



The “Big 5” Cost Drivers in Healthcare Spending

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Maybe more appropriately titled...

“5 of the Many Things Driving Up the Cost of Healthcare”





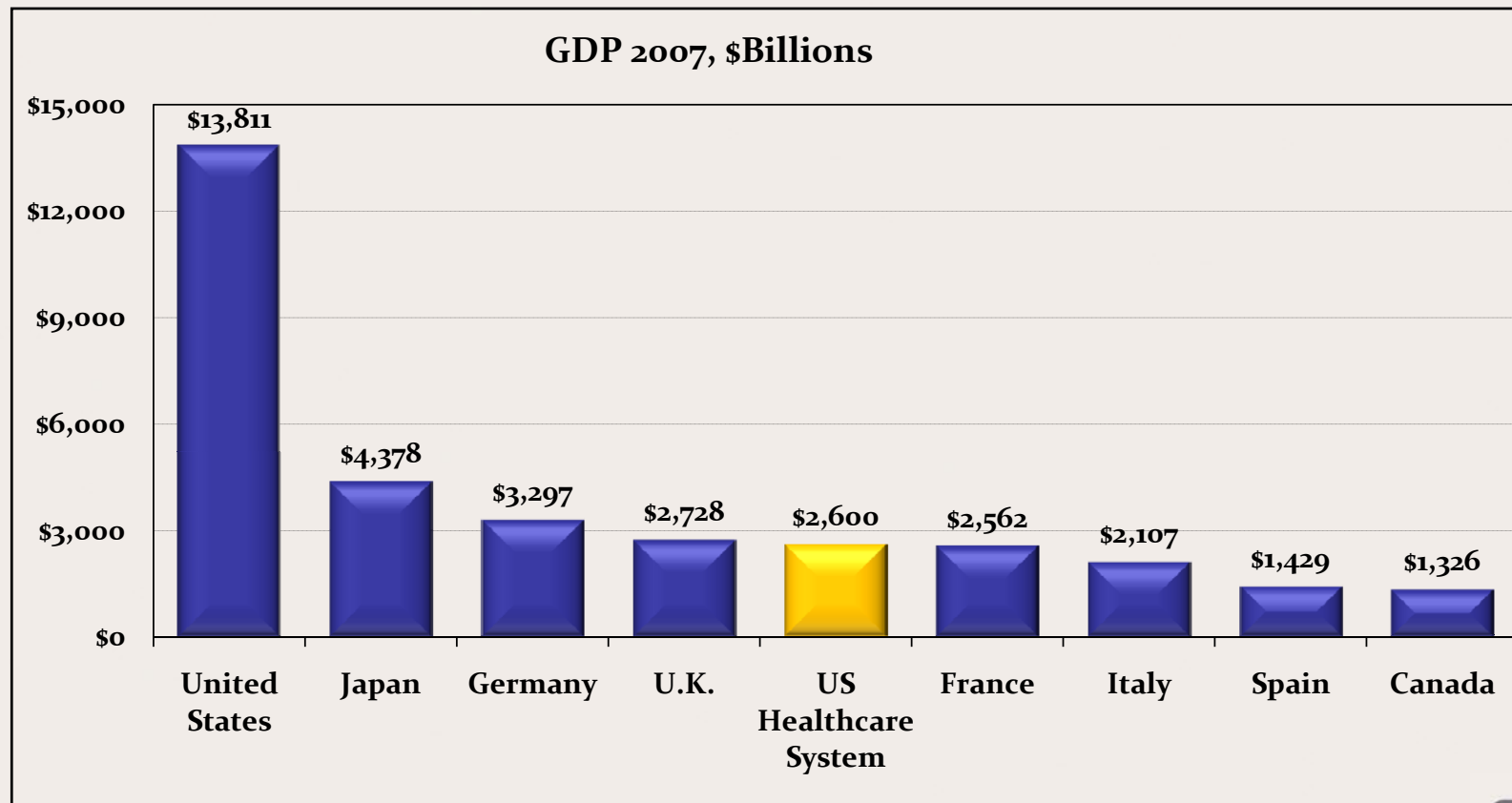
Cost Driver #1

GOVERNMENT





Healthcare is an enormous part of the US economy, and has profound impacts on government and other policy.



Source: World Bank, 2007; Centers for Medicare and Medicaid Services, Office of the Actuary





Cost Driver #1

GOVERNMENT

Cost-Shifting

Coverage & Benefit Mandates

Regulations



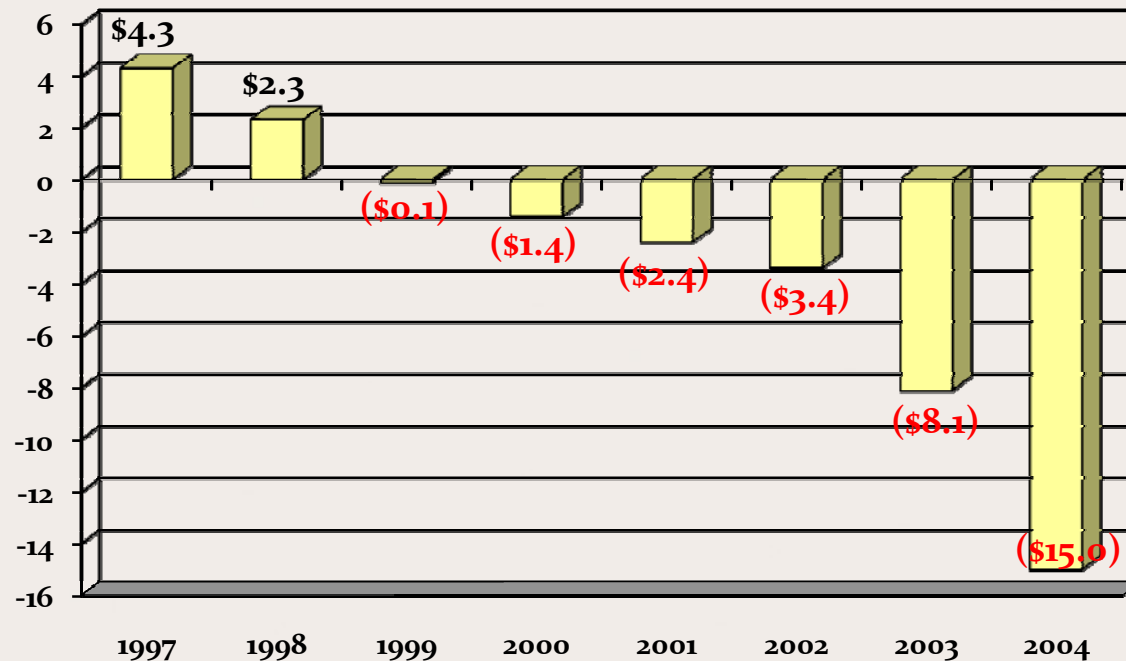


Cost Driver #1 – Government

Cost-Shifting

Medicare & Medicaid continue to limit reimbursement in an attempt to balance their budgets; combined with losses from self-pay patients, providers make up these shortfalls by shifting them to commercial payers

Medicare Payment Shortfalls
Billions





Cost Driver #1 – Government Coverage Mandates

Required by Federal statute:

