



# LEGISLATIVE **HEALTH POLICY** ORIENTATION

## Session One

- ◆ Medicaid and CHIP 101
- ◆ Controlling Health Care Costs

January 5, 2021  
9:00 AM - 10:30 AM CST



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# Controlling Health Care Costs



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*Kansas Health Institute*

# AGENDA

1. The cost drivers of health care
2. Factors associated with rising cost of health care
3. State actions to control health care costs
4. COVID-19 impact on health care costs
5. Discussion

1.

# THE COST DRIVERS OF HEALTH CARE

# *POP QUIZ!*

What is the #1 driver of health care spending in the U.S.?

- 1) Prescription drugs
- 2) Administrative costs
- 3) Inpatient and outpatient care
- 4) Long-term care

# DRIVERS OF HEALTH CARE SPENDING IN THE U.S.

- Inpatient and outpatient services
- Prescription drugs and durable medical goods
- Administrative costs (including billing and insurance related costs, e.g., submitting bills, remitting payment, marketing, enrollment, credentialing providers, quality measurement)



# DRIVERS OF HEALTH CARE SPENDING IN THE U.S.

- Long-term care
- Preventive care

Source: <https://www.healthsystemtracker.org/brief/what-drives-health-spending-in-the-u-s-compared-to-other-countries/>

# DRIVERS OF HEALTH CARE SPENDING IN THE U.S.

- In 2018, the U.S. spent nearly twice as much on health per person as comparable countries (\$10,637 compared to \$5,527 per person, on average).
- Total national healthcare spending in 2019 grew 4.6% and total national health care expenditures totaled \$3.8 trillion, or \$11,582 per person.

Source: <https://www.healthsystemtracker.org/brief/what-drives-health-spending-in-the-u-s-compared-to-other-countries/>

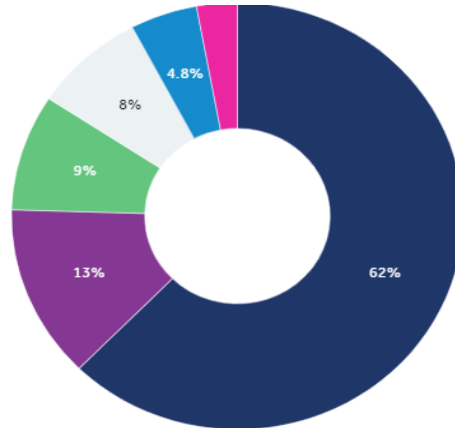
Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical>



# DRIVERS OF HEALTH CARE SPENDING IN THE U.S.

Distribution of health spending, by spending category, 2018

■ Inpatient and outpatient ■ Prescription drugs and medical goods ■ Administrative ■ Other ■ Long-term ■ Preventive



United States (Total: \$10,637 per capita)

2.

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- Aging population
  - The U.S. Census Bureau projects individuals age 65 and over will account for more than 20% of the U.S. population by 2030.
  - People age 65 and over, on average, spend more on health care than any other age group

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- Chronic disease (heart disease, stroke, emphysema, diabetes, cancer, arthritis, high blood pressure, high cholesterol, asthma)
- Obesity
- Mental illness/substance abuse
  - Kansas FY 2019 Total State Mental Health Agency Expenditure was \$490,842,586

Source:

<https://www.samhsa.gov/data/sites/default/files/reports/rpt27946/Kansas%202019%20URS%20Output%20Tables/Kansas%202019%20URS%20Output%20Tables.pdf>

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- Overutilization
  - In 2008, defensive medicine (overuse of tests and procedures because of fear of malpractice litigation) was estimated to cost \$46 billion annually in the U.S. (*Health Affairs*, 2010)
  - However, one small study in 2014 suggests that only 2.9% of costs were “completely defensive” and physicians’ attitudes about defensive medicine did not correlate with cost, suggesting that only a small portion of medical costs may be reduced by tort reform.

