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Health Reform in the U.S. (finally)

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The U.S. Health Care Crisis

- **Cost:** Health care costs are high and increasing at an unsustainable rate.
- **Coverage:** About 46 million Americans lack health insurance.
- **Quality:** There is considerable variation in the amount and type of care that Americans receive, with little evidence that those receiving more care have better outcomes.

Cost, Coverage and Quality are Interrelated

- As costs rise, coverage becomes unaffordable for more families.
- Lack of insurance reduces access to quality health care.
- Declining insurance coverage puts strain on providers, reducing quality for insured patients.
- Excessive use of certain treatments represents not only a cost problem, but a quality problem.

Broad Objectives of Health Care Reform

- Control health care cost growth.
- Increase insurance coverage.
- Improve health care quality.
- Do this with minimal distortions in the broader economy.

Political Obstacles to Reform

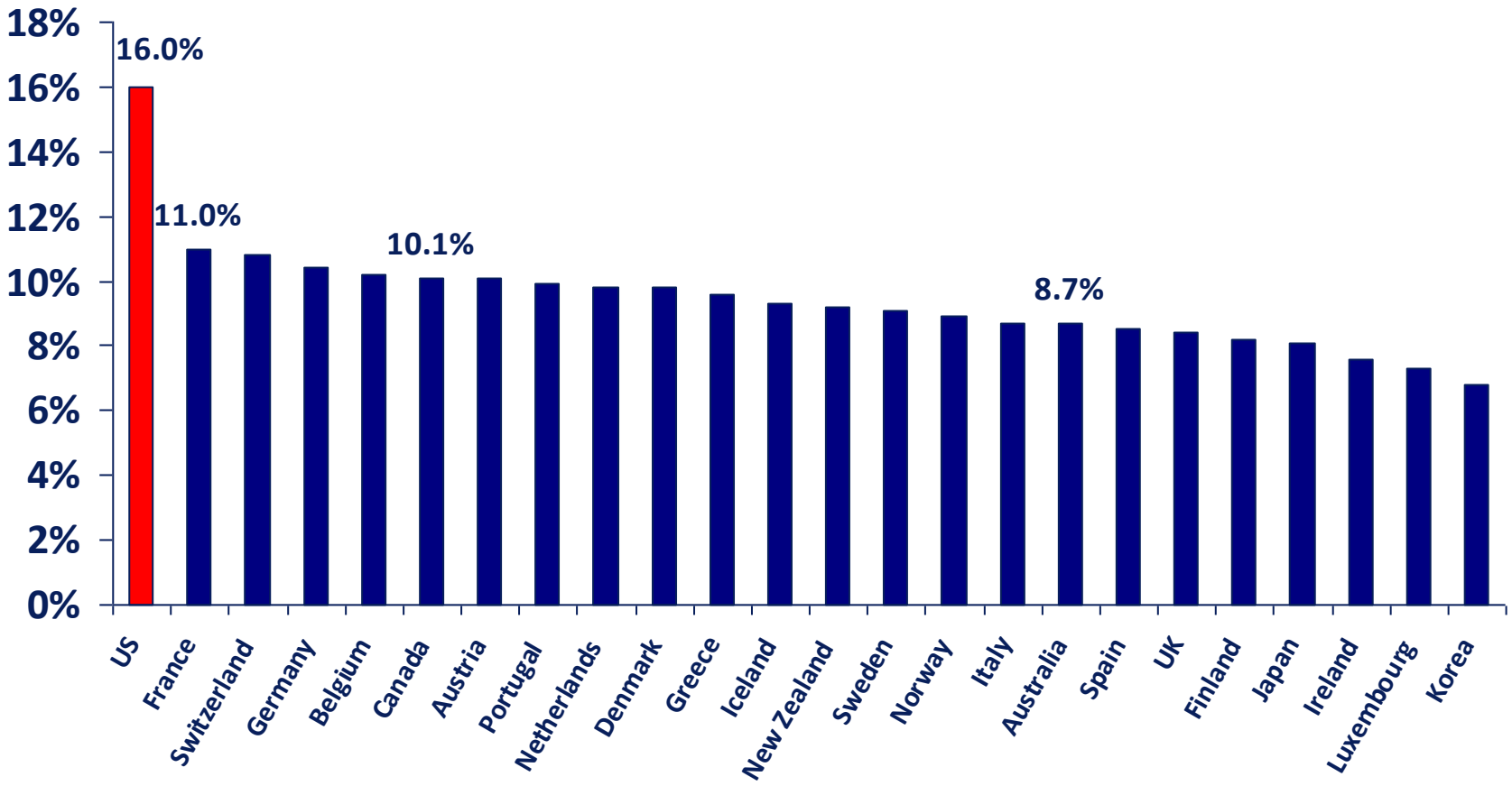
- Things have been getting worse, but very slowly
- No consensus on whether health care is a right or a good
- Well-funded and well-connected special interests
- Policy options are complex and confusing
- Political polarization
- ***And yet, reform finally passed!***

Outline

- Background
- The Politics of Health Care Reform
- The Patient Protection and Affordable Care Act