- Preexisting conditions (31A-22-605; NAIC Standard)
- Dependent coverage from the moment of birth or adoption (31A-22-610)
- Coverage through a noncustodial parent (31A-22-610.5; Social Security Act)
- Open enrollment for child coverage ordered by a court (31A-22-610.5; Social Security Act)
- Medicare supplemental insurance, including preexisting conditions provision (31A-22-620; NAIC Standard; Title XVIII of the Social Security Amendment, 1965)
- Individual and Small Group guaranteed renewability (31A-30-107; Health Insurance Portability and Accountability Act, 1997)
- Individual and Small Group limit on exclusions and preexisting conditions (31A-30-107; Preexisting conditions are required by Federal Statute)
- Small Group portability and individual guaranteed issue (31A-30-108; Health Insurance Portability and Accountability Act, 1997)
- Maternity coverage on groups of 15 or more employees (Pregnancy Discrimination Act, Public Law 95-555, 1978)
- COBRA benefits for employees of employer with 20 or more employees (Consolidated Omnibus Budget Reconciliation Act, Public Law 99-272, 1985)



Source: 2007 Health Insurance Market Report, Utah Insurance Department



Cost Driver #1 – Government Coverage Mandates

Required by State statute:

- Policy provision standards (31A-22-605)
- Dependent coverage to age 26 (31A-22-610.5)
- Extension of policy for a dependent child with a disability (31A-22-611)
- Conversion privileges for an insured former spouse (31A-22-612)
- Mini-COBRA benefits for employees of employer with less than 20 employees (31A-22-722; State expansion of Federal COBRA requirements).



Source: 2007 Health Insurance Market Report, Utah Insurance Department



Cost Driver #1 – Government Benefit Mandates

Required by Federal statute:

- Maternity stay minimum limits (31A-22-610.2; Newborn & Mothers Health Protection Act, Public Law 105-35, 1997)
- Pediatric vaccines – level of benefit (31A-22-610.5, Omnibus Budget Reconciliation Act, 1993)
- Preauthorization of emergency medical services (31A-22-627; Federal Patient Bill of Rights Plus Act)
- OB/GYN as primary care physician (31A-22-624)
- Mastectomy provisions (31A-22-630; Women's Health & Cancer Rights Act, 1996)



Source: 2007 Health Insurance Market Report, Utah Insurance Department



Cost Driver #1 – Government Benefit Mandates

Required by State statute:

- \$4,000 minimum adoption indemnity benefit (31A-22-610.1)
- Dietary products for inborn metabolic errors (31A-22-623)
- Catastrophic coverage of mental health conditions (31A-22-625; Required by Federal statute, but State statute is more protective than Federal requirements)
- Diabetes coverage (31A-22-626)
- Standing referral to a specialist (31A-22-628)
- Basic Health Care Plan in individual market (31A-22-613.5 and 31A-30-109)



Source: 2007 Health Insurance Market Report, Utah Insurance Department



Cost Driver #1 – Government Mandates

Value/Benefit v. Cost

Cost Estimates Vary





Cost Driver #1 – GOVERNMENT Regulations

HIPAA

EMTALA

(Emergency Medical Treatment and Active Labor Act)