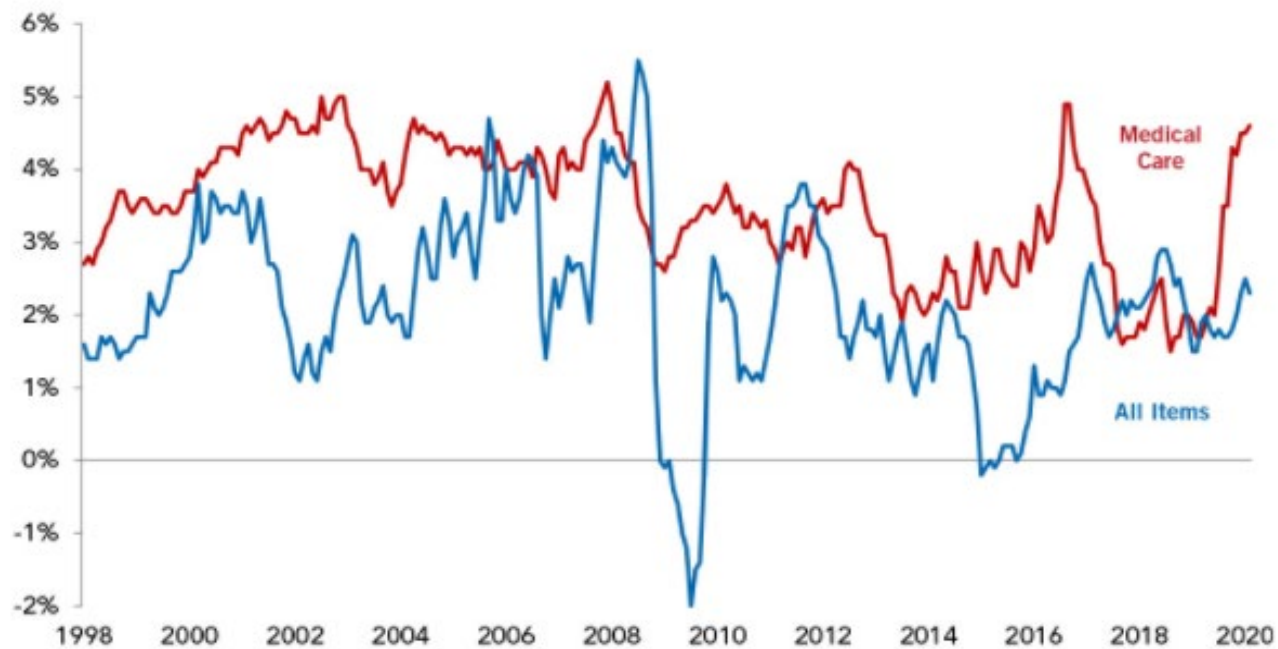
# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- High prices
  - “Prices are the primary reason why US spends more on health care than any other country”
  - The cost of health care services has grown faster than the cost of other goods and services in the economy.

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- High prices
  - In the past 20 years, the Consumer Price Index (CPI) has grown annually at an average of 2.1% percent while the CPI for medical care has grown at an average rate of 3.5% per year