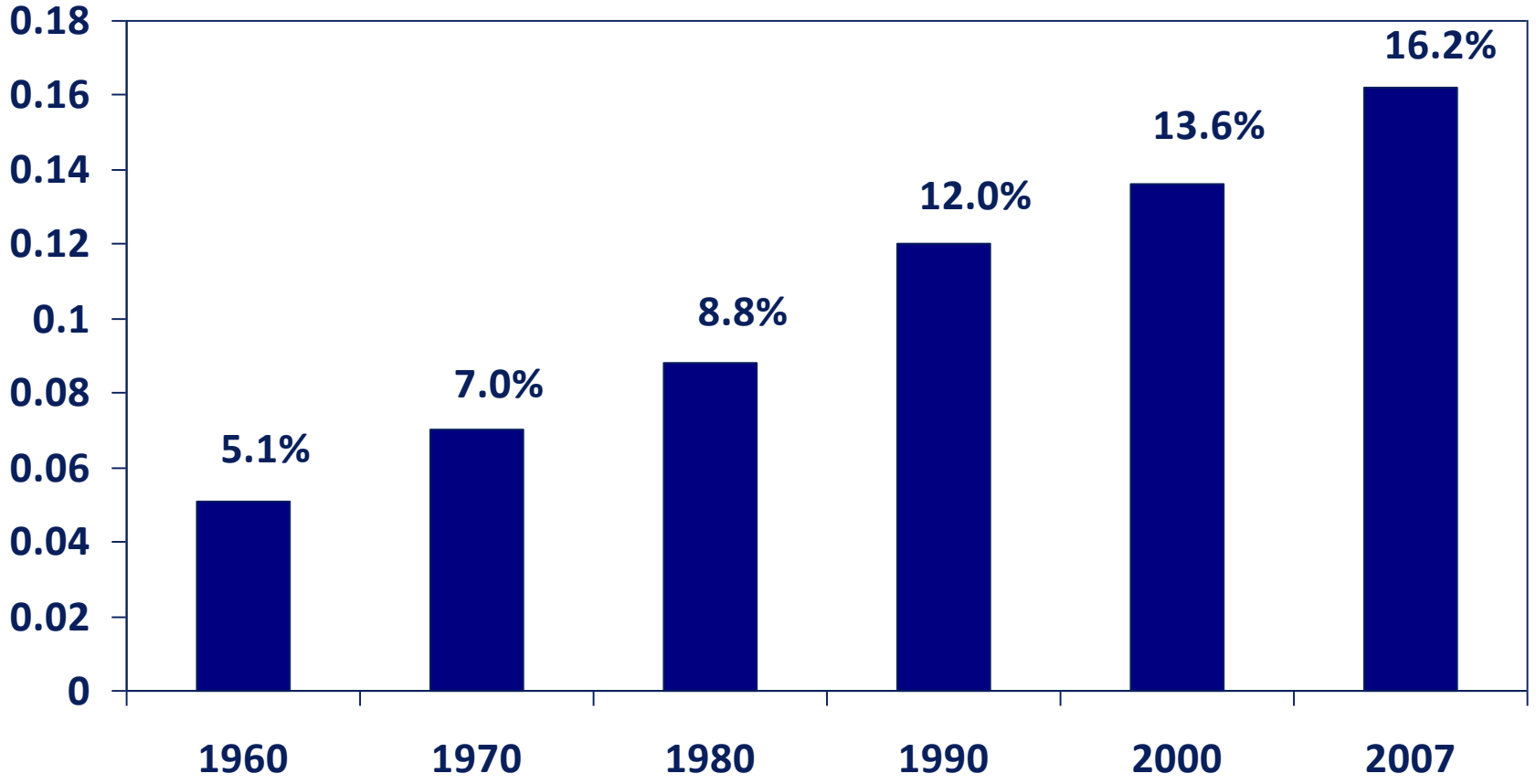
Background

Health Spending as a Percent of GDP, 2009



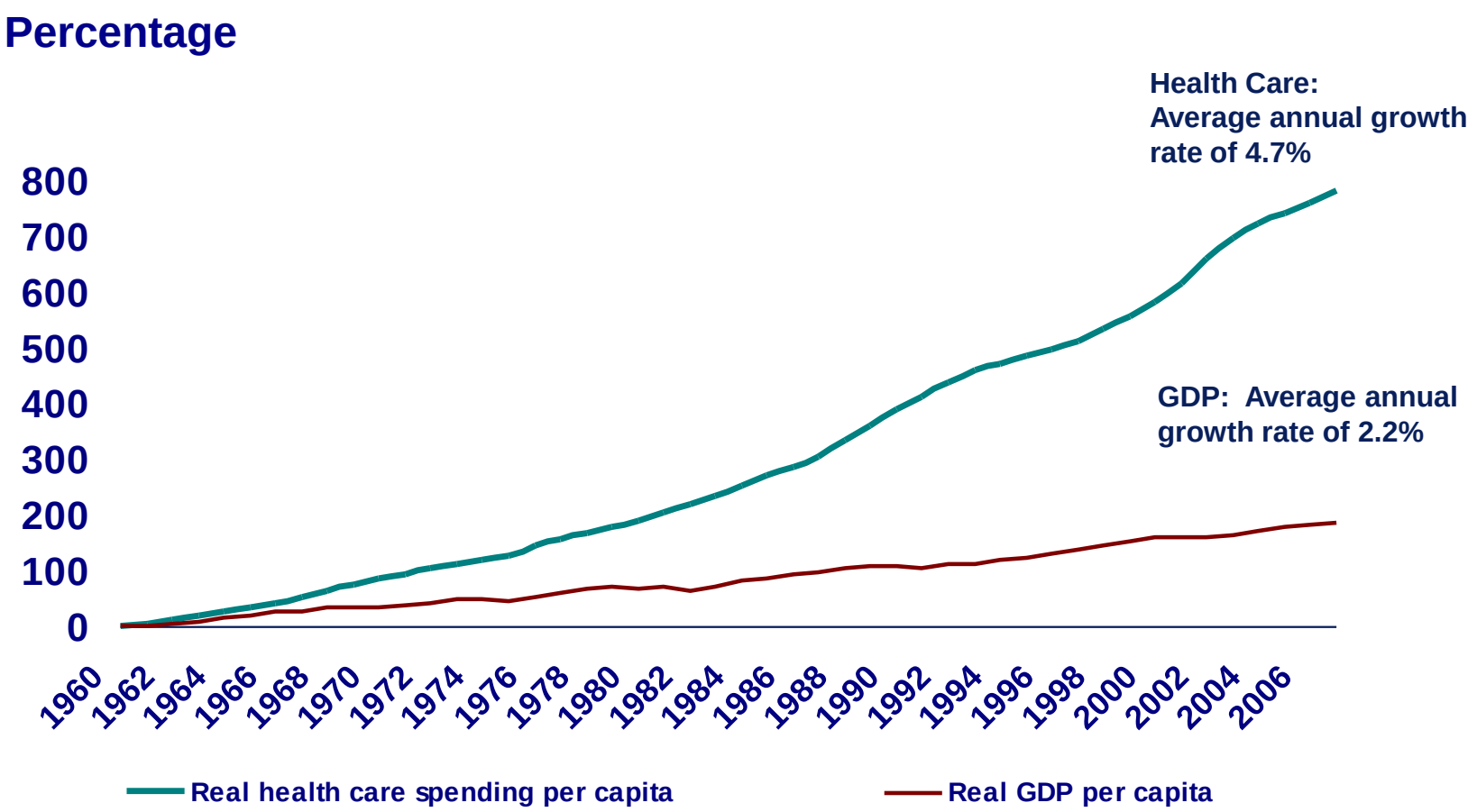
Source: OECD Heatlh Data 2009

US Health Spending as a % of GDP, 1960 to 2007



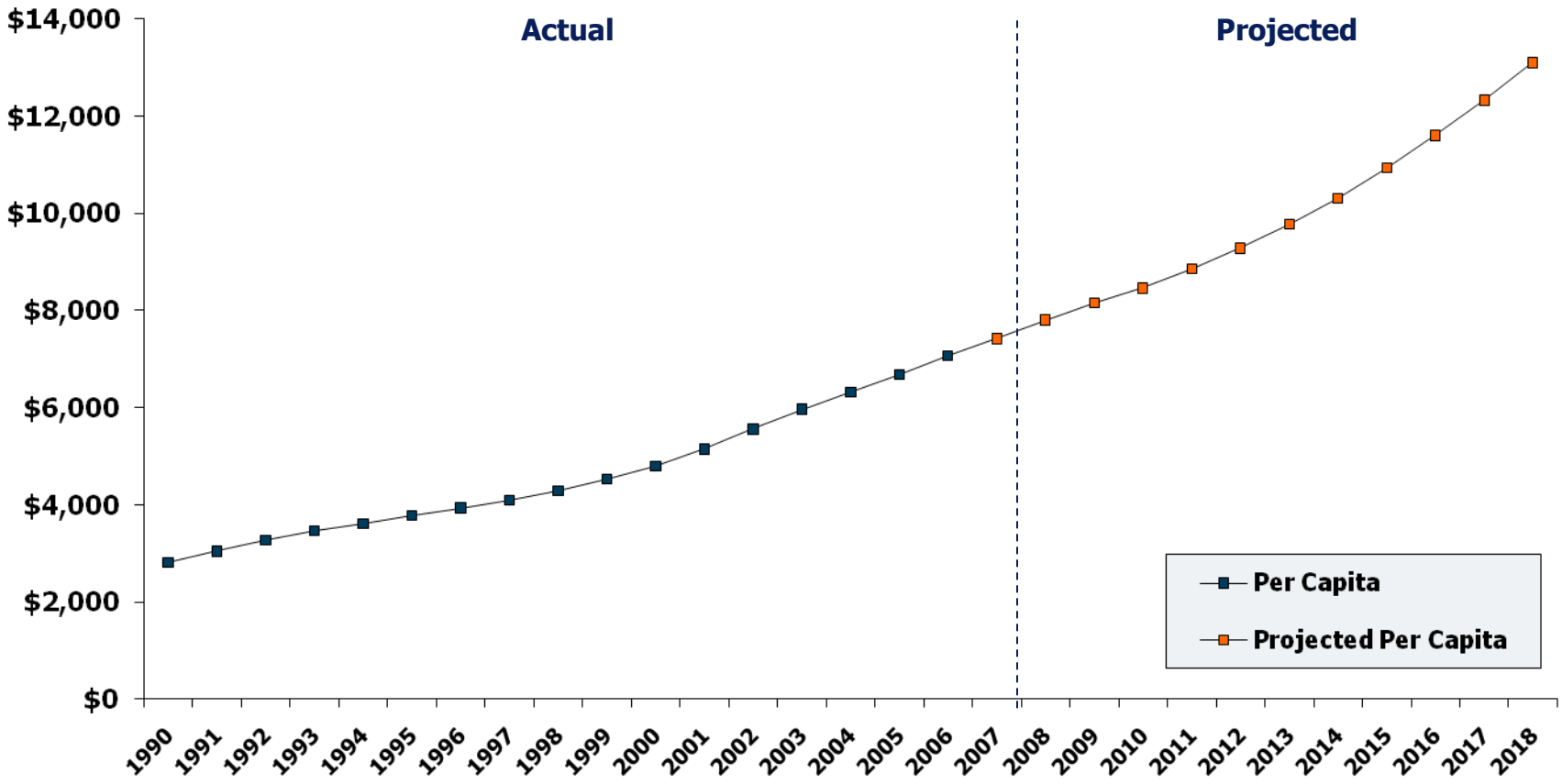
Source: OECD Health Data

Growth in Health Spending and GDP, 1960-2007



