Presentation to House Health Care

March 18, 2025

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Introduction and Goals

- Explain how funds flow in the Vermont Healthcare System
- Identify places where flows may be regulated

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Classical Economic Transactions

- Willing buyer and seller, either of whom may walk away from the transaction
- Perfect information for both parties
- Benefits and costs are entirely within the transaction
- Multiple buyers and sellers
- THIS IS NOT HEALTHCARE FINANCING!

What Makes Healthcare Different?

- Imperfect information
- Concentrated markets
- But especially, third-party payers

Third-party Payers

- Any public or private organization that pays for healthcare on behalf of a patient
- Includes public organizations (e.g. Medicare and Medicaid) and private health insurers (e.g. Blue Cross and MVP)
- All third-party payers have one or more mechanisms to raise funds and one or more to make payments

Why Do We Need Third-party Payers?

Distribution of Health Expenditures in the U.S. Population

Percent of Health Expenditures

80%
70%
60%
50%
40%
30%
20%
10%
0%

Decile	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Percent of Health Expenditures	0%	0%	0%	1%	1%	2%	4%	6%	13%	73%

Decile

Least expensive 10%

Most expensive 10%

Source: Agency for Healthcare
Research and Quality / MEPS, 1999

The most expensive 10 Percent of the population account for between two-thirds and three-quarters of all health care spending.

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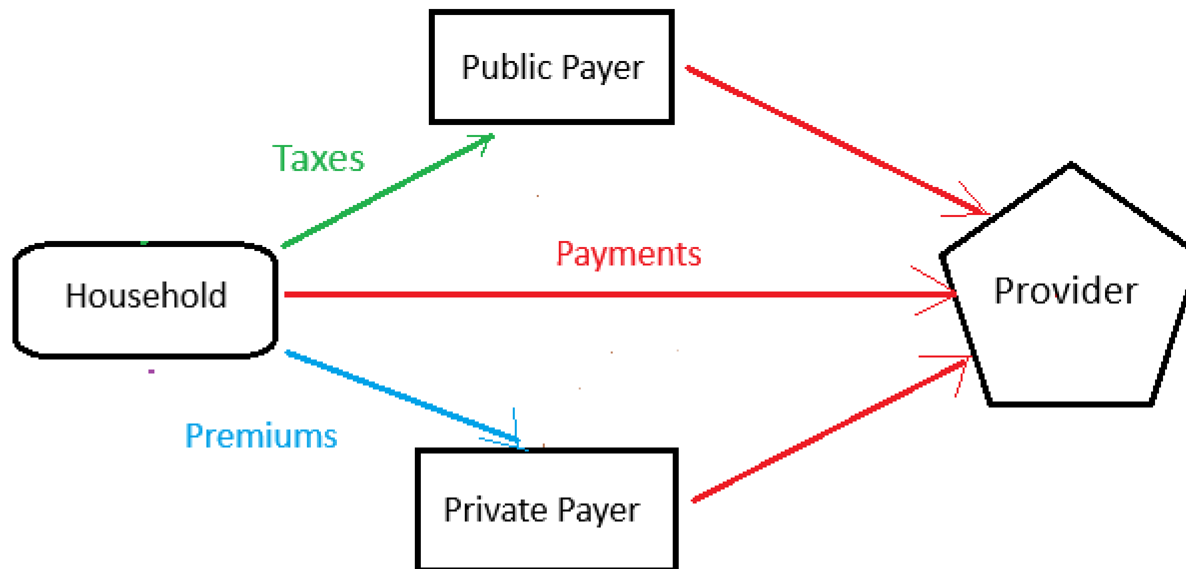
Conceptual Map of Healthcare Funds Flow



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Actual Map of Funds Flow, Simplified

Government

Medicare

Medicaid

Household

Premium
Subsidy

OOS
Provider

Out-of-
State Payer

Instate
Provider

Private Payer

Foregone
Wages

Wages

Employer

Payments for services
Premiums
Taxes
Wages

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Private Payers

- Insurance is all about managing risk. We can define risk in this case as deviations from expected revenue or expenditures
- Health insurance is very different from most other types of insurance (e.g. home, auto, or life)
  - Other types have a specific benefit amount
  - Other types underwrite each individual customer
  - Other types cover only catastrophic events

Self-Insured Private Payers

- An employer who assumes the financial risk, rather than transferring it to an insurer.
- They are typically larger employers, including both private companies and public organizations (State of Vermont, UVM, VEHI). Over 200,000 Vermonters are covered by self-insured employers.
- While some of these public organizations are subject to state regulations, private companies are not.

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Public Payers

- Primarily Medicare and Medicaid, but also includes the VA, Indian Health Service
- Differences from private payers
  - Partially or totally tax-financed
  - Entitlement (anyone who meets requirements can obtain coverage)
  - Can unilaterally set reimbursement (no negotiations)

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Providers

- Two main types for regulatory and billing purposes
  - Institutions (e.g. hospitals, nursing homes)
  - Professionals
- May aggregate into more complex organizations that include both types

Providers, continued…

- Three main methods of payment
  - Fee-for-service
    - Including DRGs and episode-of-care
  - Capitation
    - Payment is made for a person and specific time period, regardless of actual amount of care provided
  - Global budget
    - Fixed amount for a specific time period
  - Capitation and global budget transfer risk to the provider

How Much Money Are We Talking About?

