**SESSION OBJECTIVE**

- Understand the main components and issues in financing personal health services.

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**2015 US Healthcare Expenditures**

- $3.2 trillion = $3,200,000,000,000
- $9,990 per person average
- IOM report: estimated one-third of health expenditures was wasted expense

Source: cdc.gov; Health Expenditures 2015 Highlights

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**Gross Domestic Product (GDP) 2015**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>17.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>11.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>10.4%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Source: The World Bank, 2018

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**U.S. Health Expenditures**

- (Levels in Billions $)

Source: Centers for Medicare & Medicaid Services, CMS 2009

http://www.cms.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp

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**Private vs. Public**

- Distribution of Personal Health Expenditures by Source of Payment, 1980-2009

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Public Funding Now = 64.3%


Contrary to popular perceptions, taxpayers fund 64 percent of U.S. health care, more public dollars per capita than the citizens of other nations – including those with universal health programs

FOR IMMEDIATE RELEASE, January 21, 2016
Contact: Mark Almberg, PNHP communications director, (312) 782-6006, mark@pnhp.org

Tax-funded expenditures accounted for 64.3 percent of U.S. health spending – about $1.9 trillion – in 2013, according to new data published today [Thursday, Jan. 21] in the American Journal of Public Health. The Affordable Care Act will push that figure even higher by 2024, when government’s share of U.S. health spending is expected to rise to 67.3 percent.

Private Health Insurance

• Development of private health insurance in the U.S.

Funding of Health Care

1850-1930

• Funding Sources
  – Cash - patients paid per agreement with physician
  – Donations - hospital patients poor, most hospital funds came from other sources
• Early 1900s - Insurance Emerges
  – Focus - replaced lost wages
  – Did not pay medical bills

Origin of Employer-Sponsored Health Insurance

• Hospitals becoming the center of care following improvements in medicine
• Hospitals following Great Depression of 1929
  – Weakened financial stability of voluntary hospitals
  – Average hospital receipts per person fell from $236 to $59
• Insurance products created to prevent the potential collapse of voluntary hospitals

Baylor University Health Plan

1929

• Origin - Baylor University Hospital provided insurance to 1,500 school teachers
• Up to 21 days of hospital care a year
• Annual cost of $6 per person
• Lead to Blue Cross plans

HEALTH INSURANCE DESIGN

Why offer health insurance through employers?
Expansion of Employer-Sponsored Insurance

- During World War II - freeze imposed on wages and salaries
- Resulted in development of pensions, disability programs, and private health insurance
- Post WW II – growth in private health insurance plans
- 20% covered by some health insurance at WW II conclusion grew to 70% by early 1960s

INSURANCE CONCEPTS

- Risk
  - Central to concept in insurance
  - Adverse deviation from desired outcome
  - Probability of incurring a loss

INSURANCE

- Shift risk from individual to group
  - Loss is unaffordable to individuals
  - Share losses on some equitable basis
  - Law of large numbers

HEALTH INSURANCE EVOLUTION

- First employer-sponsored plans similar to auto insurance
  - Cover against expensive loss
- Unique Characteristics for Insurance
  - Covers services that are normal events (office visits)
  - Cover services that can be budgeted by individuals (pharmaceuticals)
  - Claims are not independent (e.g., epidemics)

Health Reform

- Some employers do not fund health insurance plans for employees
- Often, individuals cannot afford to purchase health insurance coverage
- Small businesses experience insurance premiums increases when one worker incurs significant health care costs
  - Causes some small businesses to discontinue coverage
- Many employees lack health insurance coverage

MORAL HAZARD OF HEALTH INSURANCE

- Derived from fire insurance industry
  - Insured buildings more likely to burn
- Patients utilize more health care services if paid with “someone else’s” money
- No incentives to contain costs
  - Sickness not always a well-defined condition
  - Utilization (costs) partly controlled by hospitals & physicians who profit from additional services
- Prices increase as ability to pay increases
INSURANCE COST SHARING

- **Deductible**
  - Portion of a subscriber’s health care expenses that must be paid out-of-pocket before any insurance coverage applies

- **Co-Insurance**
  - Limits the amount of coverage paid by the plan to a fixed percentage (e.g., 80%)

- **Co-Payment**
  - Medical expenses paid by member out-of-pocket as a fixed amount ($25 for office visit)

INSURANCE PREMIUMS

- Varies with amount & type of insurance

- Calculated based on:
  - Events insured against
  - Prediction of occurrence
  - Cost of occurrence

Cost of Healthcare for Typical U.S. Family of Four


<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research &amp; Construction</td>
<td>8%</td>
</tr>
<tr>
<td>Health Services &amp; Supplies</td>
<td>84%</td>
</tr>
<tr>
<td>Personal Health Services</td>
<td>4%</td>
</tr>
<tr>
<td>Adm. of Health Insurance</td>
<td>5%</td>
</tr>
<tr>
<td>Government Public Health</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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U.S. Health Expenditures

2016 Health Care Expenditures:

- Where It Went

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
<tr>
<td>Hospital Care, 32%</td>
<td></td>
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<tr>
<td>Dentist, 16%</td>
<td></td>
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<tr>
<td>Physician and Clinical Services, 20%</td>
<td></td>
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<tr>
<td>Other, 16%</td>
<td></td>
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<tr>
<td>Durable Med, 2%</td>
<td></td>
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<tr>
<td>Rx Drugs, 10%</td>
<td></td>
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<tr>
<td>Nursing Home Care, 5%</td>
<td></td>
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<tr>
<td>Home Health, 3%</td>
<td></td>
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<tr>
<td>Insurance, 8%</td>
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2016 Health Care Expenditures:

- Where It Came From

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Private Insurance</td>
<td>34%</td>
</tr>
<tr>
<td>Medicare, 27%</td>
<td></td>
</tr>
<tr>
<td>Medicaid, 23%</td>
<td></td>
</tr>
<tr>
<td>Other programs</td>
<td>4%</td>
</tr>
<tr>
<td>Public Health, 2%</td>
<td></td>
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<tr>
<td>Out of Pocket, 11%</td>
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Part 1 Session Questions

1. In general, how does US health spending compare with other developed nations?
2. About what percent of US health expenditures are paid from public sources?
3. What motivated the development of hospital insurance?
4. In insurance, what are the concepts of risk and moral hazard?
5. What types of patient cost sharing methods are used and why?
6. What general factors determine the price of a health insurance policy?
7. What are the largest categories of US health expenditures?