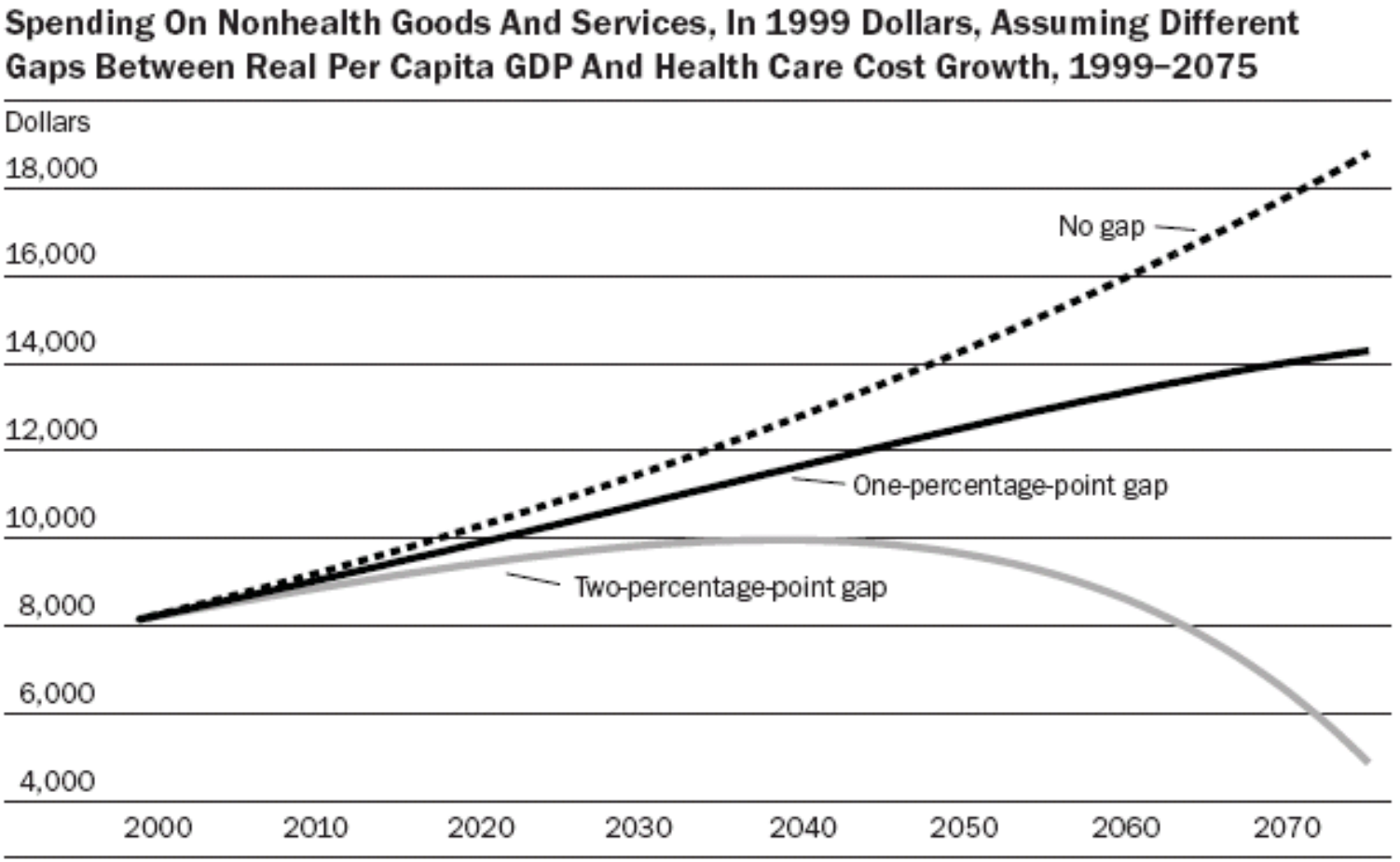
Source: GAO analysis of data from the Centers for Medicare & Medicaid Services, Office of the Actuary, and the Bureau of Economic Analysis.

Actual and Projected Growth in Health Spending



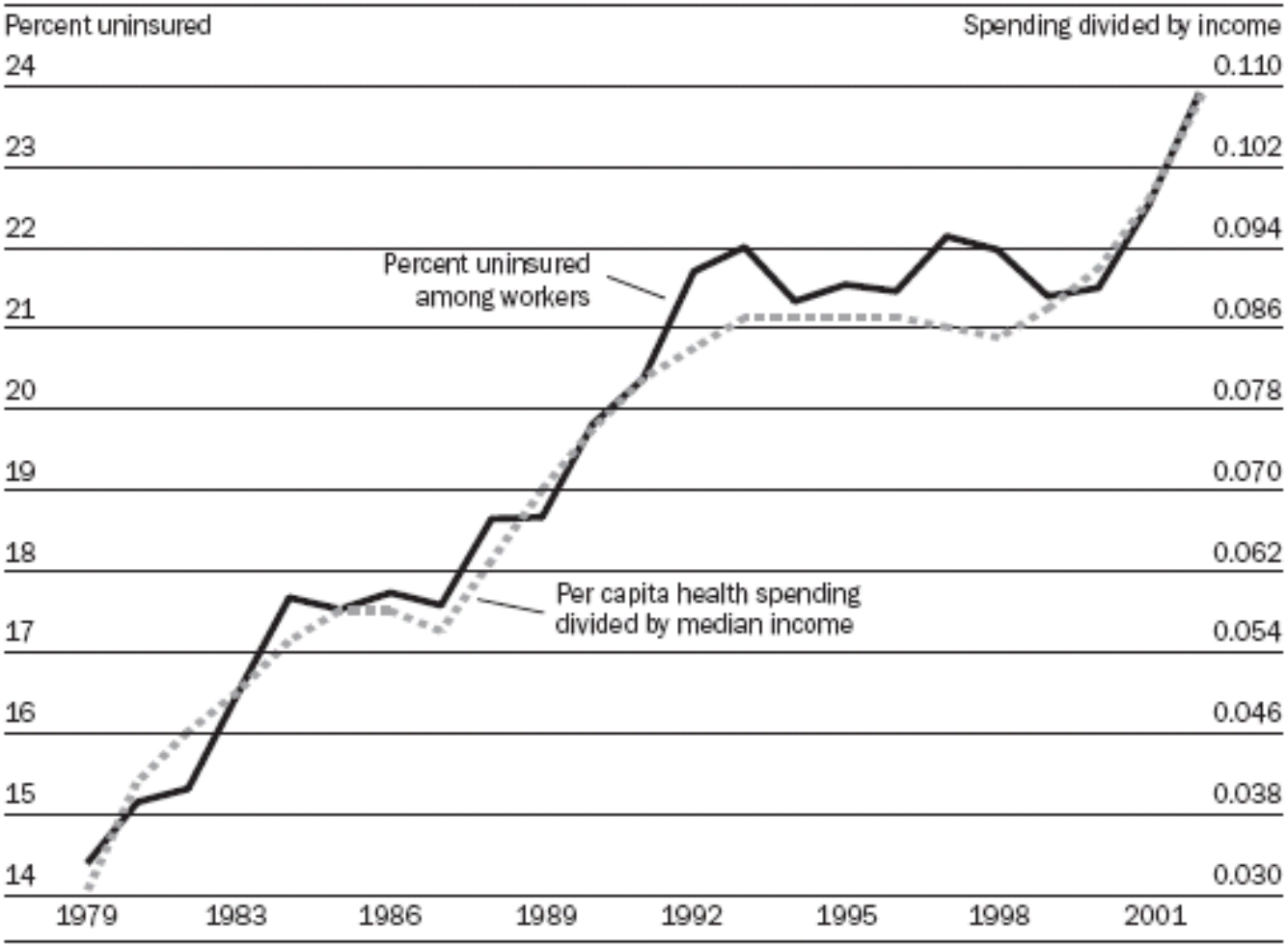
Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.