### YEAR-OVER-YEAR CHANGE IN CONSUMER PRICE INDEX



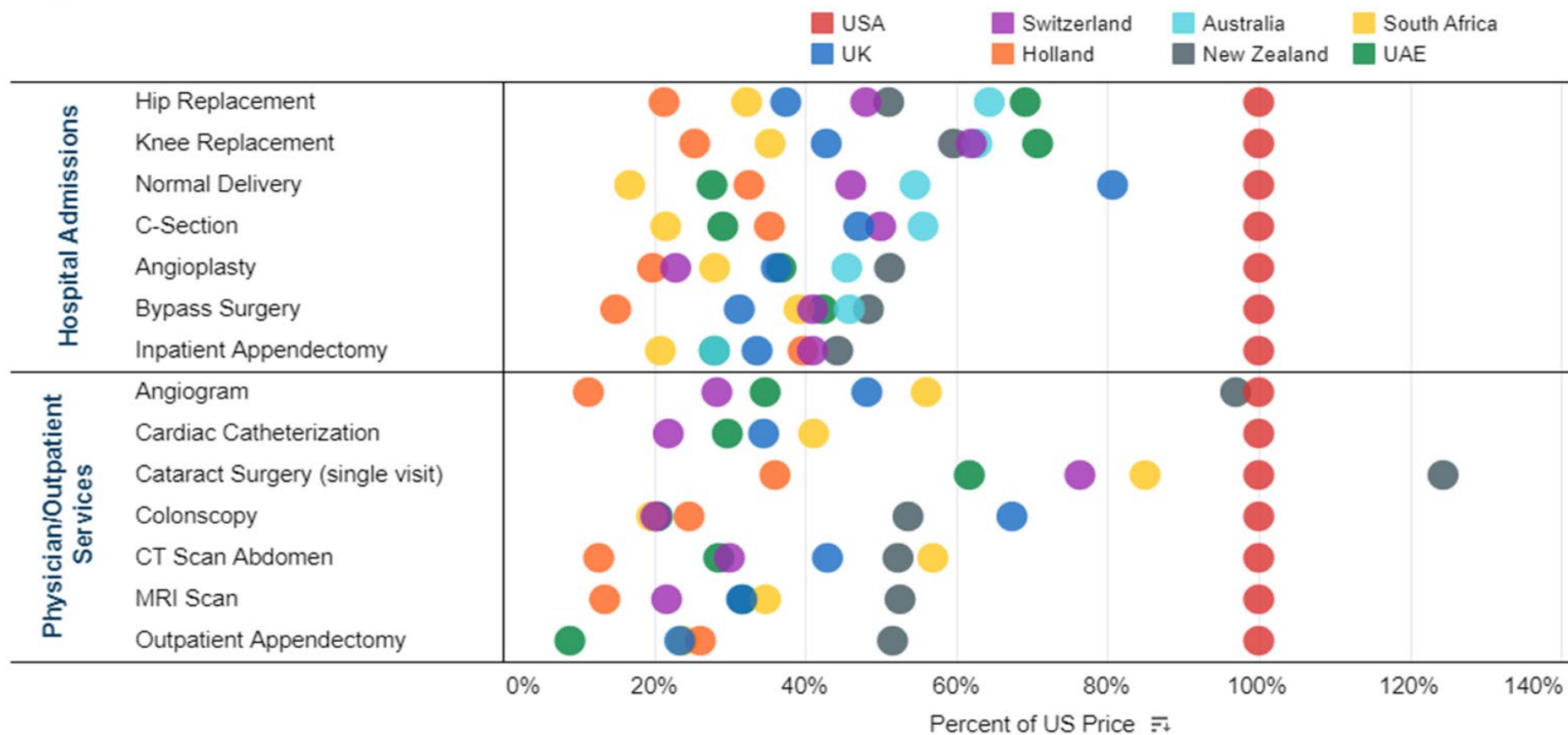
SOURCE: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, March 2020.