Cost Driver #2

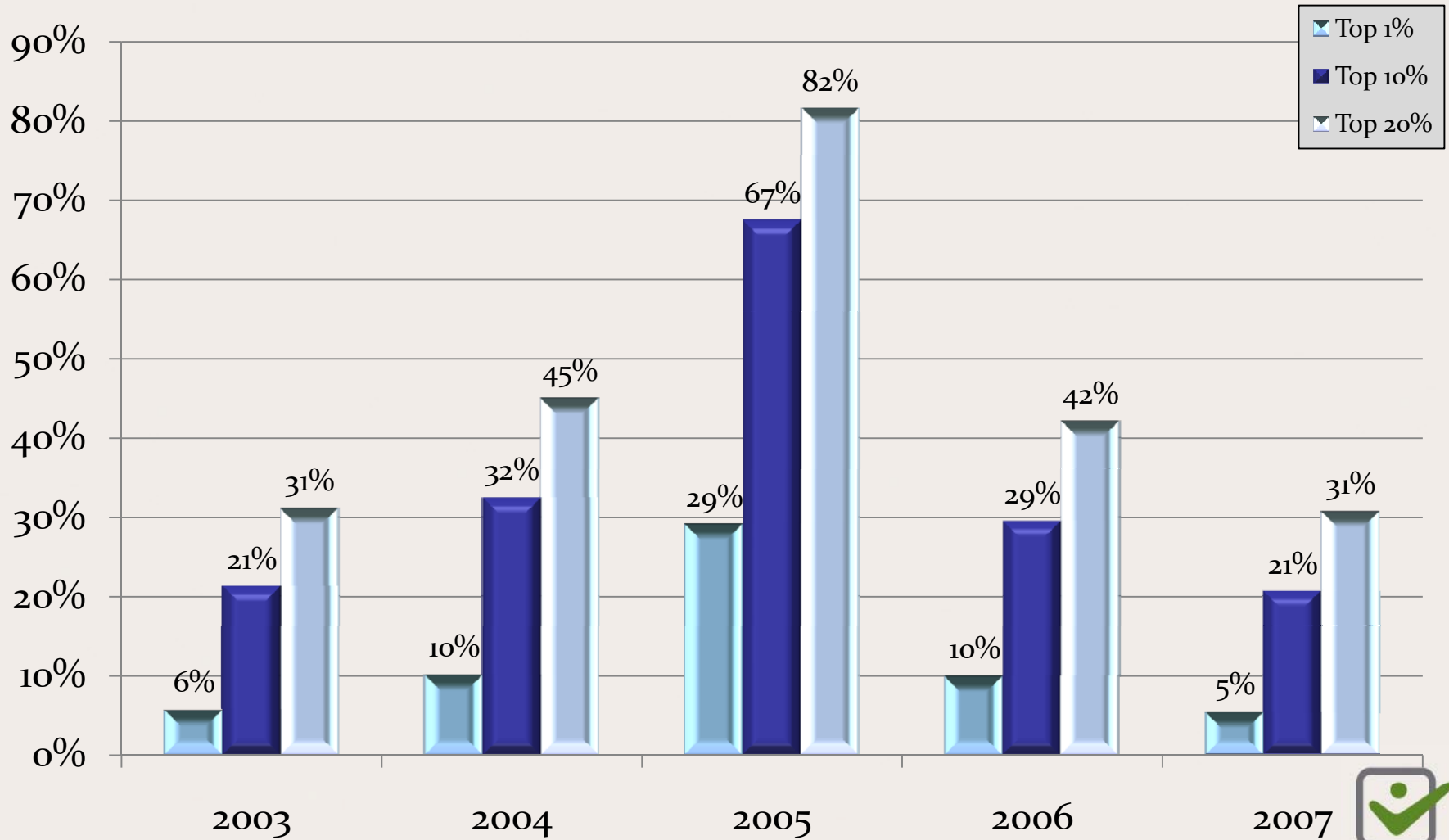
20%

20% of individuals incur 80% of claims
...actually 80%-85%



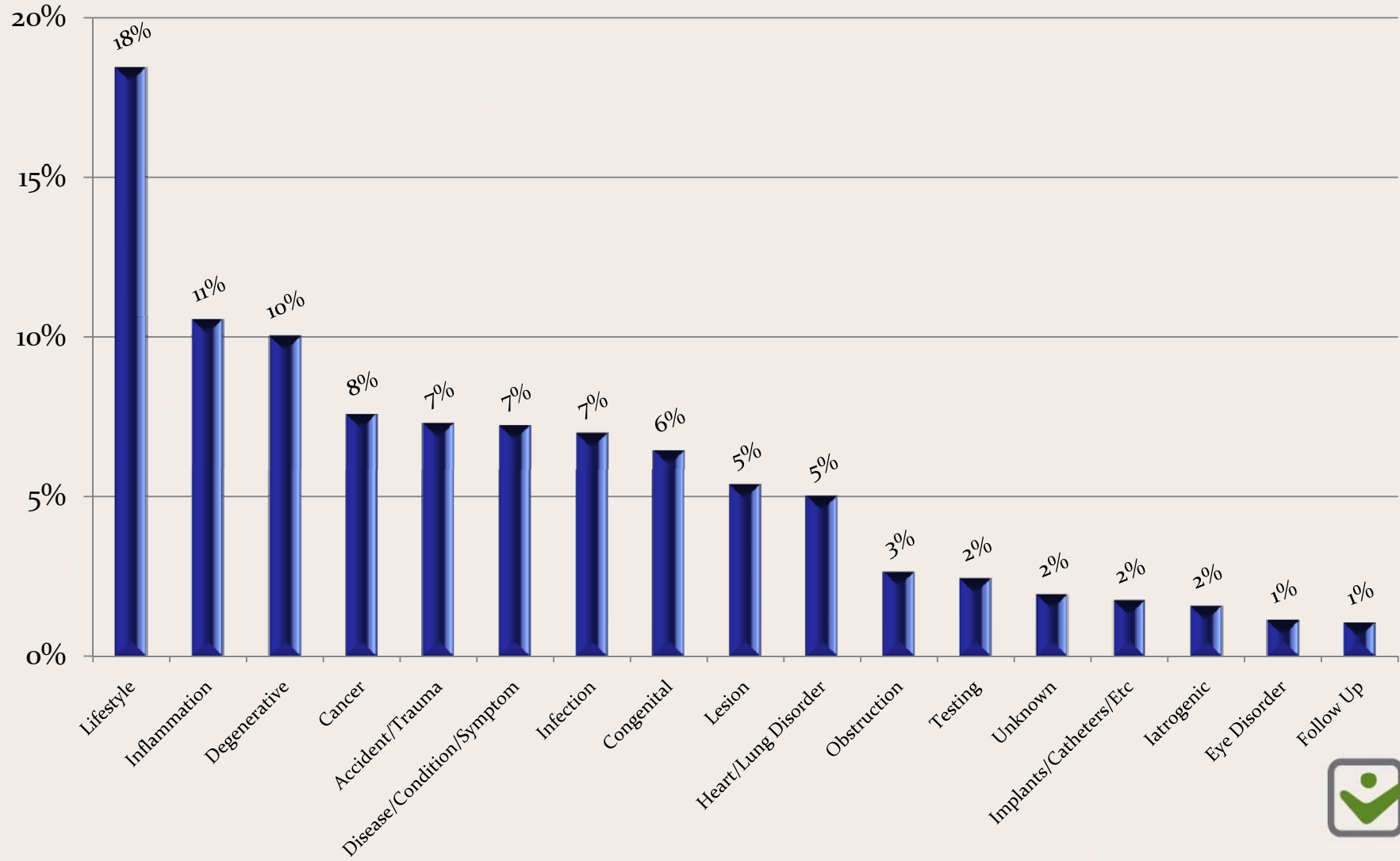


Percent of Claims Incurred by 2005 Top Claimants



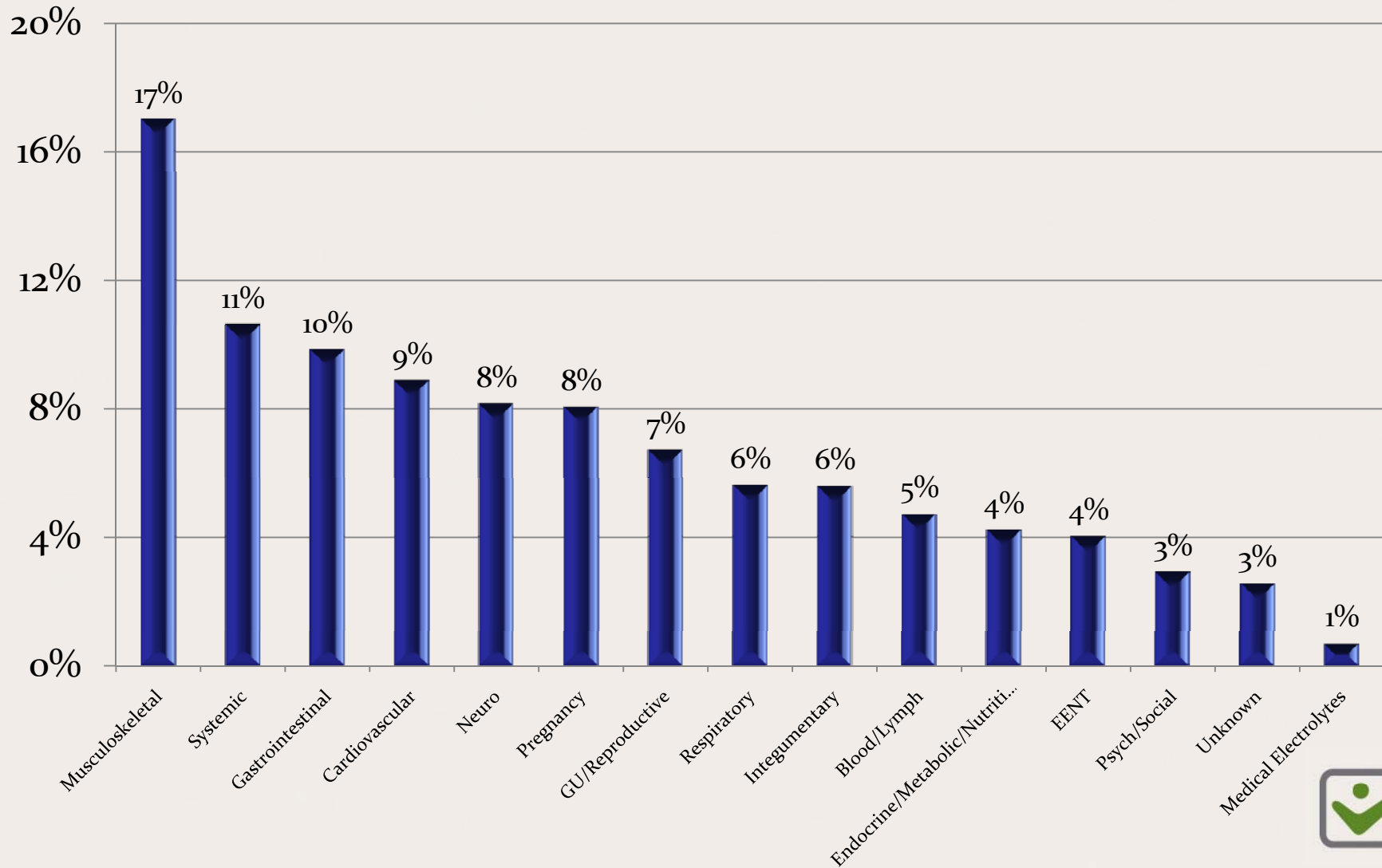


