

THE AMERICAN DILEMMA IN HEALTH CARE

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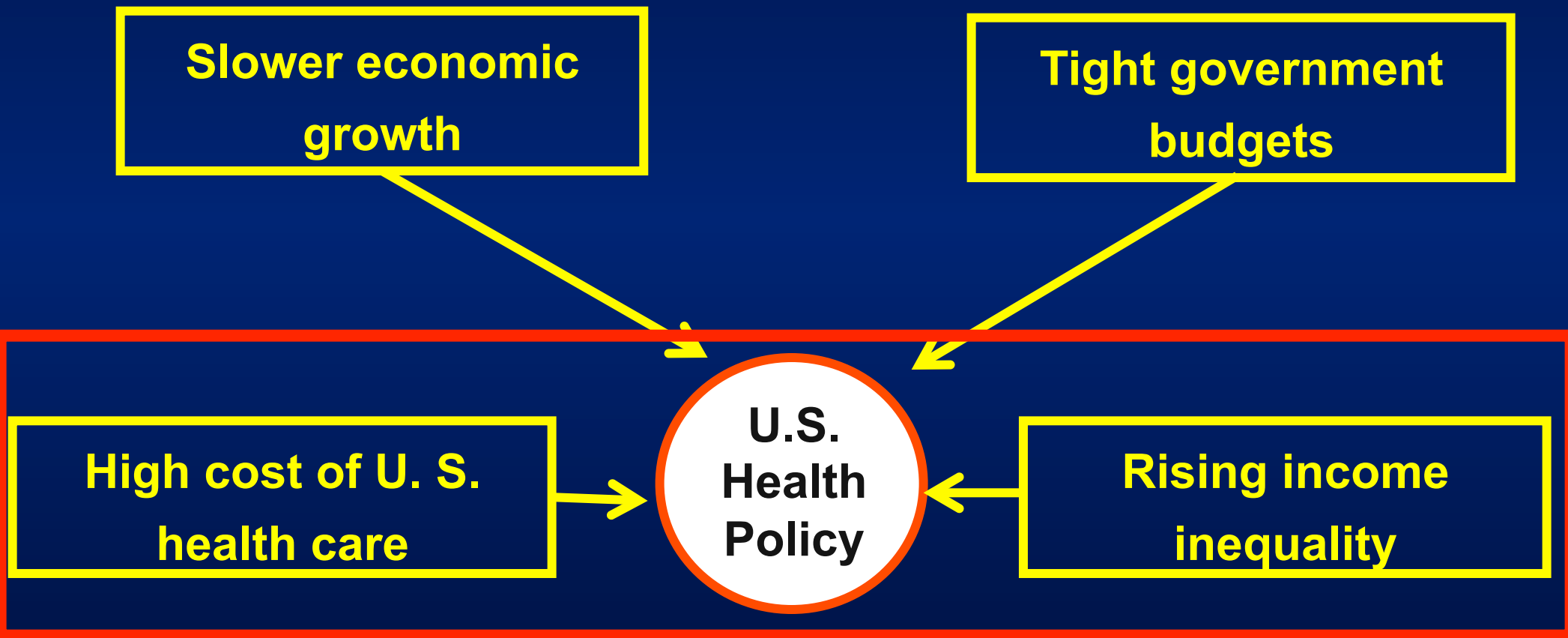
National Institute for Health Care Management

The Future of Health Care in America: The ACA and Beyond

Washington, D.C.

