Interesting Times for an Actuary: Healthcare Trend and Healthcare Reform

Medicare Industry Leadership Institute
Actuarial Scholarship Seminar

University of Minnesota
November 22, 2010

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Office of the Actuary
Centers for Medicare & Medicaid Services
Role of the Office of the Actuary

Provide objective actuarial, economic, and other technical assistance, on a nonpartisan basis

- Administration
- Congress
- National advisory groups
- Health plans & providers
- Public

OACT
Nonpartisan Technical Assistance

Theory:

Practice:
Nonpartisan Technical Assistance

Theory:

Practice:
Nonpartisan Technical Assistance

Theory:

Practice:
Nature of the Problem

• Cost Growth

• Uninsured

• Affordability

• Federal, State budget challenges
Past and Projected National Health Expenditures, as a Percentage of GDP

Historical

Projected
Why Do Health Costs Grow Faster?

Average annual growth during 1965-2006

- Health care use & intensity: 2.6%
- Excess medical inflation: 0.4%
- Economy-wide inflation: 4.2%
- Population: 1.0%
- Real GDP per worker: 1.3%
- Employment: 1.9%

Source: Office of the Actuary, National Health Statistics Group.
Why Do Health Costs Grow Faster?

• Normal “market” doesn’t exist for health care
  – Insurance insulates people from true cost
  – Extreme value placed on health
  – Complexity of “product”

• “Guaranteed market” for new medical innovations
  – Demand for best possible treatments
  – Medical research, development, implementation companies have little incentive to focus on cost-reducing technology
  – Most innovation to date has been cost-increasing
Why Do Health Costs Grow Faster?

- Inefficiency
  - Medical care is fragmented
  - Payment mechanisms reward more services, not quality of care
Efforts to restrain cost growth: PAST

• End cost-based reimbursement
• Introduce prospective payment & fee schedules
• Manage care
  – Health maintenance organizations
  – Preferred provider organizations
• Address fraud & abuse
The graph shows the share of Gross Domestic Product (GDP) occupied by NHE (NHE Share of GDP) from 1980 to 2018.

Efforts to restrain cost growth: CURRENT

- Preventive care
- Chronic care / disease management
- Consumer-driven health plans
- Medicare physician volume control systems
Patient Protection and Affordable Care Act

• Mandates coverage for health insurance
  – Establishes Health Insurance Exchanges
  – Provides Federal subsidies for Exchange premiums, cost sharing
  – Provides temporary tax credits for small businesses that offer coverage
  – Imposes penalties on many individuals who forgo coverage
  – Imposes penalties on large employers w/o plans

• Expands Medicaid eligibility, extends CHIP funding
  – Income threshold increases from < 100% FPL to 138%
  – Extends coverage to those w/o other qualifying factors
PPACA, continued

• Immediate insurance reforms
  – Minimum coverage requirements
  – High-risk pool for uninsured
  – Federal reinsurance for employer-sponsored early retiree plans
  – Expansion of dependent coverage to age 26
• CLASS program (Federal LTC insurance)
• Comparative effectiveness research
• Taxes, fees
• Various Medicare provisions, net reduction in Medicare spending
NHE Share of Gross Domestic Product (GDP), 1980-2019


Sept. ’10: 19.6%
Feb. ’10: 19.3%
Efforts to restrain cost growth: FUTURE

- Health information technology
- “Pay for performance”

Affordable Care Act provisions:
- Medicare productivity adjustments
- Medicare IPAB
- Accountable Care Organizations
- Bundled payments
- Center for Medicare and Medicaid Innovation
Impacts of PPACA: Insurance Coverage
(In millions, 2019)

Source: OACT April 22, 2010 memorandum.
New Report on National Health Expenditures
Posted by Nancy-Ann DeParle on September 09, 2010 at 03:00 AM EDT

“Today’s report by the Office of the Actuary confirms a central point of the Affordable Care Act passed by Congress and signed by President Obama: The Act will make health care more affordable for Americans. In fact, the Actuary’s report indicates that total health care spending per insured American will be more than $1000 lower thanks to the provisions of the new law than it would have been if Congress and the President had not acted. Specifically, by 2019, overall health spending per insured person will average $14,720 instead of the $16,120 projected by the Actuary before the Act was enacted into law.”

Nancy-Ann DeParle is the Director of the White House Office of Health Reform
Impacts of PPACA: Medicare Outlays
(as percent of GDP)

Realistic?
Cumulative increase in provider input prices vs. Medicare payment rate
(for providers subject to productivity adjustments under current law)

- Under prior law, Part A and most Part B payment rates updated by growth in provider input prices (e.g., wages, rent, energy, supplies)
- Under PPACA, Medicare payment rates will grow ~1.1% per year more slowly than provider input prices
- Unless providers can improve their productivity to match adjustment, growing gap between provider costs and Medicare payments per service
Illustrative comparison of relative Medicare, Medicaid, and PHI prices under current law

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<th>PHI</th>
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Medicare Outlays: Illustrative Alt. Projection
(as percent of GDP)

Illustrative alternative to current law assumes:
• Physician payment updates based on Medicare Economic Index
• Productivity adjustments to other provider updates are phased out over 2020-2034

Note: This is an illustration, not a recommendation.
OACT Headlines

“Medicare actuary goes rogue?”
(Politico)
Foster works for the Center for Medicare and Medicaid Services, an agency within HHS that would lose funding under health care reform.”

(Slate)
“That assessment was of previous versions of the legislation, so it's completely wrong.”

(Senator Dodd)
This report once again discredits Democrats’ assertions that their $1.3 trillion government takeover of health care will lower costs, and it confirms that this bill violates President Obama’s promise to ‘bend the cost curve.’ It’s now beyond dispute that their bill will raise costs, which is exactly what the American people don’t want.”

(Representative Boehner)
OACT Headlines

“Medicare Report Confirms Health Care Takeover Plan is a Fiscal Disaster”
(AOL News headline)
“It’s a long, somewhat dry document...but it is an interesting read (assuming the reader is adequately caffeinated).”

(Mike the Actuary’s Musings)
“This is not something they normally do. It is an interesting analysis but it is pretty speculative though of what the impact will be on providers and beneficiaries. Our recent experience would indicate something quite different.”

(Nancy-Ann DeParle)
The CMS report is a blow to the White House and House Democrats who have vowed that healthcare reform would curb the growth of healthcare spending.”

(Capitol Hill)
“Actuaries sure know how to ruin a good time” (Capitol Watch Blog headline)
Parting Observations

• Political debate is a good thing
• Political misuse of actuarial analyses is a bad thing
• The debate over health care reform was dominated by wild claims and accusations
• The nation deserves better, but heightening partisanship suggests it will be a long time coming
Questions?