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Understanding the Market for Health Care and the Performance of the US Health Care System

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Is the Health Care sector unique?

Most markets have a few common features

1. Most transactions involve only a buyer and a seller.
2. Sellers can freely enter and exit a marketplace
3. Buyers have full information about the quality of the product/service and the price they will pay.
4. Buyers pay sellers directly for the goods/services being exchanged.
5. Market prices help coordinate the decisions of market participants and lead to efficient outcomes.

Is the Health Care sector unique?

In the Health Care sector…

1. Most transactions involve only a buyer and a seller. NO!

Presence of third parties in transactions—insurers and the government play a significant role in determining health care decisions.

2. Sellers can freely enter and exit a marketplace. NO!

Provider Licensing, Hospital Accreditation, Certificate of Need laws, High Fixed Costs create barriers to entry.

3. Buyers have full information about the quality of the product/service and the price they will pay. NO!

Patients often don't know what they need and cannot evaluate the quality of their treatment. They often lack full information on quality and price.

Is the Health Care sector unique?

In the Health Care sector…

4. Buyers pay sellers directly for the goods/services being exchanged. NO!

Health care providers are most often paid by third parties (private or government health insurance)…after the transaction has occurred.

5. Free market prices coordinate the decisions of market participants and lead to efficient outcomes. NO!

The access and payment rules established by insurance companies and government payers largely determine the allocation of resources, and the resulting allocation may not be the most efficient.

Taking the pulse of the US Health Care system

Economists and policy analysts who assess the overall performance of a health care system focus on three key components ("Triple Aim")

- Access
- Cost
- Quality

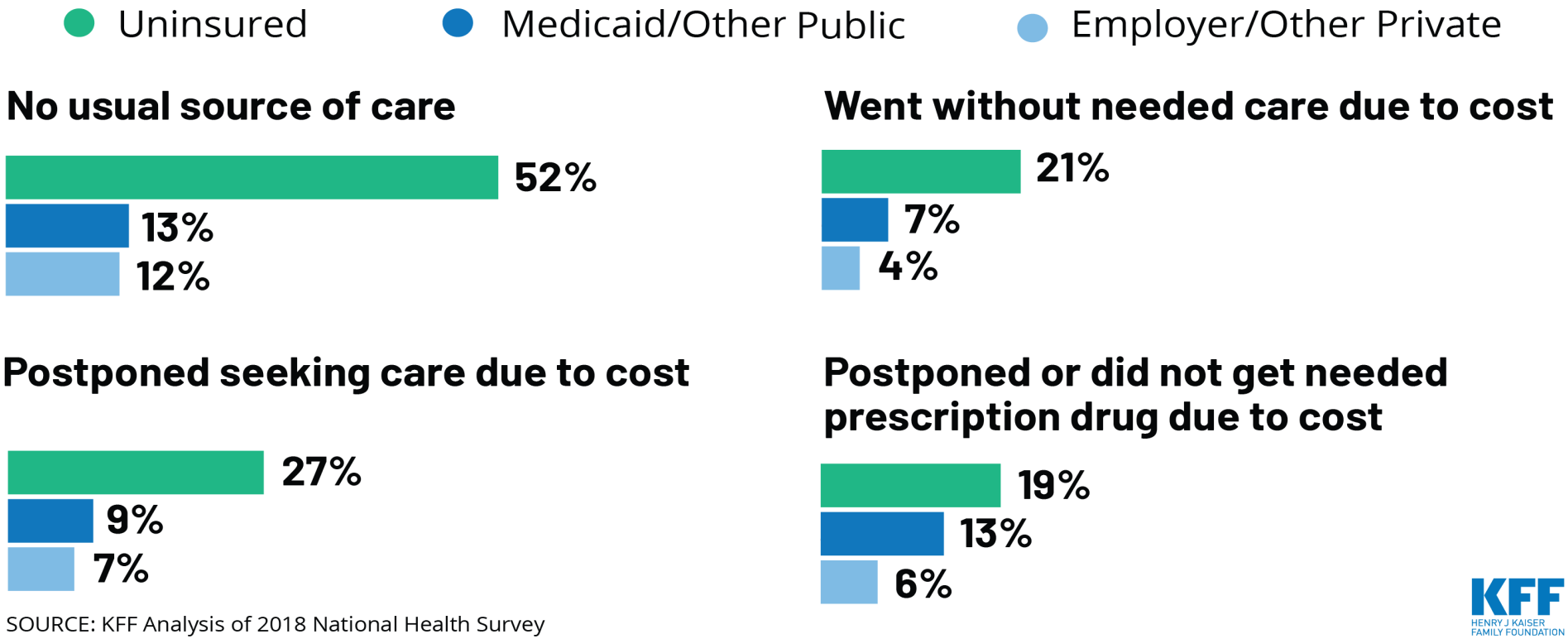
Access: What % of the population has access to health care?