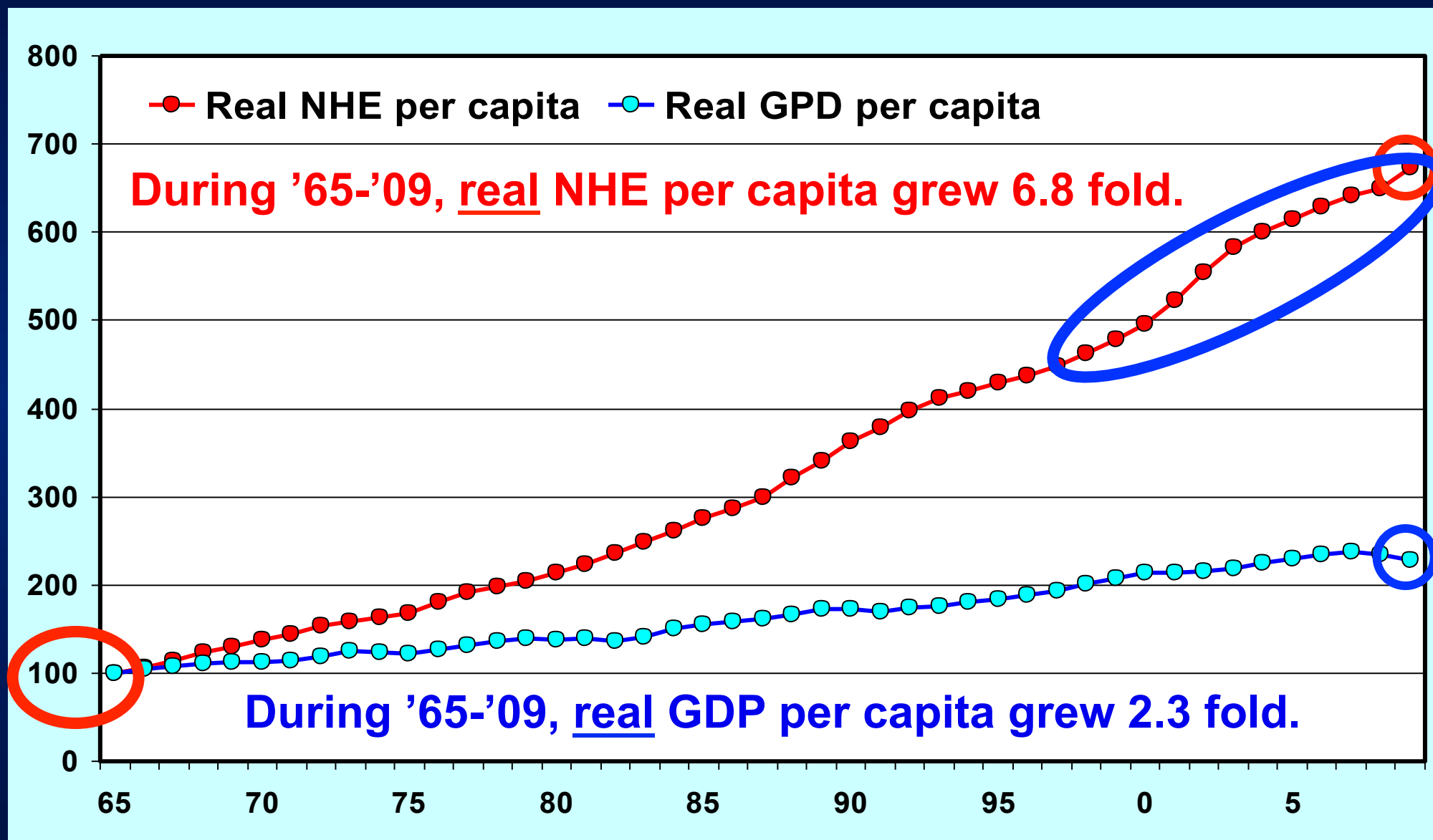
September 3, 2014

FACTORS SHAPING THE FUTURE OF U.S. HEALTH CARE



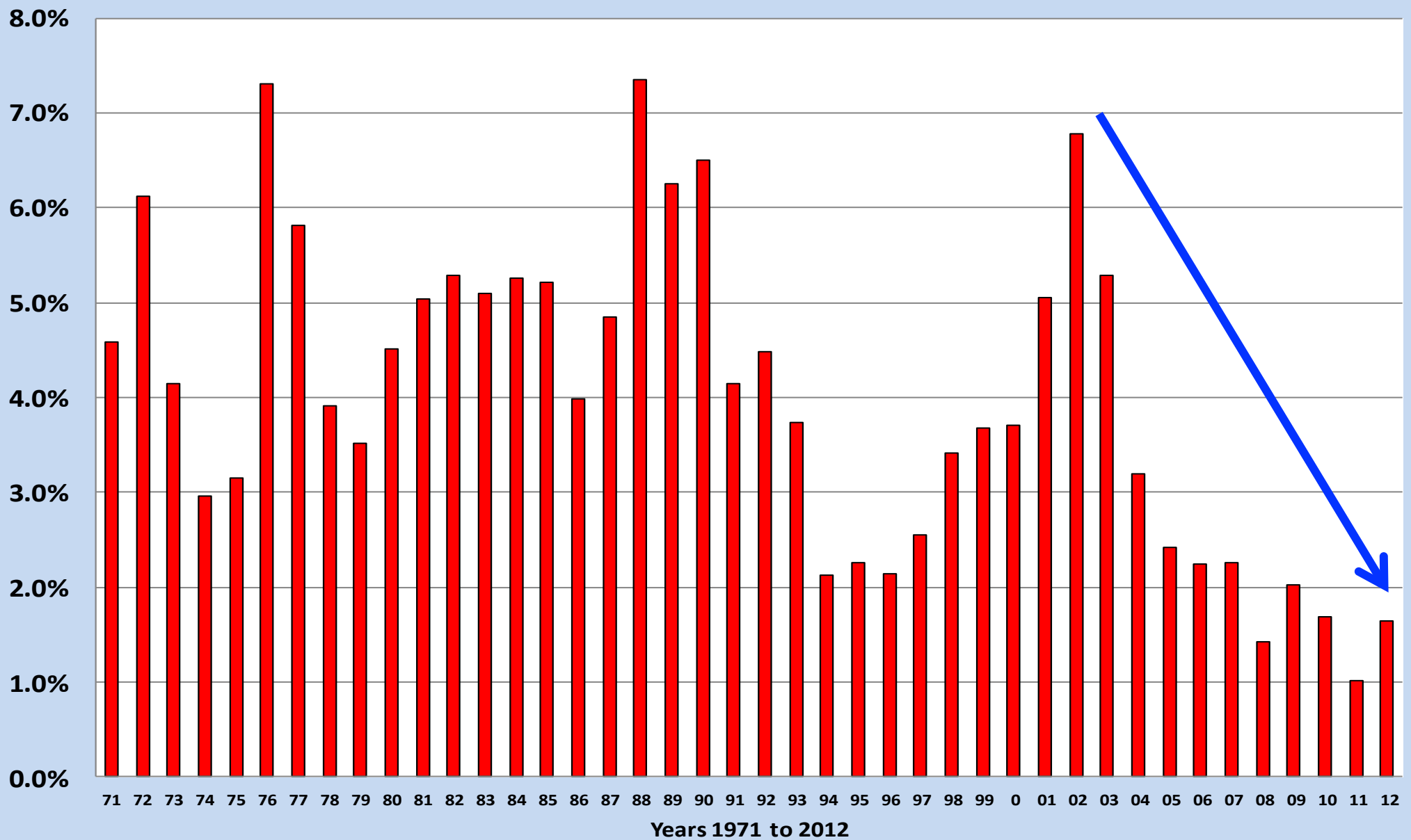
I. THE HIGH COST OF U.S. HEALTH CARE

GROWTH OF REAL NATIONAL HEALTH INCOMES (NHE) AND REAL GDP, BOTH PER CAPITA, IN CONSTANT 2000 \$s, 1965 = 100 (GDP Deflator)



SOURCE: CMS Data & Statistics and Economic Report of the President 2010.

Year-to-Year Growth in Real Per-Capita U.S. Health Spending

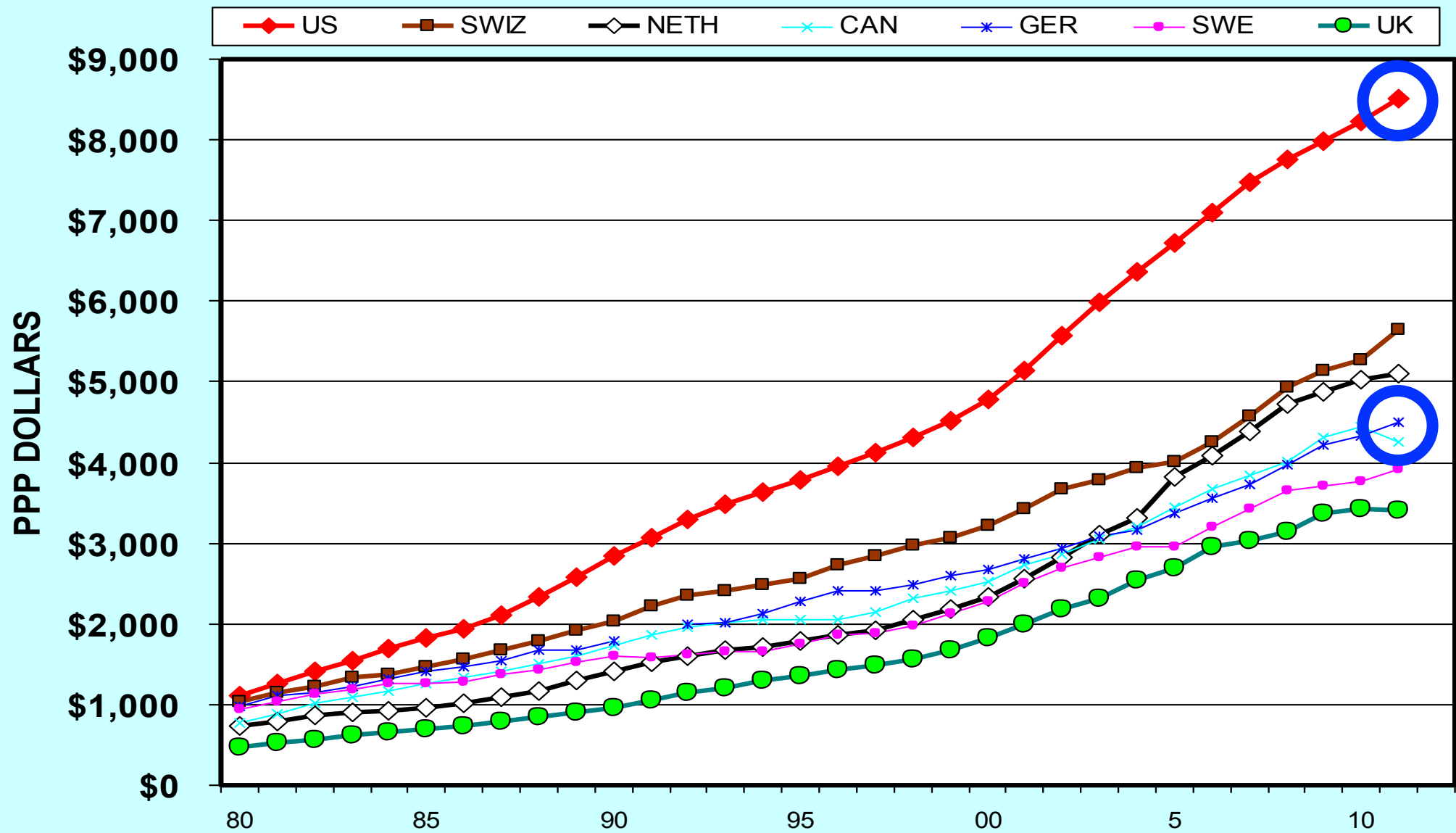


True, there has been a marked slow-down in the annual growth of health spending in the U.S. – and in the rest of the OECD as well.

But we have had such slow-downs before, only to see health spending take off again later.

And the fact is that, recent slow-down notwithstanding, Americans spend roughly twice as much per capita on health care as do most other nations in the OECD.

PER-CAPITA HEALTH SPENDING IN PPP DOLLARS -- SELECTED OECD COUNTRIES, 1980-2011



The problem is not that Americans consume more health care per capita than do citizens of other countries.

The opposite is more nearly the truth.

The main reason Americans spend so much more per capita on health care than do other nations is that prices for virtually any health service or product are twice as high or higher in the U.S.

It's The Prices, Stupid: Why The United States Is So Different From Other Countries

Higher health spending but lower use of health services adds up to much higher prices in the United States than in any other OECD country.

by **Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan**

PROLOGUE: In Fall 1986 *Health Affairs* published the first of nearly two decades' worth of reports summarizing the state of health care spending in industrialized countries that are members of the Organization for Economic Cooperation and

