### Presentation Objectives

- Summarize U.S. healthcare spending over time
- List the major sources of health care spending
- Describe healthcare payment models
- Compare incentive types among providers and patients

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### National Health Expenditures per Capita

**Many Drivers of the Cost Problem**

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### Modest Increases in Quality for the Money Spent

**Good News?**

- Spending grew by an average of more than 7% from 2000 through 2008
- Less than 4% a year from 2009 through 2012
- Cause unknown

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### U.S. Health Expenditures

- **Personal Health Care**: 83%
- **Admin. & Private Health Insurance**: 7%
- **Public Health Activities**: 3%
- **Investment**: 7%


### Distribution of National Health Expenditures, 2012

- **Hospital Care**: 35.1%
- **Other Personal Health Care**: 25.1%
- **Medical Care Facilities & Occupancy Care Payments**: 11.3%
- **Prescription Drugs**: 9.4%
- **Other Health: Dentistry**: 5.4%
- **Outpatient Health Care**: 5.3%
- **Physician & Clinical Services**: 6.3%
- **MIL Total Expenditures**: $7,793.6 billion

### Health Insurance Coverage

- Private coverage
- Public coverage

[https://www.cdc.gov/nchs/products/databriefs/db137.htm](https://www.cdc.gov/nchs/products/databriefs/db137.htm)

### Average Annual Premiums


### Types of Employer-sponsored Health Insurance Plans

- Fee-for-service (FFS)
  - Conventional, Indemnity
- Health Maintenance Organizations (HMOs)
- Preferred Provider Organization (PPOs)
- Point-of-Service (POS)
- High Deductible Health Plan (HDHP)

### How do Insurers Pay?

- Fee-For-Service (FFS)
- Diagnosis related groups (DRGs)
- Per Diem Payments to Hospitals
- Capitation Payments
- Global or bundled payment systems
Hospital Charges

- Private insurance payers
  - Negotiate prices with hospitals
  - Across the board discount
- Medicare
  - Ignore charges
  - Pay based on costs
- Medicaid
  - Per diem (per day charges) based on cost

Medicare Hospital Reimbursements

- Prospective payments and Diagnosis Related Groups (DRG)
  - New hospital payment method to promote efficiency
  - Hospitals were paid fixed amount for every Medicare admission 2008
- Medicare Severity DRGs (MS-DRGs)
  - No comorbid conditions / Co-morbid conditions / Major Co-morbidities
  - Present on admission
  - Readmission penalties


Physician Payments

- Current Procedure Terminology (CPT)
  - Developed by the American Medical Association
- “S” codes
  - Developed by CMS using Healthcare Common Procedure Codes (HCPCS)
- Resource-based relative value scale (RBRVS)
  - Value of services
  - Expenses
  - Malpractice risk
  - Geographic adjustments

Financial Incentives

- Pay for volume, not quality
- Payment structures may contribute to increasing health care costs
- Pay-for-performance

Patient Cost Sharing

- RAND Health Insurance Experiment
- Cost sharing
  - Co-pays
  - Co-insurance
  - Deductibles
- Moral Hazard

Conclusion

- Increasing cost of care
- Increasing cost of health insurance
- Financial incentives impact behaviors in healthcare system