- **Access to the health care system** is tied to **access to health insurance.**

"Health insurance makes a difference in whether and when people get necessary medical care, where they get their care, and ultimately, how healthy they are. Uninsured people are far more likely than those with insurance to postpone health care or forgo it altogether. The consequences can be severe, particularly when preventable conditions or chronic diseases go undetected." ***Key Facts about the Uninsured Population, Kaiser Family Foundation.***

Access: The importance of health insurance

Uninsured Most Likely to Delay or Go Without Care or Prescription Drugs Due to Cost



SOURCE: KFF Analysis of 2018 National Health Survey

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Access: The impact of the Affordable Care Act (2010)

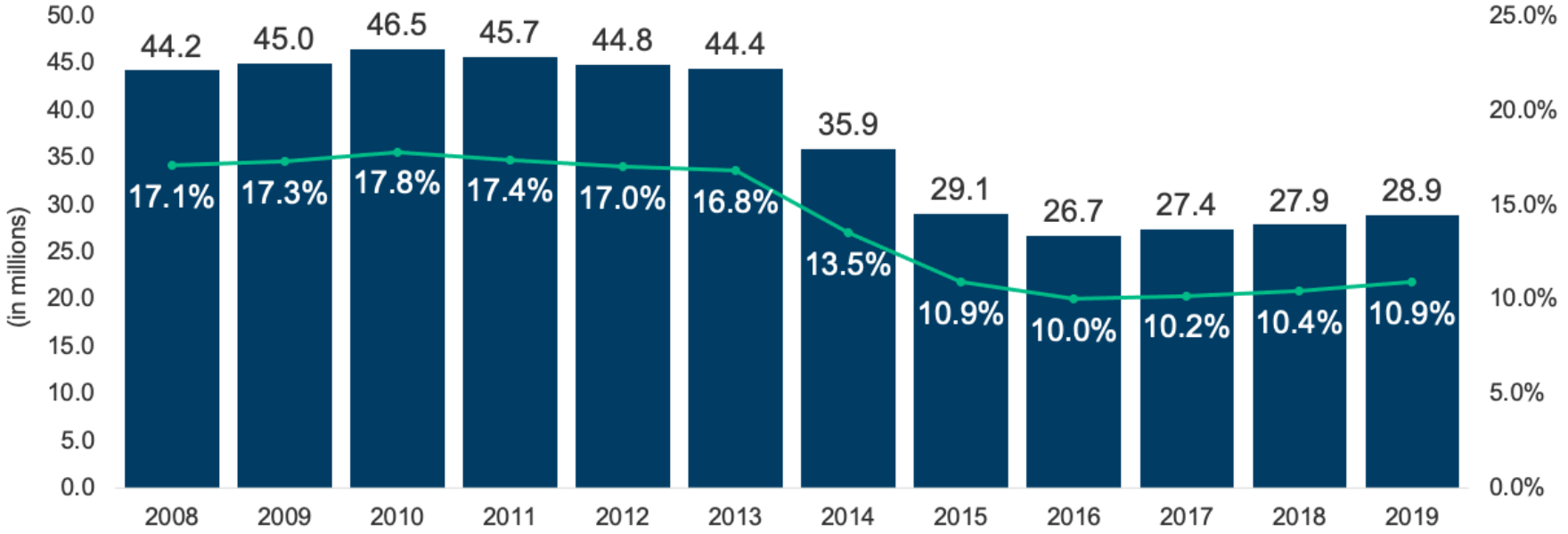
Landmark legislation whose primary focus was increasing access to health insurance. How?

- Imposed Individual and Employer Mandate with penalty (individual penalty removed 2017)
- Provided Funding for Medicaid expansion
- Introduced premium tax credits and cost-sharing subsidies for those who purchase insurance on the exchange
- Allowed young people to stay on family coverage until age 26
- Limited the ability of insurance companies to deny coverage to consumers with pre-existing conditions; eliminated lifetime caps
- Imposed limits on what insurance companies could charge for smokers, older people, etc.

Access: The impact of the Affordable Care Act

Figure 1

Number of Uninsured and Uninsured Rate among the Nonelderly Population, 2008-2019



NOTE: Includes nonelderly individuals ages 0 to 64.
SOURCE: KFF analysis of 2008-2019 American Community Survey, 1-Year Estimates.

