The Battle Over Controlling *Healthcare Spending: Can It (Or Should It) Be Won?*

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In 1971 Healthcare Spending Was $75 Billion and Accounted for 7.5% of U.S. GDP

Today Healthcare Spending Exceeds $3.2 Billion and Consumes Over 18% of U.S. GDP

As Healthcare Consumes an Ever Larger Percentage of Our National Income It Reduces The Capacity of Government, Individuals and Business To Spend on Other Goods and Services

BUT: If We Reduce Healthcare Spending---

- How Many Health Care Jobs Are We Prepared To Give Up?
- How Much Lower Quality Care Would We Sacrifice?
- How Much of a Reduction In Access to Care Would We Accept?
- **Or Can We Can We Reduce Spending Without Incurring These Loses?**

SO!!!

1. How Important (REALLY)Is It To Control Health Spending?
2. What Are The Major Factors Driving Increases In Health Spending?
3. What Techniques Should We Use To Control Health Spending?

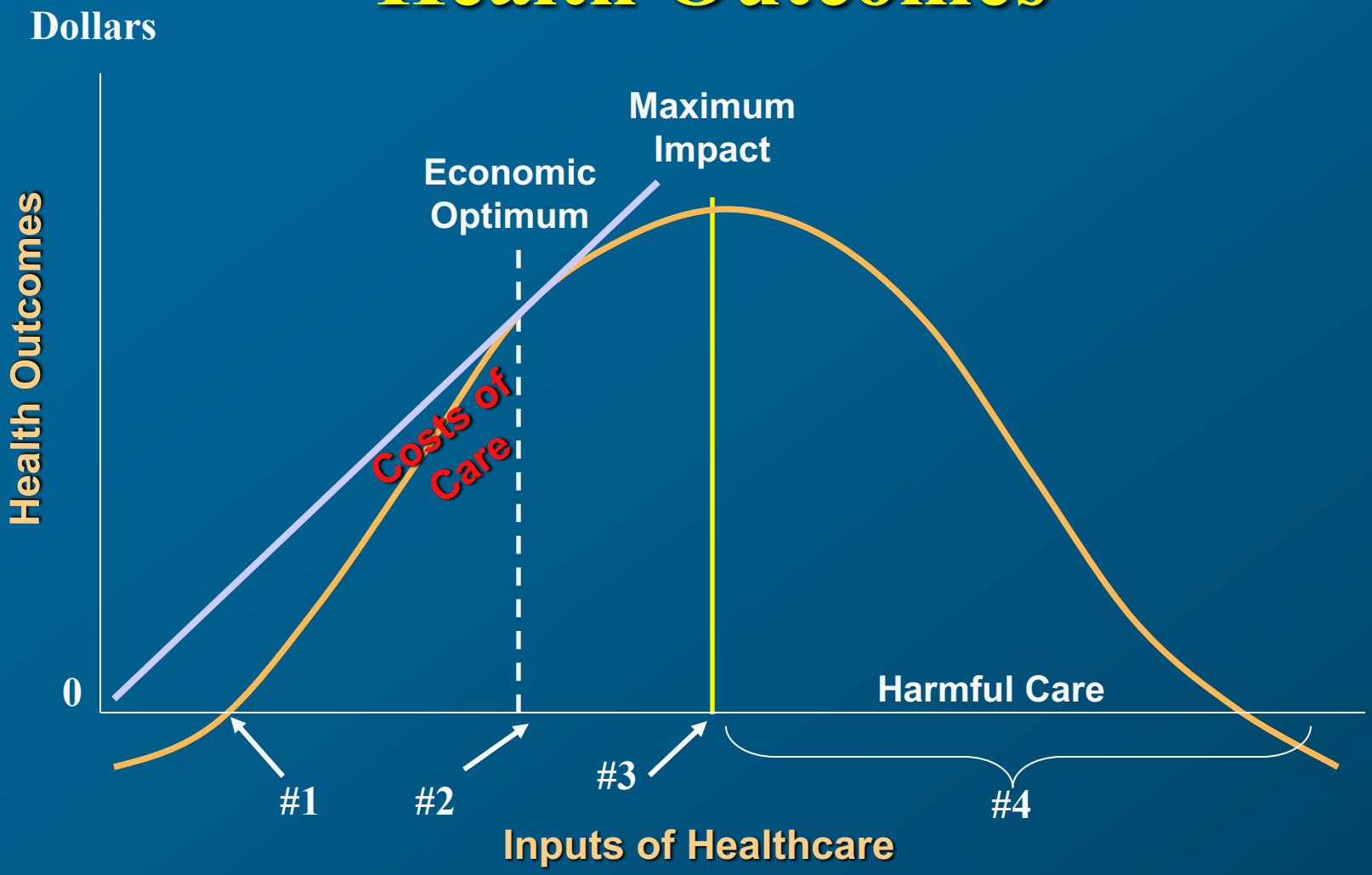
What Is (Are) The Major Factor(s) Driving Increases In Health Spending?