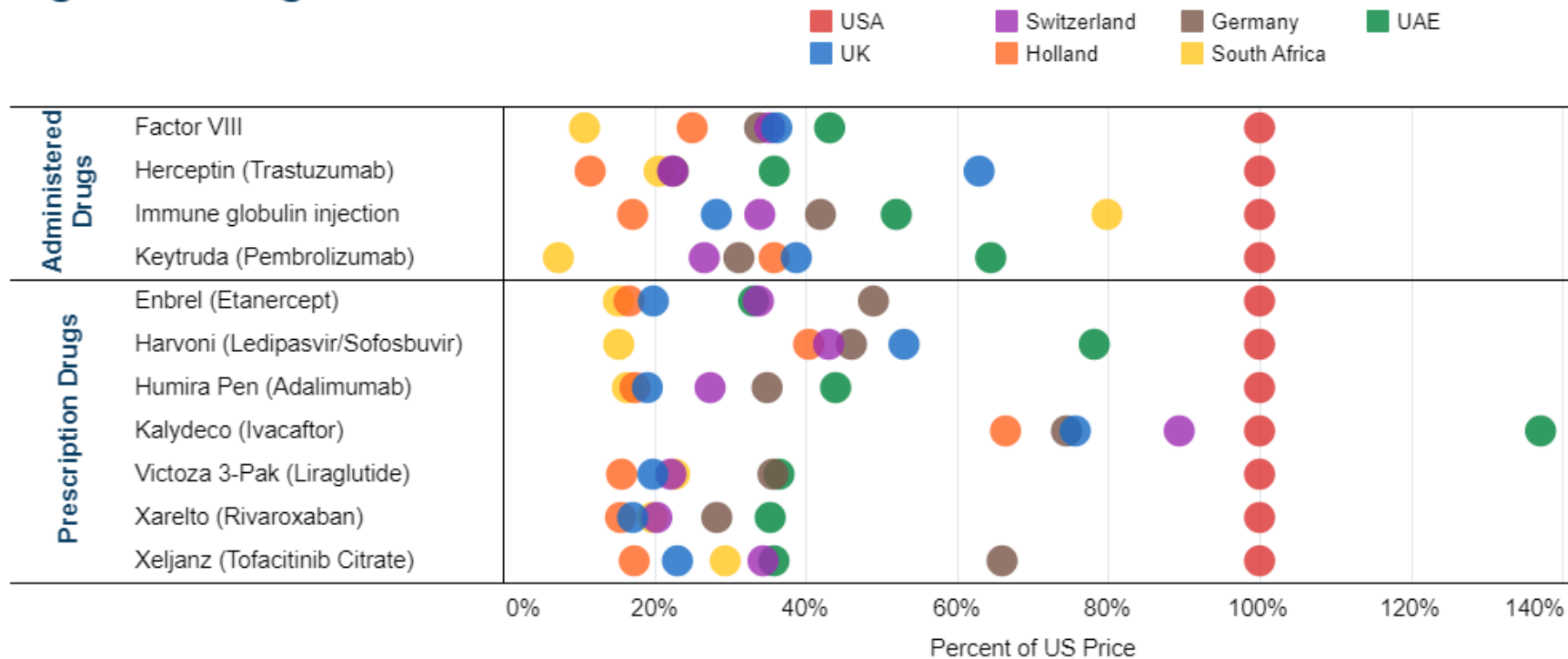
# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- High prices
  - Median prices paid by private health insurance for health care services in the U.S. was almost always higher than the median prices in eight other countries (UK, Switzerland, Holland, Australia, New Zealand, South Africa, UAE)
  - Drug prices for most countries were less than half the U.S. price for most administered and prescription drugs

# Figure 1: Medical Prices in 2017 as a Percent of US Prices



## Figure 2: Drug Prices in 2017 as a Percent of US Prices



# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- Industry consolidation
  - Consolidation (mergers/acquisitions) can lead to lack of competition or monopoly that may provide an opportunity to increase prices
  - Increased Prices: Post-merger hospital prices increased 20-44%

# FACTORS ASSOCIATED WITH RISING COST OF HEALTH CARE

- Higher Costs: Hospitals in larger systems have higher operating costs than hospitals in smaller systems
- Higher Physician Prices: Physician prices increase post-merger by an average of 14%
- Higher Clinic Prices: Hospital-acquired clinic prices increased 32-47% within four years

**3.**

# STATE ACTIONS TO CONTROL HEALTH CARE COSTS

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Price Transparency Laws
  - Sixteen states have implemented mandatory all-payer claims databases (APCDs), which collect and house health care price and quality information.
  - Eight states make price and quality information directly available to the public through state-based websites

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Price Transparency Laws
  - APCDs can also be used to monitor price and quality variation in a state's health care system
- Payment Reform and Benefit Design Laws
  - Implementation of accountable care organizations supported by shared savings payment arrangements to encourage providers to improve coordination of care and minimize unnecessary spending.



# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Payment Reform and Benefit Design Laws
  - Global budgets that place a cap on inpatient hospital spending
  - Require health plans to offer plan designs that encourage enrollees to shop for high-value health care and physicians

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Provider Competition Laws
  - Certificate of need laws to limit the creation of excess health care facilities, which can contribute to overuse and increased costs
  - Reduction of scope-of-practice limitations to increase number of primary care providers

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Provider Competition Laws
  - Banning anti-competitive contract terms, such as gag clauses (prohibit the release of negotiated payment amounts); most-favored nation clauses (prohibit providers from offering services to other payers at lower prices); anti-tiering and anti-steering clauses (prohibit insurers from steering patients to less expensive or high-quality providers)

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Oversight and Regulation of Costs Laws
  - Implementation of commissions to review the cost and market impact of proposed mergers and acquisitions; monitor spending growth; set a statewide growth target; analyze health care cost data and make recommendations regarding costs.

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Other Laws
  - Establish reference-based pricing for hospital services in state employees' health plans that link reimbursement to a set percentage of Medicare rates
  - Allow employers to create a “purchasing alliance” to negotiate health care prices directly with providers for employee plans

# WHAT CAN STATES DO TO CONTROL HEALTH CARE COSTS?

- Other Laws
  - Create a state-wide purchasing system for prescription drugs, which may include both public and private purchasers, to negotiate prices with drug manufacturers

4.

# COVID-19 IMPACT ON HEALTH CARE COSTS

# HOW MIGHT COVID-19 IMPACT HEALTH CARE COSTS?

- Utilization for non-emergent or elective care (including preventive care) has decreased this year
  - About half of adults (52%) say they or another family member in their household skipped or postponed some type of medical or dental care because of the coronavirus.



# HOW MIGHT COVID-19 IMPACT HEALTH CARE COSTS?

- Utilization for non-emergent or elective care (including preventive care) has decreased this year
  - This delay in care could lead to long-term increases in health care costs of non-COVID-19 health conditions if they worsen and require more intensive care later

# HOW MIGHT COVID-19 IMPACT HEALTH CARE COSTS?

- Mental health has been negatively impacted
  - More than half (53%) of adults reported their mental health has been impacted due to worry and stress over the coronavirus (KFF Health Tracking Poll, July 2020)
  - Isolation and loneliness during the pandemic appear to be especially impacting the mental health of adolescents, older adults, and women with children under the age of 18

# HOW MIGHT COVID-19 IMPACT HEALTH CARE COSTS?

- Mental health has been negatively impacted
  - Job loss is associated with increased depression, anxiety, distress, and low self-esteem and may be contributing to higher rates of substance use disorder and suicide

# HOW MIGHT COVID-19 IMPACT HEALTH CARE COSTS?

- Long-term effects of contracting COVID-19 may be expensive
  - It may be years before the costs for those who have recovered can be fully calculated
  - This stems from COVID-19's effect on multiple organs (heart, lung and kidneys), as well as the neurological effects that are not yet fully understood

**5.**

# DISCUSSION

# *Final Exam*

What would you be most interested in learning more about?

- 1) Price Transparency Laws
- 2) Payment Reform and Benefit Design Laws
- 3) Provider Competition Laws
- 4) Oversight and Regulation of Costs Laws
- 5) Other Laws



**THANK YOU**  
**Any questions?**

You can connect with me at: [Isheppard@khi.org](mailto:Isheppard@khi.org)



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