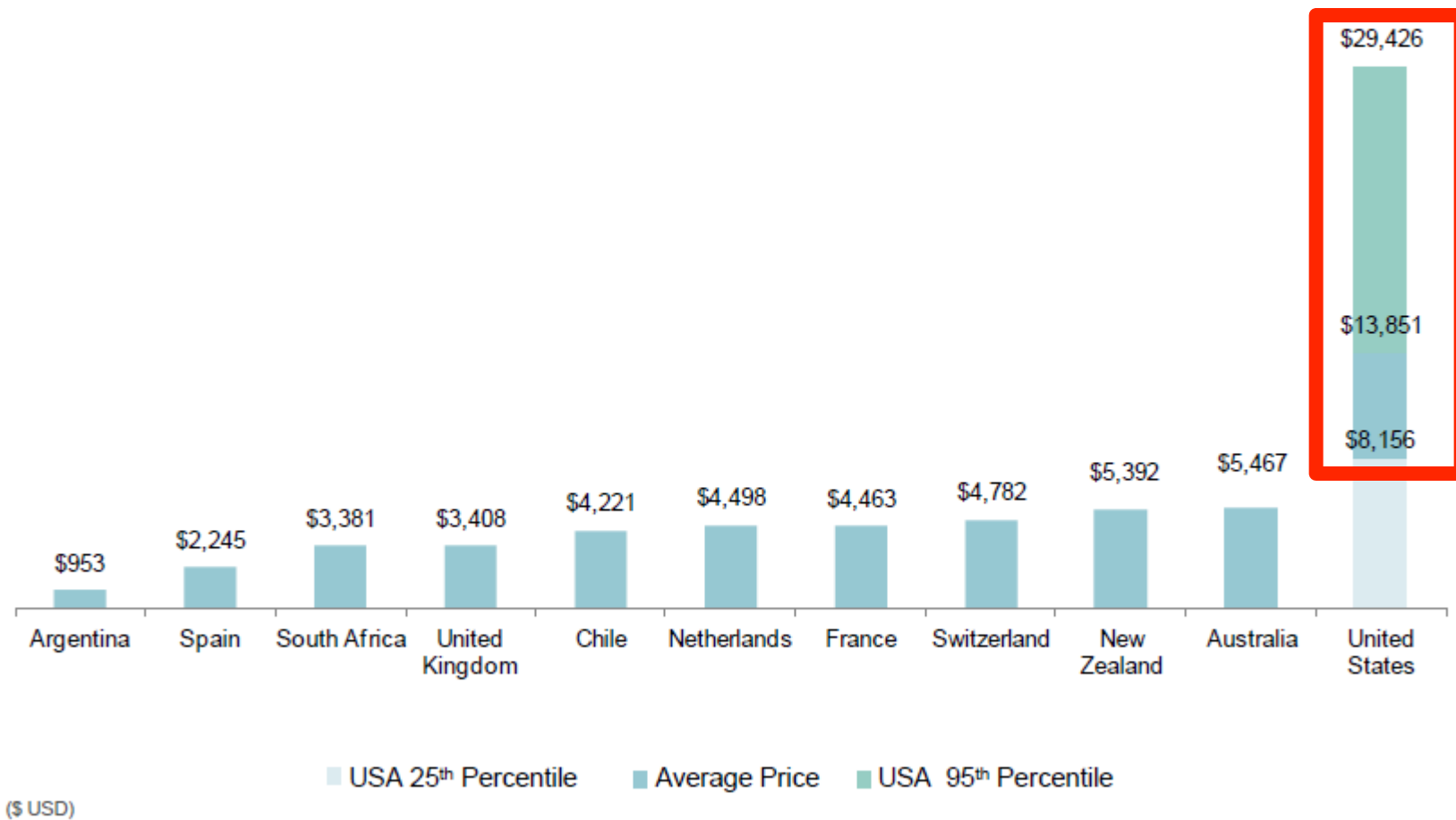


International Federation of Health Plans

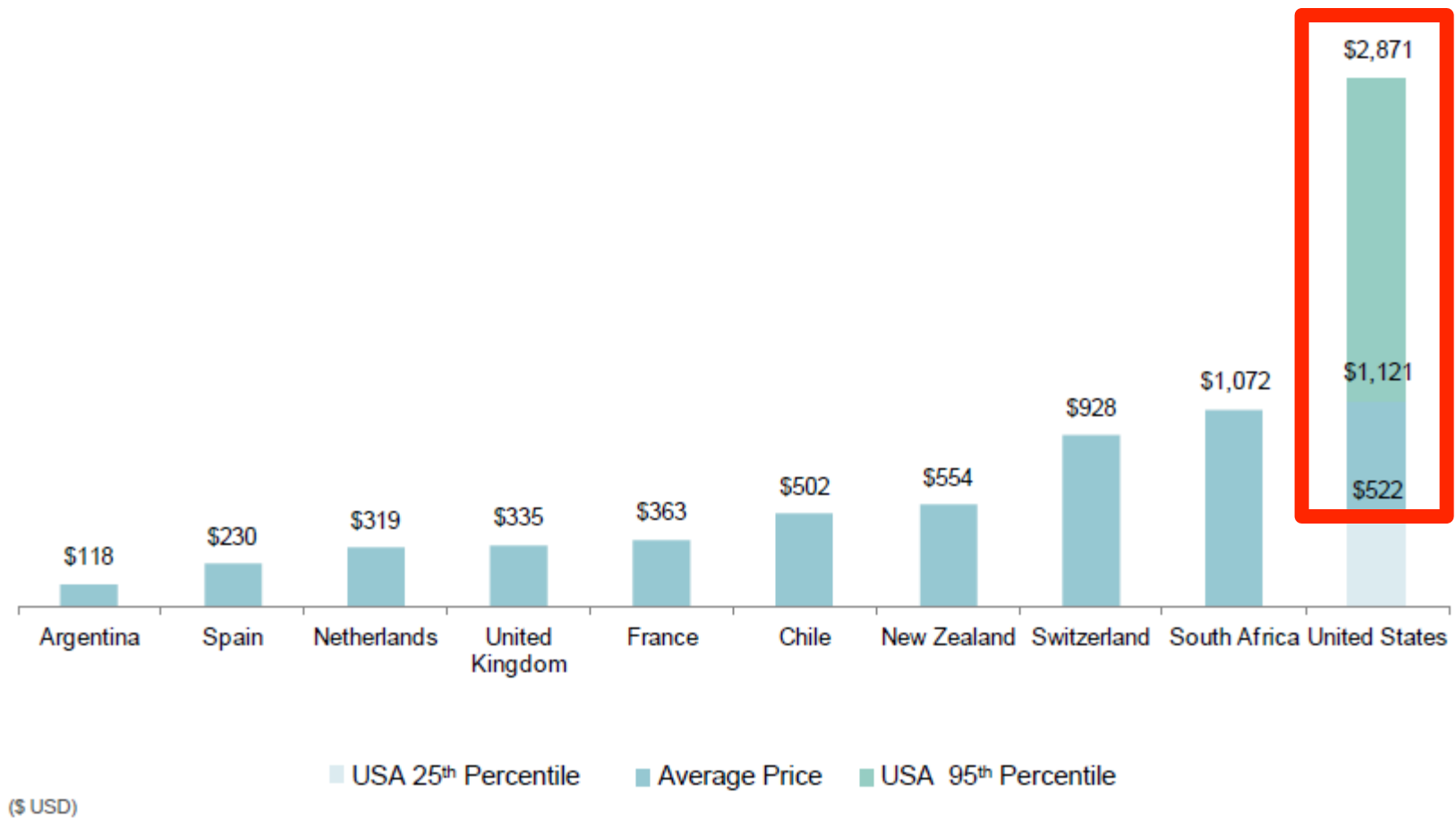
2012 Comparative Price Report

Variation in Medical and Hospital Prices by Country

2012 Total Hospital and Physician Cost: Appendectomy

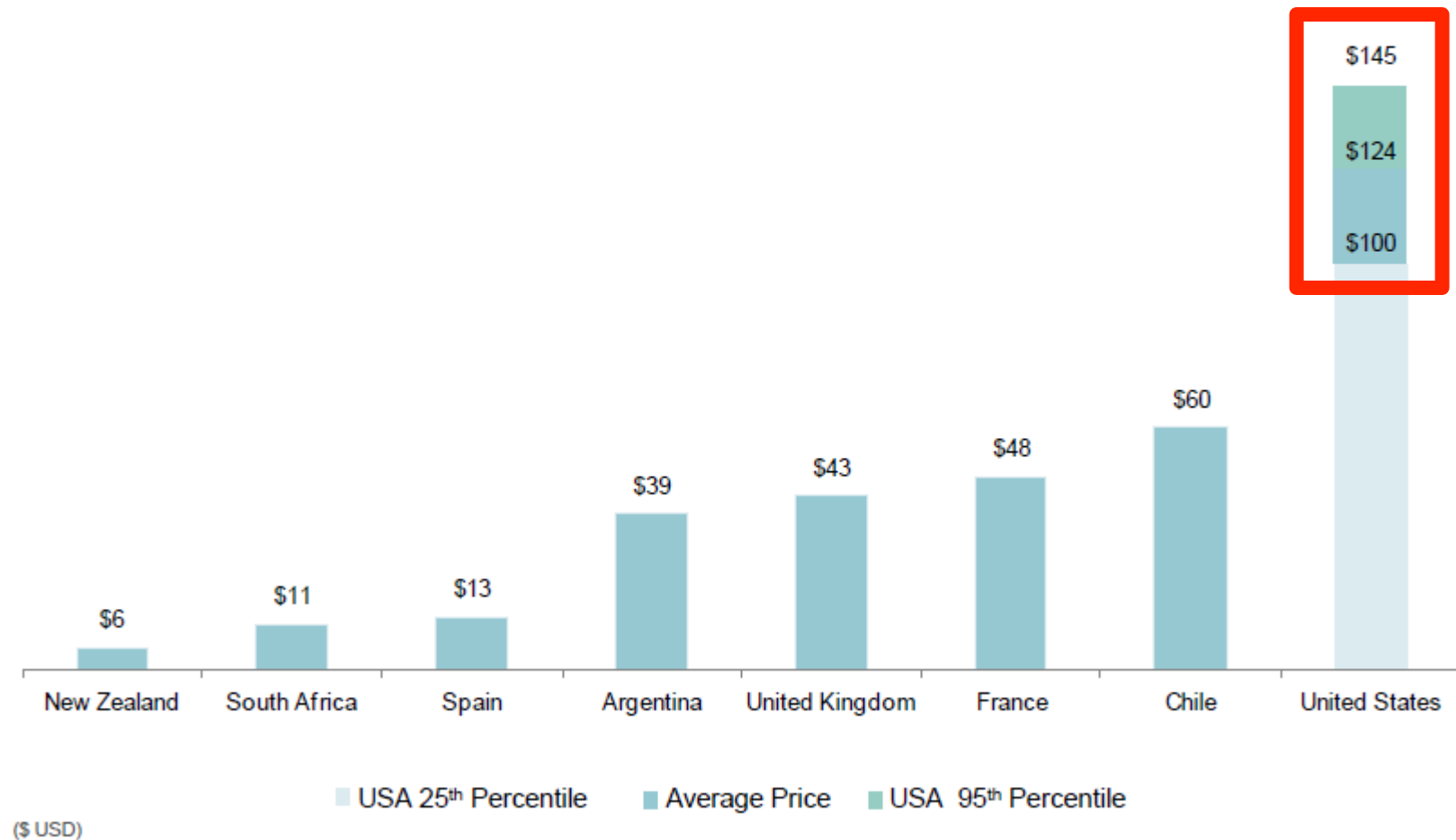


2012 Scanning and Imaging: MRI



2012 Drugs: Lipitor

Lipitor is commonly prescribed for high cholesterol.