- Is It That We Use Too Many Expensive Services? Or
- Are The Prices To High for The Services We Use?
- Or a Combination of Both

Some Argue and Have Argued For Many Years That The U.S. Provides Too Many Healthcare Services That Are Wasteful or Harmful

In 1971 Dr. Bob Brook From The Rand Corporation Estimated That 40% of Healthcare is Either Useless or Harmful!

Alternative Levels of Healthcare Services And Improvements to Health Outcomes



We Still Here The Same Story Today and Surprisingly The Same Percentage of Waste!

But In Recent Years Most Research Suggests That It is Higher Prices Not More Utilization That Is Driving Medical Spending in U.S.

The U.S. Has Tried To Control Health Spending In The Past ---

BUT----With Limited Success and For a Limited Time Period

1970's U.S. Gov't. Attempts To Control Health Care Costs

- The Most Active Involvement of Gov't (Federal and State)
  - Cost of Living Council 1971-1974
    - National Wage and Price Controls
  - Supply Controls
    - Establishment of National Health Planning
    - State Administered Certificate-of-Needs Laws
  - Medicare Limits
    - Hospitals—Sec 222
    - Physicians---Sec 223

1980 Limited Cost Control: Some Interest in Managed Care (HMO)

- 1973 HMO Act required firms with over 25 employees to offer an HMO as an option
- Many did, but usually paid the full amount or at 80 percent this meant little difference in terms of dollars for employee
- So, little competition in terms of the "price of insurance", which was preferred to at the point of service

The 1990's and Managed Competition

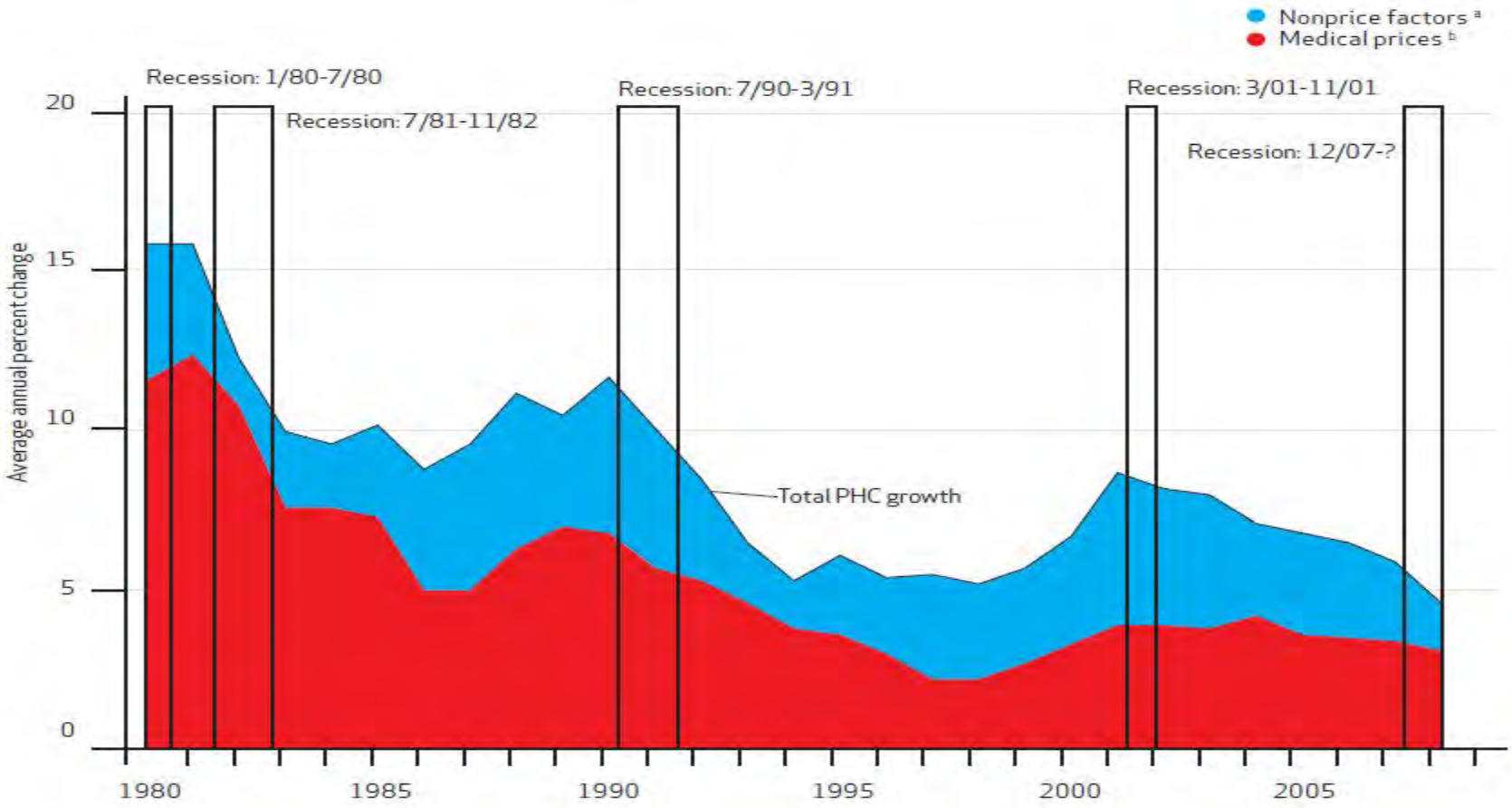
- "Managed competition occurs at the level of the integrated financing and delivery of care, not at an individual provider level."
- "Goal to divide providers in each community into competing economic units and to use market forces to motivate them to develop efficient delivery system."
- This is the right "price" for competition
- Built to look like the FEHBP--Federal Employees get a choice of plan and government pays a percent of the premium based on low cost plans.

