

# *ACTION COSTS LESS*

## The Health Care Amendment Standards and Options for Reform

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# Executive Summary

# Findings

- ***The cost of inaction is high and rising***
  - Health spending will almost double in ten years – growing 1 ½ times faster than the economy and more than twice as fast as wages
  - Number of uninsured will rise to 900,000 in ten years
- ***There are a range of reform options to achieve universal, affordable access, contain costs and improve quality of care***
- ***The two options examined illustrate the potential for ensuring access AND generating substantial savings at the same time***
  - Expanding our existing public/private system to cover every resident can save \$30 billion over ten years
  - A “single payer” system can save almost \$105 billion over ten years
- ***Achieving these savings requires***
  - Universal, comprehensive coverage
  - Investment in prevention and quality improvement
  - Investment in administrative streamlining and efficiency

# The Health Care Amendment Standards for Reform

- **Universal:** all Massachusetts residents
- **Affordable:** all individuals, families, providers, businesses and taxpayers
- **Equitable:**
  - Costs and savings fairly distributed among all who benefit from affordable coverage for all
  - Fair reimbursement for all services provided
- **Comprehensive:** all medically necessary preventive, acute and chronic health care and mental health care services, prescription drugs and devices

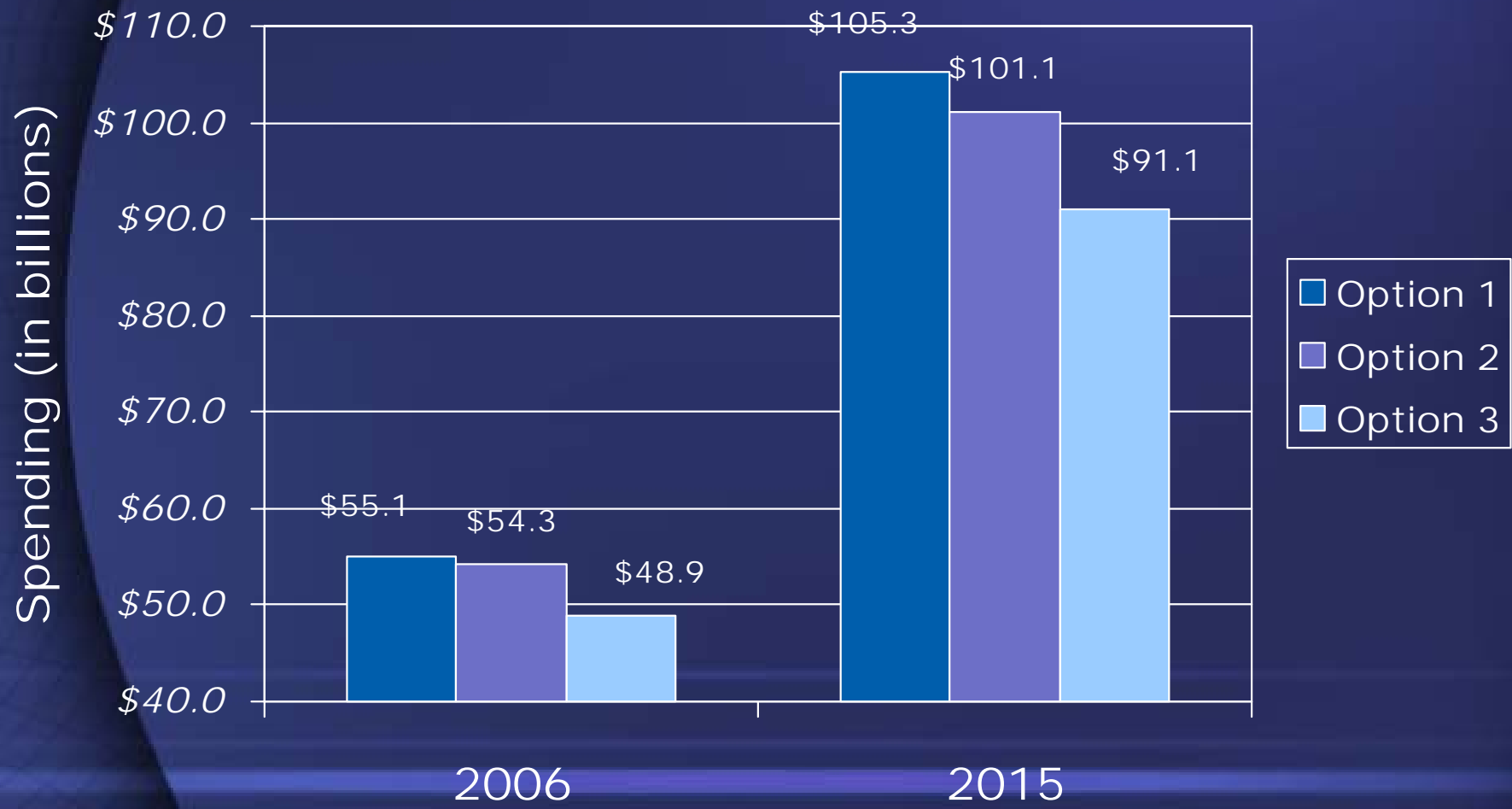
# Options Analyzed

- **Option 1:** Inaction
- **Option 2:** Universal coverage; expanded public/private system; cost containment and quality improvement
- **Option 3:** Universal coverage; expanded public system; cost containment and quality improvement