Distribution by Cause for 2005 Top Claimants



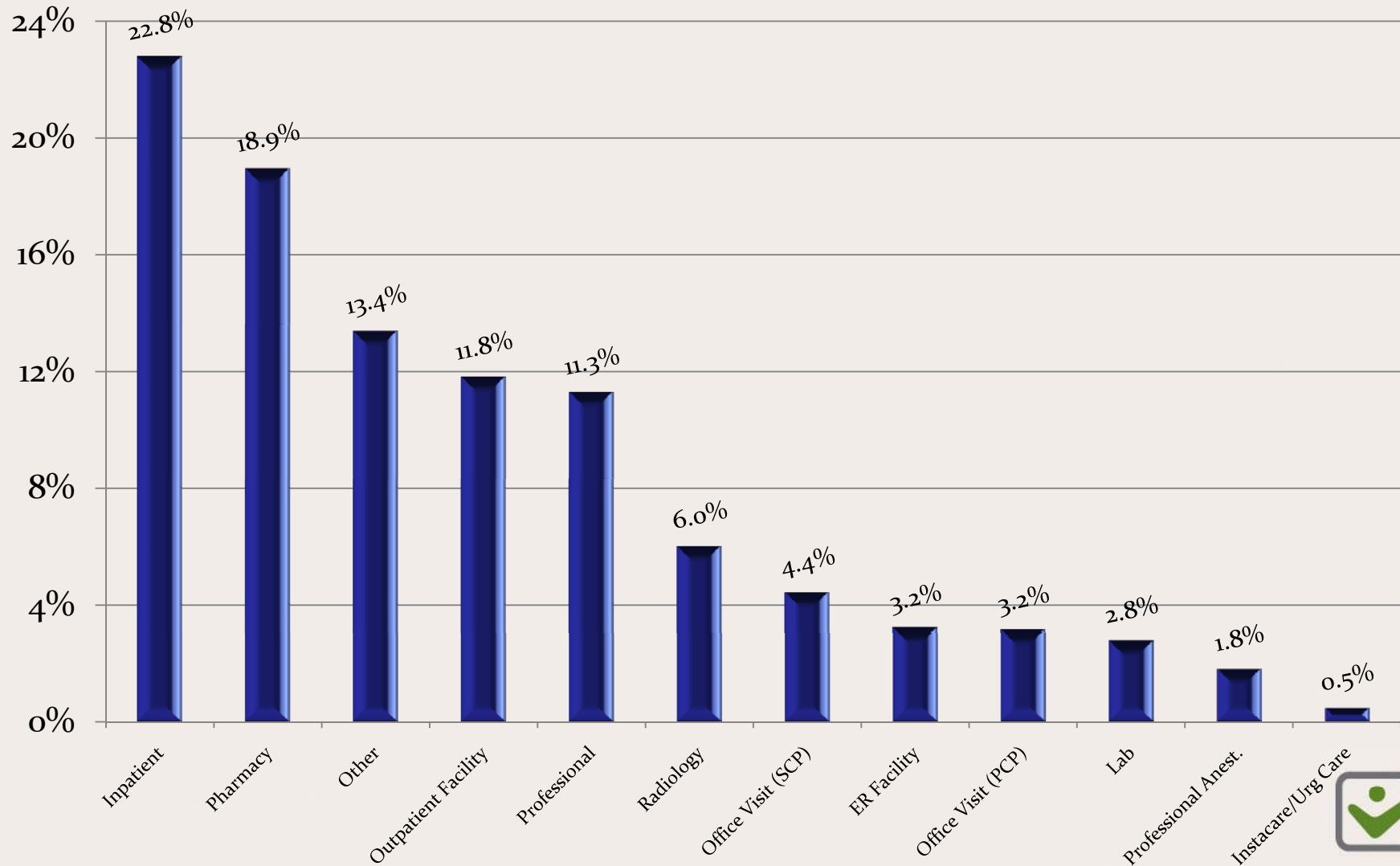


Distribution by Body System for 2005 Top Claimants



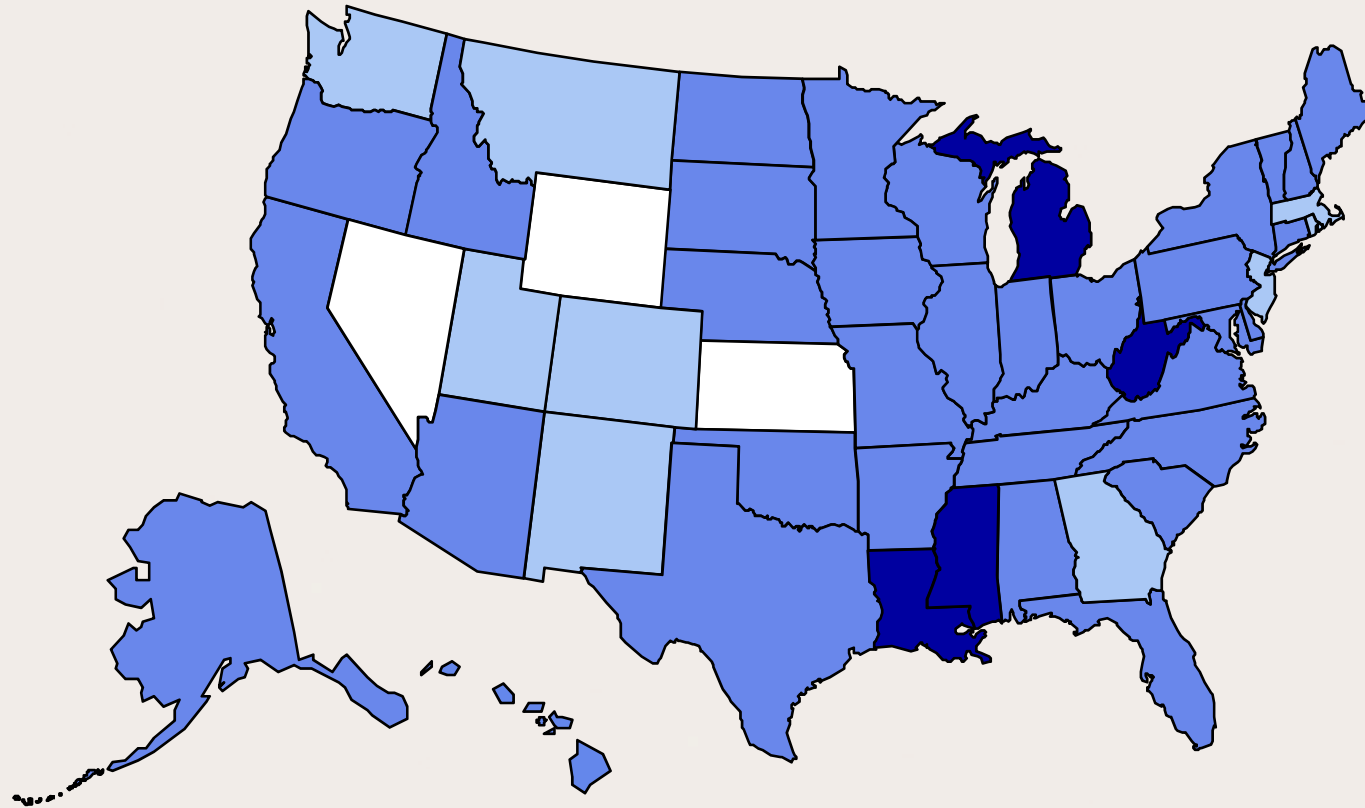


Distribution by Place/Type of Service for 2005 Top Claimants





