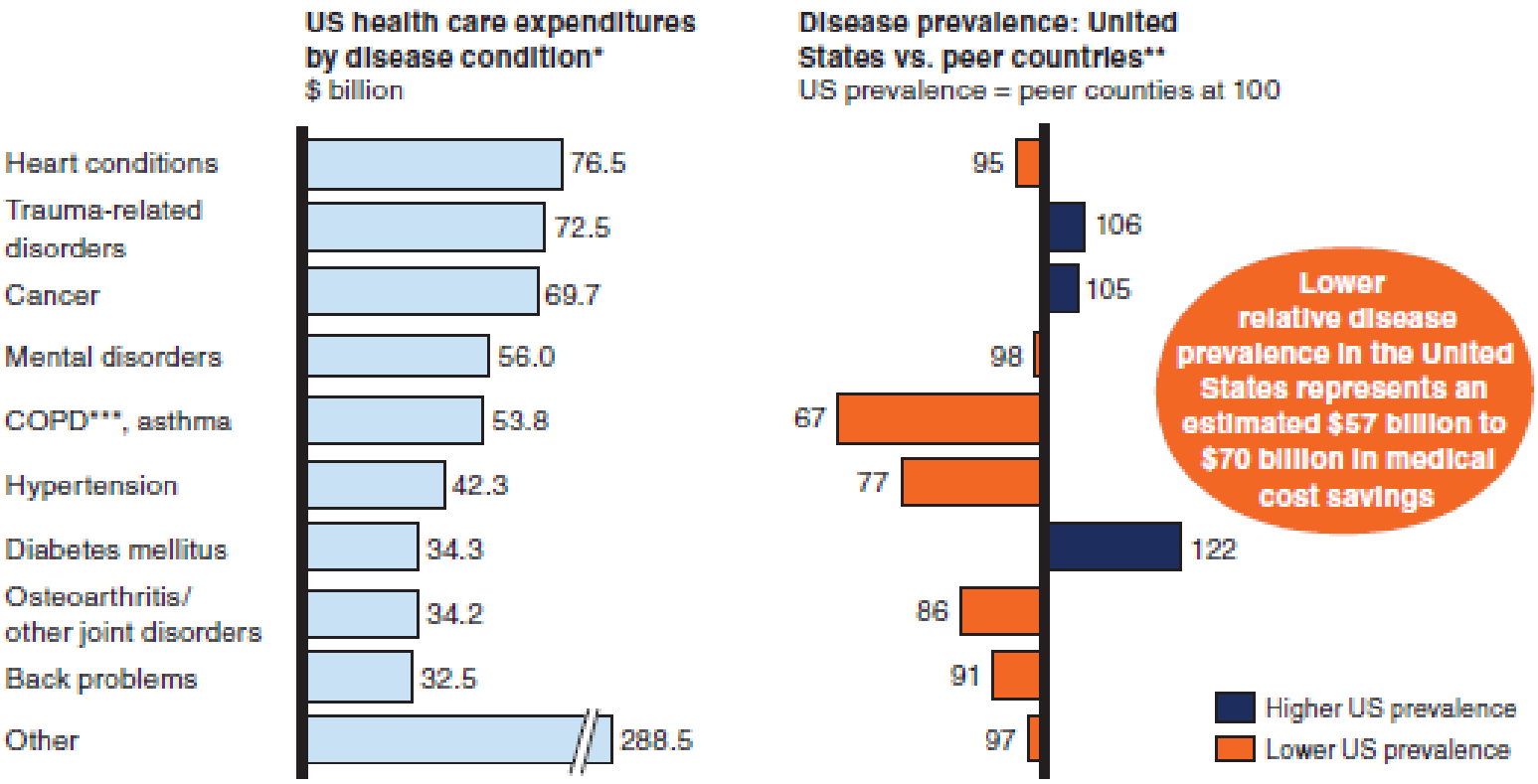
Costs: It's Not What You Think

- **Aging?** We aren't 185% older than a decade ago.
- **Administrative Costs?** 8% of spending (in one calculation) & relatively level as a proportion of spending.
- **End of Life Care?** A stable proportion of Medicare costs so it does not explain 185% increase
- **Malpractice?** Less than 1% of spending
- **Defensive Medicine?** Less than 2% of spending
- **Mandated benefits?** Less than 5% of premium costs—and now limited by EHB requirements
- **Utilization?** US has lowest doctor visit rates (3.9 per capita), shortest duration of hospital stays, and also one of the smallest hospital discharge rates (per 1000)
- **Obesity?** As contributor to other chronic conditions—but US is not that different from other countries
