



Healthcare Reform: Where's the beef?

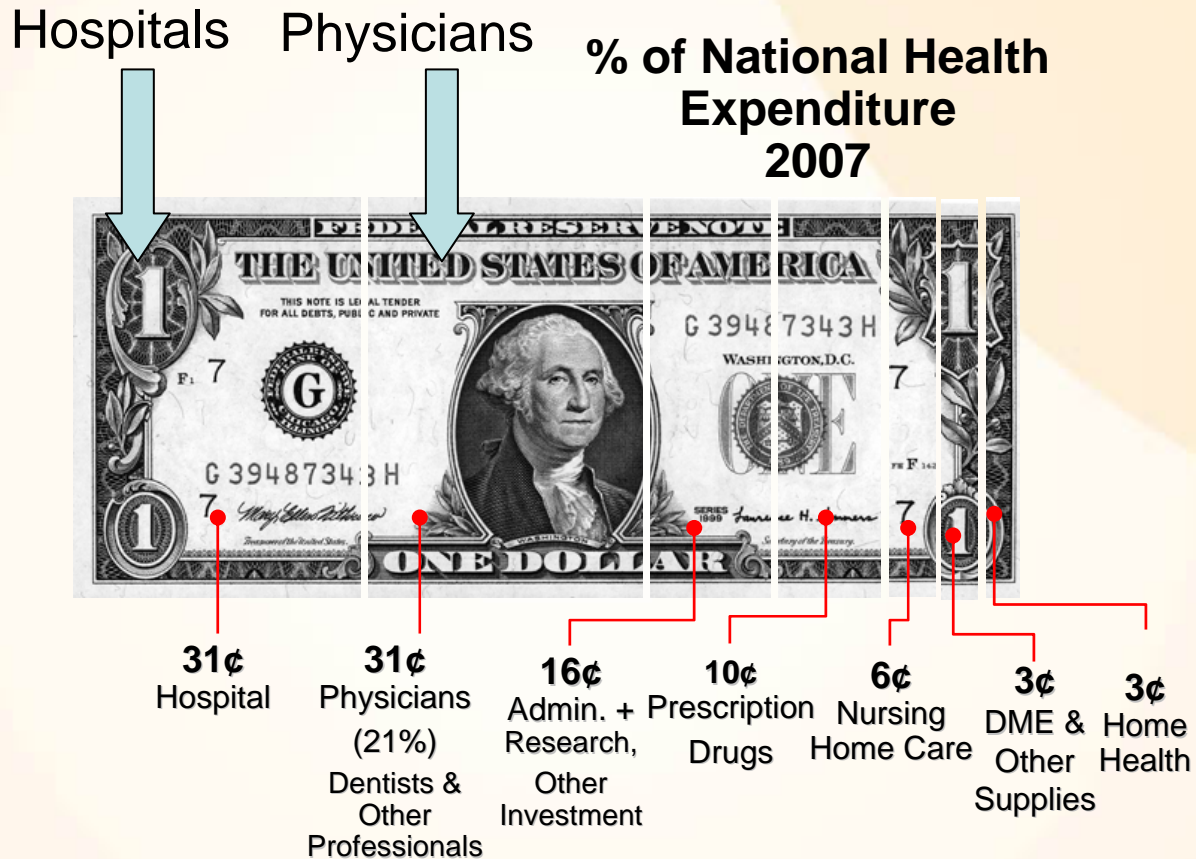
Jim Miller
President & CEO
Renown Health

Reno-Sparks Chamber of Commerce
2nd Annual Healthcare Forum
October 8, 2009



**To solve a problem, we should
first understand the problem**

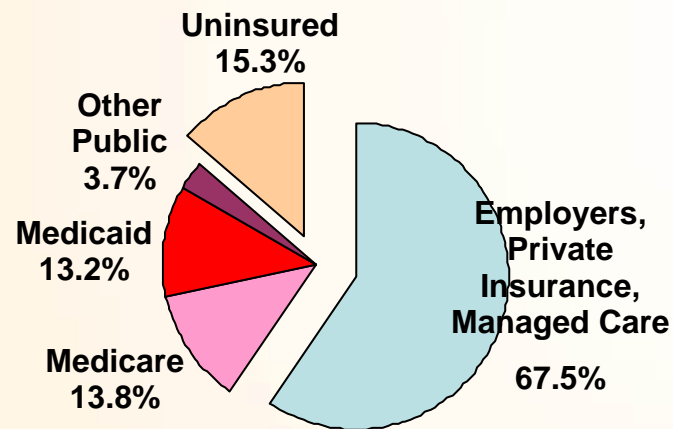
Where does the money go?



