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

National Health Expenditures per Capita

http://kff.org/slideshow/health‐spending‐trends‐and‐impact/

Many Drivers of the Cost Problem

Modest Increases in Quality for the Money Spent

% of 45 year old women surviving 15 years


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


### U.S. Health Expenditures

- Personal Health Care: 83%
- Administration & Private Health Insurance: 7%
- Public Health Activities: 3%
- Investment: 7%


### Distribution of National Health Expenditures, 2010

[Chart showing distribution of health expenditures]

http://kff.org/health-costs/slide/health-expenditures-by-category/

### Health Insurance Coverage

[Graph showing health insurance coverage]

Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, January–September 2010

http://kff.org/h趣/health-insurance-coverage/

### Average Annual Premiums

[Graph showing average annual premiums]

http://kaiserfamilyfoundation.files.wordpress.com/2013/08/2013-ehbs-6-4.png

### 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)

American Hospital Association (AHA), Trends Affecting Hospitals and Health Systems, 2010
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