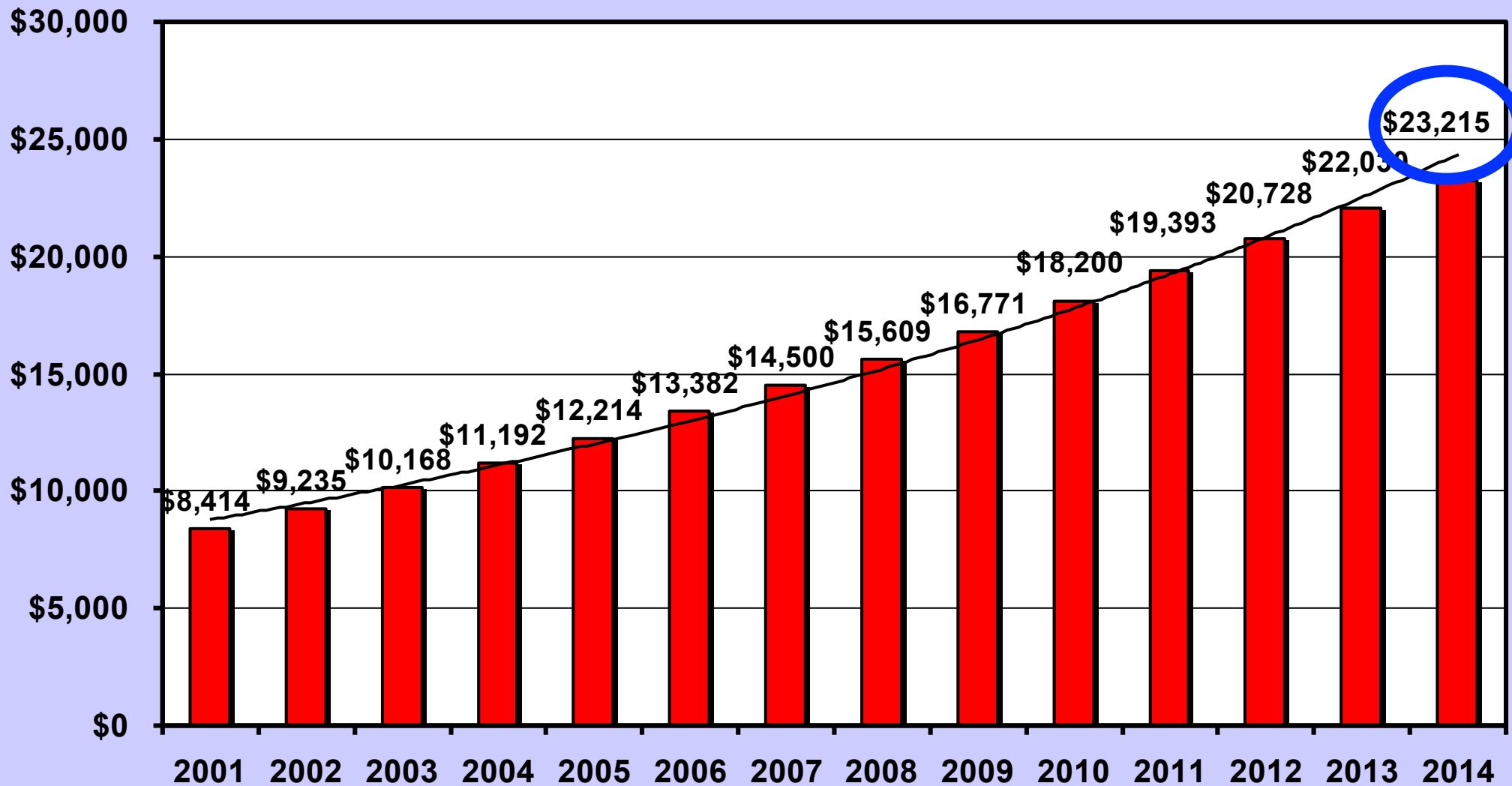
The actuarial firm Milliman annually calculated its so-called *Milliman Medical Index* of health spending by a typical American family covered by an employer-sponsored Preferred Provider Plan (PPO).

The index represents the sum of:

- 1. The employer's contribution to the premium for the employee's health insurance;**
- 2. The employee's own contribution to the premium**
- 3. The employee's out-of-pocket spending for health care**

MILLIMAN MEDICAL INDEX (MMI)

Average Annual Medical Cost for a Typical Family of Four



SOURCE: 2014 Milliman Medical Index <http://www.milliman.com/mmi/>

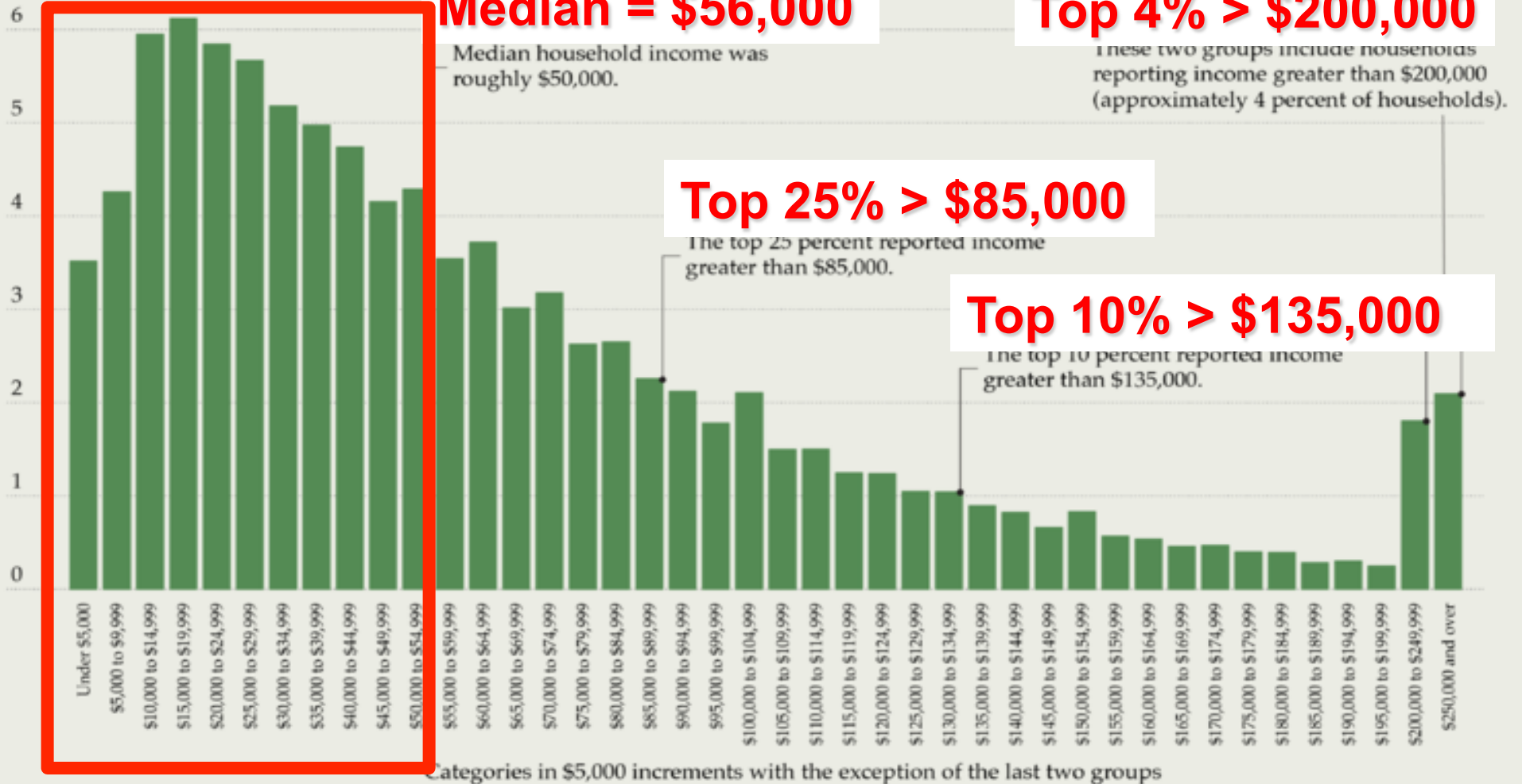
How many American families could actually cover this cost out of their own resources, without explicit or hidden cross subsidies from others?