Obesity* Percent of Population, 1991

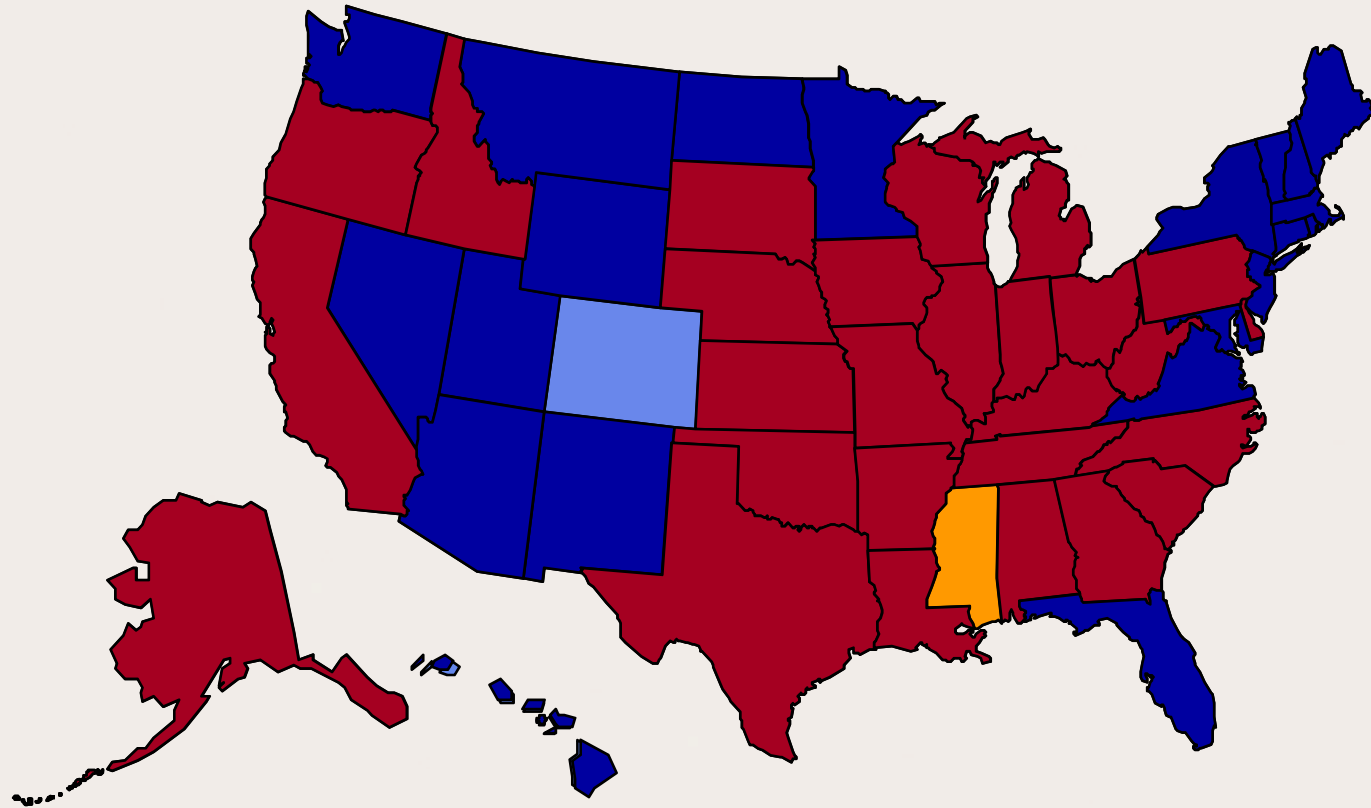


*BMI > 30; 30-50 lbs overweight (depending on height)
 Source: Mokdad A H, et al. *J Am Med Assoc* 1999;282:16, 2001;286:10.