Who is covered? Who is getting the care?

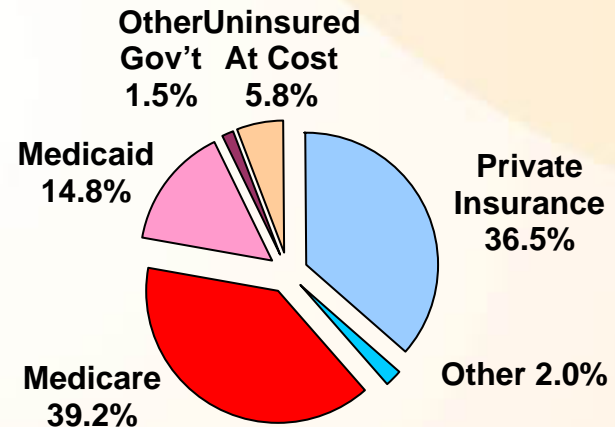
Who is covered?

Health Insurance Coverage



Who is getting the care?

Hospitals Costs 2007

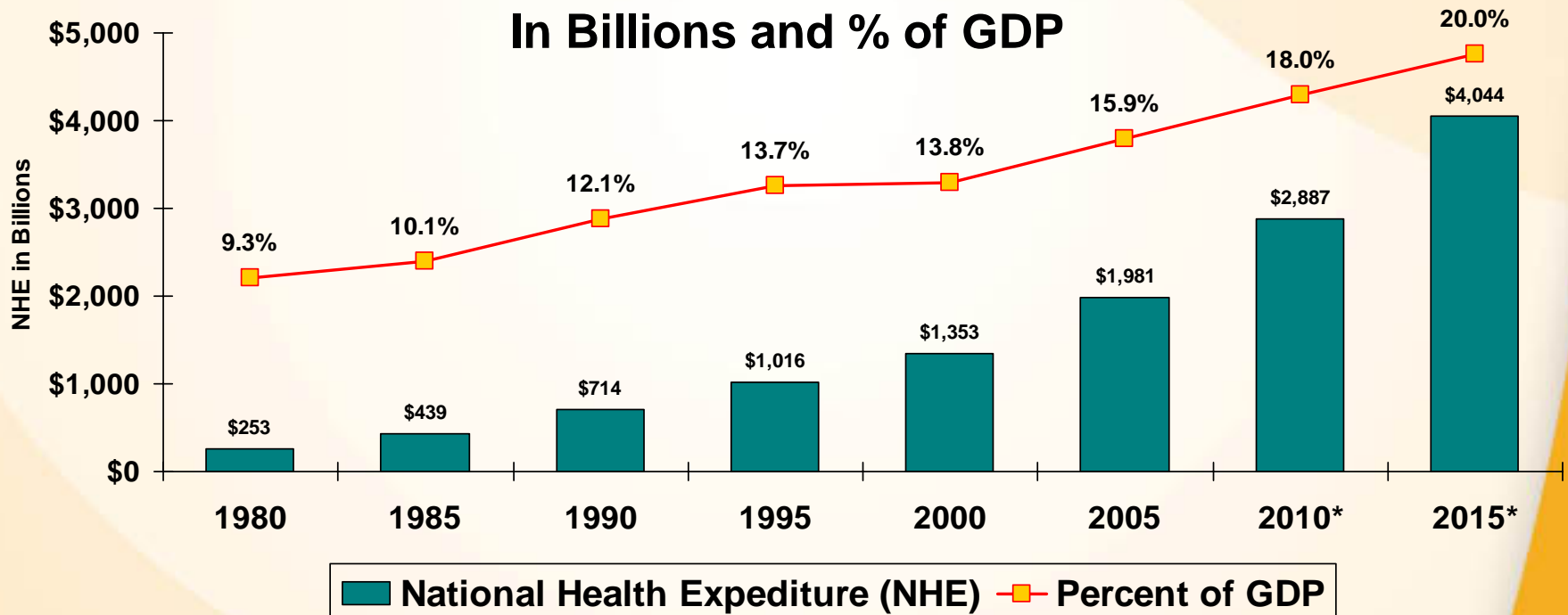


Healthcare Spending Pinching Business and Government

Healthcare expected to account for 20 percent of GDP by 2015.