II. RISING INEQUALITY IN INCOME AND WEALTH

Distribution of annual household income in the United States

2010 estimate

percent of households



Source: U.S. Census Bureau, Current Population Survey, 2011 Annual Social and Economic Supplement

Seasonally Adjusted Median Household Income (in Feb. 2013 Dollars)



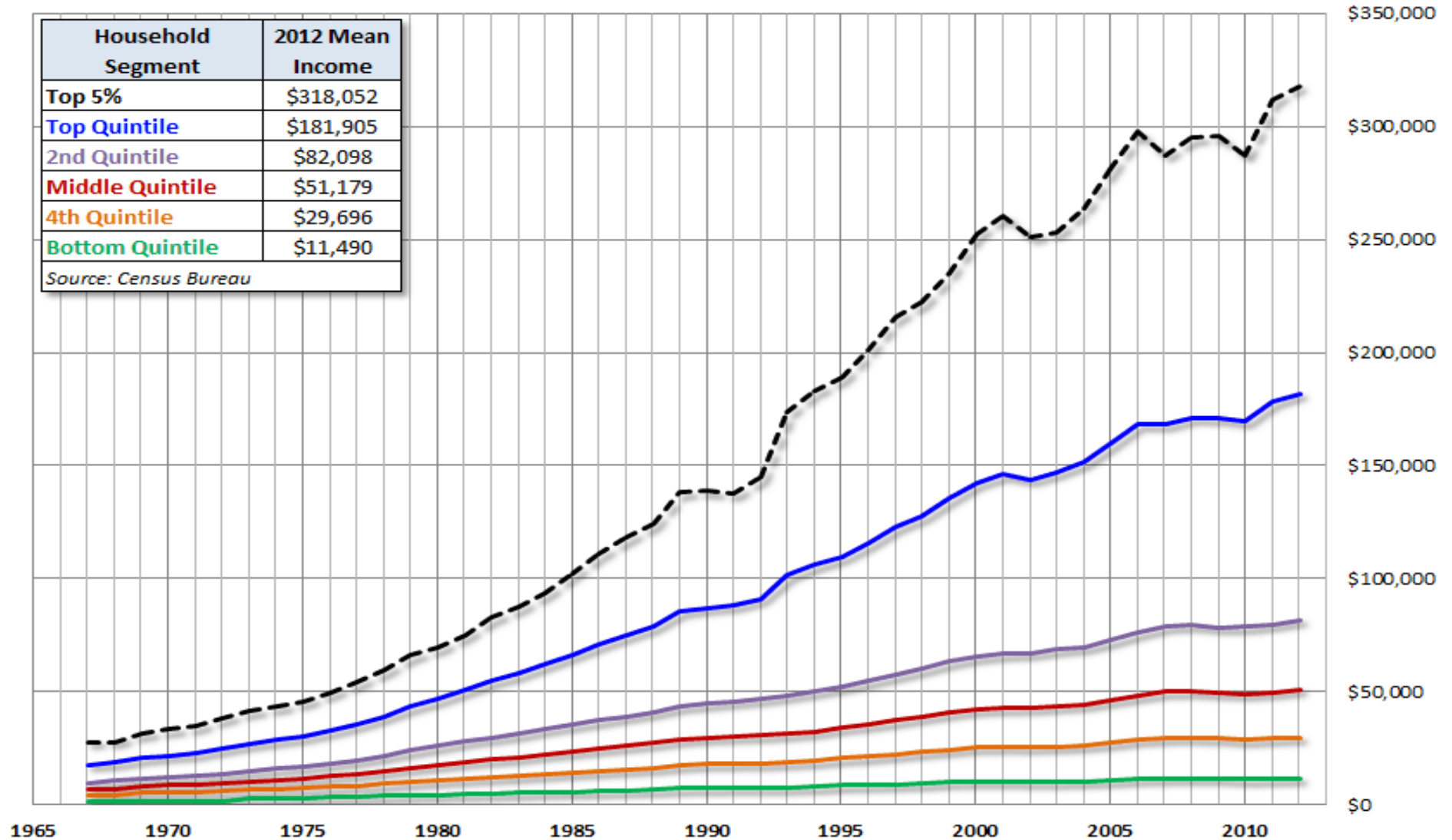
Source: Sentier Research analysis of Labor Department data. Note that vertical axis does not start at zero to better show the change. Cited by Catherine Rampell, <http://economix.blogs.nytimes.com/2013/03/28/median-household-income-down-7-3-since-start-of-recession/>

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Source: Census Bureau
Data from 1967-2011

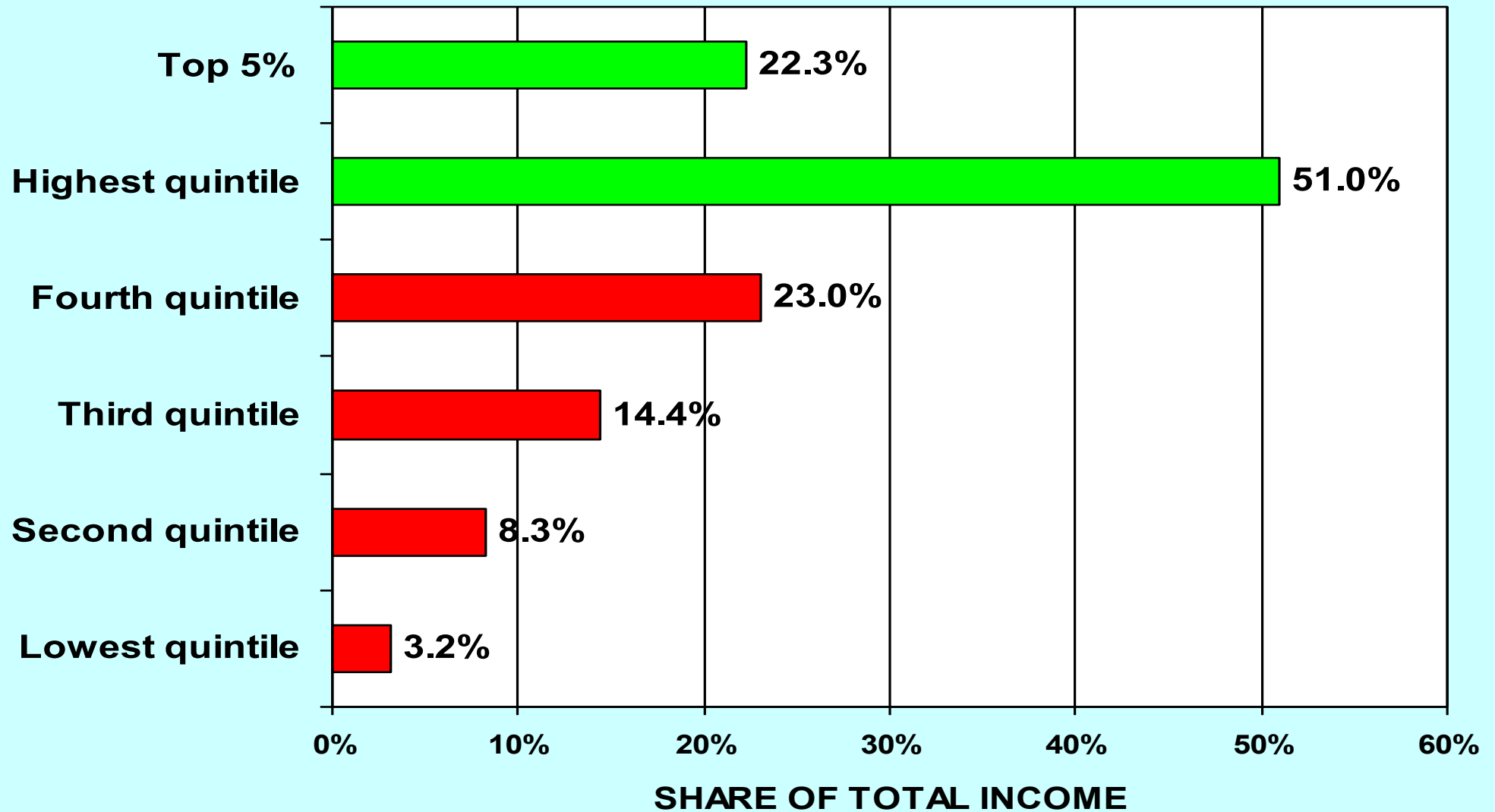
Mean (Average) Household Income By Quintile and Top 5%