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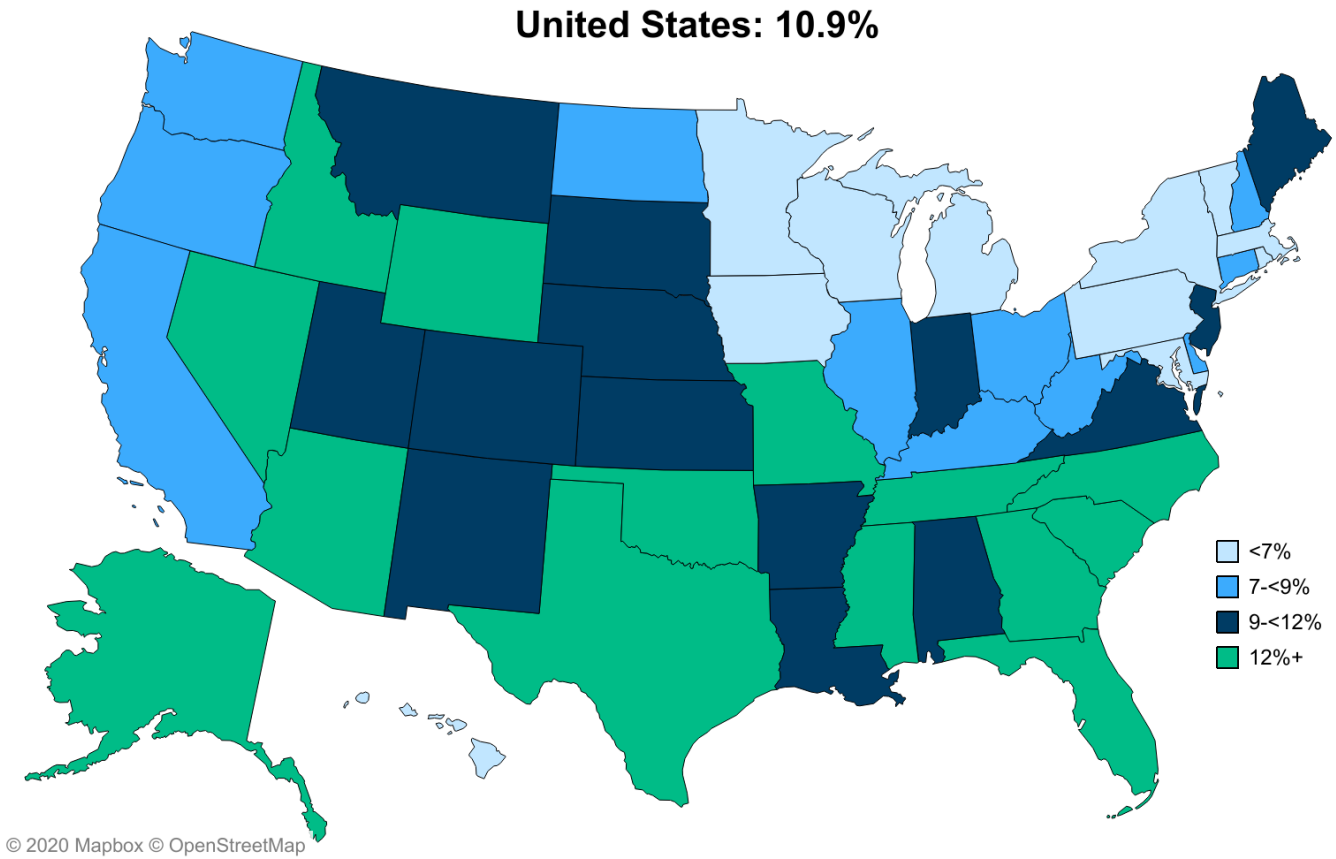
Access: Uninsured rates vary dramatically by state

Figure 6

Uninsured Rates among the Nonelderly by State, 2019



NOTE: * Indicates a statistically significant change from 2018 to 2019 at the p<0.05 level. Includes nonelderly individuals ages 0 to 64.
SOURCE: KFF analysis of 2019 American Community Survey, 1-Year Estimates.

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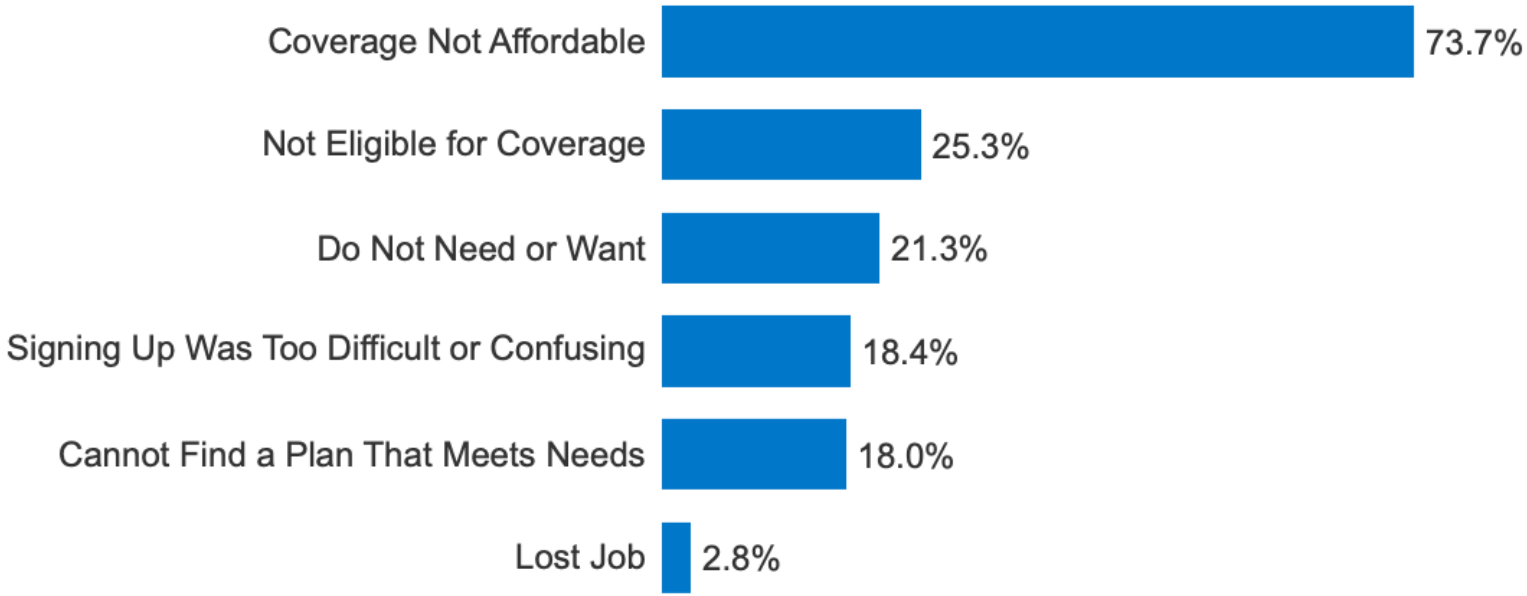
Access: Why are people uninsured?

