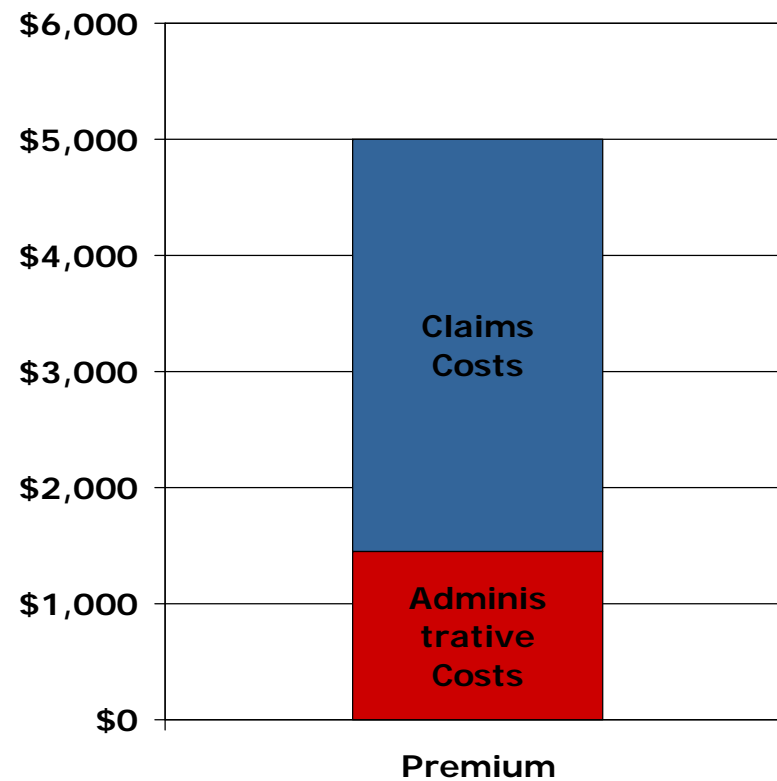

Health Care Cost Drivers Sitting Under Those Rates

Lynn Quincy
June 7, 2011

**Consumers
Union**
Nonprofit Publisher
of Consumer Reports

Insurers are correct...

...underlying health care costs are driving premium increases



Health Care Costs: hard to pin down, hard to curtail

Patients
pay too
little...

Medical
Malpractice
...