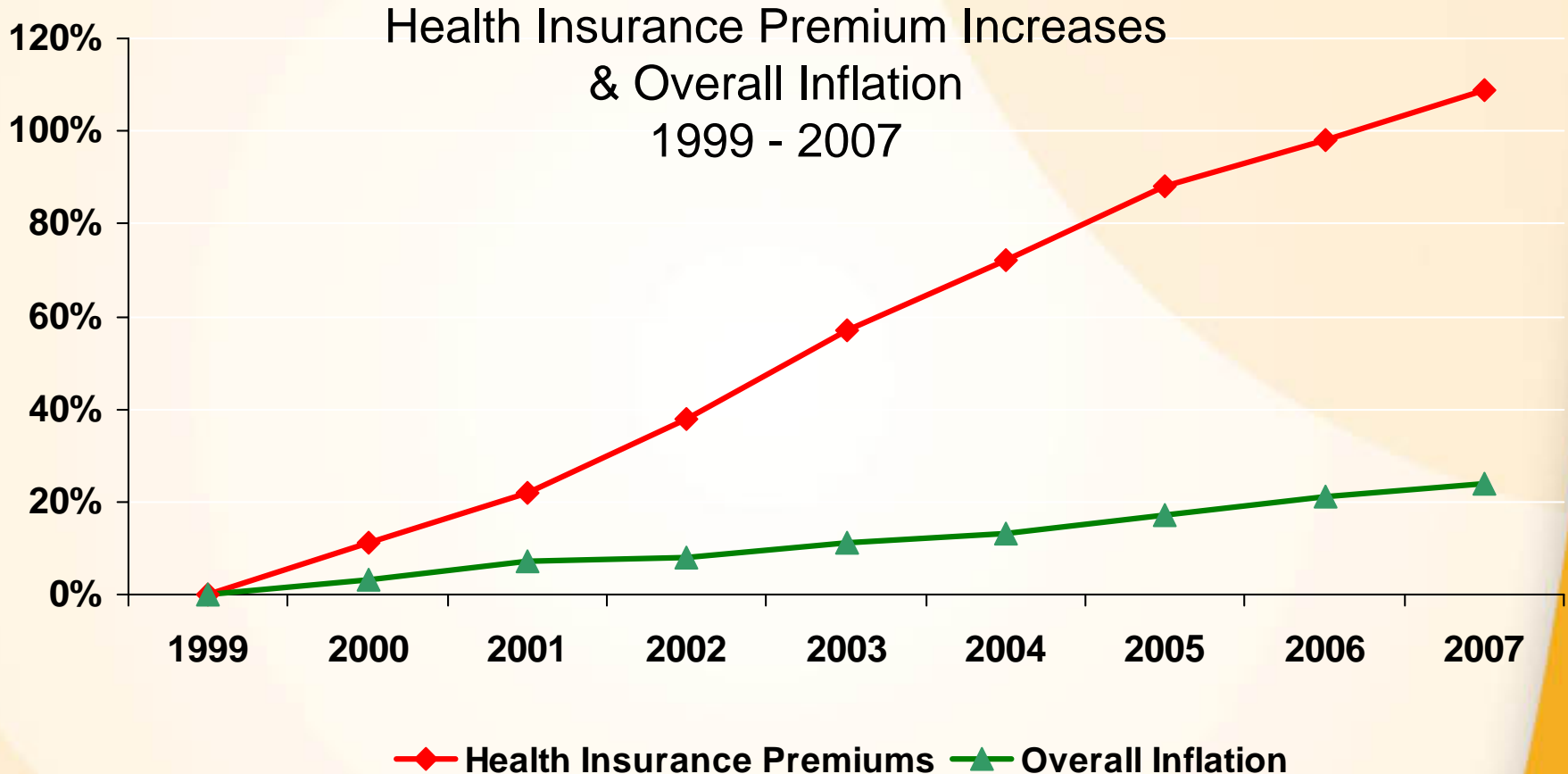
National Health Expenditure (NHE) 2002-2015