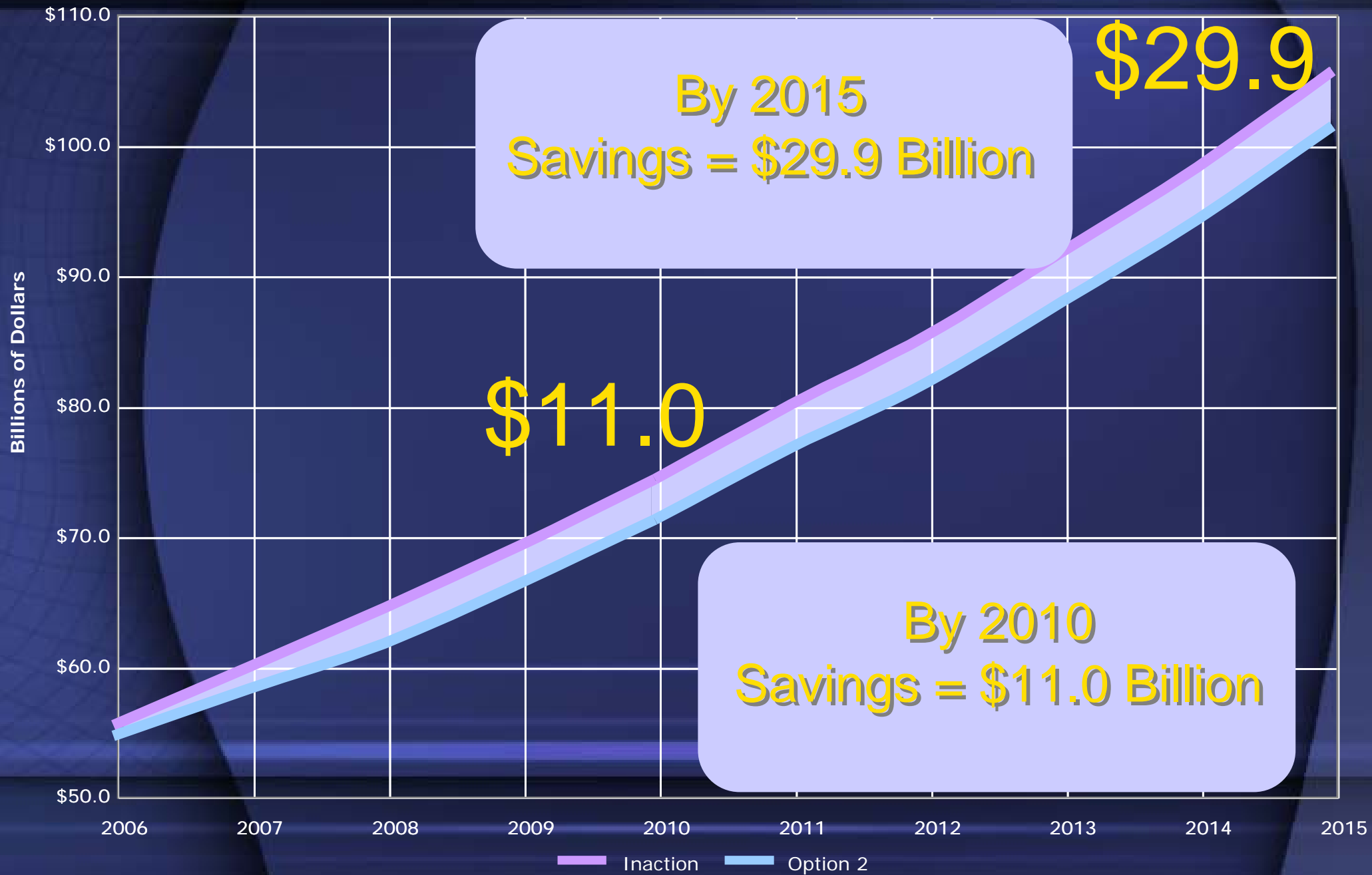
# Exhibit 1: Comparative Cost Projections all Options

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Option 1</b>	<b>\$55.1</b>	<b>\$59.6</b>	<b>\$64.1</b>	<b>\$68.9</b>	<b>\$73.8</b>	<b>\$79.7</b>	<b>\$85.0</b>	<b>\$91.4</b>	<b>\$97.9</b>	<b>\$105.3</b>
<b>Option 2</b>	<b>\$54.3</b>	<b>\$57.9</b>	<b>\$61.4</b>	<b>\$66.0</b>	<b>\$70.9</b>	<b>\$76.4</b>	<b>\$81.4</b>	<b>\$87.6</b>	<b>\$93.9</b>	<b>\$101.1</b>
<b>Option 3</b>	<b>\$48.9</b>	<b>\$52.1</b>	<b>\$55.3</b>	<b>\$59.4</b>	<b>\$63.8</b>	<b>\$68.8</b>	<b>\$73.3</b>	<b>\$78.9</b>	<b>\$84.6</b>	<b>\$91.1</b>