dshort.com



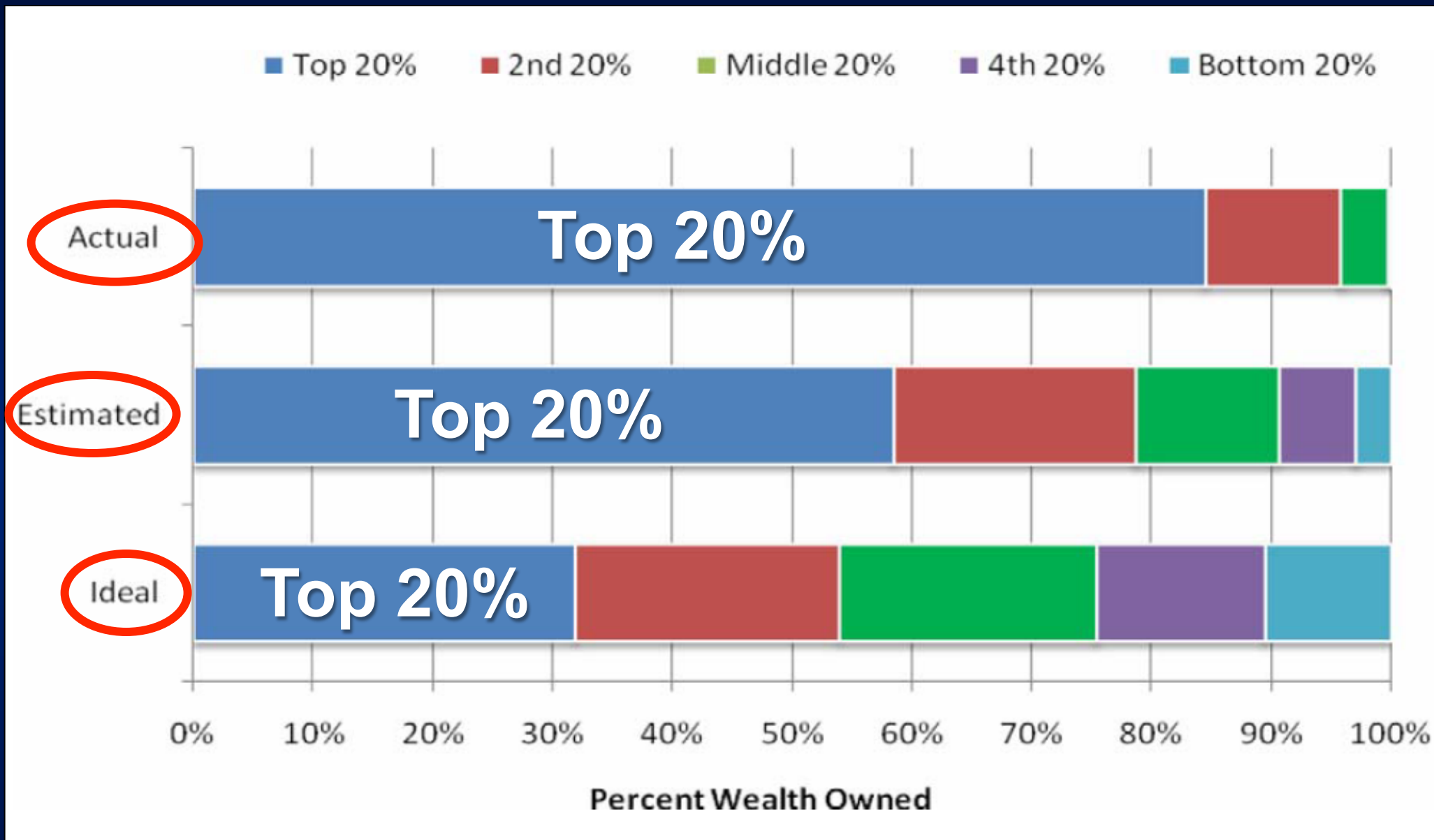
SOURCE: Doug Short, Dshort.com <http://www.advisorperspectives.com/dshort/updates/Household-Income-Distribution.php>

SHARES OF HOUSEHOLD INCOME BY QUINTILES, 2012



Source: U.S. Bureau of the Census. <http://www.census.gov/hhes/www/income/income.html>, Table A-2.

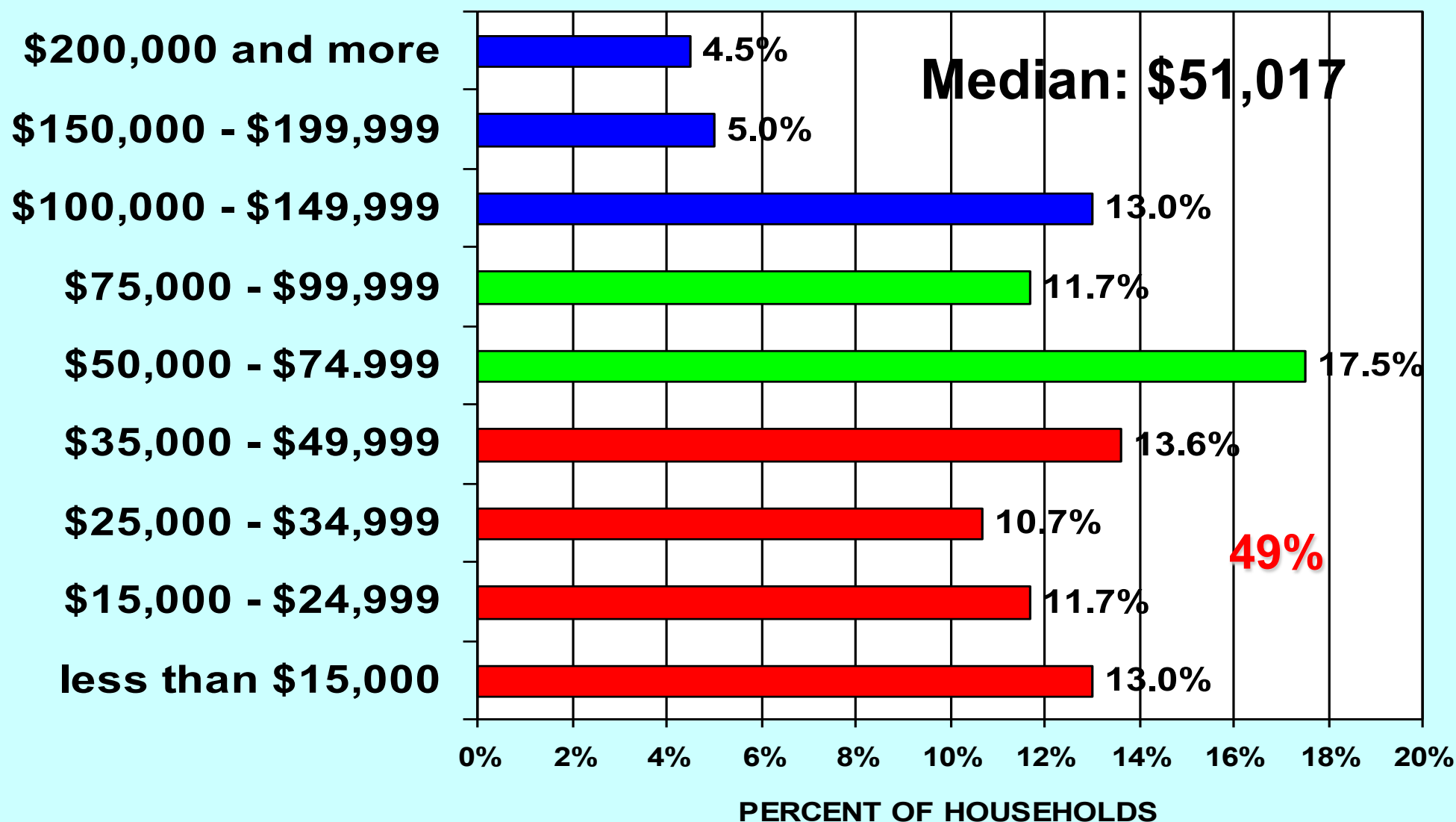
Most Americans seem blissfully unaware of these income-distribution statistics.