In Billions and % of GDP



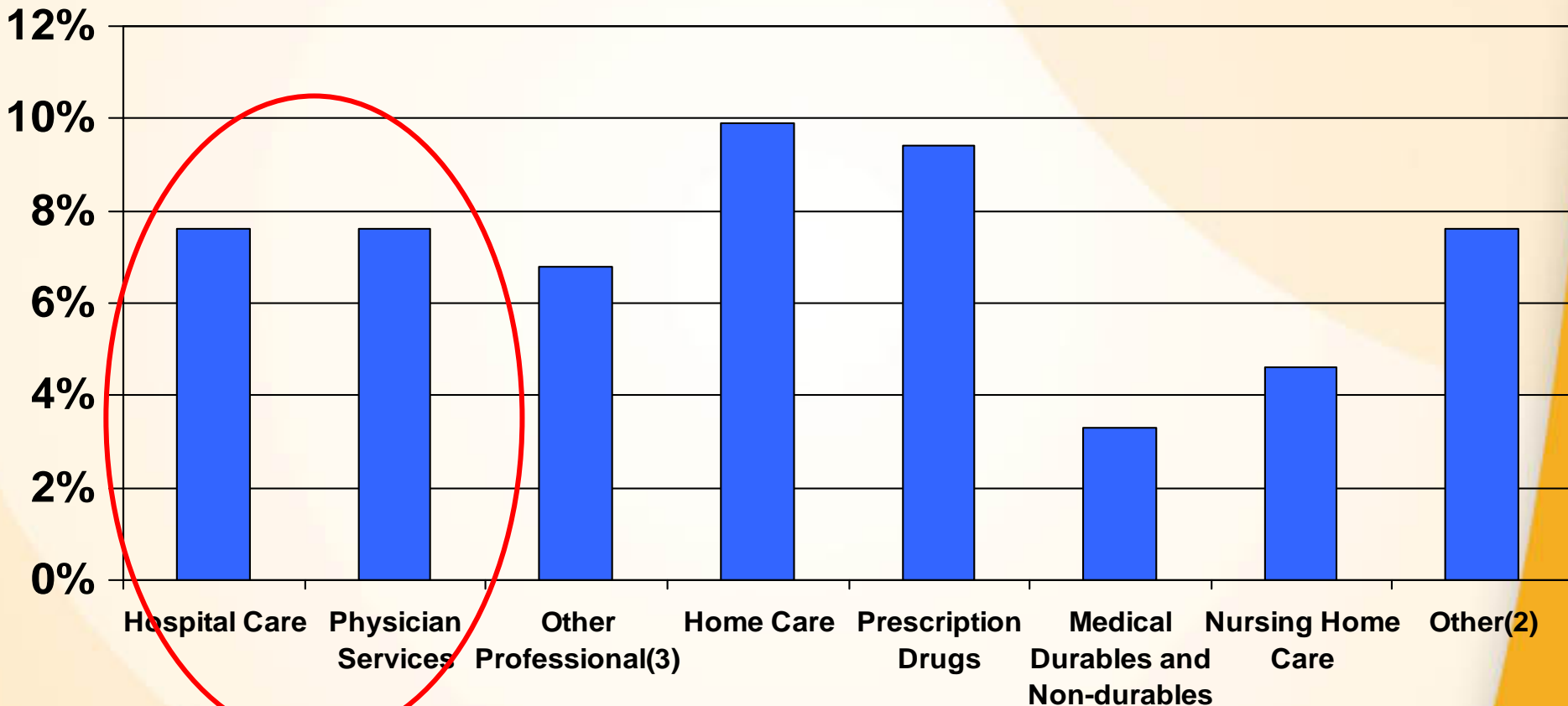
■ National Health Expenditure (NHE) —■ Percent of GDP

Health Insurance Increases Outpacing Inflation



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2008. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2000-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000-2008 (April to April).