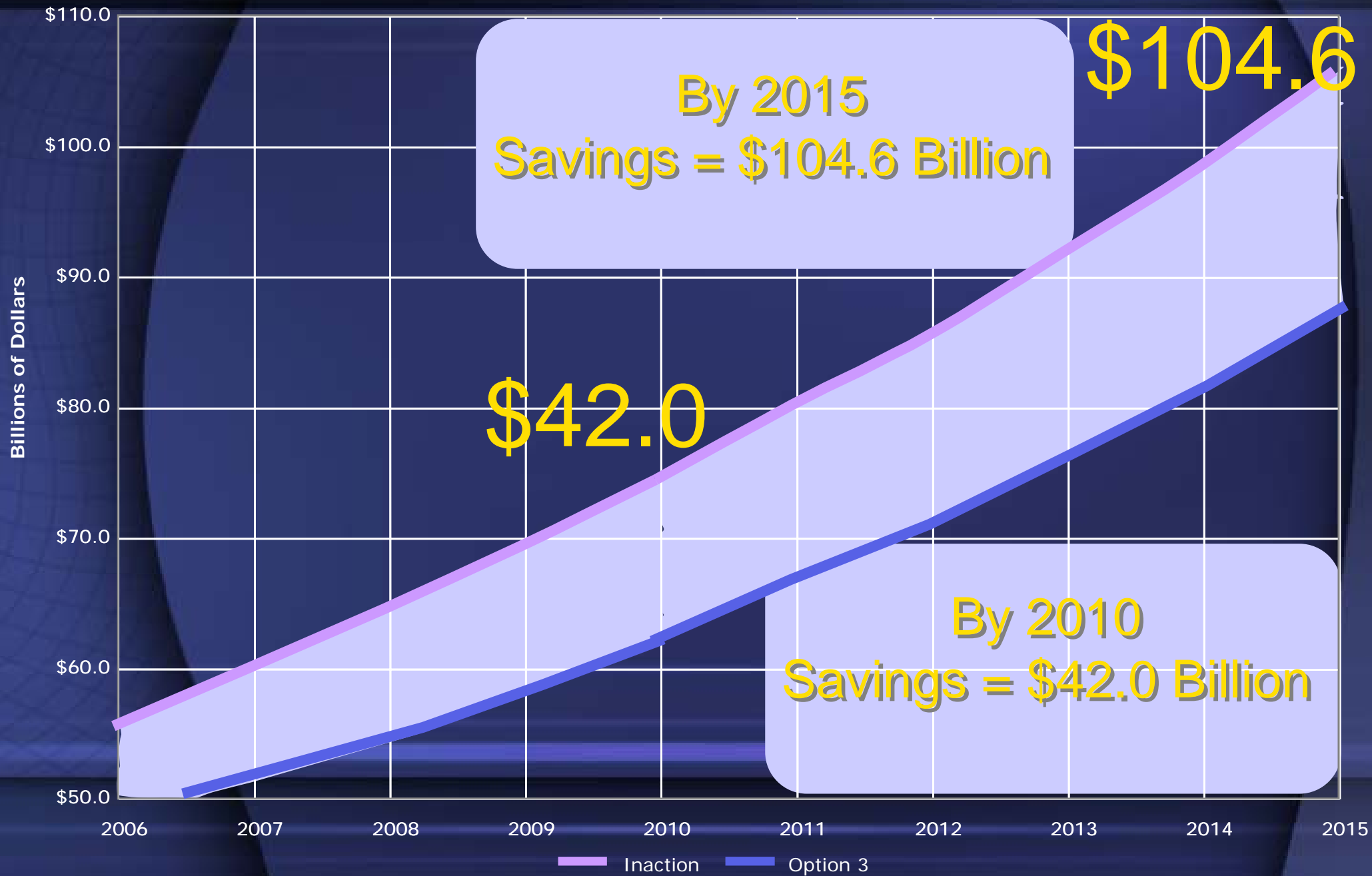
# Exhibit 2. Cost Comparison 2006 to 2015 (in billions)