Obesity* Percent of Population, 2001

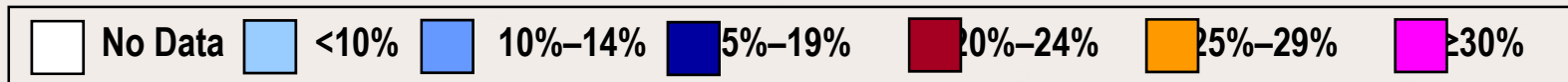
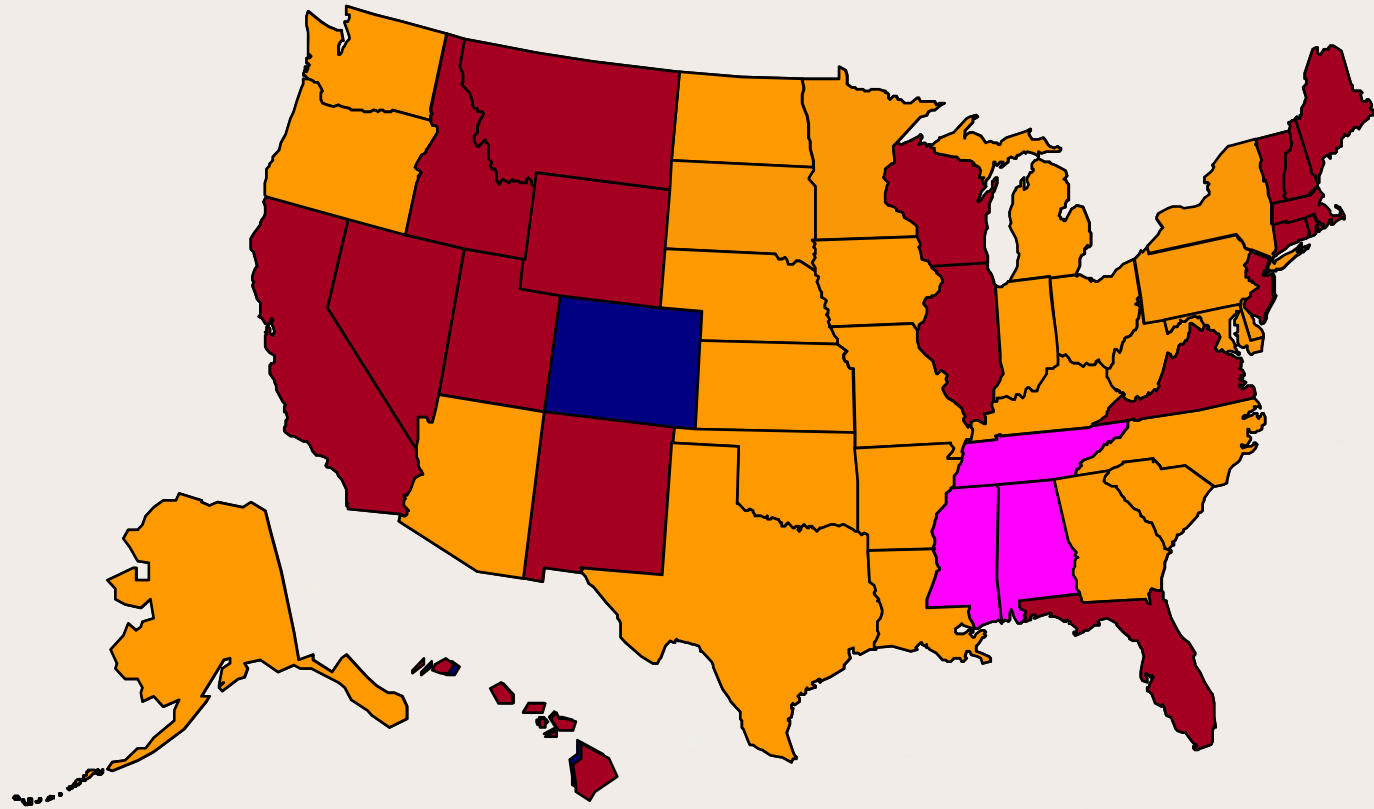


*BMI > 30; 30-50 lbs overweight (depending on height)
 Source: Mokdad A H, et al. *J Am Med Assoc* 1999;282:16, 2001;286:10.