- Americans are on average *healthier*

  (Not that we shouldn't try to be even more healthy, but…)

Are U.S. Health Care Costs Higher Because Americans are Sicker?

U.S. disease prevalence compared to peer countries



* Includes 35 or 60 medical conditions surveyed by the U.S. Medical Expenditure Panel Survey; the costs of these diseases represent 35 percent of total U.S. health expenditures.

** Peer countries are France, Germany, Italy, Spain and the United Kingdom.

*** Chronic obstructive pulmonary disease

SOURCE: Institute of Medicine (IOM). The Healthcare Imperative. Lowering Costs and Improving Outcomes. Workshop Series Summary, 2010 (p. 80).

Prices: The Real Cost Driver

- Higher costs not because Americans are sicker, or because we use health care more.
- It's Unit Price
- The United States pays more:
  - More for doctors
  - More for hospitals
  - More for Rx drugs
  - More for labs
  - More for imaging

The $2.7 Trillion Medical Bill

Colonoscopies Explain Why U.S. Leads the World in Health Expenditures

By ELISABETH ROSENTHAL | Published: June 1, 2013

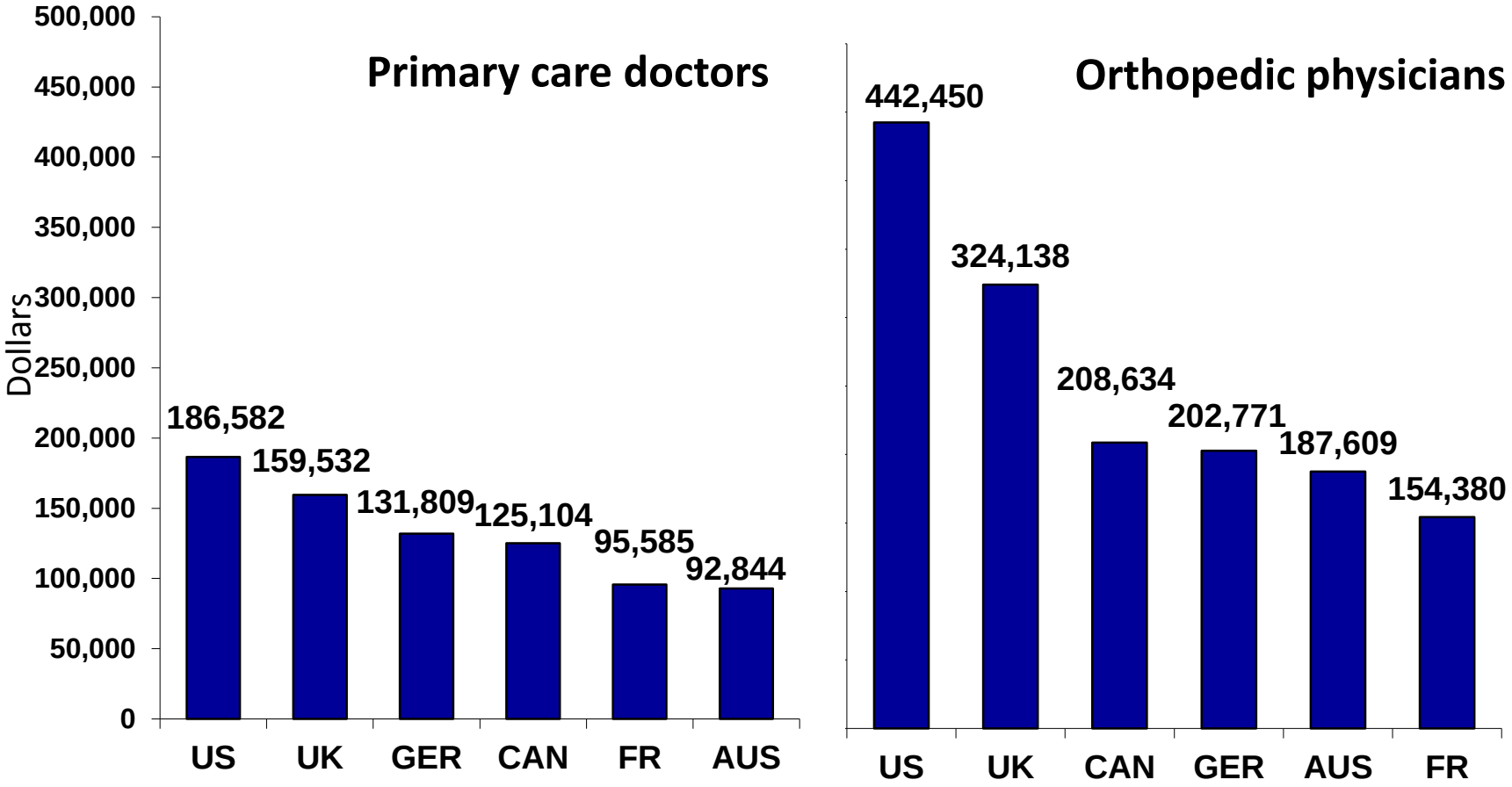
Source: 2012 Comparative Price Report by the International Federation of Health Plans. The average prices shown for colonoscopies do not include added fees for sedation by an anesthesiologist, a practice common in the United States, but unusual in the rest of the world. The additional charges can increase the cost significantly.