# Exhibit 3A. Total Savings Projections Inaction vs. Option 2



# Exhibit 3B. Total Savings Projections Inaction vs. Option 3



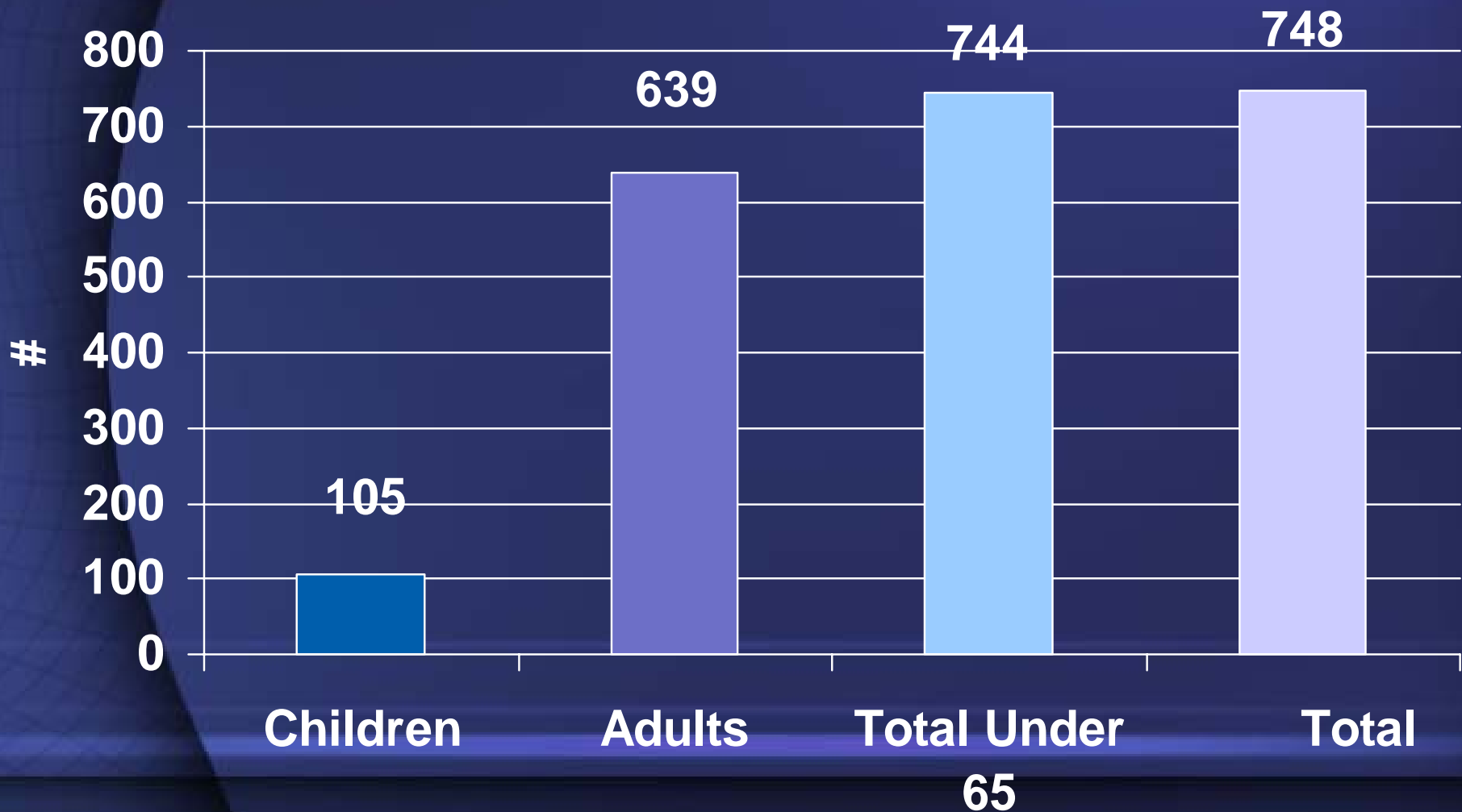
# The Baseline

## **Overview of Current Massachusetts Health Coverage and Spending**

# Current Coverage and Spending

- \$51 billion – the 2005 price tag for health care in Massachusetts
- 748,000 uninsured in 2004 – about 12% of the non-elderly population
- \$1 billion – 2005 price tag for care for the uninsured and underinsured
- Health spending consumes almost 15% of gross state product

# Exhibit 4. Massachusetts Uninsured, 2004 (in thousands)



# Exhibit 5. 2005 Spending by Source (in billions)



# Exhibit 6. Funding Available to Finance Expanded Coverage (in millions)

<u>Uses</u>	<u>Financing Sources</u>
Subsidies to Individuals and/or Employers to Purchase Health Insurance or Reduce Contribution Levels for Publicly Financed Coverage, \$1,100-\$1,500	•Disproportionate Share (other than IMD) \$470
	•Other current state/local Federal spending on the uninsured \$477
	•Other \$83
	TOTAL* \$1,030

\* Source: Urban Institute

# Option 1

# Inaction

# What Happens?

- Health care spending nearly doubles by 2015
- The number of uninsured rises 20% to 900,000 by 2015
- By 2015 health care spending grows from
  - 15% to over 19% of gross state product
  - 22% to almost 31% of total payroll