Obesity* Percent of Population, 2007



*BMI > 30; 30-50 lbs overweight (depending on height)
 CDC. State-Specific Prevalence of Obesity Among Adults — United States, 2007





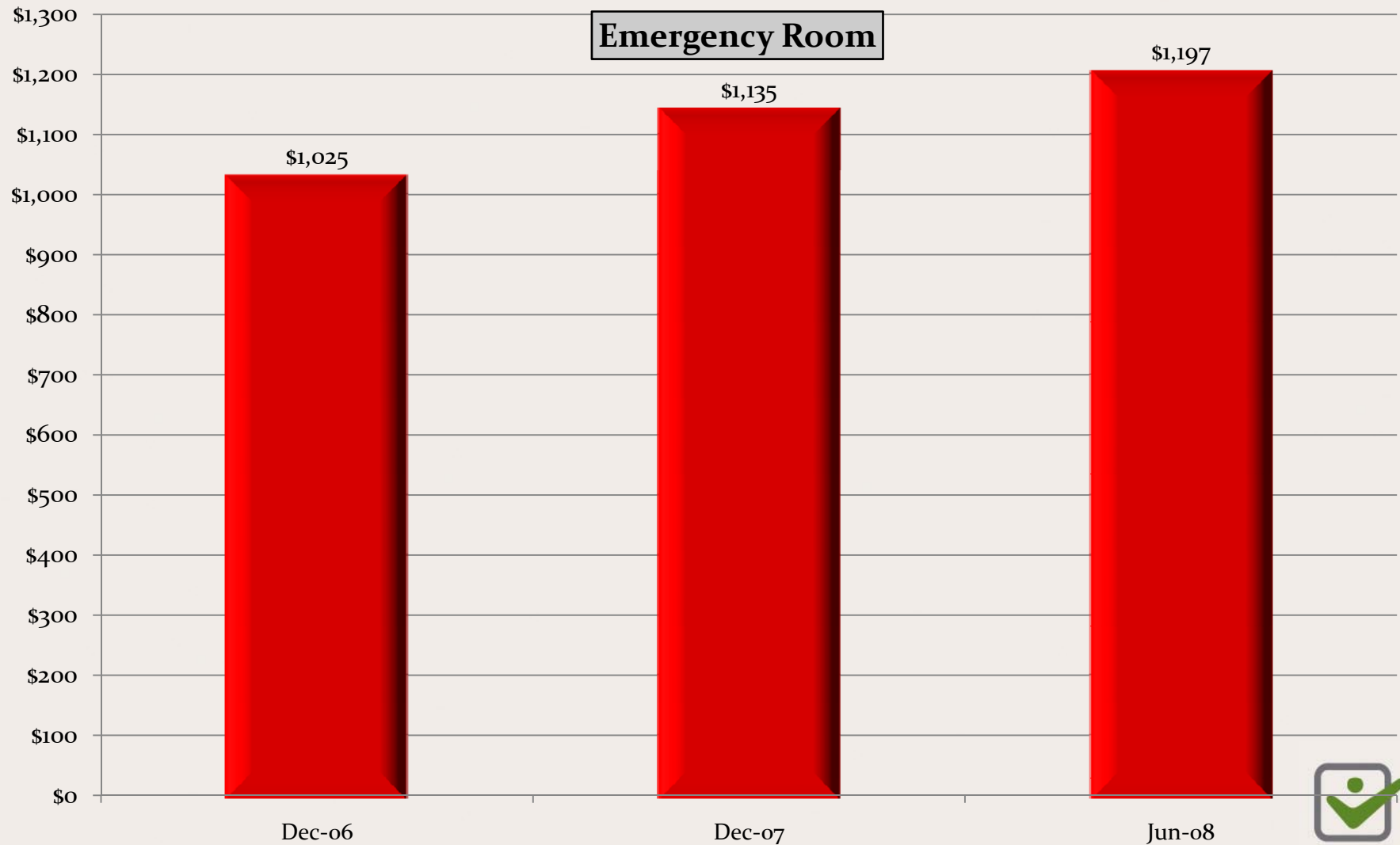
Cost Driver #3

Site of Service



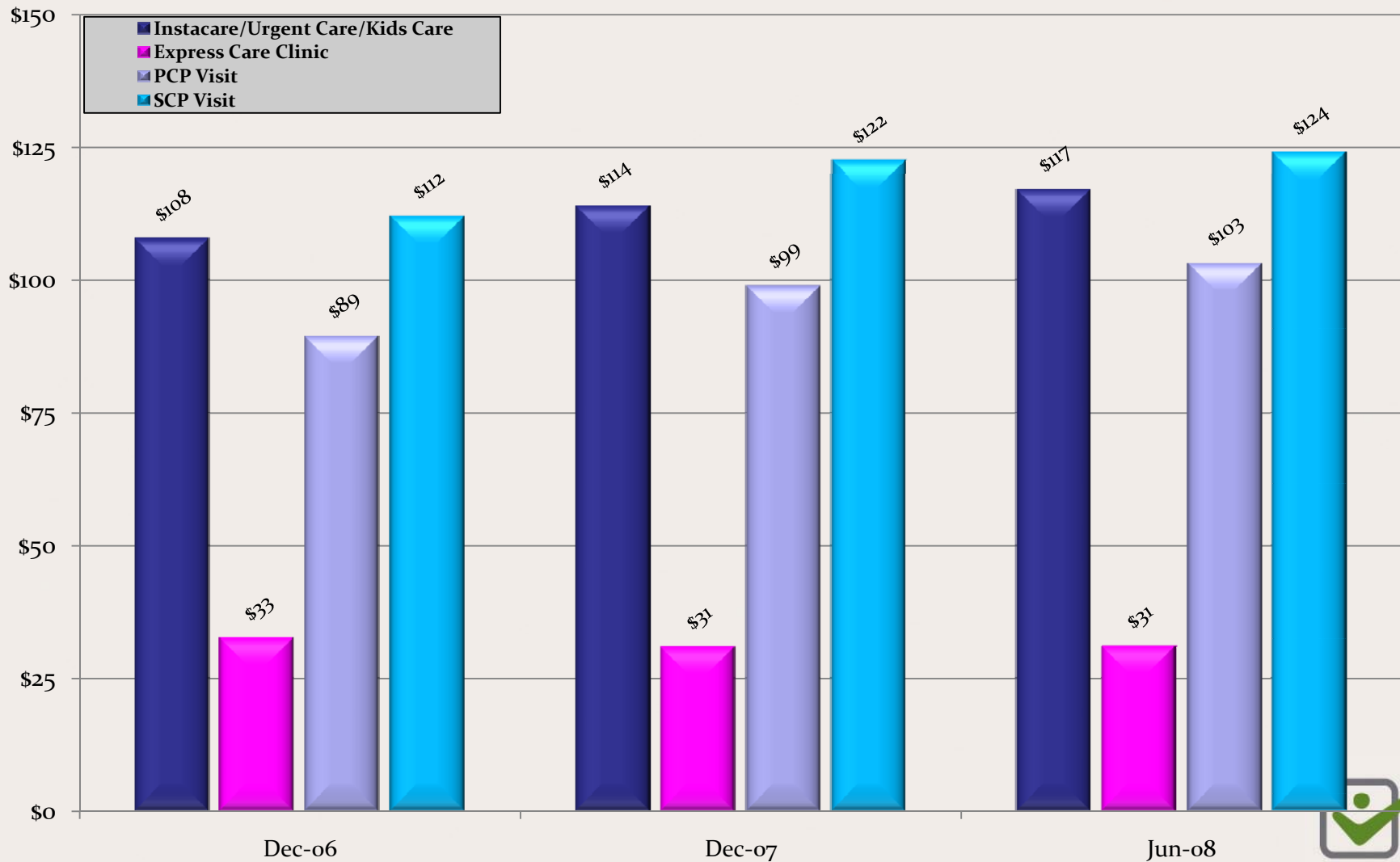


Cost Driver #3 – Site of Service





Cost Driver #3 – Site of Service





Cost Driver #4

Cost of Goods Sold

Preventive Practice & Malpractice Costs

Physician Education Costs

Infrastructure Costs

New Technologies

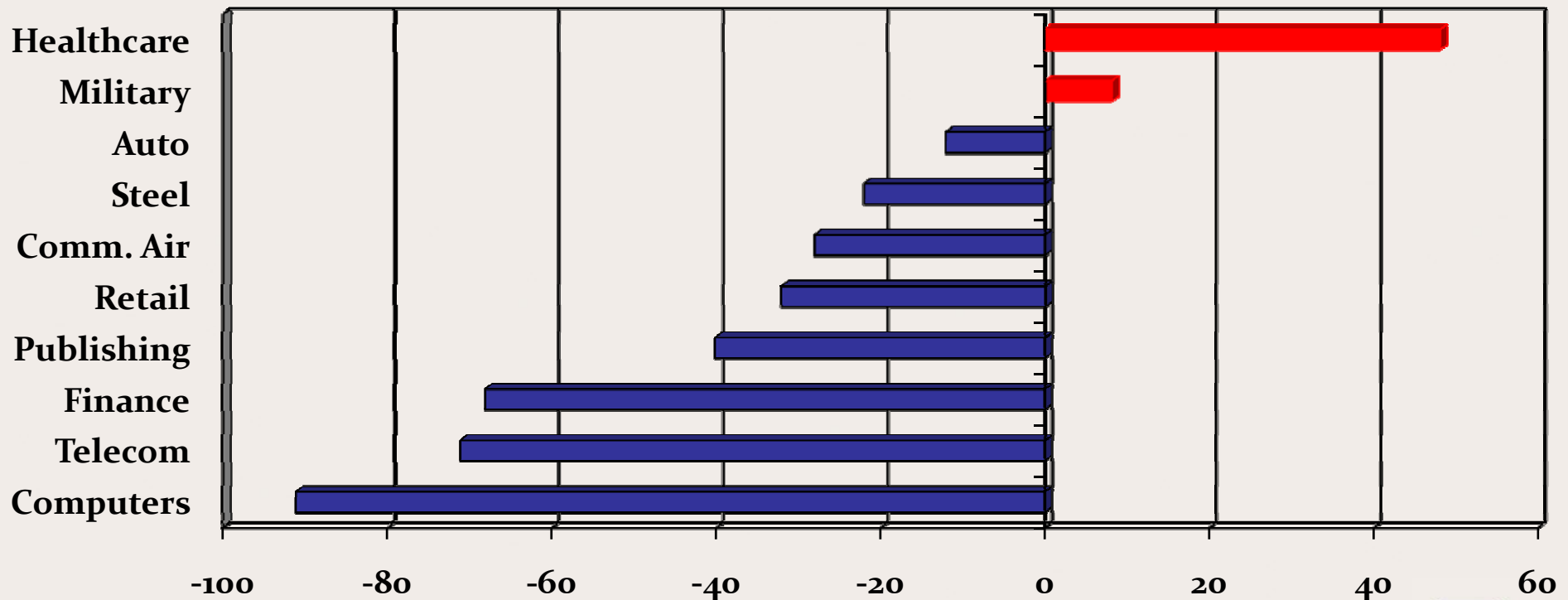




Cost Driver #4 – COGS

New Technologies

10-Year Technology Impact on Cost per Unit of Output



Source: Innovations, 2004





Cost Driver #4 – COGS

New Technologies

BIOLOGICS / SPECIALTY DRUGS

- Biologics provide significant therapeutic advances
- Have or are becoming the standard of care in many disease states
- Infused and Injectable products bring new challenges outside traditional pharmacy benefit management strategies
- Cost is generally significantly more than conventional (pharmacological) medications