Non-Health Spending as a Function of Health Care Spending Growth



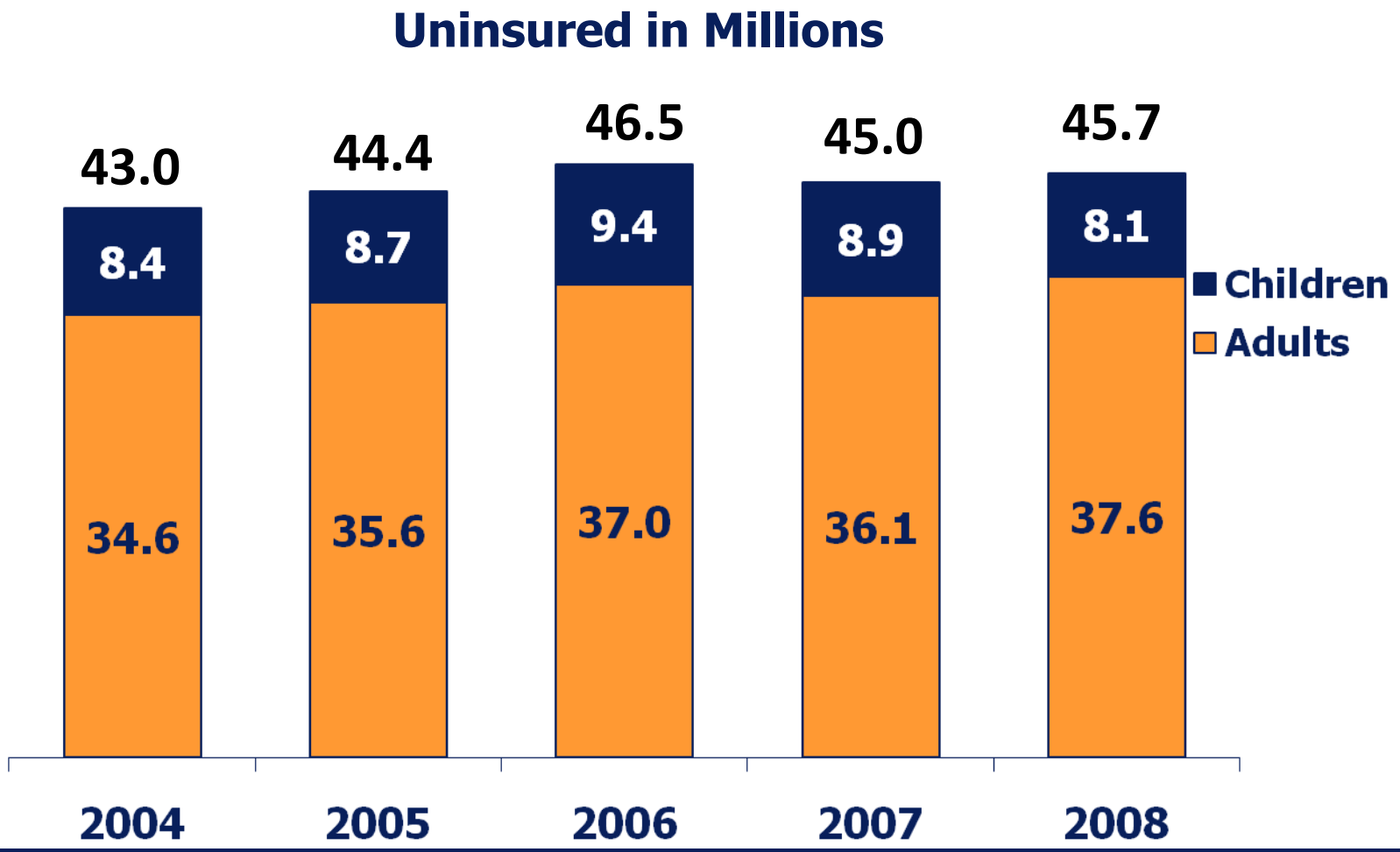
Health Care Costs and Trends in Insurance Coverage

Percentage Uninsured Among Workers And Per Capita Health Spending Divided By Median Income, 1979–2002



Source: Kronick and Gilmer (2005)

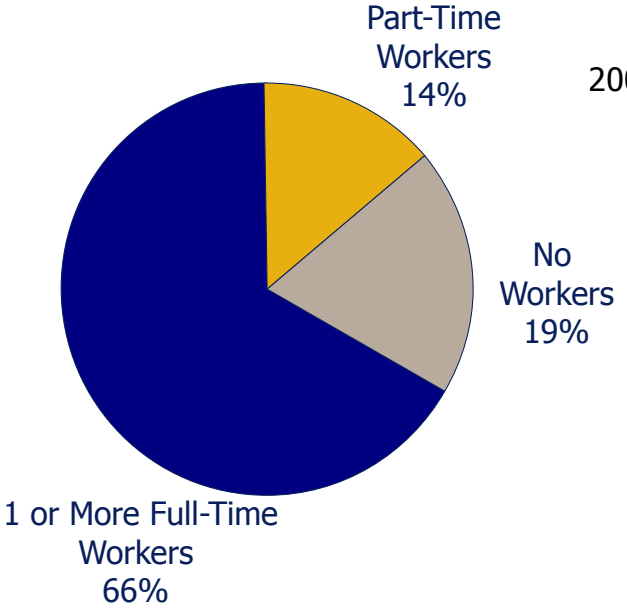
Number of Uninsured Americans, 2004-08



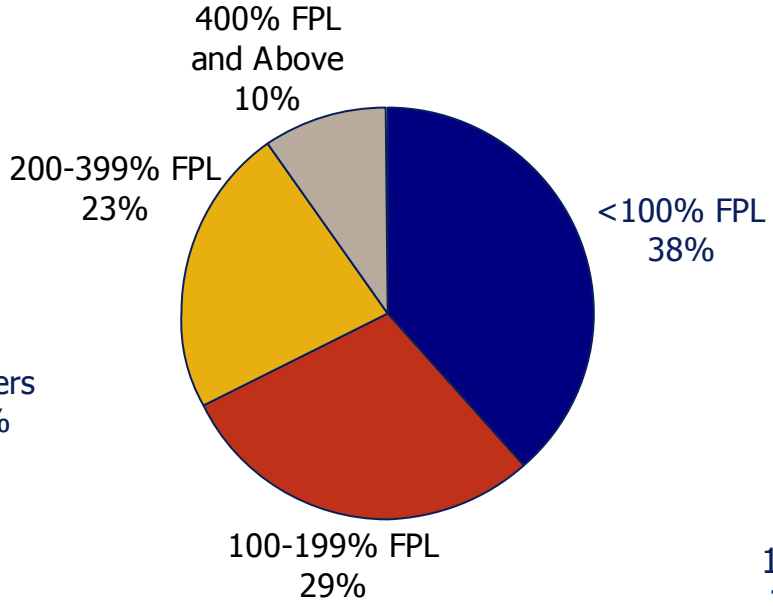
SOURCE: Kaiser Commission on Medicaid and the Uninsured/Urban Institute .