Average Annual Change in Healthcare Cost Categories 2000-2007



Source: Centers for Medicare & Medicaid Services, Office of the Actuary. Data released January 6, 2009.

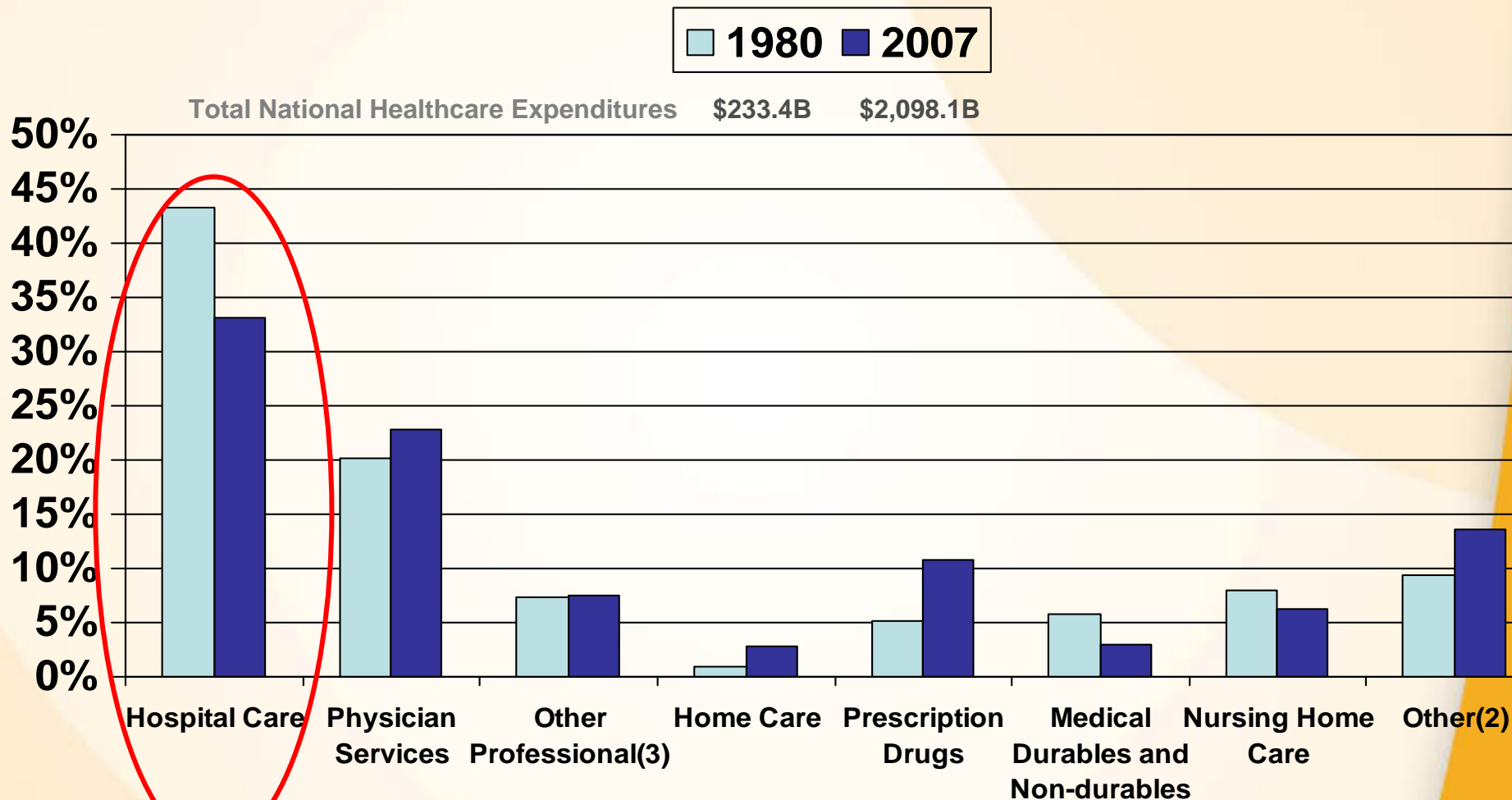
(1) Excludes medical research and medical facilities construction.