Figure 7

Reasons for Being Uninsured among Uninsured Nonelderly Adults, 2019



NOTE: Includes nonelderly individuals ages 18 to 64. Respondents can select multiple options.
SOURCE: KFF analysis of 2019 National Health Interview Survey.

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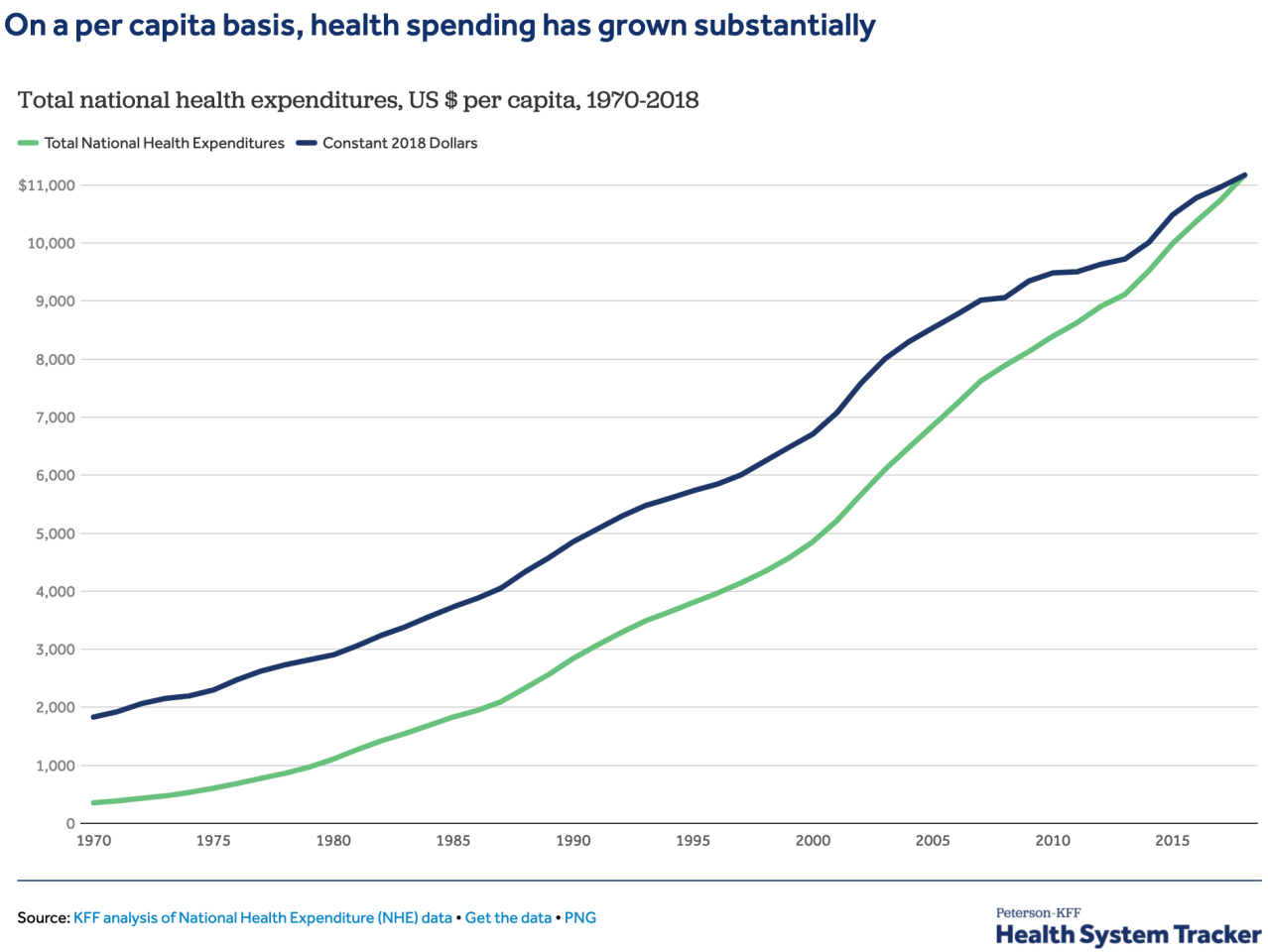
Access: Main Take-aways

- Health Insurance is the ticket into the health care system.
- Uninsured people often postpone health care or forgo it altogether. This can lead to poor outcomes for those with preventable conditions and chronic diseases.
- The Affordable Care Act made huge strides in reducing the numbers of uninsured but there are almost 30 million Americans without health insurance.
- Safety net providers, including hospitals, community health centers, rural health centers, FQHCs and free clinics provide uncompensated care to many people without health coverage.