Characteristics of the Uninsured, 2008

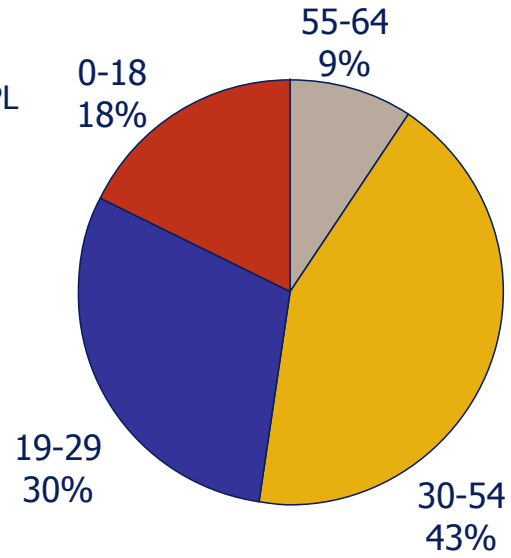
Family Work Status



Family Income



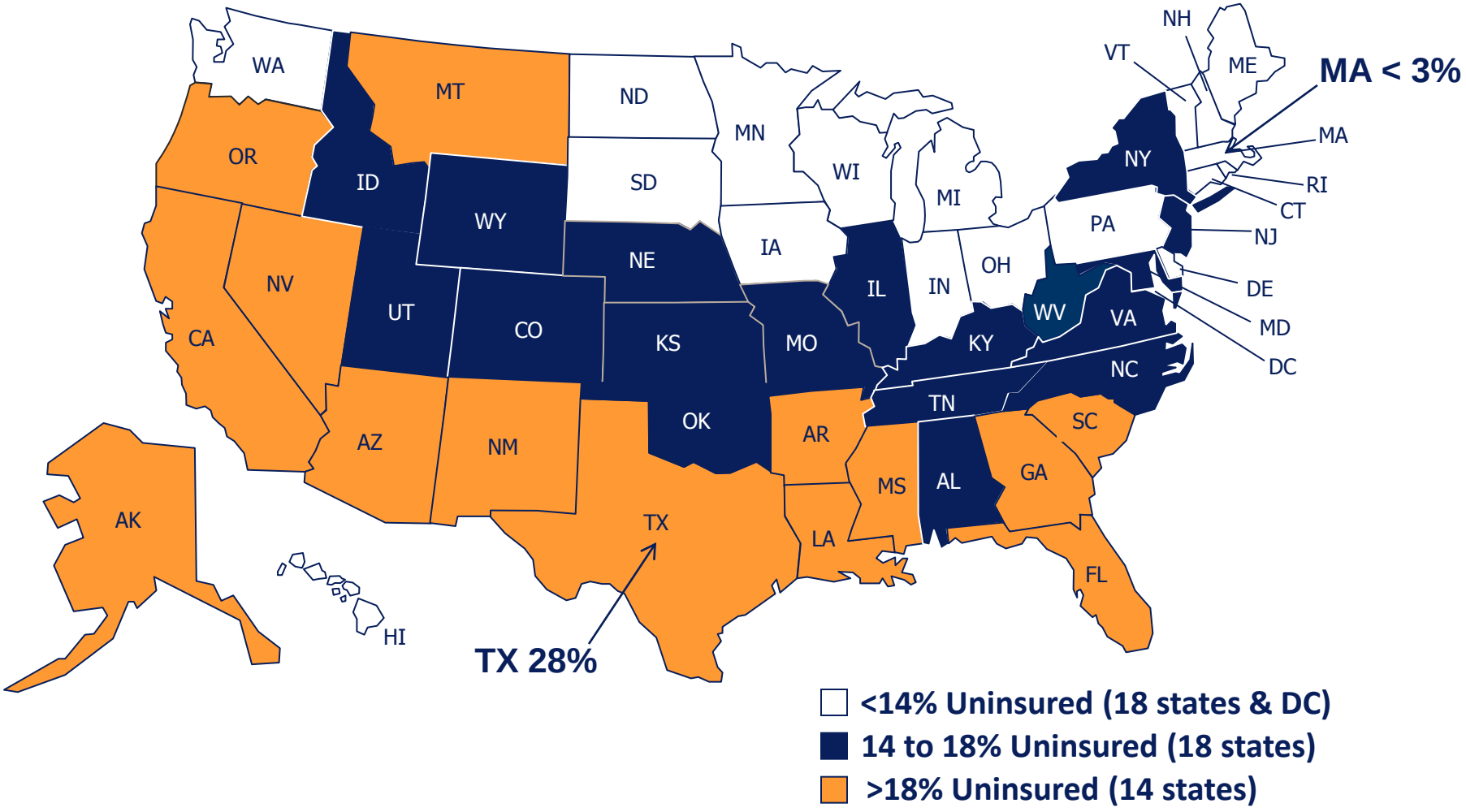
Age



Total = 45.7 million uninsured

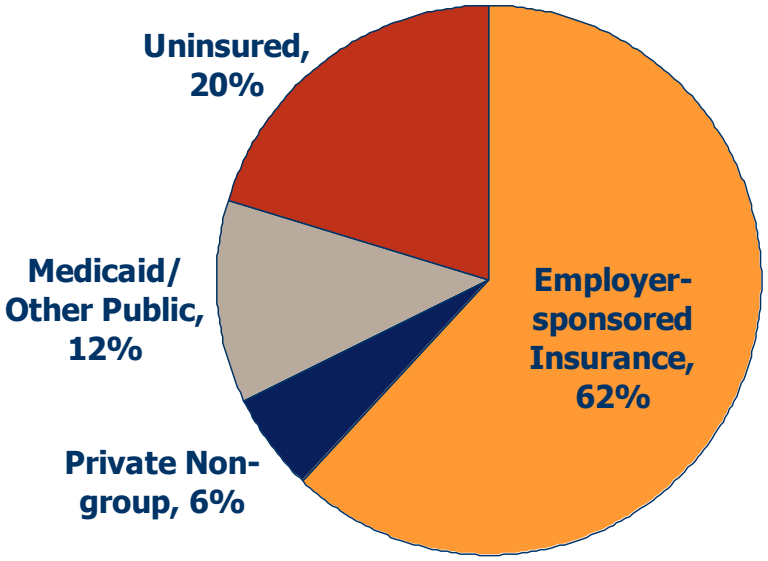
The federal poverty level was $22,025 for a family of four in 2008.
SOURCE: KCMU/Urban Institute analysis of 2009 ASEC Supplement to the CPS.