(2) CMS completed a benchmark revision in 2006, introducing changes in methods, definitions and source data that are applied to the entire time series (back to 1960). For more information on this revision, see <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf>.

(3) "Other" includes net cost of insurance and administration, government public health activities, and other personal health care.

(4) "Other professional" includes dental and other non-physician professional services.

Change in Healthcare Cost Categories as % of Total National Health Expenditures



Source: Centers for Medicare & Medicaid Services, Office of the Actuary. Data released January 6, 2009.

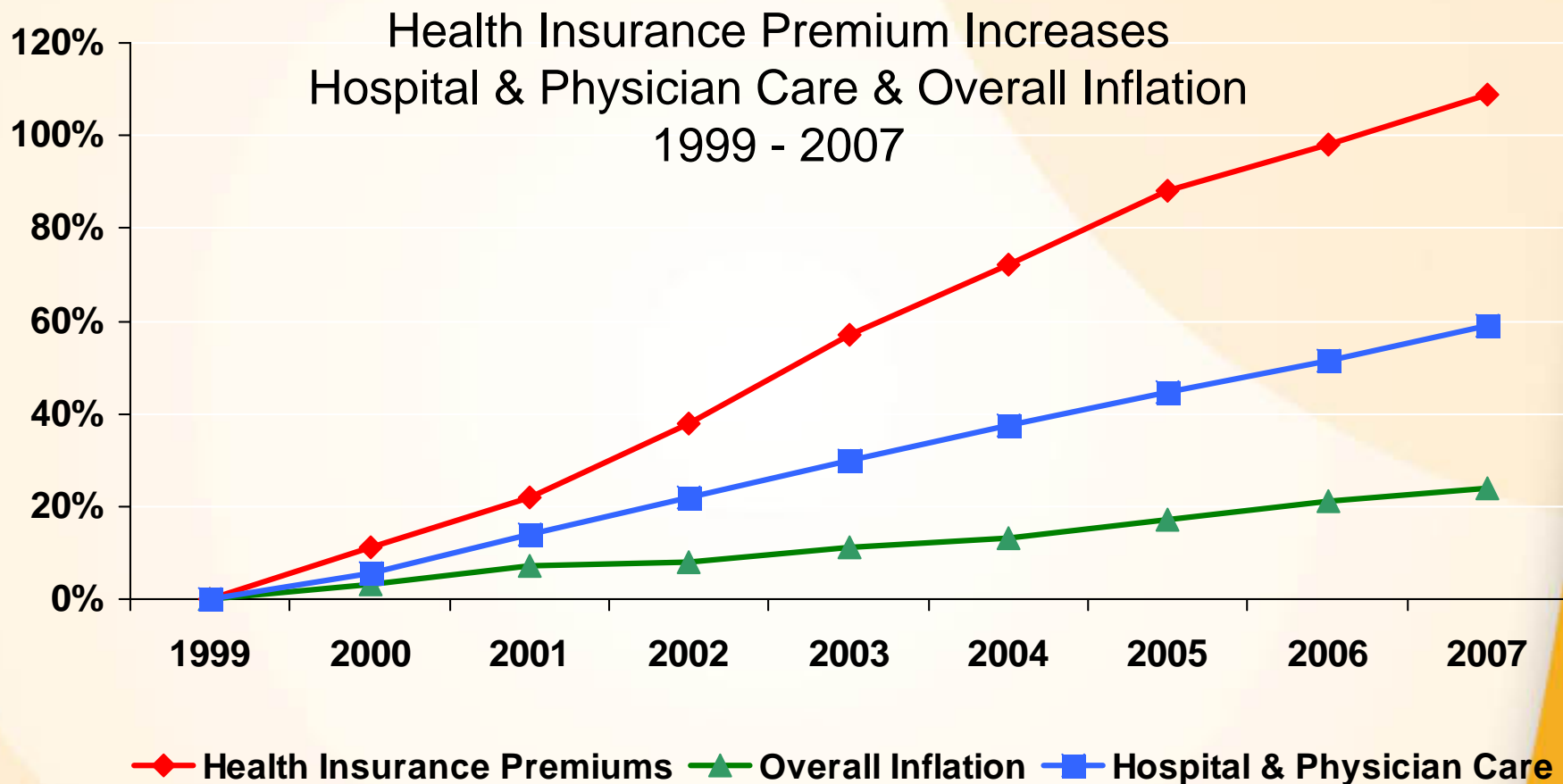
(1) Excludes medical research and medical facilities construction.