Costs: Growth in per capita health care spending over time

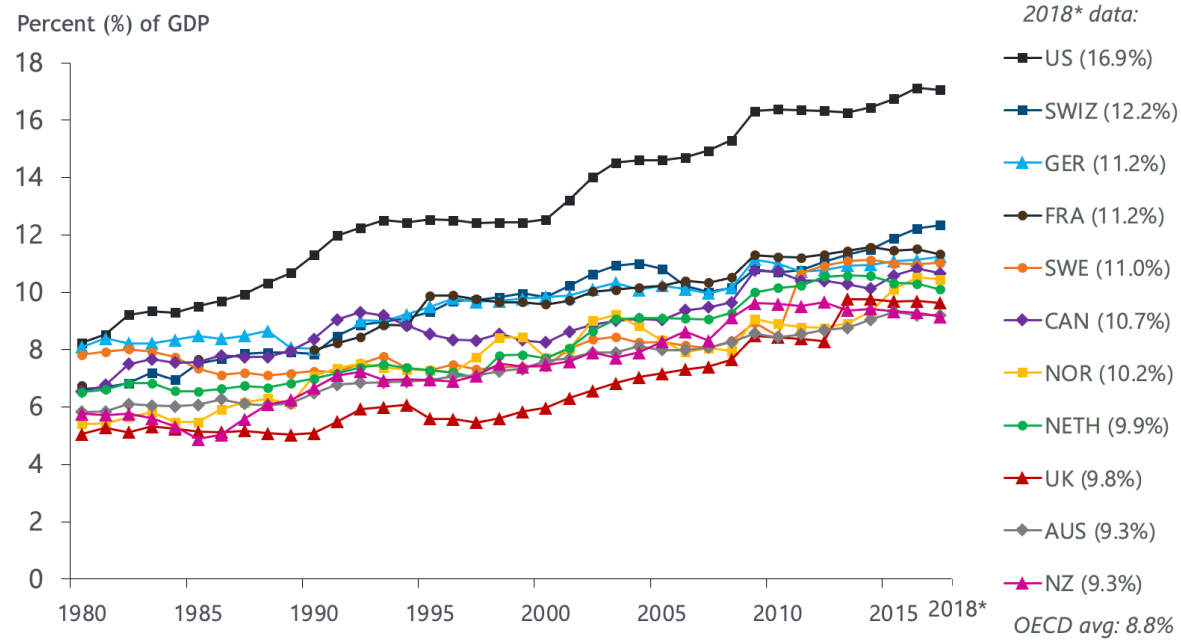


Costs: Health Expenditures as a share of GDP, over time

SPENDING

Health Care Spending as a Percent of GDP, 1980–2018

Adjusted for Differences in Cost of Living



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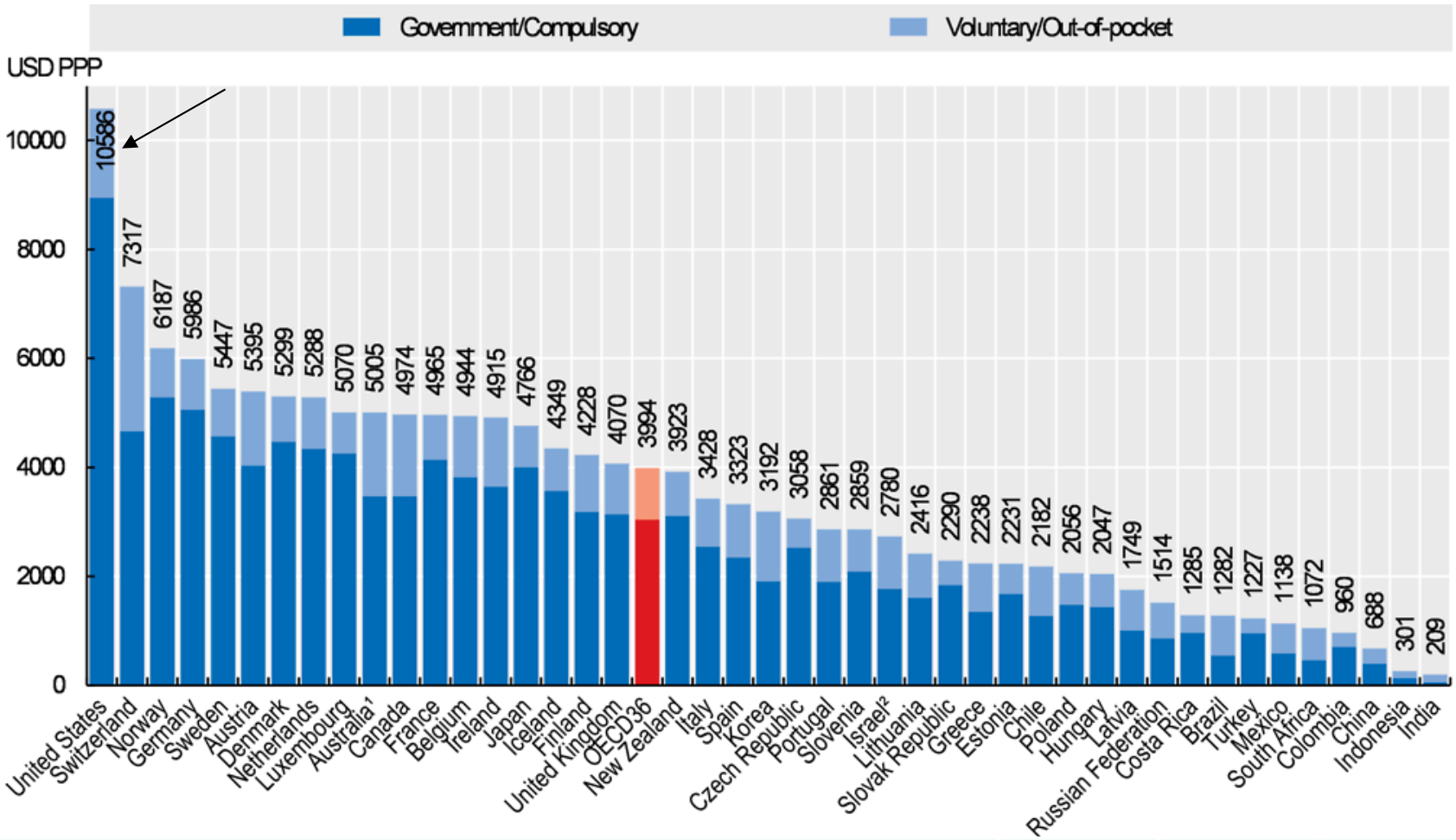
Notes: Current expenditures on health. Based on System of Health Accounts methodology, with some differences between country methodologies. OECD average reflects the average of 36 OECD member countries, including ones not shown here.