MERRICK, N.Y. — Deirdre Yapalater's recent colonoscopy at a surgical center near her home here on Long Island went smoothly: she was whisked from pre-op to an operating room where a gastroenterologist, assisted by an anesthesiologist and a nurse, performed the routine cancer screening procedure in less than an hour. The test, which found nothing worrisome, racked up what is likely her most expensive medical bill of the year: $6,385.

That is fairly typical: in Keene, N.H., Matt Meyer's colonoscopy was billed at $7,563.56. Maggie Christ of Chappaqua, N.Y., received $9,142.84 in bills for the procedure. In Durham, N.C., the charges for Curtiss Devereux came to $19,438, which included a polyp removal. While their insurers negotiated down the price, the final tab for each test was more than $3,500.

"Could that be right?" said Ms. Yapalater, stunned by charges on the statement on her dining room table. Although her insurer covered the procedure and she paid nothing, her

Physician Incomes, 2008
Adjusted for Differences in Cost of Living



SOURCE: M. J. Laugesen and S. A. Glied, "Higher Fees Paid to U.S. Physicians Drive Higher Spending for Physician Services Compared to Other Countries," Health Affairs, Sept. 2011 30(9):1647–56.

International Federation of Health Plans, 2010 Comparative Pricing Report

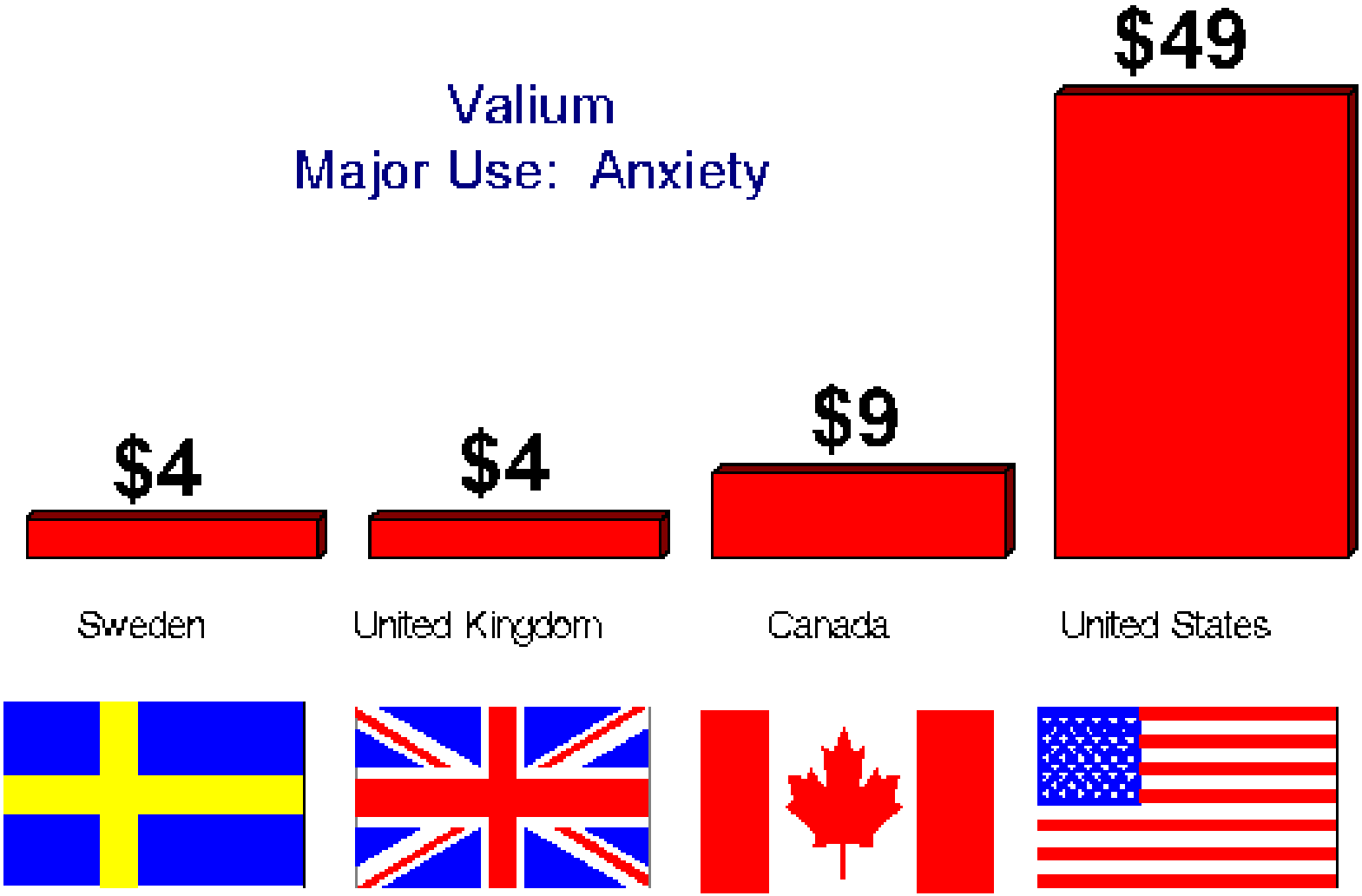
Comparison Shopping

Average costs across public and private sectors, in dollars.