Uninsured Rates by State, 2007-2008



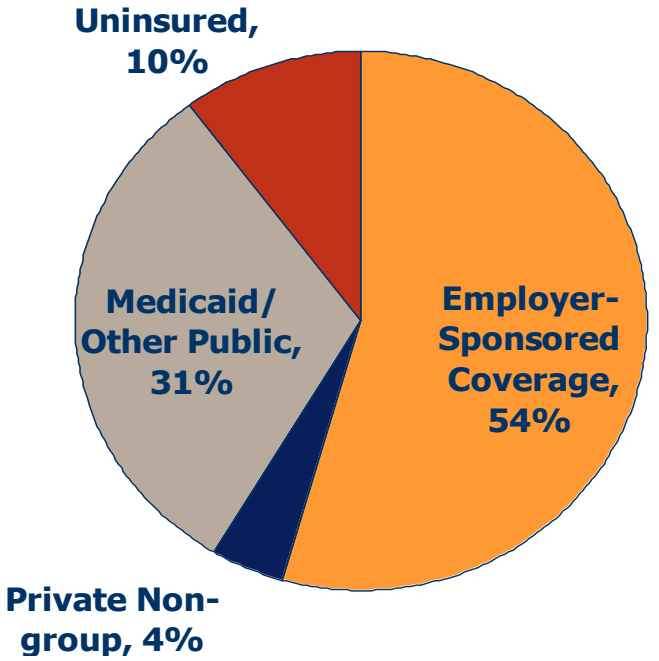
SOURCE: Kaiser Commission on Medicaid and the Uninsured/Urban Institute analysis of 2008 and 2009 ASEC Supplements to the CPS., two-year pooled data.

Distribution of Health Insurance Coverage, 2008



Non-Elderly Adults

(184.1 million)



Children

(78.7 million)

The Economics of Employer-Sponsored Insurance

Advantages of Employer-Sponsored Insurance

- Economies of Scale
- Risk Pooling
- Tax Subsidy

Disadvantages of ESI

- Lack of portability
- Limited choice
- Tax subsidy contributes to higher health spending

Disadvantages of Non-Group Insurance

- High administrative cost
- Adverse risk selection
- (Almost) No Tax Subsidy

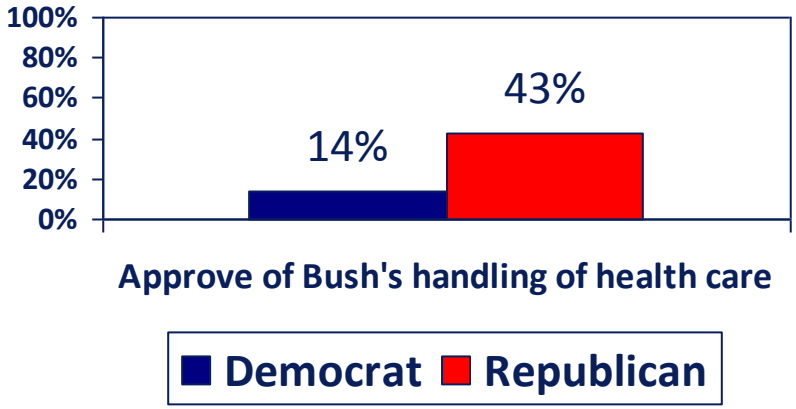
Advantages of Non-group

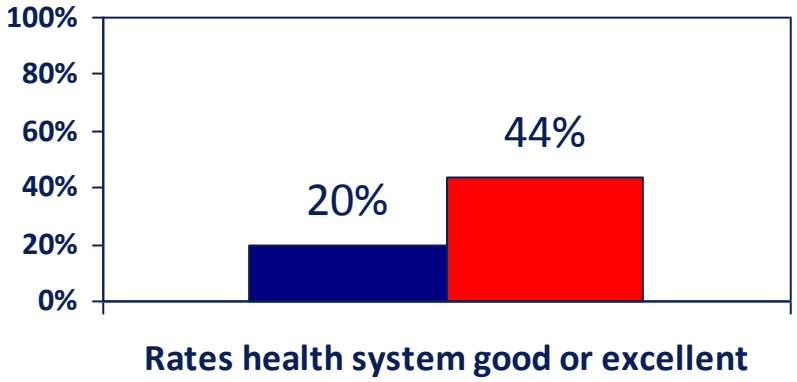
- Coverage not tied to job
- Individuals make choices

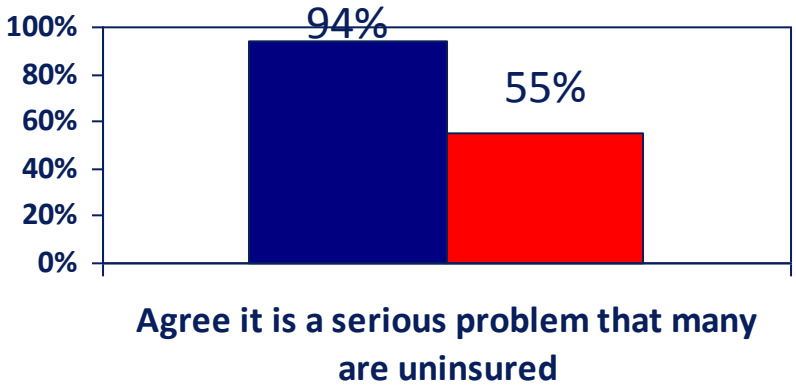
The Politics of Health Reform

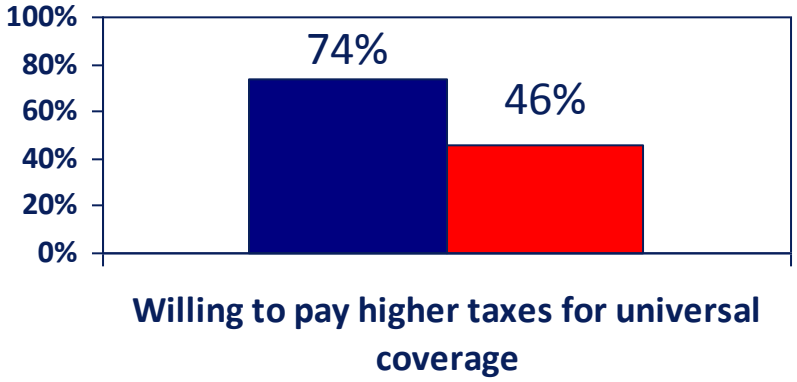
A Quick History Review: 1993

Public Opinion on Health Care, Early 2008



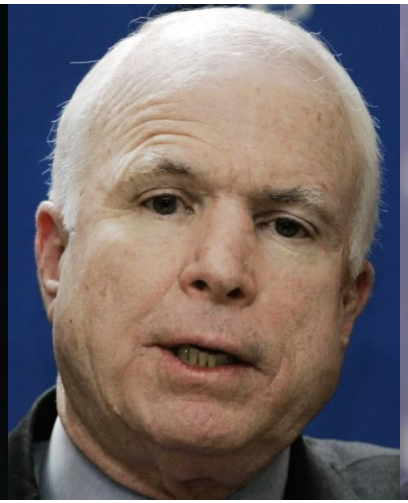






Source: Blendon et al, "Health Care in the 2008 Presidential Primaries, NEJM (2008)

Health Care Reform in the 2008 Election


- Medicaid expansions
- underwriting reforms
- priv. insur. subsidies
- insurance exchange
- ***Individual mandate***

- Medicaid expansions
- underwriting reforms
- priv. insur. subsidies
- insurance exchange

- cap tax exclusion
- high risk pools
- priv. insur. subsidies

<u>MA 2006 reform</u>:

- Medicaid expansion
- underwriting reforms
- priv. insur. subsidies
- insurance exchange
- ***individual mandate***

2008 Election Results

- Presidential Race
  - ~ Biggest Democratic victory since 1964
  - ~ Won several Red states, including Virginia & N. Carolina
- Senate
  - ~ After election, Democrats controlled 59 of 100 seats
  - ~ One defection gave them a “filibuster-proof” majority
- House
  - ~ Strong Democratic majority

The Health Care "Debate" of 2009

- Topics included:
  - ~ Death Panels
  - ~ "Keep the government out of my Medicare"
  - ~ The public option

- Legislation
  - ~ House passes a bill in November
  - ~ Senate passes a bill on Christmas Eve
  - ~ Several small differences including provisions on abortion

Then: A Surprise in Massachusetts

Senator Edward Kennedy (D-MA)

2010: The Home Stretch

- New conventional wisdom: President needs to take charge
- Bipartisan summit
- Anthem Blue Cross announces massive rate hike
- President signs bill

Is the Debate Over?