Source: Michael Norton and Dan Ariely,

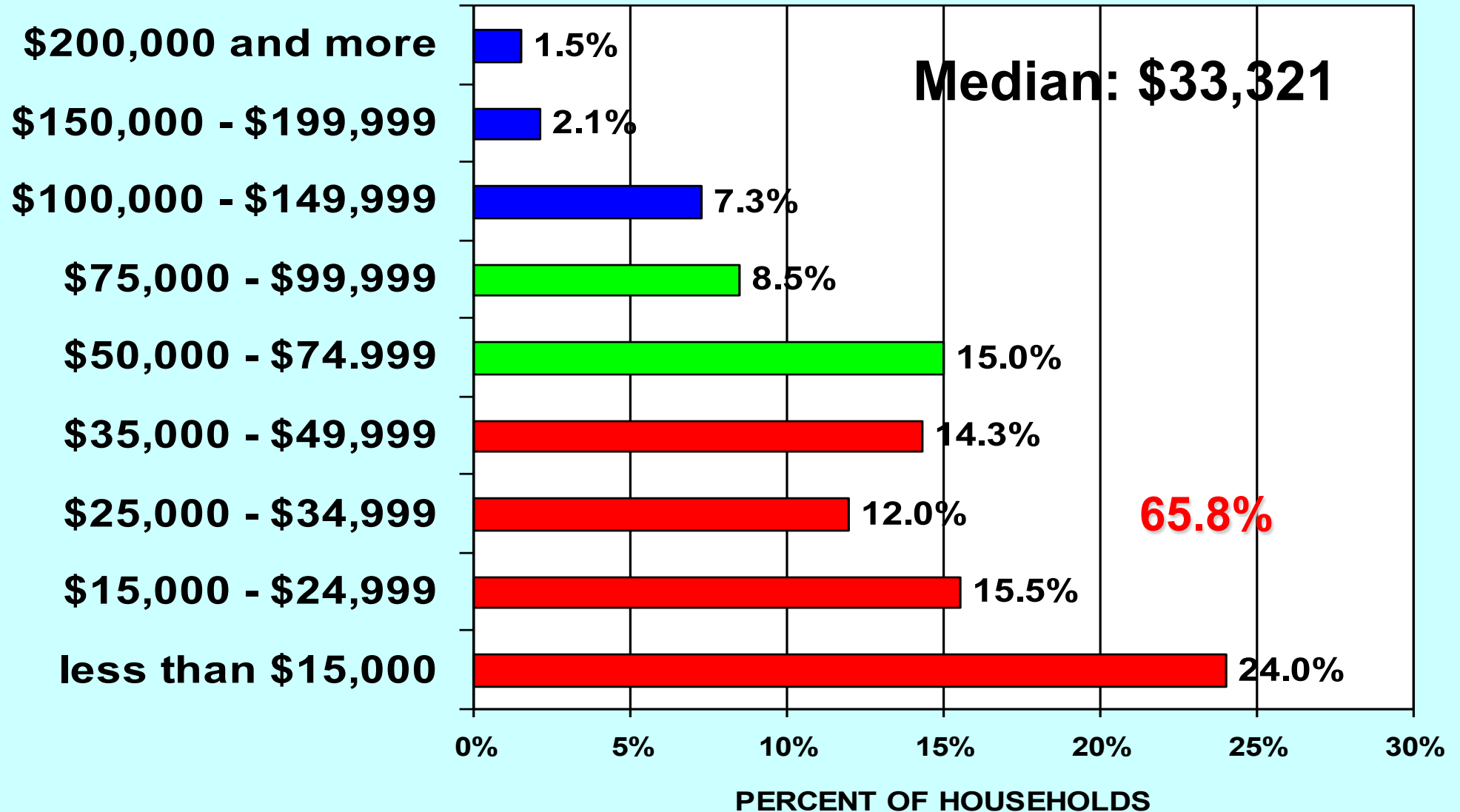
<http://www.people.hbs.edu/mnorton/norton%20ariely%20in%20press.pdf>

DISTRIBUTION OF MONEY INCOME BY HOUSEHOLDS, AL RACES, 2012



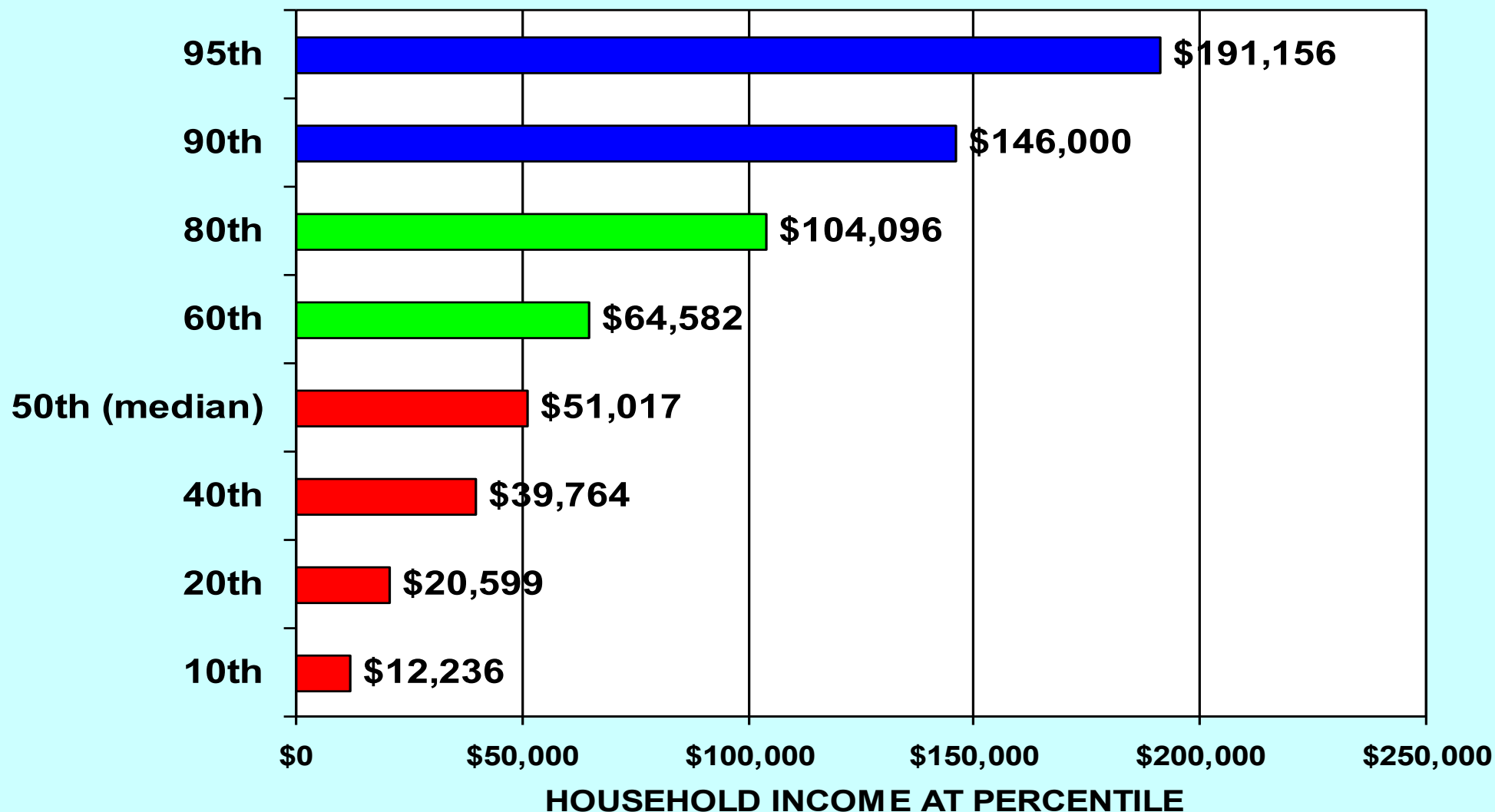
Source: U.S. Bureau of the Census. <http://www.census.gov/hhes/www/income/income.html>, Table A-1.

DISTRIBUTION OF MONEY INCOME BY HOUSEHOLDS, BLACKS ALONE, 2012



Source: U.S. Bureau of the Census. <http://www.census.gov/hhes/www/income/income.html>, Table A-1.

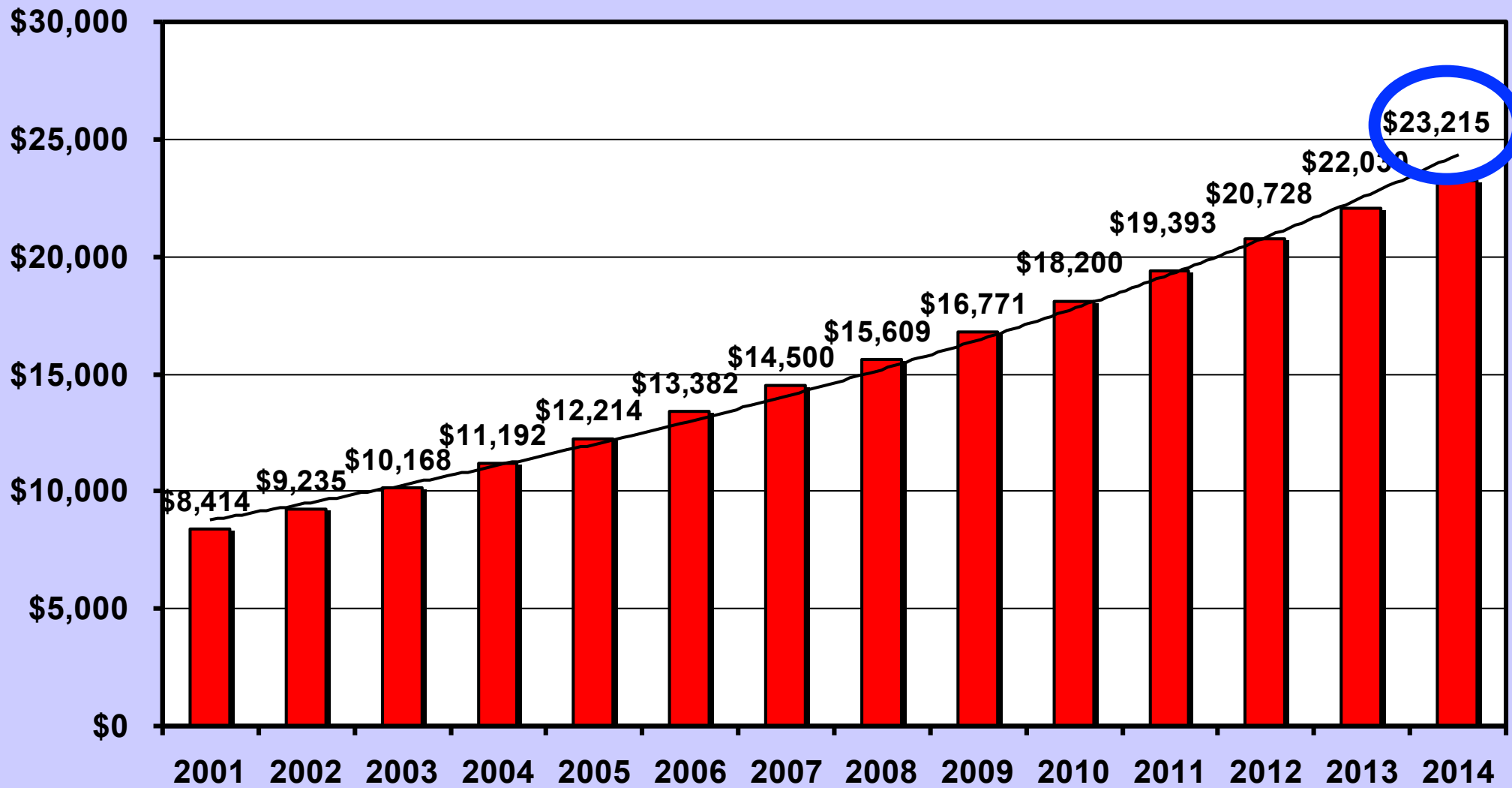
Household income at upper limit of percentiles, 2012



Source: U.S. Bureau of the Census. <http://www.census.gov/hhes/www/income/income.html>, Table A-2.