- In 2020, about $6.4 billion was spent for the care of Vermont residents, regardless of where the care took place, with $2.2 billion being spent on hospital care
- In 2020, about $6.8 billion was spent on healthcare in Vermont, regardless of where the patient lived. About $2.8 billion of that was for hospital care (excluding physicians).
- Source: GMC Board, 2020 Health Care Expenditure Analysis (May, 2022)

How Much more…

- Note that the amounts differ between the resident and provider estimates.

Vermonters getting care in Vermont

Vermonters getting care out-of-state

Out-of-staters getting care in Vermont

Resident Expenditure Analysis

Provider Expenditure Analysis

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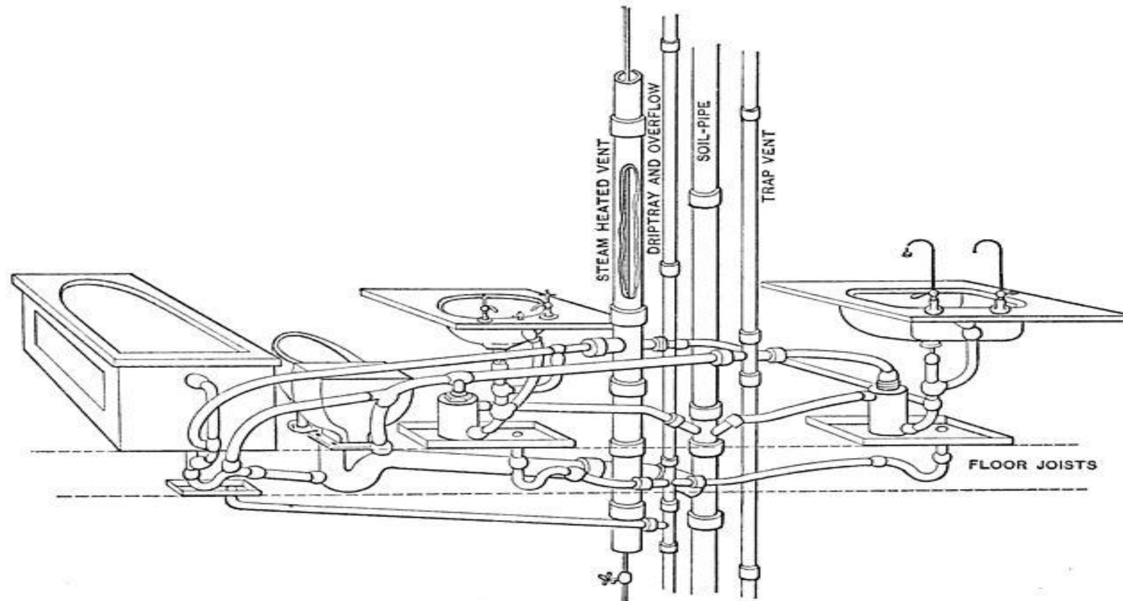
How Much, still more…

- While we have estimates for the Provider and Resident views, we don’t know the value for Vermonters in Vermont
- One way to estimate this is to look at births. In 2022, 89% of the births in Vermont were to Vermont residents. About 86% of births by Vermont residents occurred in Vermont.

Take a Deep Breath…

Regulation

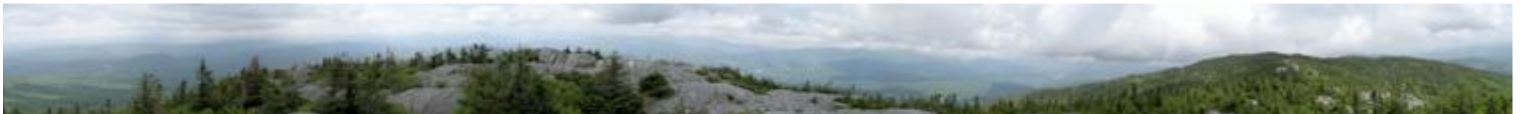
- Based on the funds flow diagrams, it's all plumbing. But where are the valves?



Regulation, continued

The State of Vermont has several tools to regulate healthcare spending

- Insurance premium regulation
- Hospital Budgets
  - Charges
  - Net Revenue
  - Expenses
- Certificate of Need (CON)
  - This affects spending on major capital projects



Regulation, part 3

Limitations on Regulation

- Insurance premium regulation
  - This impacts about 90,000 Vermonters
- Hospital Budgets
  - Charges – Medicare and Medicaid don’t pay based on charges. Commercial payers often negotiate a discount
- Certificate of Need (CON)
  - This only affects spending on major capital projects

Regulatory Valves

Government

Medicare

Medicaid

2

3

Household

Premium
Subsidy

1

Private Payer

1

Employer

Institution

Professional

OOS Provider

Out-of-
State Payer

All Payers

4

Institution

Professional

Instate Provider

Payments for services

Premiums

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Explanation of Valves

1. Premiums for individuals and fully-insured employers are regulated by GMCB and DFR
2. State share of Medicaid is set by the state budget. Note that state funds for Medicaid come from several different sources
3. Medicaid payment rates are set by the state
4. While not all payments to hospitals can be controlled by the state, aggregate revenue can be

In Conclusion…

The flow of dollars through the healthcare system is very complex, with multiple ways that funds are raised and multiple ways funds are spent

- This presentation omitted several additional channels such as payments by insurers to Pharmacy Benefit Managers, reinsurance, and reform models such as ACOs

Concluding Conclusions

The ability of the state to manage these funds is limited by several factors, including

- Self-insured employers
- Federal-only control of Medicare
- Some mechanisms address spending on behalf of residents while others address spending on care provided in Vermont

Questions?

- Please???
- If any come up later, I'm at
  - sjkappel@policyintegrity.com

- Thanks for your attention!