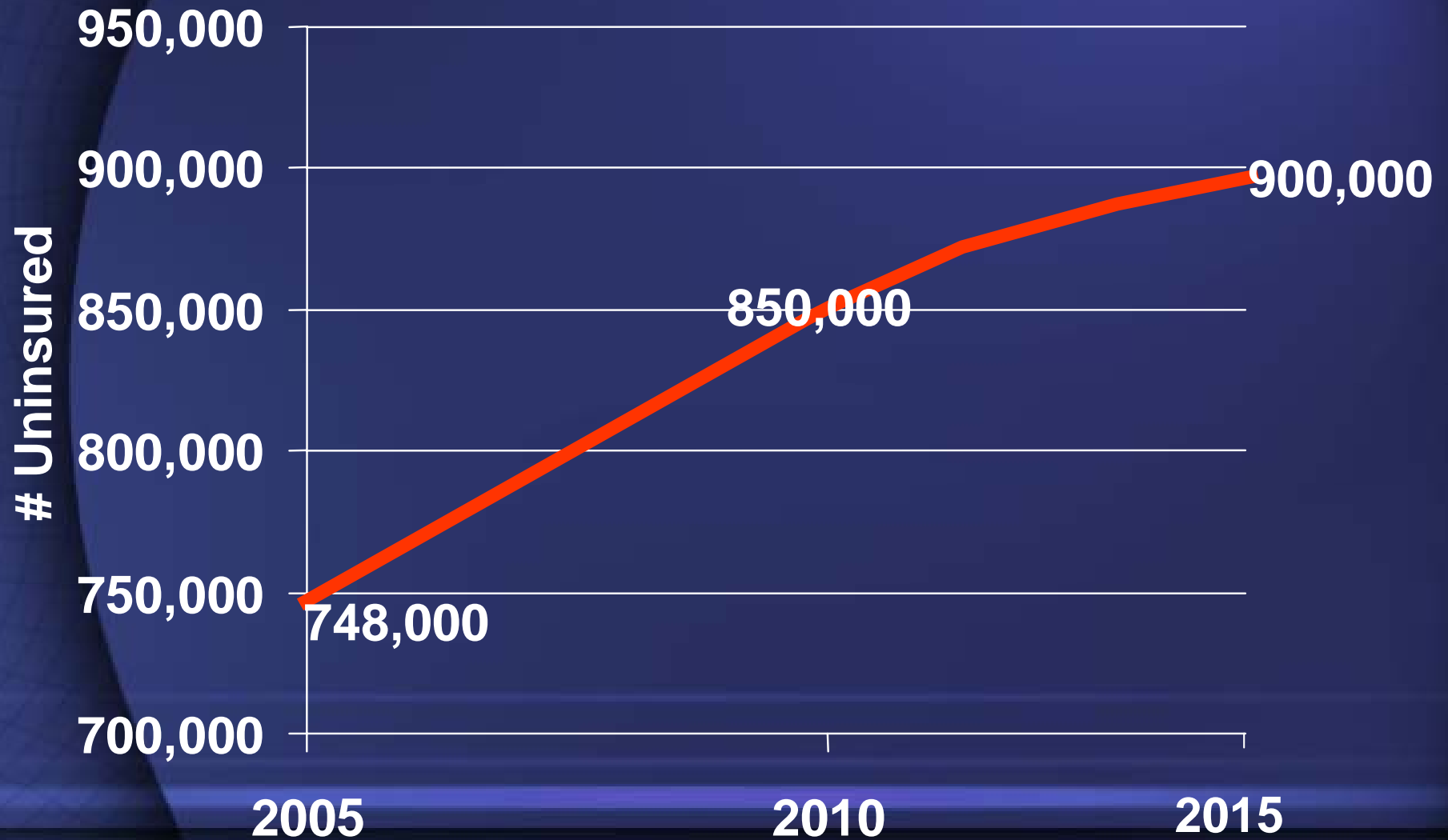
# Exhibit 7. Spending by Source (in billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Medicaid Spending</b>	\$14.1	\$15.0	\$16.3	\$17.7	\$19.2	\$20.9	\$22.5	\$24.4	\$26.4	\$28.7
<b>Medicare Spending</b>	\$10.1	\$11.4	\$12.1	\$12.9	\$13.7	\$14.9	\$15.7	\$17.2	\$18.6	\$20.1
<b>Private Insurance</b>	\$16.3	\$17.5	\$18.8	\$20.2	\$21.5	\$23.1	\$24.6	\$26.1	\$27.7	\$29.5
<b>OOP</b>	\$5.8	\$6.2	\$6.7	\$7.1	\$7.6	\$8.1	\$8.7	\$9.2	\$9.7	\$10.3
<b>Other</b>	\$8.8	\$9.5	\$10.2	\$11.0	\$11.8	\$12.7	\$13.5	\$14.5	\$15.5	\$16.7
<b>Total</b>	\$55.1	\$59.6	\$64.1	\$68.9	\$73.8	\$79.7	\$85.0	\$91.4	\$97.9	\$105.3