MILLIMAN MEDICAL INDEX (MMI)

Average Annual Medical Cost for a Typical Family of Four



SOURCE: 2014 Milliman Medical Index <http://www.milliman.com/mmi/>

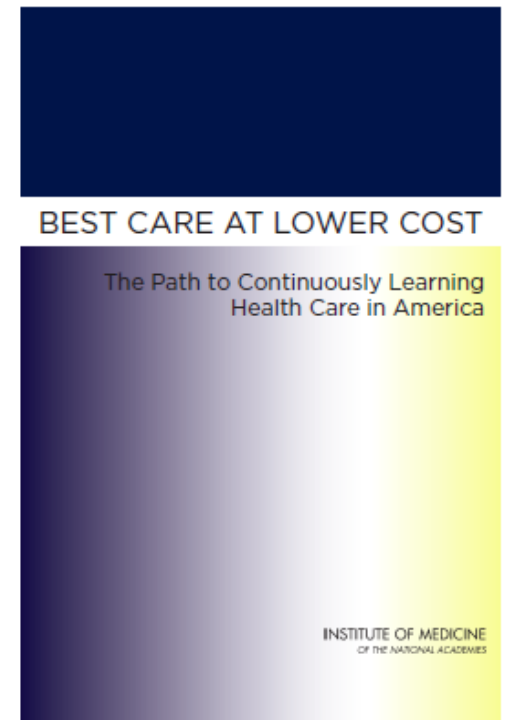
III. SO WHAT ARE OUR OPTIONS?

1. Above all, cut out the waste.

For more information visit www.iom.edu/bestcare

Best Care at Lower Cost

The Path to Continuously Learning Health Care in America



SOURCES OF ESTIMATED EXCESS COSTS, U.S. 2009

31% of Total Health Spending of \$2.5 trillion

1. Unnecessary services	\$210 billion
2. Inefficiently delivered care	\$130 billion
3. Excess administrative costs	\$190 billion
4. Excessively high prices	\$105 billion
4. Missed prevention opportunities	\$ 55 billion
4. Fraud	\$ 75 billion

TOTAL	\$ 765 billion
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SOURCE: Institute of Medicine, Best Care at Lower Cost (2013) Table 3-1.

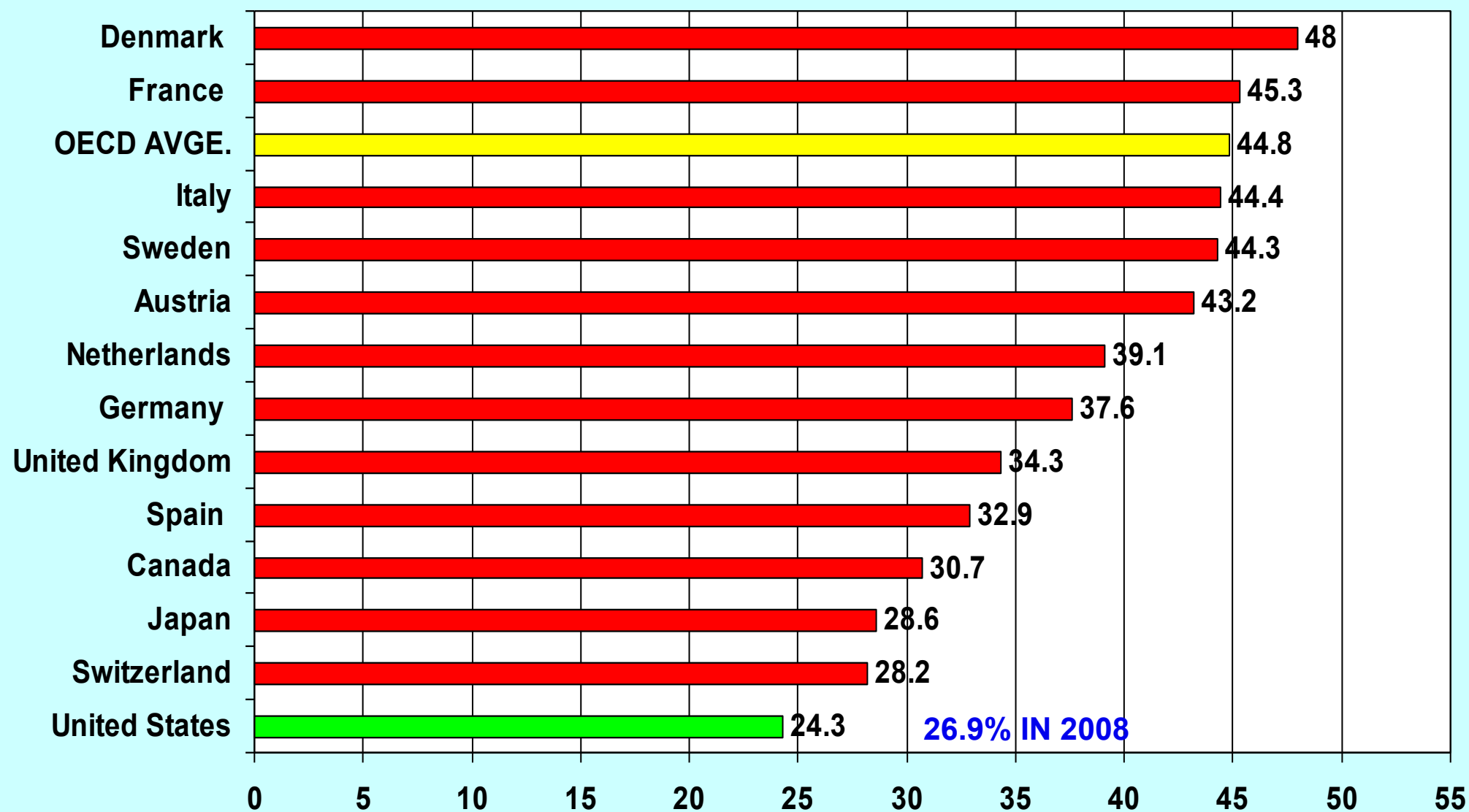
Alas, in health care one person's efficiency gain is another person's income loss.

Waste in health care has powerful defenders on K-Street and in Congress.

1. Above all, cut out the waste.

2. Raise taxes on households in the top third of the income distribution and subsidize health care for the bottom half.

All taxes as percent of GDP, selected OECD countries, 2012



26.9% IN 2008

Source: OECD Tax Data Base, <http://stats.oecd.org/Index.aspx?DataSetCode=REV>

1. Above all, cut out the waste.

2. Raise taxes on households in the top third of the income distribution and subsidize health care for the bottom half.

3. Move to a three-tier strategy

- 1. Public hospitals and public clinics for publicly insured Americans, especially the poor, but perhaps also for a restructured Medicare. It allows politicians to ration care without ever having to admit it.**
- 2. For the employed middle class, a mixed system, tiered by cost through tiered reference pricing (now used mainly for prescription drugs) or defined-contributions in the employment-based system. That approach also permits rationing of some health care by income class without anyone having to say so openly.**
- 3. For the upper-income groups, boutique medicine, which is already growing in the U.S. Here the sky will be the limit.**

1. Above all, cut out the waste.

2. Raise taxes on households in the top third of the income distribution and subsidize health care for the bottom half.

3. Move to a three-tier strategy

4. Turn our backs to the problem and ignore it



Medicaid Expansions Break Conservative Principles

Nina Owcharenko, Director, Center for Health Policy Studies, Heritage Foundation

June 19, 2014



It is time to stop, take a breath and ask some basic questions about health care: Do we want to see greater government control over health care dollars and decisions, or less? Do we favor more federal spending, taxes and debt, or less? Are we in favor of a surrender to, or a decisive victory over, Obamacare?

Look at the big picture. Get out of the weeds. Go back to basic principles. Expanding government control over health care financing and delivery, the central objective of Obamacare, is incompatible with conservative principles.

Thank you for listening.