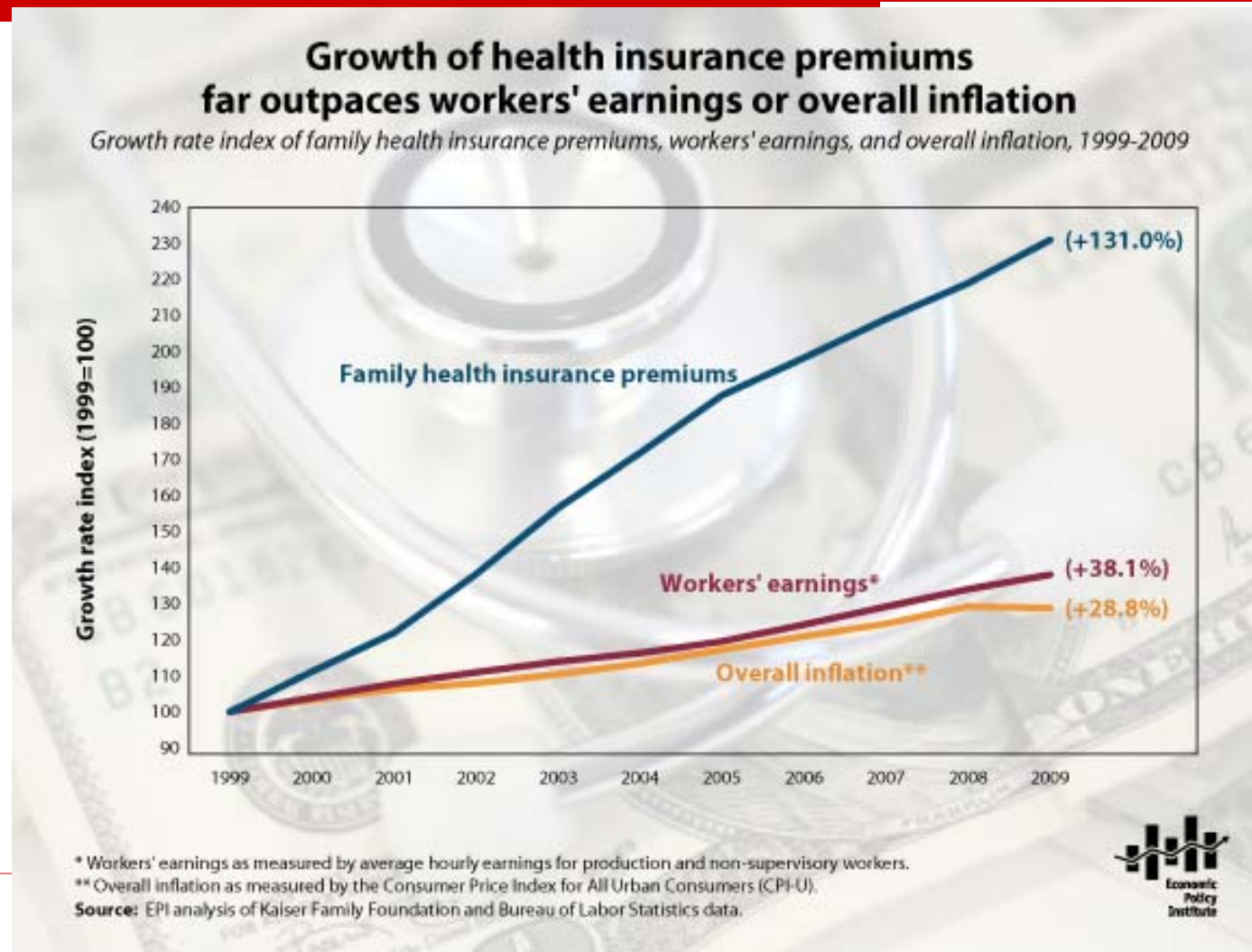
Over-
treatment...

Greedy
hospitals
&
doctors...

Aging
population...

Too little
competition...

How Critical is the Problem?



Big Cost Drivers I

- Increases in the prices of medical goods and services
 - We pay our doctors, hospitals, etc more than other developed countries
 - New technologies/drugs/devices play a role
 - BUT Mass AG report found that provider leverage in insurer contract negotiations was the most significant factor.

Big Cost Drivers II

- More procedures performed
 - We perform about 25% more procedures than other developed countries

- Despite this higher level of spending, the United States does not achieve better outcomes on many important health measures.

Very Minor Cost Drivers

- Aging of the population
- Fraud and abuse
- Medical malpractice
- Lack of consumer price transparency

Most Costs Associated with a Few High Spenders

Five percent
of the population
accounts for about

half

of total health care expenses

>> "Consumer directed" solutions
will be insufficient

Cost Control Measures in the ACA

- ❑ Requires CMS to conduct a variety of pilot and demonstration projects to test reforms which have the potential to reduce costs without harming quality of care (such as Accountable Care Organizations)
- ❑ Cadillac tax on high-cost employer health plans in 2018
- ❑ Support for comparative effectiveness research

Cost Drivers and Rate Review

Use the Rate Review Process to reveal information on underlying medical costs:

- ❑ Emulate Massachusetts AG study that examined insurers' contracts with providers and found prices did not correlate with value but rather with provider market share.
- ❑ Ask: how are insurers holding down the administrative costs of providers? (Note: tools to address insurer administrative costs discussed elsewhere.)
- ❑ Ask: are insurers providing provider cost and quality data for consumers' use?

Beyond Rate Review and ACA

- Require insurers to contribute to an all payer claims datasets to study cost-drivers (MD, ME, NH, VT, MA, MN, UT, KS, OR, TN)
- Conduct a comprehensive, annual health care costs survey (IA)