HMOs Did Lower Costs: *But this turned out to be a one time effect*

- In the 1990's cost fell as HMO enrollment grew
- But this represented a changing composition between FFS Insured and HMO/PPO enrollment
- No evidence that HMOs continually reduced costs to bring about a lower increase in the long run cost of care and difference with FFS plans narrowed
- But use of hospitals certainly fell and restrictions on care rose and saw lower costs in the1990's
- With the "HMO backlash" we never got to managed competition "nirvana"
- Instead we returned to no price competition and no regulation

EXHIBIT 3

Factors Accounting For Growth In Personal Health Care Expenditures: Calendar Years 1980–2008



SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. [a] Medical prices include both economywide and excess medical-specific prices. They are calculated using the personal health care (PHC) chain-type index constructed from the Producer Price Index for hospital care, Nursing Home Input Price Index for nursing home care, and Consumer Price Indexes specific to each of the remaining personal health care components. [b] Nonprice factors include population, use and intensity of services, and other factors. As a residual, nonprice factors also include any errors in measuring prices or total spending.

2000-2010

- Consolidation of Provider Groups
- Used Market Power To Increase Prices
- Growth Of Hospital Outpatient Care But Not Lower Total Spending
- Returned to Fee-for-Service Payments For Most Healthcare Services
- Big Growth in Spending for Prescription Drugs

Where Are We Heading???