	Britain	Canada	France	Germany	U.S.
M.R.I. scan	$ 187	304	398	632	**1,009**
Cataract surgery	1,299	927	3,352	N.A.	**3,161**
Normal childbirth	2,792	2,667	3,768	2,147	**8,435**
Appendectomy	3,456	3,810	2,795	3,285	**13,123**
Avg. hospital stay	N.A.	7,707	4,715	4,718	**14,427**
Hip replacement	9,637	10,753	12,629	15,329	**34,454**
Bypass surgery	13,998	22,212	16,325	27,237	**59,770**

Prescription Drug Prices in U.S. Are Much Higher Than In Other Nations

Valium
Major Use: Anxiety



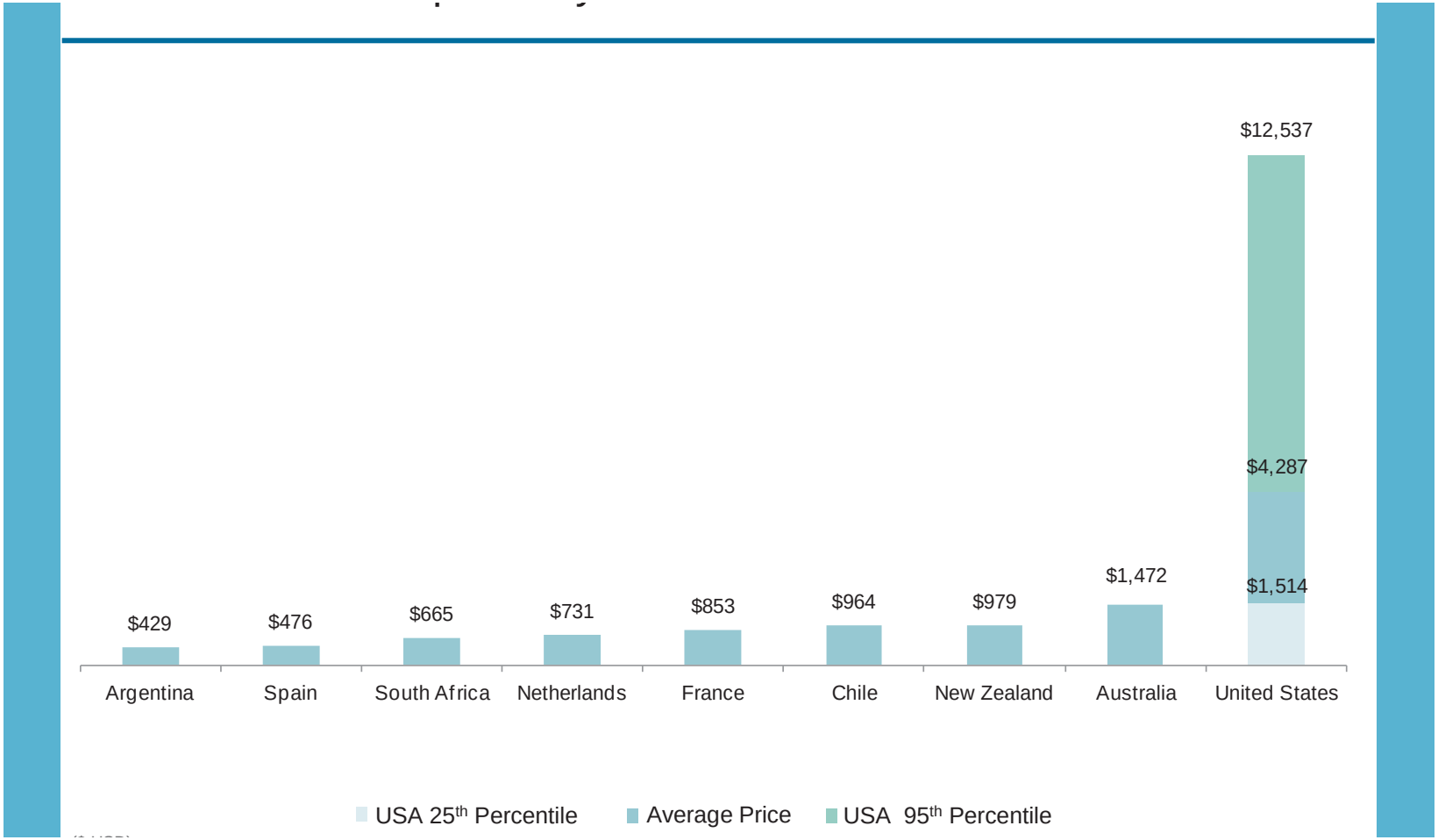
Package: 100 Tablets, 5.0 mg.