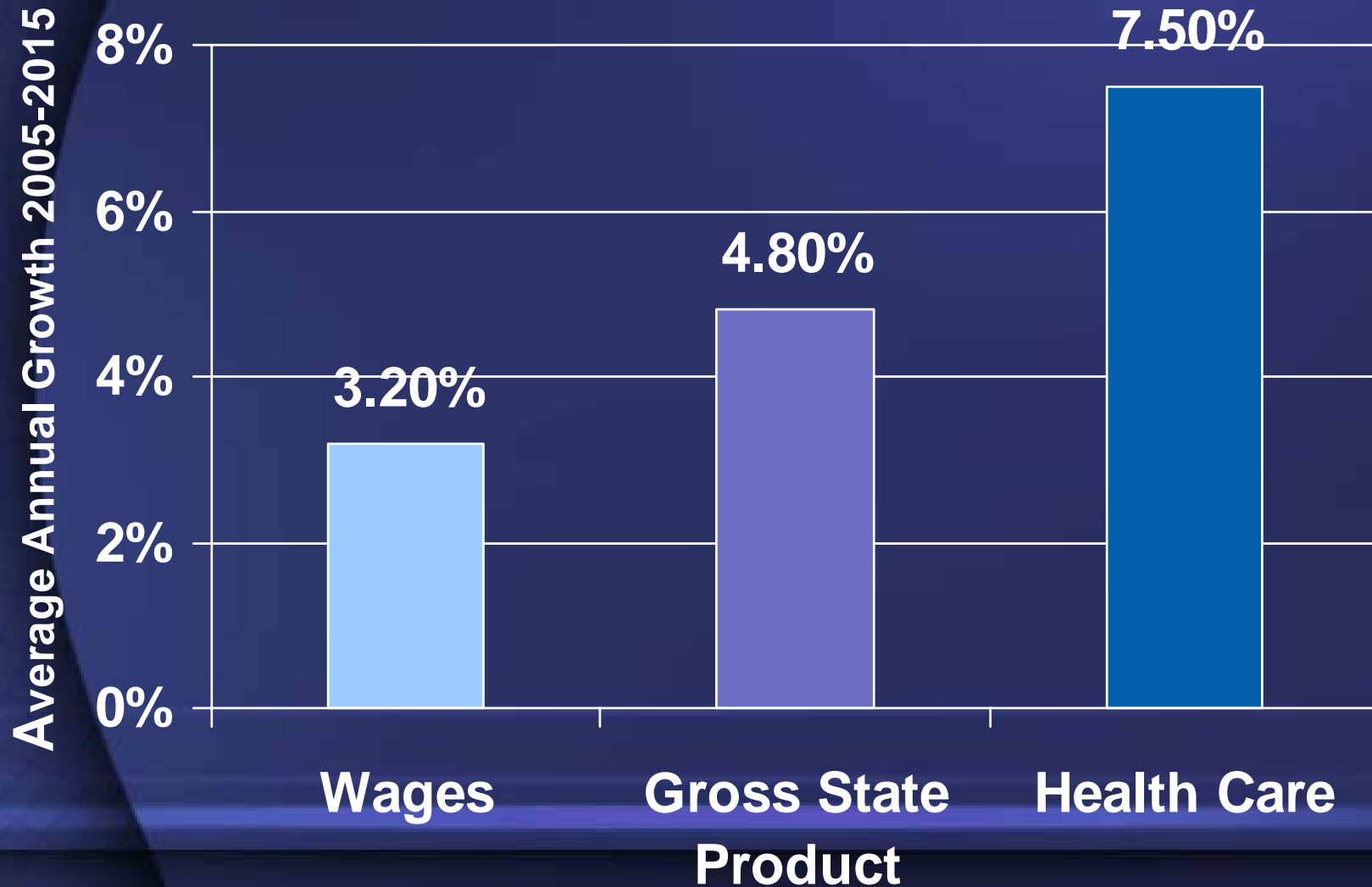
# Exhibit 8. Spending Comparison by Source 2005 to 2015 (in billions)



# Exhibit 9. Projected Number of Uninsured in Massachusetts Without Reform, 2005-2015



# Exhibit 10. Projected Average Annual Growth in Massachusetts Health Care Spending, Gross State Product and Wages 2005 - 2015



# Exhibit 11. Percent of MA Employee Earnings Spent On Health Costs (w/o reform)

Year	Private Insurance	Out of Pocket	HI Tax <sup>2</sup>	Payroll	Total as % of Payroll <sup>3</sup>
2006	\$16.4 <sup>1</sup>	5.2	3.2	111.4	22.3%
2015	\$ 31			7.8	30.9%



- 1. \$ in Billions
- 2. Portion of Income Tax that goes to Health Costs
- 3. For Firms with Employee-Sponsored Insurance