- 14 Republican Governors or Attorneys General say they will challenge the law in court.
- 2010 Congressional election campaign has begun.
- Most provisions of the law do not take effect for several years.

The Patient Protection and Affordable Care Act

Patient Protection and Affordable Care Act

- Is health ***insurance*** reform, rather than health ***care*** reform.
- Is a market-oriented approach based on public subsidies for private insurance.
- The immediate and most important effects will be on insurance coverage and insurance market regulations.
- Effects on the delivery of care will be indirect and in the future.

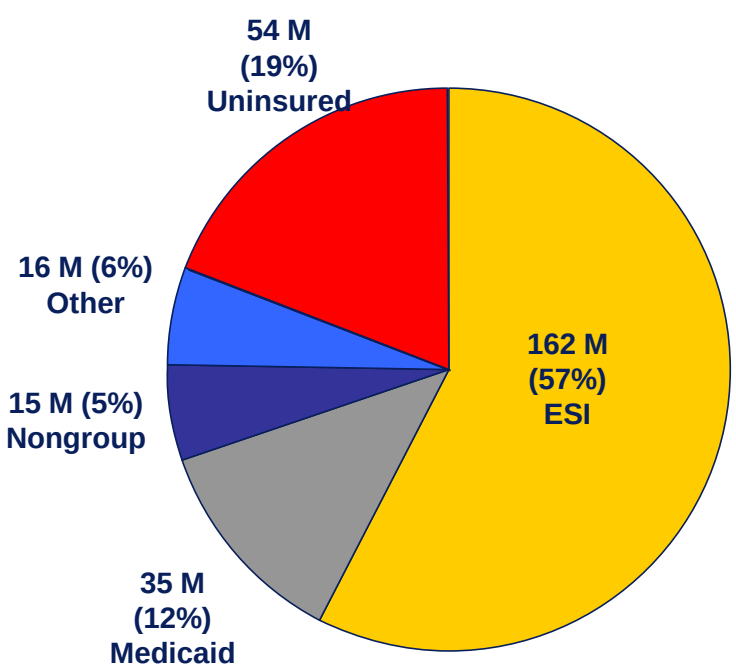
Key Reform Provisions

- Insurance Coverage
  - ~ Medicaid expansions
  - ~ New subsidies for private insurance
  - ~ Temporary high risk pools
- Insurance Regulation
  - ~ Individual mandate
  - ~ Underwriting reform
  - ~ Insurance exchanges
- Medicare
  - ~ Spending cuts
  - ~ Small initiatives to encourage innovation & effectiveness research
- Financing
  - ~ New taxes and fees

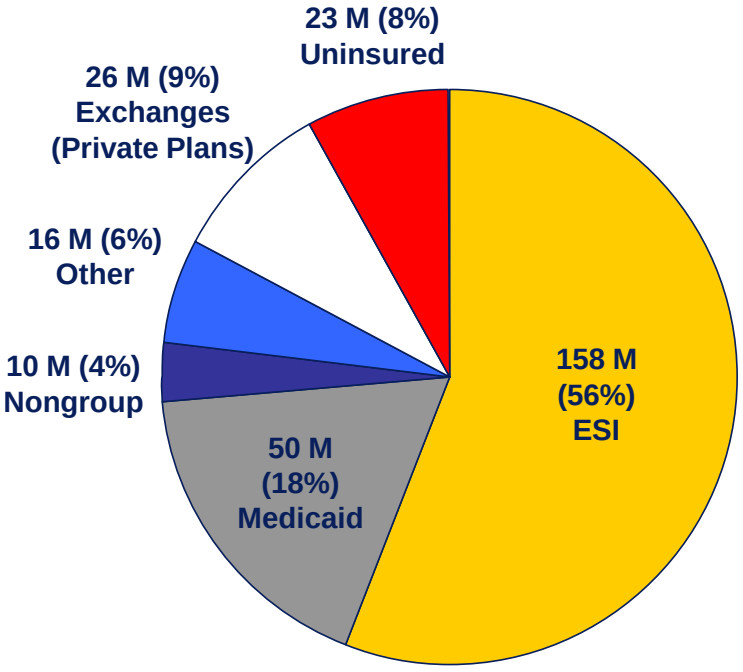
Coverage Effects of Health Reform

- The CBO estimates 32 million people will gain coverage by 2019.
  - ~ Roughly 8% of the non-elderly population will remain uninsured.
- 16 million will gain Medicaid or CHIP.
  - ~ New Medicaid enrollees will mainly be adults.
- 16 million will gain private coverage.
  - ~ Most will obtain coverage through a new health insurance exchange.

Source of Coverage in 2019: Current Law and Senate Bill



Current Law



Senate Bill

Among 282 million people under age 65

Expanding Medicaid

- Eligibility expanded to 133% of the Federal Poverty Level (FPL)
  - ~ CHIP eligibility limits are already at or above 200% in most states
- Medicaid is a joint Federal/State Program
  - ~ Feds will pay nearly all of the incremental cost initially
- Biggest concern: Low Provider Fees
  - ~ Increased coverage may not mean increased access
  - ~ Provision to increase fees for primary care to Medicare levels

Reforming the Private Health Insurance Market

- The law puts new restrictions on private insurers.
  - ~ Guaranteed Issue: no one can be denied coverage
  - ~ Guaranteed Renewal: no one can be dropped because of high claims
  - ~ Limits on Exclusion of Pre-existing Conditions
  - ~ Modified Community Rating

- Without an **individual mandate**, these new regulations would not increase coverage (and they could have the opposite effect).