(2) CMS completed a benchmark revision in 2006, introducing changes in methods, definitions and source data that are applied to the entire time series (back to 1960). For more information on this revision, see <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf>.

(3) "Other" includes net cost of insurance and administration, government public health activities, and other personal health care.

(4) "Other professional" includes dental and other non-physician professional services.

Health Insurance Cost Increases Outpacing Inflation

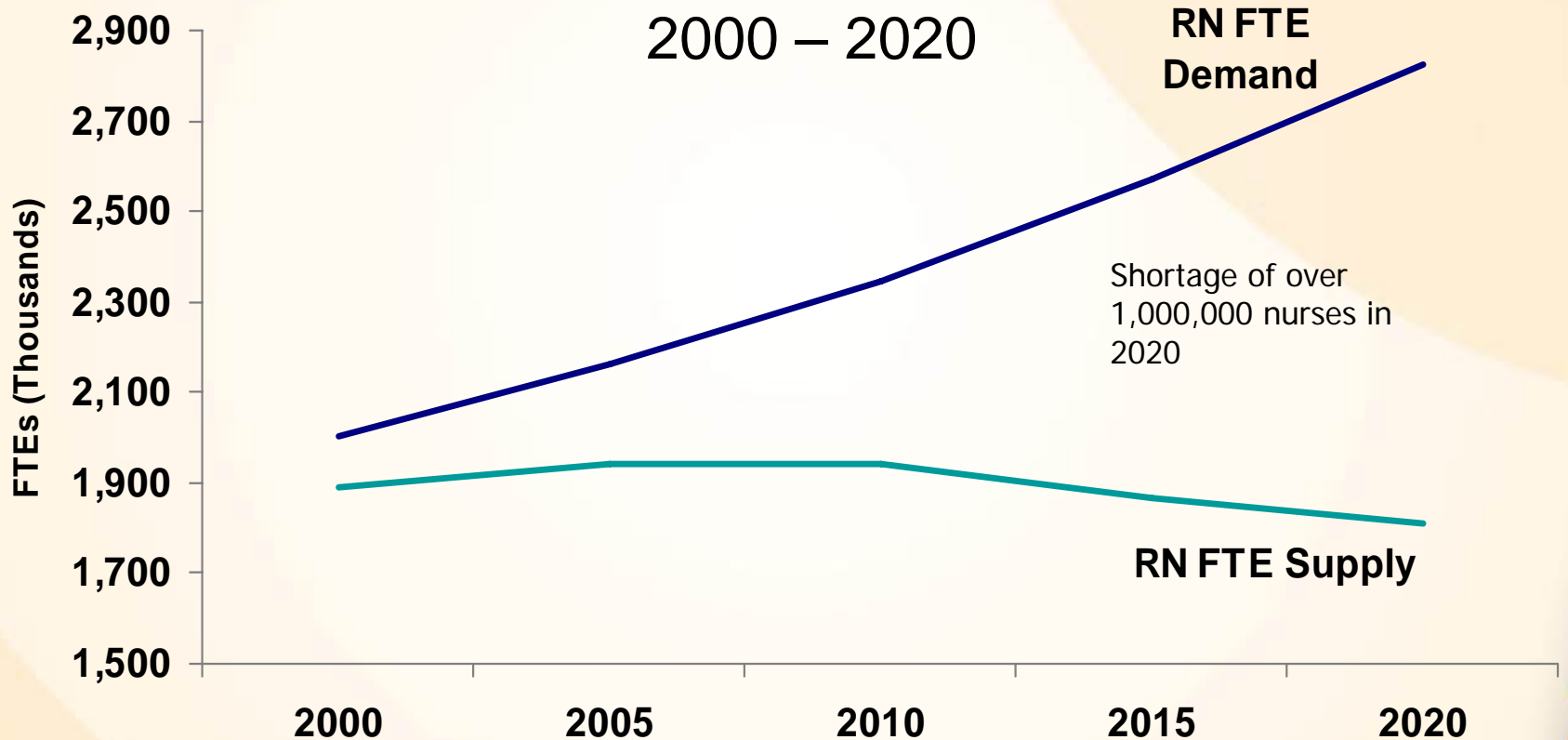


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2008. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2000-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000-2008 (April to April).

