

# **Healthcare Cost Control: What Is The Path Forward?**

*Health Industry Forum*

*Washington, DC*

*March 14, 2018*

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# The Health Care Bubble

- Fed & state governments, employers, individuals spend too much on health care.
- There is abundant evidence that health care prices are irrational, and very often far too high.
  - But are Medicare and Medicaid prices set at the right levels? Or are they sometimes too low? What are the consequences of prices that are set too low?
- There is strong evidence that much of health care spending is of little clinical value, and is sometimes harmful.
- Could it be that, in U.S. health care, we have a mispricing problem *and* a high use of low-value services problem? It doesn't have to be either or. It could be both. And the reason for both problems might be the same pervasive dysfunction of the system.
- Comparisons to price-regulated (or free) systems internationally should not provide much comfort on use of services. Most of these systems provide care for free at the point of service. The only control is through supply restraint. There is unlimited demand for services; one would expect some level of unnecessary use.

# Breaking Down the Waste

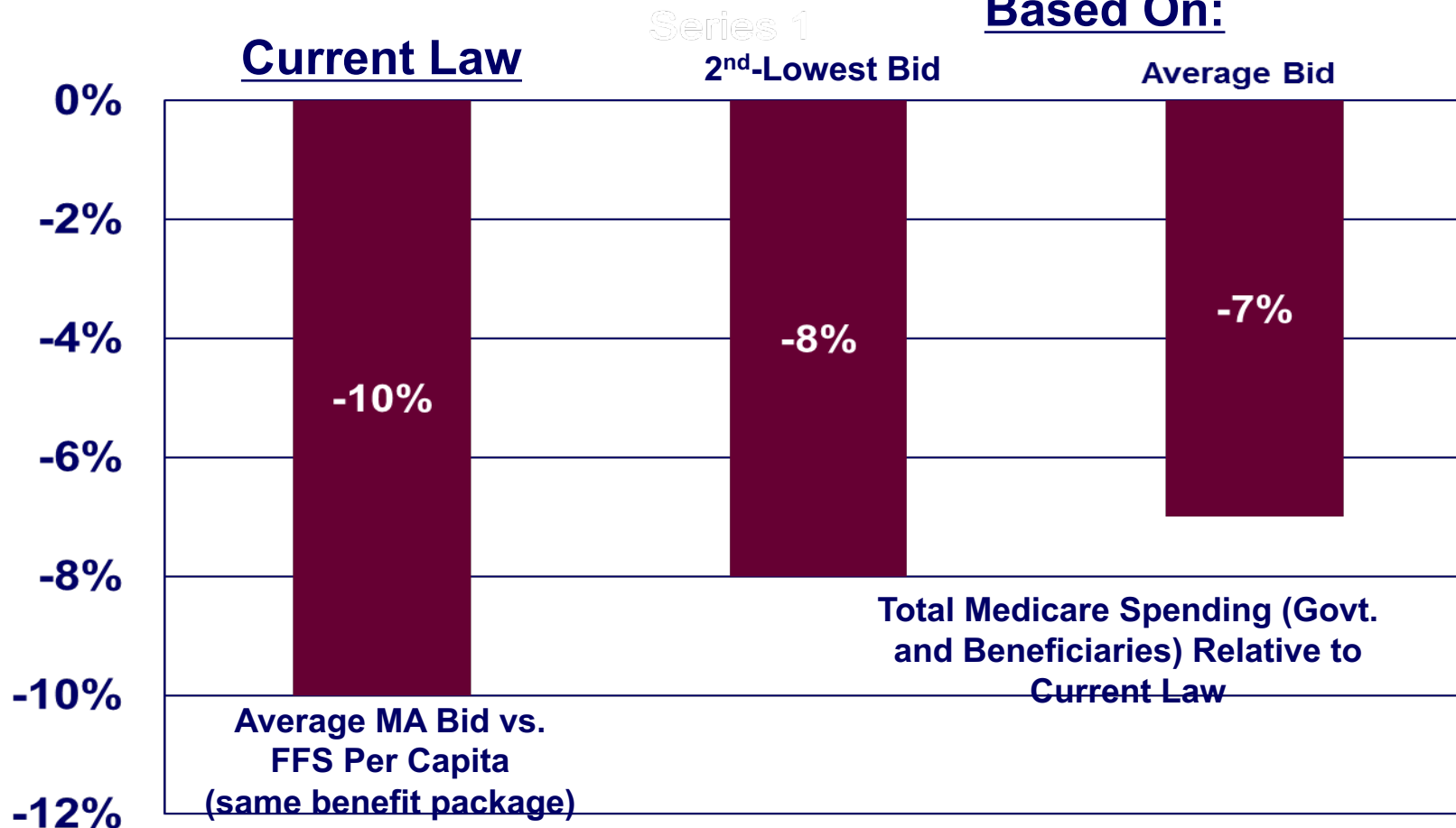
	<b>Mid-Range Estimate (2011, \$ Bil.)</b>
<b>Failures of Care Delivery</b>	<b>128</b>
<b>Failure of Care Coordination</b>	<b>35</b>
<b>Overtreatment</b>	<b>192</b>
<b>Administrative Complexity</b>	<b>248</b>
<b>Pricing Failures</b>	<b>131</b>
<b>Fraud and Abuse</b>	<b><u>177</u></b>
<b>Total</b>	<b>910</b>
<b>% of Total H.C. Spending</b>	<b>34%</b>

Source: Berwick and Hackbarth, *Journal of the American Medical Association*, 2012.

# CBO Estimates of MA/Premium Support

2024

Premium Support Estimate  
Based On:



Source: Congressional Budget Office, 2017

# Some Market Failures

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- **Assymmetric Knowledge (Supplier Advantage)**
- **Dominance of Third-Party Payments**
- **Price Insensitive Consumer Demand**
- **Opaqueness**
- **Non-Competitive, Monopolistic Pricing**

# The Conditions for Provider Competition

- The point of managed competition was to correct for market failure and to create the conditions for effective price and quality competition among largely non-overlapping provider systems of care.
- There is presumed insurance-provider integration/coordination, but the objective is to intensify competition between different approaches to providing medical services to patients.
- Insurance coverage differences are removed from the choices consumers make; they choose only between how they get their medical services, based on price and quality.

# ***If We Want More Effective Competition...***

- 1. Bring Forward and Lower the Thresholds for the Cadillac Tax (or Cap the Tax Exclusion for Employer-Paid Premiums)**
- 2. Implement Effective and Transparent Pricing Regarding Medicare Coverage Options During an Annual Enrollment Process:**
  - MA vs. ACOs vs. Unmanaged FFS**
  - Include Part D and Supp Policies in Structure Choice System**
  - Beneficiaries See the Whole Premium Picture**
- 3. Convert HSAs Into Something That Buys Pre-Packaged, Consumer-Friendly Bundles of Care, Not FFS**

# Neither Fish Nor Fowl

- **The provision of medical care in the U.S. lacks cost discipline across-the-board.**
- **There is no real market discipline, and government payment regulation is partial (and oftentimes blunt and unsustainable -- see MIPS).**
- **It is possible that the political process will impose more cost discipline if stronger market incentives are not injected into the system.**
- **The rapidly deteriorating outlook for federal deficits and debt might force policymakers to move more aggressively in one direction or the other, or possibly in both directions at once.**