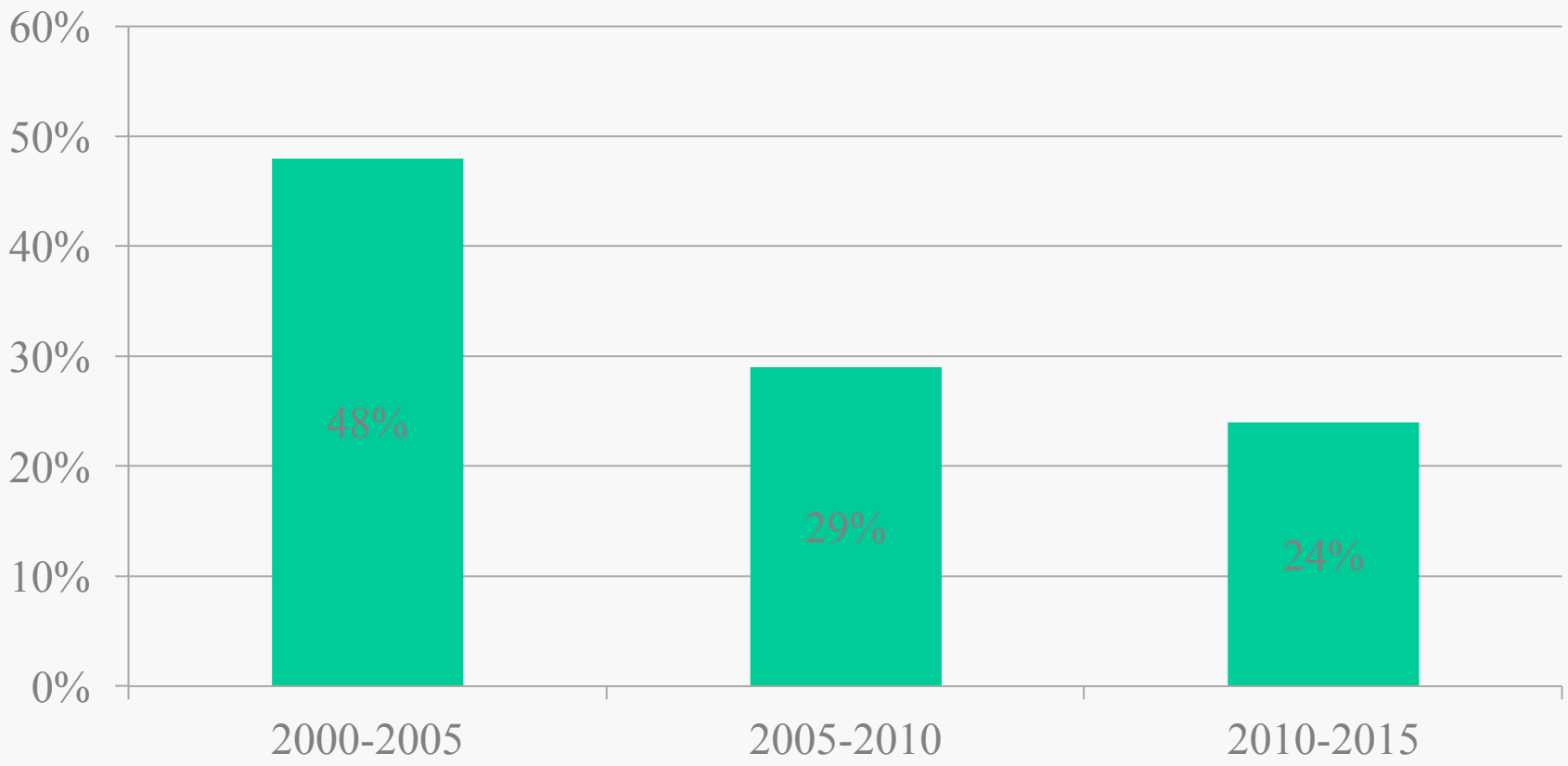
Recent Techniques Being Used To Control Spending

- Federal and State Governments Limiting The Growth in Payments to Hospitals and Physicians
  - Expanded Use By Government of Voluntary ACO Systems and Bundled Payments
- Increased Use of High Deductible Health Insurance Plans
- Limited Use of Lower Cost (Higher Value) Limited or Tiered Networks
- Some Attempts By Large Employers to Use “Centers of Excellence”

Not Sure Why---Growth In Medical Spending Is Declining

Will It Continue???

Declining Growth In U.S. Spending for Healthcare



But Healthcare Spending Still Growing Faster Than National Income and The Tax Base for State and Federal Governments