*2018 data are provisional or estimated.

Source: OECD Health Data 2019.

Costs: Cross-country comparison of expenditures per capita 2018 (or nearest year)



Note: Expenditure excludes investments, unless otherwise stated.

1. Australian expenditure estimates exclude all expenditure for residential aged care facilities in welfare (social) services.

2. Includes investments.

Source: OECD Health Statistics 2019, WHO Global Health Expenditure Database.

Costs: Main Take-aways

- We spend more per capita for health care than any other country in the world

- Our health care expenditures are also growing faster than the rest of the world.

- Our health care expenditures are growing faster than our economy which means health care is taking up more and more of our household, state and federal budgets.

Costs: What is driving up health care spending?

- Growth of third-party payers (people shielded from true cost of care demand more care — "moral hazard")
  - Fee for service reimbursement system (incentivizes volume not value)
- Administrative costs
- Technological growth
- Increased specialization
- Aging of population
- Income growth

Quality: We are spending more…are we getting more?

- **Not so much…..**

Quality: We are spending more…are we getting more?

Health Care System Performance Scores

Note: See How This Study Was Conducted for a description of how the performance scores are calculated.
Source: Commonwealth Fund analysis.

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E. C. Schneider, D. O. Sarnak, D. Squires, A. Shah, and M. M. Doty, *Mirror, Mirror: How the U.S. Health Care System Compares Internationally at a Time of Radical Change,* The Commonwealth Fund, July 2017.

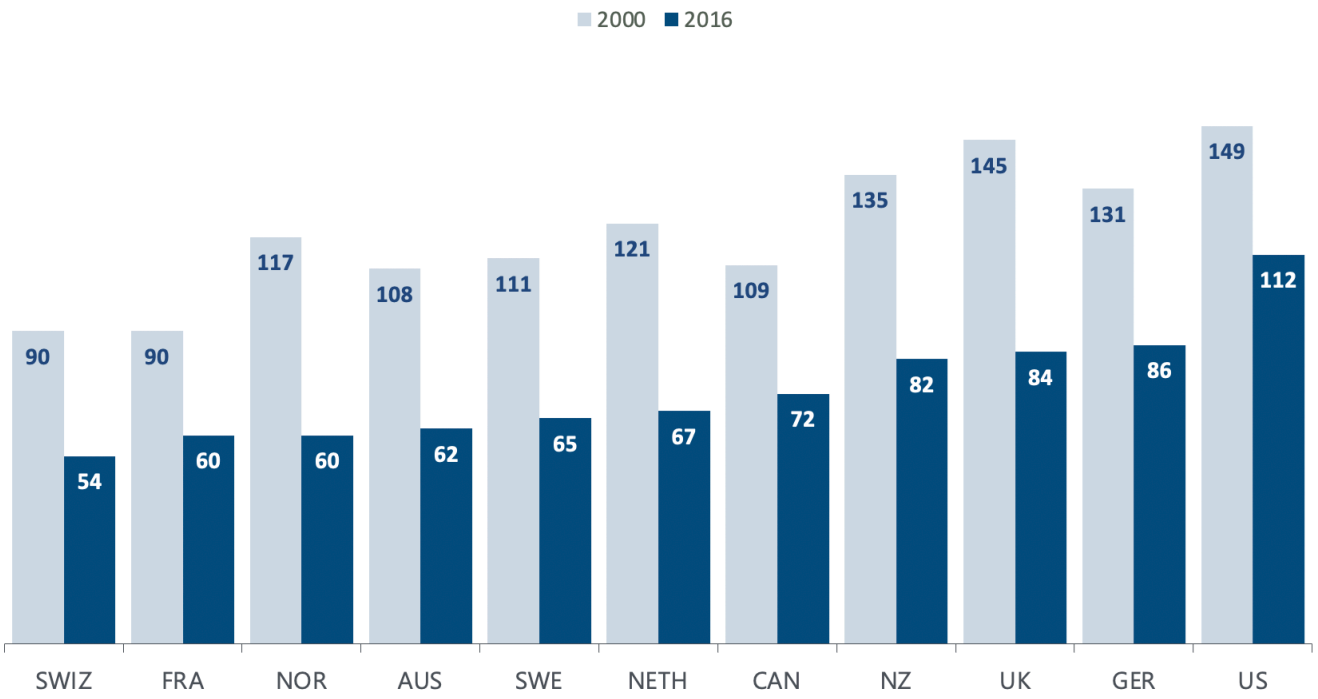
Quality: We are spending more…are we getting more?

- The US performs poorly on basic health measures such as **child and infant mortality** and **life expectancy** at birth.
  - From 2001-2010, the risk of death in the US was 76% greater for infants and 57% greater for children than the average across 20 high income nations. Thakrar et al., (2018) *Health Affairs*
  - In 2016, the US ranked *last* in life expectancy at birth among 18 high income countries. The gap between the highest performer and the US was almost 6 years for women and 5 years for men. Ho, (2018) *British Medical Journal*

Quality: We are spending more…are we getting more?