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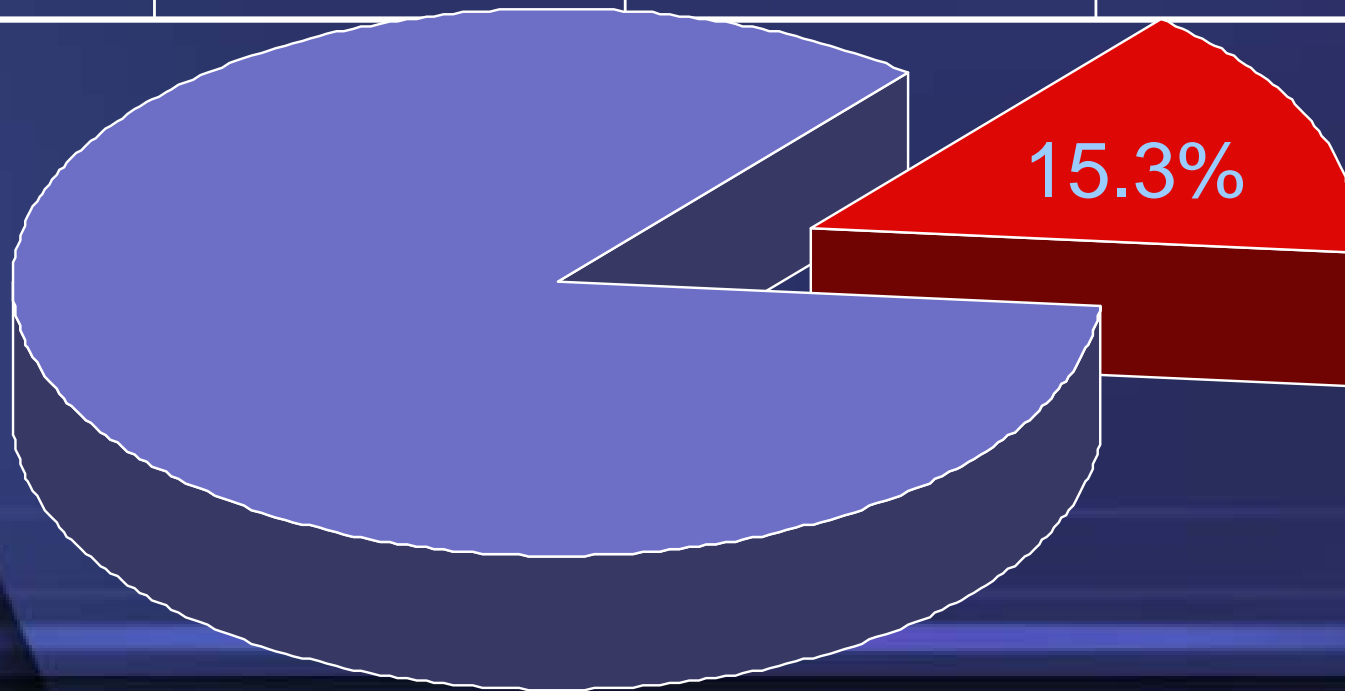
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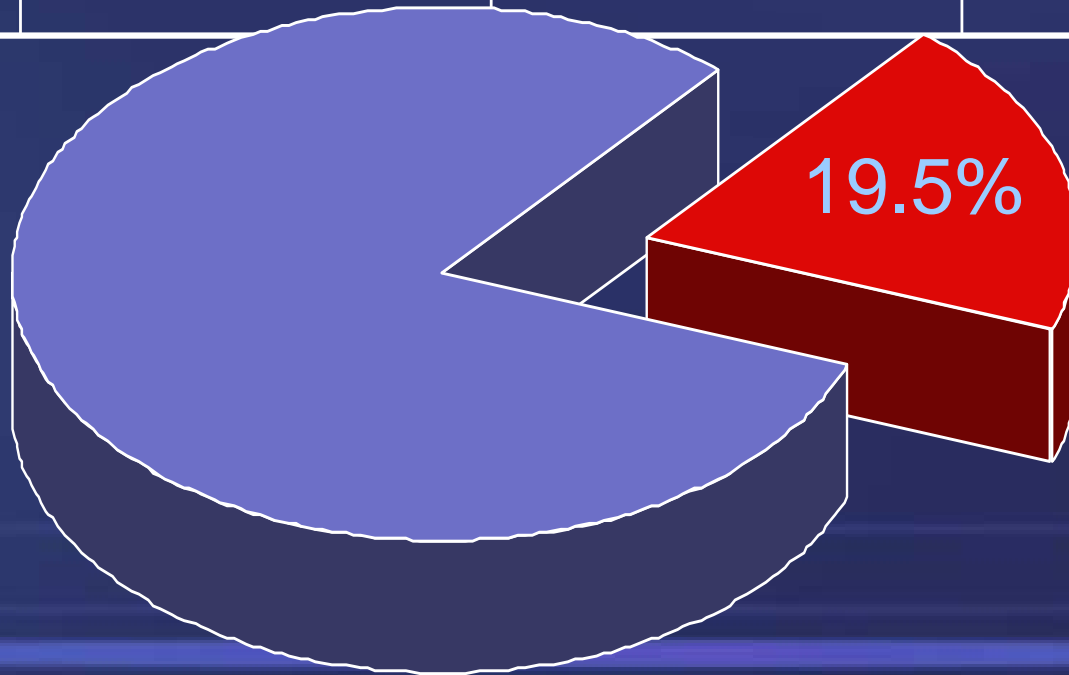
## Exhibit 12. Health Care Spending as % of Gross State Product (w/o reform)

	Health Care Spending	Gross State Product	Health as % of GSP
2006	\$55.1	\$360.1	15.3%
2015	\$105.3	\$539.8	19.5%



## Exhibit 12. Health Care Spending as % of Gross State Product (w/o reform)

	Health Care Spending	Gross State Product	Health as % of GSP
2006	\$55.1	\$360.1	15.3%
2015	\$105.3	\$539.8	19.5%



# Option 2

**Universal Coverage Through  
Expansion of Current  
Public/Private System with  
Reforms to Contain Costs and  
Improve Quality**

# What Happens?

- Reform generates savings of \$800 million in first year of full implementation
- Health care spending is 4% lower by 2015 than it would have been without reform
- The number of uninsured and underinsured drops to virtually zero
- Health care spending consumes less household income and gross state product than without reform