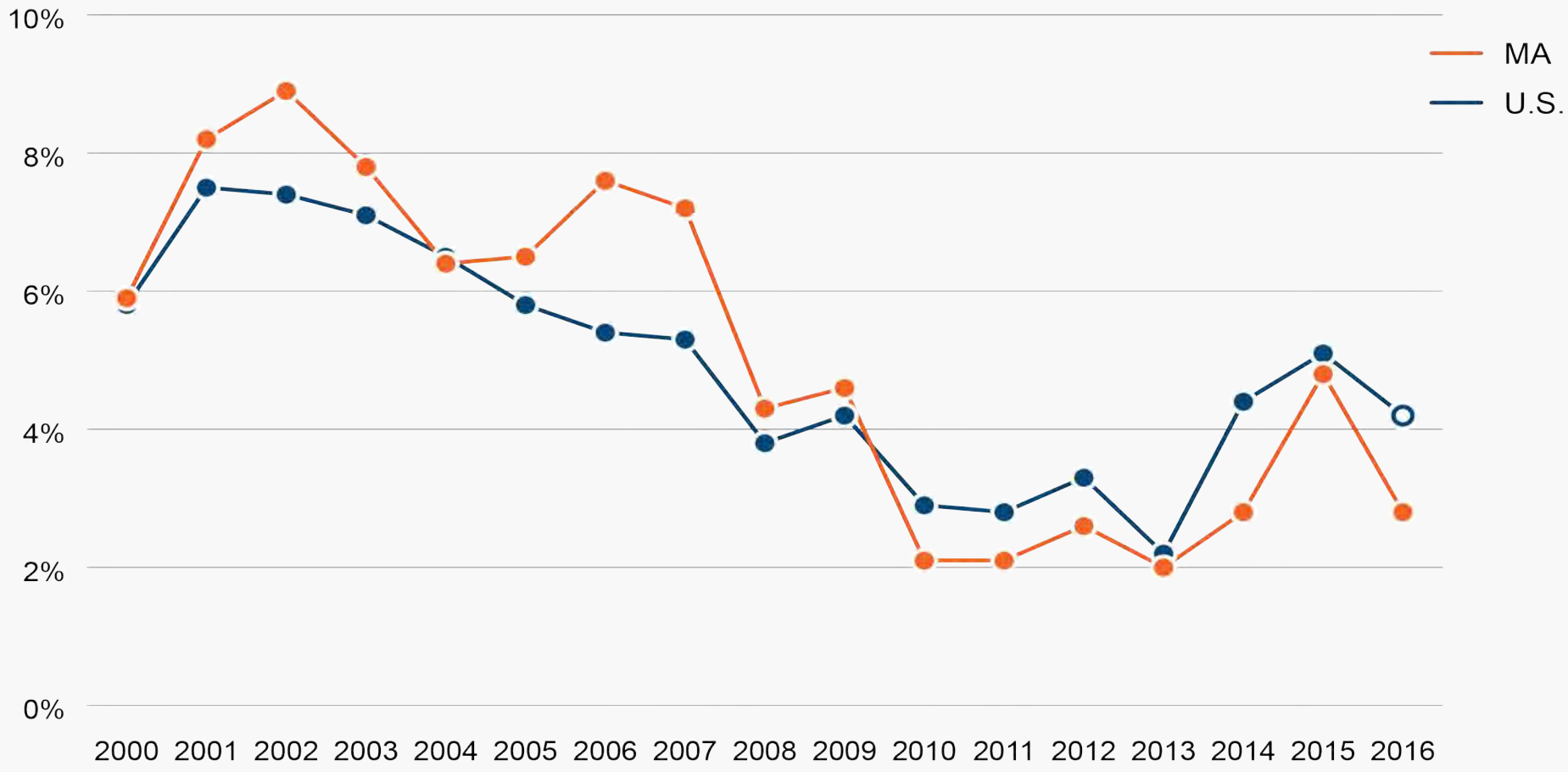
Massachusetts Trying To Limit Health Spending Growth

- *Setting a Spending Growth Benchmark Equal to Expected Growth in State GDP*
- *Investing in Lower Cost Community Hospitals*
- *Using Public Pressure to Keep Providers and Payers From Expanding Spending Beyond Benchmark*
- *Using State Certificate-of-Need and Anti-Trust Powers to Maintain Some Hospital Competition*

And---It Seems to Be Working!

Massachusetts

Healthcare spending Growth below the U.S. average 2010 --2016



Note: U.S. figure for 2016 is partially projected.

Sources: Centers for Medicare and Medicaid Services, National Health Expenditure Accounts Personal Health Care Expenditures (U.S. 2015-2016) and State Health Expenditure Accounts (U.S. 2000-2014 and MA 2000-2014); Center for Health Information and Analysis Annual Report THCE Databook (MA 2015-2016)

So—Back To Our Original Questions for The Country---

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My Own Take!

Both Over Use and Increased Prices are Problems and Various Techniques Can Help Lower Spending But Losers (And There are Losers) to Any Reduced Spending System Have Stop Any Limits to Spending Growth Thus Far--- Can We Change This Going Forward?