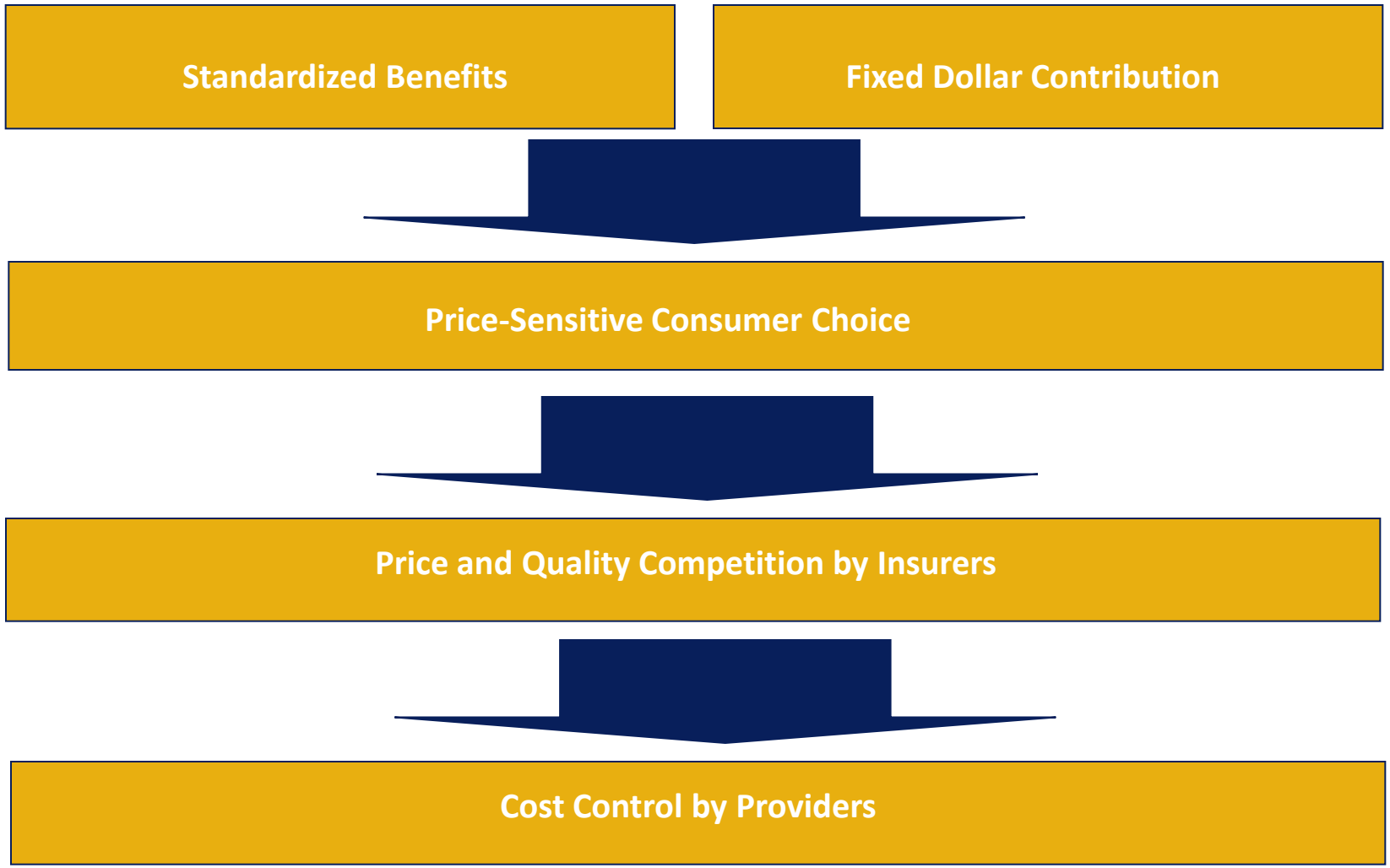
The Individual Mandate and Premium Subsidies

- By 2016, the penalty for not having insurance will be $695 per person (up to $2,085 per family) or 2.5% of family income.
- Individuals and families with incomes up to 400% of the FPL are eligible for sliding scale subsidies.
- Subsidies can only be used in the **health insurance exchanges**, which will be established by the states.

What is a Health Insurance Exchange?

- An example of “Managed Competition”
- Players: sponsor, plans, consumers
- Sponsoring agency is responsible for
  - Negotiating with plans
  - Setting and enforcing rules
  - Facilitating enrollment
  - Providing information on plan prices and quality
- Participating plans offer standardized benefits (Platinum to Bronze) and compete on the basis of price and quality
- Consumers choose plans during annual open enrollment period

The Basic Idea of Managed Competition



Provisions Targeted at the "Young Invincibles"

- Parents can keep adult children on their employer-sponsored plan until age 26.
  - ~ Current limits are age 18 for non-students, 22 for students

- Exchanges to offer less comprehensive plans to 19-29 year olds

Changes to Medicare

- Benefits:
  - ~ Fill Part D “doughnut hole”.
- Reimbursements
  - ~ Short term: reduce excess payments to private plans.
  - ~ Long term: create an Innovation Center to research and test new payment methods.
  - ~ Long term: establish pilot programs
- Other:
  - ~ Establish Independent Payment Advisory Committee to make “evidence-based” recommendations regarding coverage and reimbursement.

Sources of Financing

- Cut $483 billion from projected growth in Medicare and other federal programs over 10 years.

- 40% excise tax on high cost health plans (The “Cadillac Tax”)

  Expected revenue: $149B

- Annual fees on health care companies

  Expected Revenue: >$100B from 2010 to 2019.

- Increase in Medicare payroll tax rate for high earners

  Expected revenue: $87B from 2010 to 2019.

- 10% tax on indoor tanning services

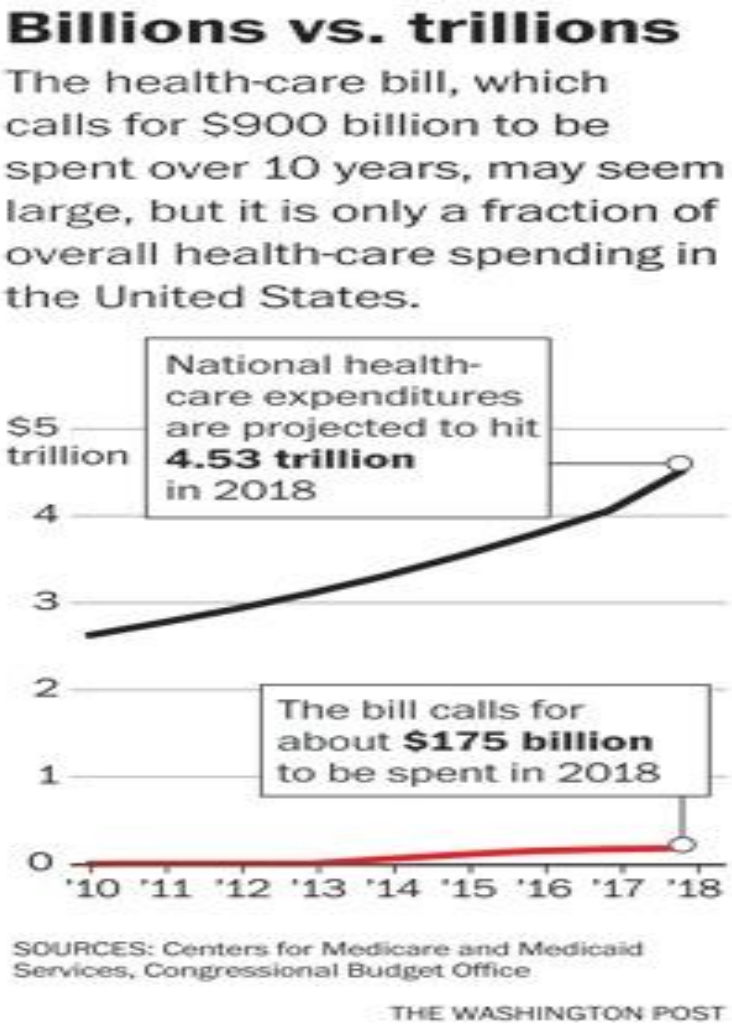
Budgetary Impact

- According to official estimates, plan will ***reduce*** the deficit over a 10 year period.

- Critics: this is a trick
  - ~ New revenues begin early than new outlays
  - ~ Depends on cuts to Medicare that Congress may not make

- Response: look who's talking!
  - ~ Medicare Part D was not funded by any new revenues or cuts in other programs

Putting the Reforms in Perspective



Cost Control

- A significant criticism of the reform bill is that it does little to control costs. There are political and practical reasons for this.

- If implemented fully, Medicare innovations could be effective in "bending the cost curve." New incentives in the private insurance market will help too.

- Emphasis on screening and prevention may push cost up, rather than down.

What's Next?

- Lots of regulations to write.
- More political battles?
- Congressional elections in 2010.

For More Information

- http://www.healthreform.gov/
- http://www.healthaffairs.org/
- http://healthreform.kff.org/
- http://www.randcompare.org/
- http://prescriptions.blogs.nytimes.com/

Questions?