# Modeling Assumptions

- All eligible children automatically enrolled in Medicaid/SCHIP
- Adults in families under 150% poverty enrolled in “SCHIP-like” plan
- Workers pay 25% of premium. Sliding scale subsidies for workers earning between 150% and 300% of poverty
- Employers pay 75% of premiums for full-time workers pro-rated for part-time workers. Sliding scale subsidies for small and low-margin employers
- Self-employed pay 100% of premiums with sliding scale subsidies based on income
- Cost and quality initiatives implemented in 2006

# Exhibit 13. Option 2 Costs and Savings, 2006 (in billions)

<b><i>2006 Spending without reform</i></b>	<b><i>\$ 55.1</i></b>
Change in Health Care Spending In Massachusetts—New Spending to Cover the Uninsured	\$ 1.4
Subtotal	\$ 56.5
Savings from Quality and Administrative Initiatives	(\$ 2.2)
Total 2006 Spending Option 2	\$ 54.3
<b><i>2006 Savings for Option 2 with Initiatives</i></b>	<b><i>(\$ 0.8)</i></b>

# Cost Containment and Quality Improvement Strategies

## *The Goal*

Limit health care spending growth to the rate of GSP growth within 5 years

- Require physicians billing state programs (MassHealth, GIC) to file electronic claims
- Provide incentives for hospitals to adopt automated patient safety reporting systems
- Require chronic care management in all state health programs
- Reduce avoidable hospitalizations
- Zero growth in childhood and adult obesity

# Potential Savings from Cost Containment and Quality Improvement Strategies

<u>Strategies</u>	<u>Savings in Billions</u>
1. 100% electronic physician claims	\$0.2
2. Automated hospital patient safety reporting systems with peer protected information	\$0.8
3. Chronic care management – all state programs	\$1.0
4. Reduce avoidable hospitalizations	\$0.1
5. Zero growth in childhood/adult obesity	\$0.1
<b>TOTAL</b>	<b>\$2.2</b>
<b>% of current spending</b>	<b>4.0%</b>

# Costs and Savings

- Cost of care for the newly insured depends on key policy choices, particularly the extent and structure of subsidies
- Total federal/state costs to expand coverage is from \$1.1 to \$1.5 billion after reallocating existing spending for the uninsured and underinsured
- Full implementation of quality and efficiency initiatives saves \$2.2 billion
- Net savings of \$700 million to \$1.1 billion in the first year

# Option 3

**Universal Coverage through  
Public System Expansion  
with Reforms to Contain  
Costs and Improve Quality**

# What Happens?

- Health care spending drops by \$6 billion in 2006
- Health care spending is 13% lower by 2015 than it would be without reform
- The number of uninsured and underinsured drops to virtually zero
- Health care spending consumes even less household income and gross state product than under Option 2

# Modeling Assumptions

- All residents of Massachusetts receive coverage similar to the Blue Cross Blue Shield standard option plan
- MassHealth remains unchanged
- Commonwealth creates publicly financed plan for all Massachusetts residents
- Workers pay 25% and employers pay 75% of cost of coverage
- Sliding scale contribution rates for workers earning between 150% and 300% of poverty and for small and low-margin employers
- Individuals and families under 150% of poverty would not contribute towards the cost of coverage

# Exhibit 14. Option 3 Costs and Savings, 2006 (in billions)

	<u>2006 Spending on Personal Health Care &amp; Administration</u>	<u>Change in Spending under Single Payer Plan</u>	<u>Spending with Single Payer Coverage</u>
<b>Total Spending</b>	<b>\$55.1</b>	<b>(\$6.2)</b>	<b>\$48.9</b>
<b>Increased Utilization Among Uninsured</b>		<b>\$1.4</b>	
<b>Change in Administrative Costs, Total</b>	<b>\$12.3</b>	<b>(\$5.4)</b>	
<b>Insurer Administration</b>	<b>\$3.8</b>	<b>(\$2.8)</b>	
<b>Hospital Administration</b>	<b>\$3.0</b>	<b>(\$0.6)</b>	
<b>Physician Administration</b>	<b>\$5.5</b>	<b>(\$2.0)</b>	
<b>Cost Containment and Quality Improvement Strategies</b>	<b>-</b>	<b>(\$2.2)</b>	
<b>Total Savings</b>		<b>(\$6.2)</b>	

# Conclusions

- ***Cost of inaction is high and rising***
  - Health spending doubles in ten years – growing 1 ½ times faster than the economy and more than double the rate of wages
  - Number of uninsured rises by 150,000 in ten years
- ***There are a range of reform options to achieve universal, affordable access, contain costs and improve quality of care***
- ***The two options examined illustrate the potential for ensuring access AND generating substantial savings***
  - Option 2 saves \$30 billion over ten years- growing from \$800 million in 2006 to over \$4 billion in 2015
  - Option 3 saves almost \$105 billion over ten years – growing from \$6 billion to over \$14 billion in 2015
- ***Achieving these savings requires***
  - Universal, comprehensive coverage
  - Investment in prevention and quality improvement
  - Investment in administrative streamlining and efficiency