Mortality Amenable to Health Care, 2000 and 2016

Deaths per 100,000 population



Notes: Data for 2000 (except UK, 2001) and latest available (2016 for NETH, NOR. SWE, US; 2015 for AUS, CAN, FRA, GER, SWIZ, UK; 2014 for NZ). Mortality data from World Health Organization (WHO) detailed mortality files (released Dec. 2018). Population data from WHO detailed mortality files, except CAN (UN population database) and US (Human Mortality Database). Amenable causes as per list by Nolte and McKee (2004). Calculations by the European Observatory on Health Systems and Policies (2019). Age-specific rates standardized to European Standard Population, 2013.

Data: Marina Karanikolos, European Observatory on Health Systems and Policies, 2019.

The Commonwealth Fund

Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

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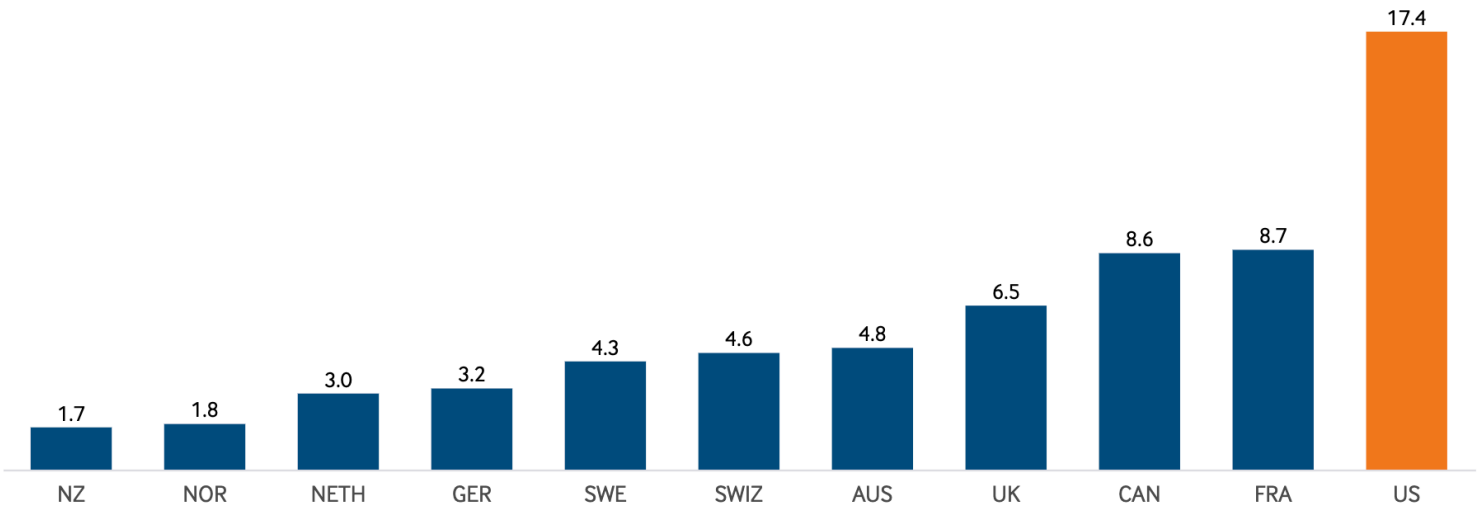
Quality: We are spending more…are we getting more?

Exhibit 1

Maternal Mortality Ratios in Selected Countries, 2018 or Latest Year

Deaths per 100,000 live births



Download data

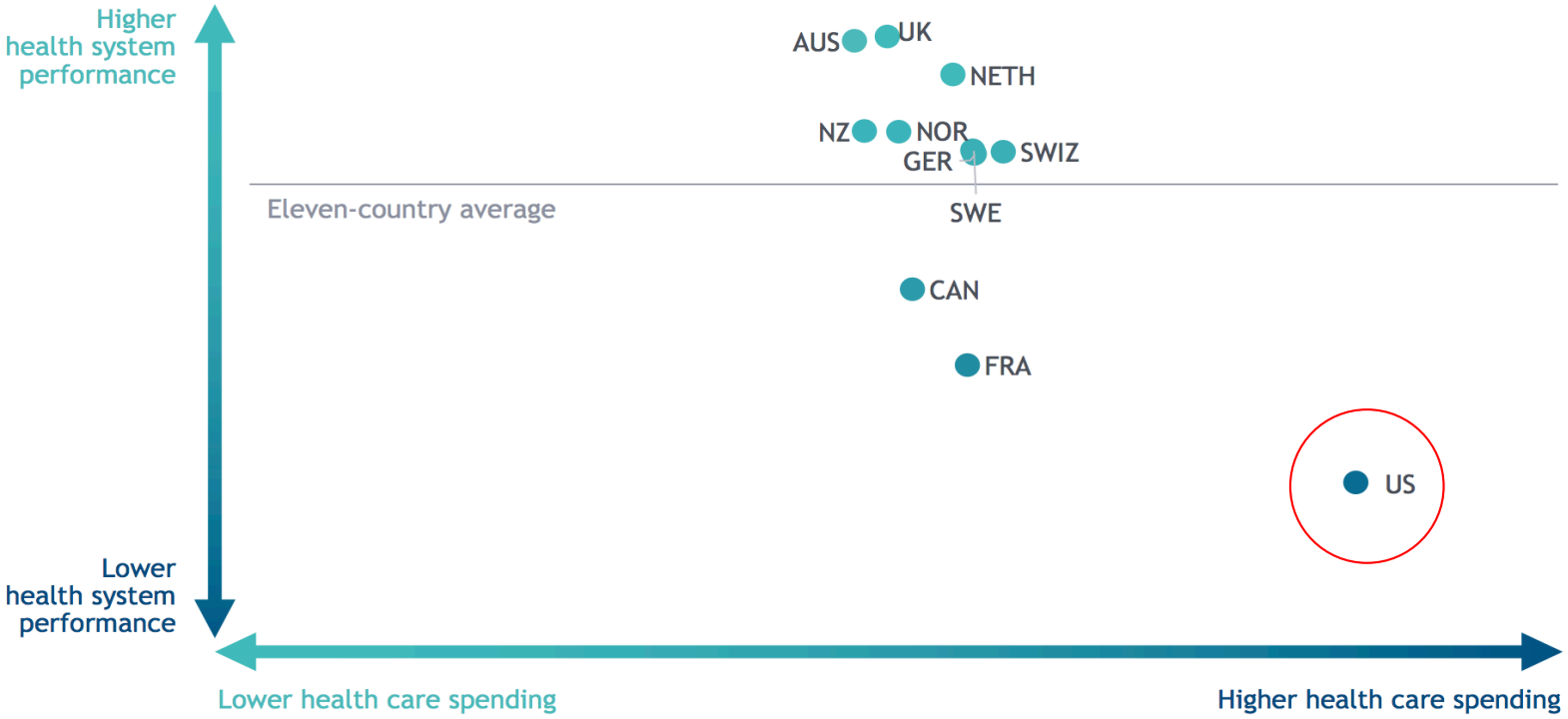
Notes: The maternal mortality ratio is defined by the World Health Organization as the death of a woman while pregnant or within 42 days of termination of pregnancy, irrespective of the duration and site of the pregnancy, from any cause related to or aggravated by the pregnancy or its management but not from accidental or incidental causes.