US: Unit Prices

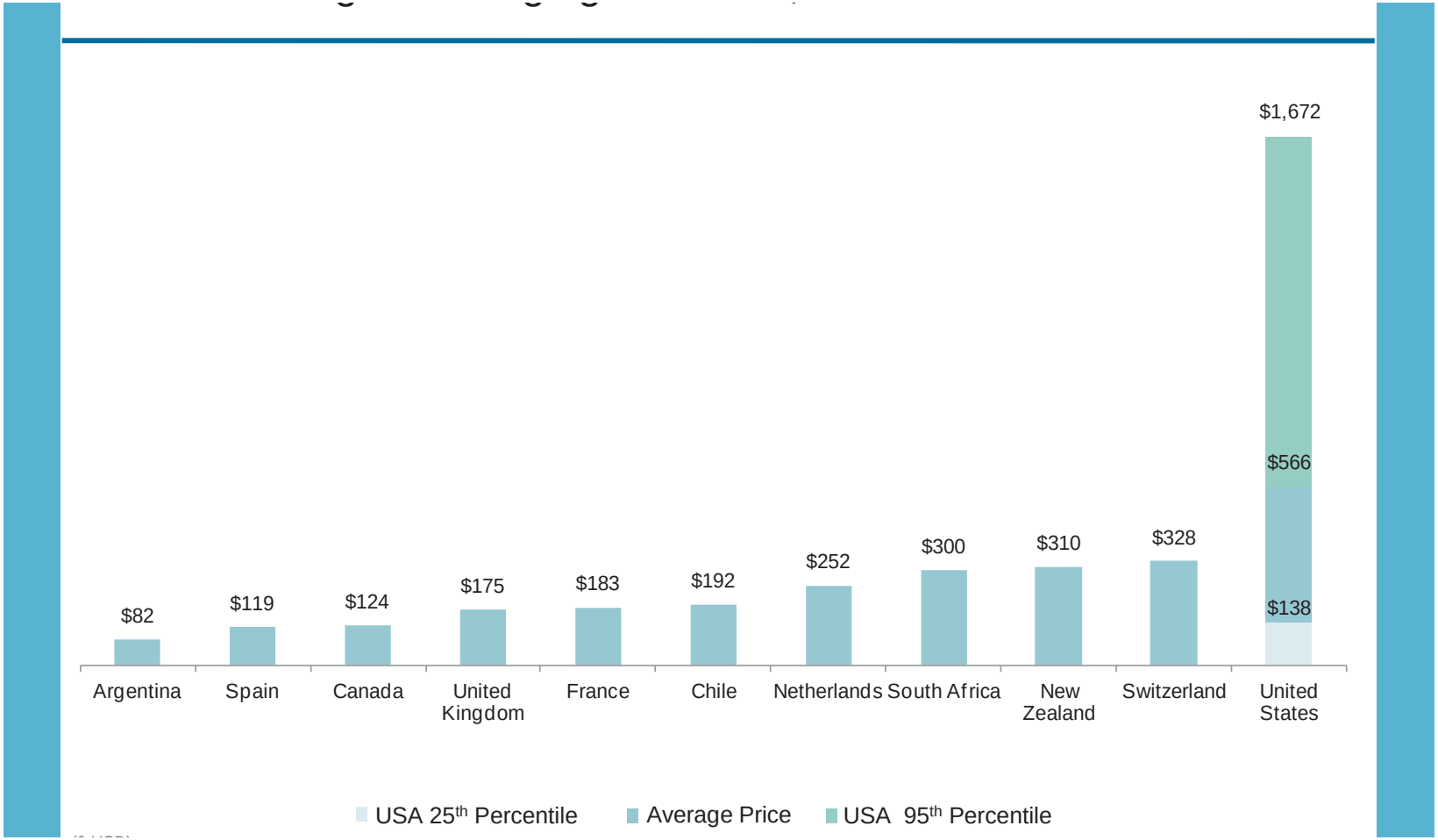
Sovaldi on introduction:

