Mind Your Ps and Qs

Levers to Reduce the Price and Quantity of Health Care

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December 4, 2014
• After a lull, health care cost growth is increasing again.

• Health care markets don’t operate like typical markets.

• A number of opportunities exist that may reduce costs.
A Long Way to Go

Average Total Single Premium (In Dollars), Private-Sector Establishments, United States And Colorado, 2000-2012

$2,450

$2,655

$5,571

$5,668
What Drives Costs?
Where To Start?
Breaking Down Health Care Cost: A Simple Formula

\[
\text{Cost} = \text{Price} \times \text{Quantity}
\]
Alfred E. Neuman’s Cosmic Health Care Law
The Technology Conundrum

 Suppliers  
 Invest Significantly in Research and Development

 Facilities/Providers  
 Pay Suppliers High Price for New Technology

 Consumers  
 Use Expensive Technology

 Insurance Plans  
 Reimburse Facilities/Providers for Expensive Technology
Traditional Insurance: Buffet-Style Demand
Health Behaviors Drive Annual Health Care Costs

Tobacco $289 Billion

Obesity $190 Billion

Alcohol $224 Billion
Fee for Service: It’s About the Money
Colorado Business Group on Health; PROMETHEUS

- **Asthma**: $1,500,000
- **Diabetes**: $5,500,000
- **Coronary Artery Disease**: $3,500,000

- **Potentially Avoidable Cost**
- **Typical Cost**
Levers that Keep Costs in Check
In Traditional Markets . . .

1. Consumers bear costs of purchases.

2. Buyers make choices based on transparent information.

3. Competition exists among suppliers to add value to services and products.
Consumers Bearing the Cost
More Skin in the Game
Show Me the Money: High Deductible Plans

Enrollment by Insurance Plan Type, United States, 1993-2013
Benefit Design: Tipping the Scale

Defined Benefit

Defined Contribution
Your poll will show here

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Reference Pricing

Figure 2
Example of Reference Pricing with Brands and Generics in the Group

<table>
<thead>
<tr>
<th>Medication</th>
<th>Brand Price</th>
<th>Generic Price</th>
<th>Plan Payment</th>
<th>Patient Copay</th>
<th>Additional Charge to Patient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simvastatin</td>
<td>$10</td>
<td>$7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lovastatin</td>
<td>$10</td>
<td>$7</td>
<td>$4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lescol</td>
<td>$10</td>
<td>$7</td>
<td>$57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crestor</td>
<td>$10</td>
<td>$7</td>
<td>$82</td>
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</tr>
<tr>
<td>Lipitor</td>
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<tr>
<td>Zocor</td>
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<td>$7</td>
<td>$123</td>
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</tr>
</tbody>
</table>

Source: National Institute for Health Care Reform

Cholesterol lowering medications
Reference Pricing: From Theory to Practice

Robinson J C, and Brown T T Health Aff 2013;32:1392-1397
Shifting Risk—and Reward—to Employees

**High-deductible plans**

**Wellness incentives**

*Encouraging employees to take responsibility for their health and health care*
Transparency
Transparent Information for Informed Choices: Cost and Quality

- Health Insurance Marketplaces
- All Payer Claims Databases
Engaging Consumers in Medical Decisions

A Patchwork of Life
- About Breast Cancer
- Breast Cancer Diagnosis
- Making a Surgery Decision
- Story/video
- How to Use this Section
- Tests and Therapies before Surgery
- Lumpectomy or Breast Conserving Surgery
- Radiation Therapy
- Mastectomy
- Breast Reconstruction and Prosthesis
- Comparison of Lumpectomy and Mastectomy
- Consequences of Not Receiving Treatment
- Participation in Clinical Studies
- Steps for Making an Initial Decision
- Story/video Conclusion
- Medical and Anti-Estrogen Treatments
Increasing Competition
Ga./Tenn. State Line

AT THIS STEEL BRIDGE
THE TOCCOA RIVER
BECOMES THE OCOEE RIVER
Increasing Competition Among Providers

Buying in bulk: Walmart and Lowes

- Crossing state lines to use providers (Centers of Excellence)
- Bundled payment
Providers Bearing More Risk
Bundled Payments: One-Stop Shopping
Defensive Medicine and Tort Reform
SB 14-187:
Colorado Commission on Affordable Health Care

- 12-member group will conduct in-depth analysis of Colorado’s health care cost drivers.
- Goal: Recommend ways to contain costs while improving access and quality.
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