

HSCC 311 Systems & Trends in Health Care Delivery

Medical Care Cost

HSCC 311 Medical Care Cost

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Objectives

- Upon completion of this section, the student should be able to:
 - describe the role of health care costs in the delivery of health care
 - describe how health care costs accumulate
 - identify spending indicators of health care costs
 - describe methods for measuring health care prices
 - identify trends in national expenditures
 - identify reasons to contain health care costs
 - identify reasons for escalating health care costs

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Role of Cost

- National expenditures for health care
- Costs incurred by employers
- High quality care = cost-effective care

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Cost Accumulation in Medical Resource Decision Making

	DECISION REALMS	Decision Purposes (To determine...)	Decision Makers	Decision Contexts Cost containment strategies Cost containment constraints
ACQUISITION	WHETHER	Availability/access (Which resources to obtain, where, and therefore who has market-level access to them)	Macro policy formulators: legislatures, government agencies, "payer" payers, courts	Social costs, organizational status and "competitive" market forces
	METHODS	Efficacy (How to obtain, pay for, and recover costs of resources/assets)	Micro policy formulators: Hospital boards, C.I.D.'s, C.F.O.'s Hospital boards, C.I.D.'s, C.F.O.'s	Laws, regulations, and agreements to allocate unnecessary utilization and "control" utilization and reimbursement Modified market principles "Competitive" market forces Laws, regulations, and agreements to "control" utilization and reimbursement Modified market principles
UTILIZATION	WHETHER	Access (When and why to initiate use of resources, and therefore who has recipient-level access to them)	Physicians	Autonomous practice of medicine Laws, regulations, and agreements to "control" utilization and reimbursement
	METHODS	Efficiency (How to actually use, or apply, resources)	Nurses Allied health personnel	Public expectations and professional medical standards enforced by peer review Physician-sanctioned standard operating procedures, patient satisfaction, and technical requirements of resources involved Budgeted "spending" limits

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Definition of Cost

- Perspectives
 - Consumer and financiers
 - National perspective
 - Providers

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Expenditures vs. Costs

- Expenditures
 - how much is spent on a particular thing
- Costs
 - apply to production process
- Accounting vs. economic

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Health Care Spending

- 1970's
 - Increased by double digits
- 1980's
 - Rate of increase slowed
- 1990's
 - Medical inflation brought under control

Spending Indicators

- Gross National Product (GNP)
 - Total market value of all output
- Gross Domestic Product (GDP)
 - Excludes profits made on overseas sales
- Per capita
 - Per person

Amount of Spending

- | | |
|--|---|
| <ul style="list-style-type: none">• Sources of funding<ul style="list-style-type: none">– 40% employers– 40% public– 20% individuals | <ul style="list-style-type: none">• Uses of funds<ul style="list-style-type: none">– 39% hospital– 20% physician– 8% nursing home– 7% drugs– 6% dental– 5% administration– 3% public health– 2% eyeglasses– 2% construction– 2% research |
|--|---|

Measuring Health Care Prices

- Consumer Price Index (CPI)
 - Medical care services
 - Medical care commodities

CPI Limitations

- Measures changes in price, not expenditure
- Does not measure price levels
- Does not measure price received by producer
- Measures changes for a fixed market
- Measures only changes in consumers' expenditures

Measuring Expenditures

- Centers for Medicare and Medicaid Services (CMS)
- *Health Care Financing Review*
- American Hospital Association
- US Prices
- US Expenditures
- Need for timely and complete data

Trends in Health Expenditures

- Compare medical inflation to inflation in economy
- Compare changes in spending to those in GDP

Spending Trend Causation

- 43% General Inflation
- 10% Changes in Population
- 24% Medical System Inflation
- 23% Technology Advances
- $\text{Income} = \text{Revenue} - \text{Expenses}$

Reasons to Contain Costs

- Opportunity costs
- Imperfect market
- Government pays half of US spending
- Uninsured
- Economic resources limited
- Competition
- Medicare/Medicaid need to be restrained

Reasons for Escalating Costs

- Third party payment
- Imperfect market
- Technology
- Elderly
- Medical model of health care delivery
- Multi-payer system
- Defensive medicine
- Waste and abuse
- Practice variations

Third Party Payer

- Consumer does not pay for most of the health care services

Imperfect Market

- Utilization driven by need
- Quantity of services is higher
- Prices higher
- Demand is not sensitive to changes

Growth of Technology

- Most common factor driving health care costs
- Demand increases
- Surplus of specialists

Increasing Elderly Population

- Increasing life expectancy
- 2000-2030
 - 65 years and older will rise 12.4% to 20%
 - 85 and older will double

Medical Model of Health Care

- Medical interventions after individuals become sick
- Does not emphasize prevention and lifestyle behaviors

Multi-payer System

- Administrative costs (24-25%)
 - Enrollment
 - Claims processing
 - Utilization monitoring
 - Denials and appeals
 - Marketing

Defensive Medicine

- Litigious society
- Self-protection
- Unrestrained malpractice awards and malpractice insurance have driven up costs

Waste and Abuse

- Fraud
 - Knowing disregard of truth
 - More services provided than necessary
 - Services not provided are billed
 - Misallocation of costs

Practice Variations

- Differences in utilization rates
- Small area variations
- Geographic differences create inefficiency

Operational Cash Flow

- Purchaser
- Payer
- Means of Payment
- Basis for Funding
- Receiver of Funds
- Providers

Problems & Barriers

- Problem Exacerbation
- Cost (un)accountability
- Cost Control (in)abilities and (dis)incentives
- Cost-revenue relationship
- Market principles

End/Mean Discrepancy

- Cost containment is not an effective goal
- Medical care is expensive and getting worse

In Conclusion . . .