- $84,000 in United States
- $66,000 in Germany
- $57,000 in France
- $55,000 in Canada
- $900 in India

Cost of a hospital day



CT of head


$1,672
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$192
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$300
$310
$328
Argentina
Spain
Canada
United Kingdom
France
Chile
Netherlands
South Africa
New Zealand
Switzerland
United States
USA 25th Percentile
Average Price
USA 95th Percentile

Post-ACA: Spending Growth Slows

"National Health Spending in 2013: Growth Slows, Remains in Step with the Overall Economy" *Hartman et al, Health Affairs, Jan. 2015*

"Health care costs have been rising more slowly than at any time in the last fifty years.. Our annual survey of premiums for employer based health insurance in 2013 told a similar story. Premiums rose just 4 percent. There is debate among experts about how much of the slowdown is due to the weak economy and how much is due to changes in the health care system but everyone agrees both factors have played a role. The government report says the slowdown is mainly due to the economy. Our own analysis also found that the economy explains most of the diminishing rate of growth but changes in health insurance and health care have also played a significant role. There is uncertainty about when and how rapidly costs will accelerate when the economy improves, but no one disputes that the slowdown is real." –Drew Altman, Kaiser Family Foundation, March 2014.

Economists debate if this is due to the ACA, the recession, demographic, economics, or industry cyclical trends, or some combination. CMS asks if "the historically low health spending growth from 2009 to 2013" is "the temporary aftermath of the great recession or the beginning of a new era." *December 2014*

ACA Included Many Initial Steps in Cost Containment

- **Bulk Purchasing** thru group coverage, and a exchange to bargain for better value.
- **Abolishing Underwriting** and its expense and incentives, getting insurers to compete on cost & quality rather than risk selection.
- **Coverage for all** both directly (prevention, reduces cost-shift) reduces costs and helps foster additional system reforms.

- **Prevention**: Major investments in prevention and public health; Change delivery system to promote primary and preventative care; no cost-sharing for preventative care to encourage use; other efforts like menu labeling.
- **Information Technology** to foster electronic records, reduce bureaucracy., collect data.
- **Better Research** on prices and health outcomes and on **comparative effectiveness** of key treatments.

- **Patient Safety** measures to reduce hospital-acquired infections, reduce hospital re-admissions, etc.
- **Payment Reforms** to reward quality & better health outcomes (rather than per-patient/per procedure), including better care coordination & disease management;
- **Transparency** to make the health system get better data on cost & quality, as a tool for additional reforms.

More To Do

- ACA takes important and insufficient steps
- California can use the ACA as a platform for additional action, continue to improve.
- For example: **Medi-Cal waiver** as a catalyst for payment reform, patient safety, prevention, etc.
- For example: **Transparency** with a cost and quality database to help “follow the money”
  - An important tool for future cost efforts, if it has the right financing, governance, and mission

Sources

- California Employer Benefits Survey, 2014, http://www.chcf.org/publications/2014/01/employer-health-benefits
- Kaiser-HRET Survey of Employer Recent Trends in Employer-Sponsored Health Benefits, Nov., 2014,
- Marianne Udow-Phillips, Going Where the Money is: Health Care Cost Drivers, Center for Healthcare Research and Transformation, http://consumersunion.org/healthcosts/Udow-Phillips-Nov11.pdf
- Elisabeth Rosenthal, New York Times, Paying Till It Hurts, presentation to Consumers Union/Robert Wood Johnson convening, Nov. 2013.
- Hartman et al, "National Health Spending in 2013: Growth Slows, Remains in Step with the Overall Economy" *Health Affairs, Jan. 2015*
- Drew Altman, Kaiser Family Foundation, March 2014.

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