Data: OECD Health Data 2020, showing data for 2018 except 2017 for Switzerland and the UK; 2016 for New Zealand; 2012 for France.

Source: Roosa Tikkanen et al., *Maternal Mortality and Maternity Care in the United States Compared to 10 Other Developed Countries* (Commonwealth Fund, Nov. 2020). https://doi.org/10.26099/411v-9255

Quality: We are spending more…are we getting more?

Health Care System Performance Compared to Spending



Note: Health care spending as a percent of GDP.
Source: Spending data are from OECD for the year 2014, and exclude spending on capital formation of health care providers.

The Commonwealth Fund

E. C. Schneider, D. O. Sarnak, D. Squires, A. Shah, and M. M. Doty, *Mirror, Mirror: How the U.S. Health Care System Compares Internationally at a Time of Radical Change,* The Commonwealth Fund, July 2017.

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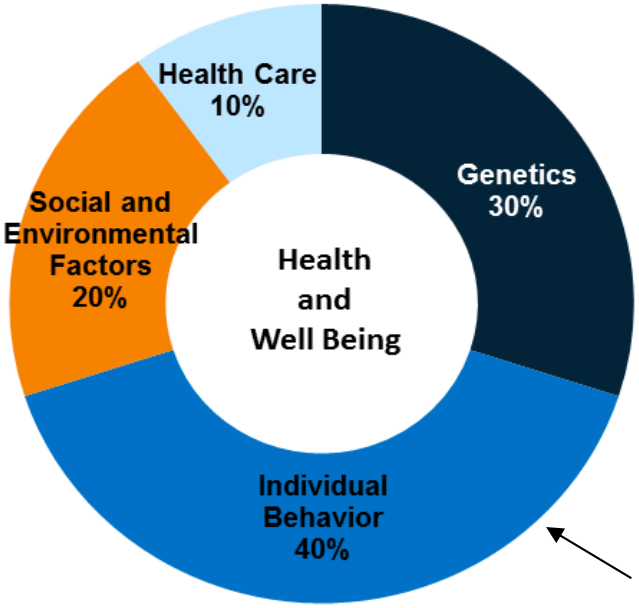
Determinants of Health:
How might we better allocate scarce resource dollars?

Figure 2

Impact of Different Factors on Risk of Premature Death



Housing, Education, Transportation, Environment

Nutrition, Exercise, Substance Use

SOURCE: Schroeder, SA. (2007). We Can Do Better — Improving the Health of the American People. *NEJM*. 357:1221-8.

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Determinants of Health:
How might we better allocate scarce resource dollars?

Research suggests…

- Ease access to health insurance to better ensure people have access to timely, preventative care
- Shift resources toward primary care and the social determinants of health
- Increase reliance on data, evidence-based medicine and cost-effectiveness research to reduce wasteful spending
- Align payment incentives with desired population health outcomes

Vermont's Payment and Delivery Reform Effort (All-Payer Model): Improving quality (population health) and reducing cost

Incentives Matter!

- Shifts payment from fee-for-service to fixed prospective payment (*focus moves from sick care to well care, reduces wasteful spending/overutilization; incentivizes high value care and investment in social determinants; encourages clinical innovation*)
- Shifts financial risk from payers to providers (*reduces wasteful spending/overutilization; incentivizes preventative care and early intervention*)
- Holds providers accountable for quality of care delivery and population health outcomes (*aligns patient and provider incentives*)
- Shift resources towards primary care and pays clinicians to coordinate care between providers of high risk patients (*breaks down care silos, improves clinical outcomes, reduces costly duplication of services and dangerous drug interactions*)
- Greater emphasis on cost and quality data for population health management

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Thank you! Stay Healthy and Safe