Cost Driver #5

Demand for Services

Excess/Unnecessary Utilization

New Technologies

Coverage Conundrums





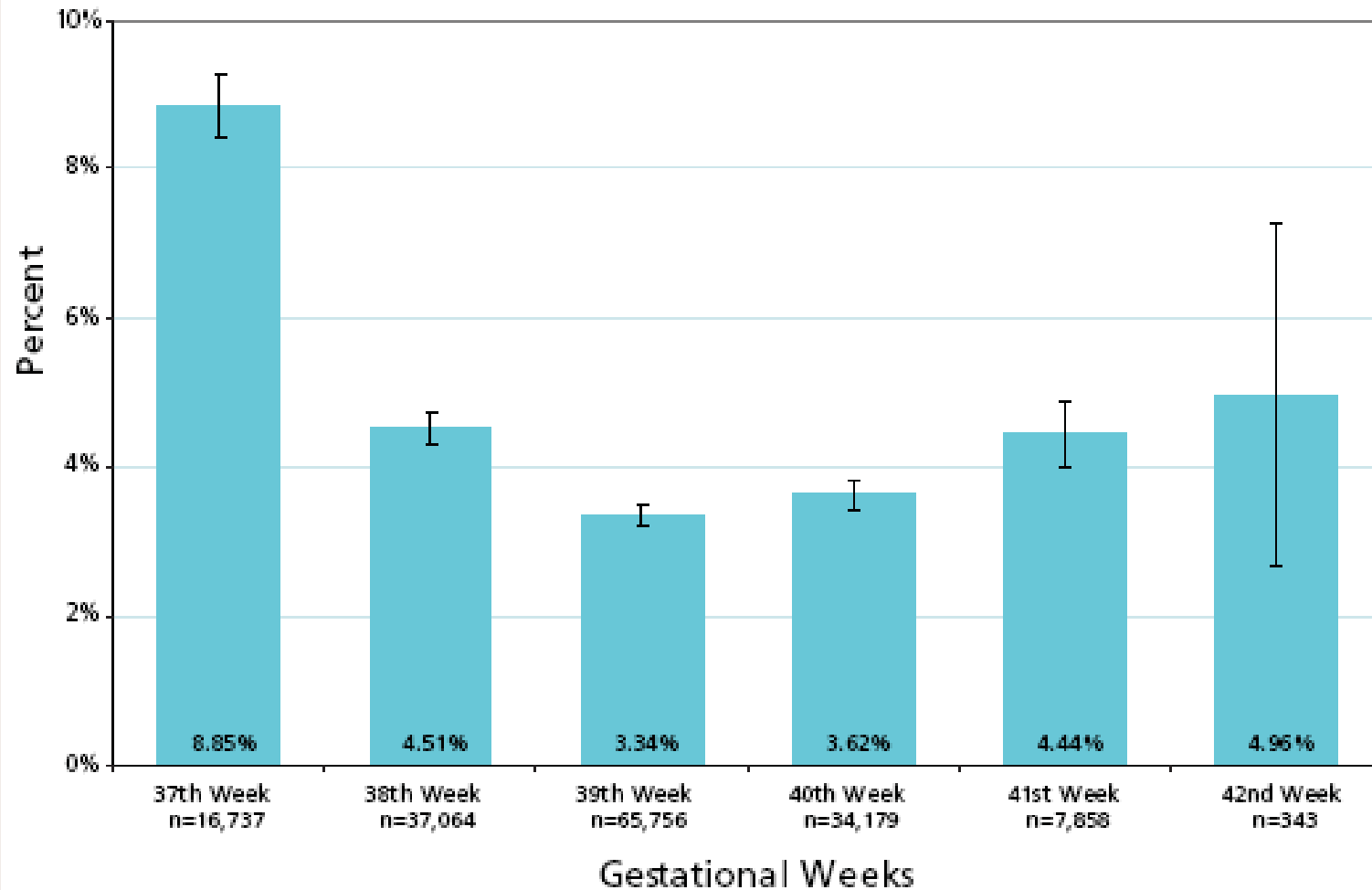
Cost Driver #5 – Demand for Services Excess / Unnecessary Utilization

Jack Wennberg Study - Dartmouth Atlas





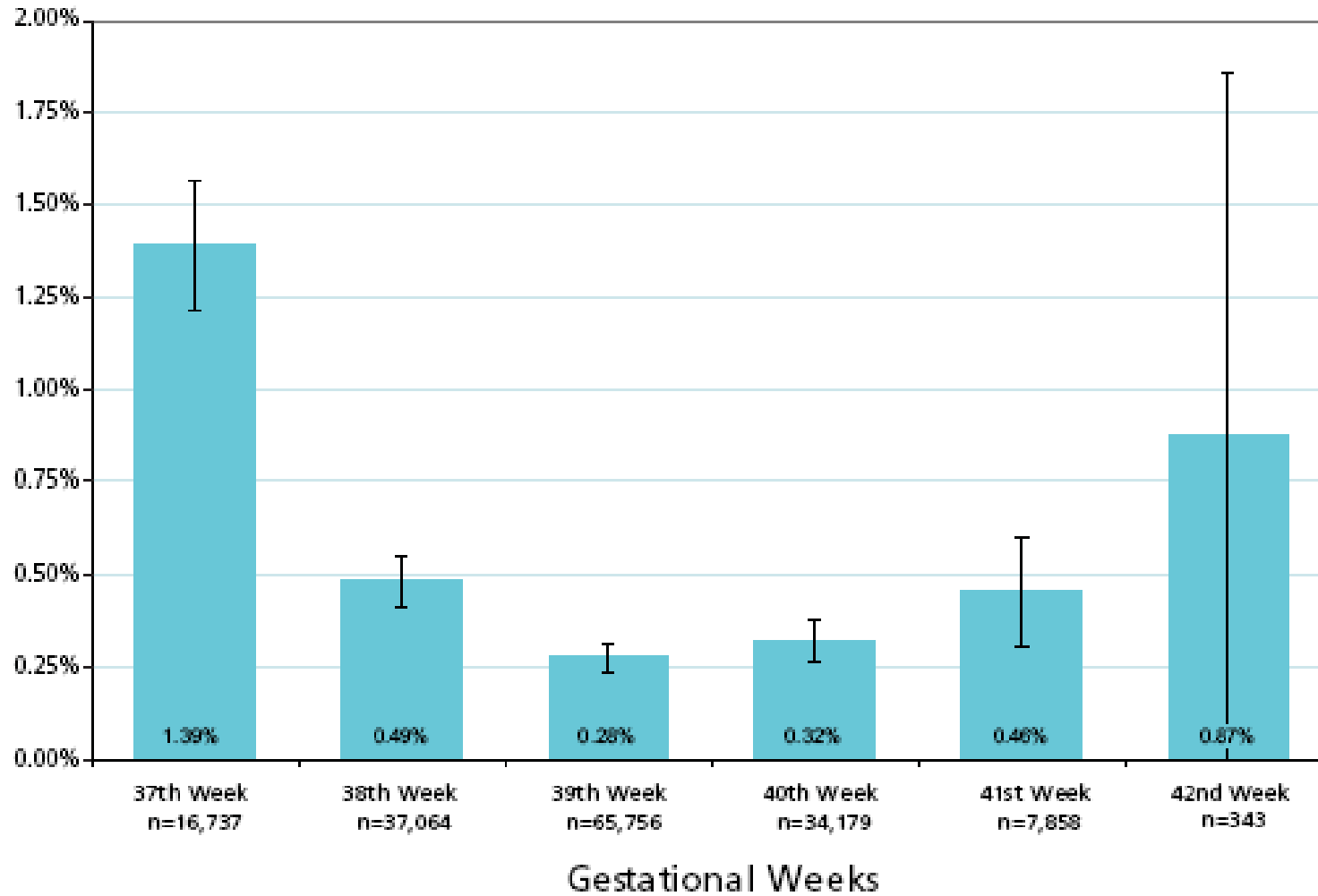
NICU Admissions By Weeks Gestation Deliveries Without Complications 2000-2006





Ventilator Usage By Weeks Gestation

Deliveries Without Complications 2000-2006





Cost Driver #5 – Demand for Services New Technology & Coverage Conundrums

Oncology:

- Avastin (additive to other chemotherapy)
 - Non Small Cell Lung Cancer
 - Associated annual cost ~ \$100,000
 - Additional Survival ~ 2 months
 - Colon cancer
 - Associated annual cost ~ \$50,000
 - Additional Survival ~ 4 months
- Tarceva for Pancreatic cancer (additive to other chemotherapy)
 - Associated annual cost ~ \$36,000
 - Additional Survival ~ 2 weeks





Cost Driver #5 – Demand for Services New Technology & Coverage Conundrums

Immunizations

- New vaccines with controversial coverage issues
 - RotaTeq[®], Gardasil[®], etc.
- RotaTeq[®]
 - Immunization for pediatric gastroenteritis caused by a specific type of virus
 - Administered as series of 3 doses @ ~ \$270 per dose
- Pharmacoeconomic model:
 - Cost of universal coverage for pediatric population - \$2.6M
 - Cost avoided (e.g., hospitalizations) ~ \$100K





Cost Driver #5 – Demand for Services New Technology & Coverage Conundrums

More and more coming...