Hospital & Physician Care: Kaiser Family Foundation calculations using NHE data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at <http://www.cms.hhs.gov/NationalHealthExpendData/> (see Historical; National Health Expenditures by type of service and source of funds, CY 1960-2007; file nhe2007.zip).

Driving Hospital Cost Increases - The Nursing Shortage

RN Supply & Demand
National Projections
2000 – 2020



Source: National Center For Health Workforce Analysis, Bureau of Health Professions, Health Resources and Services Administration. (2004). *What Is Behind HRSA's Projected Supply, Demand, and Shortage of Registered Nurses?* Link: <ftp://ftp.hrsa.gov/bhpr/workforce/behindshortage.pdf>.

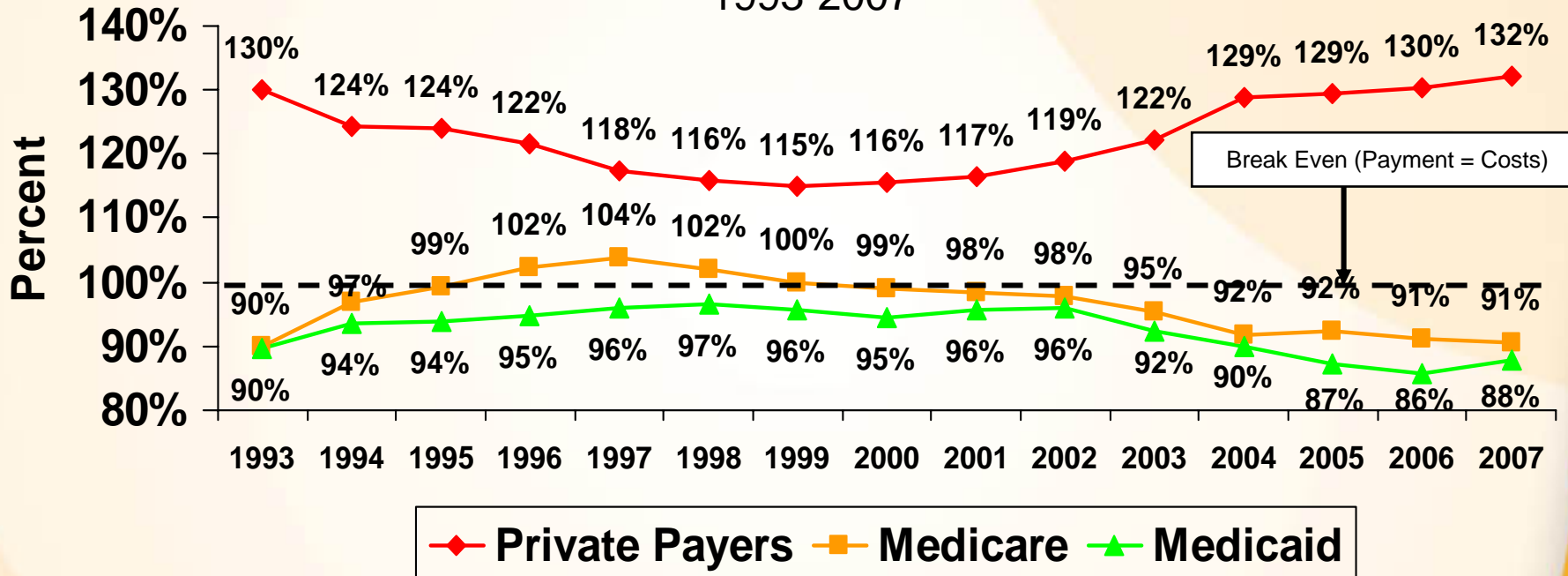
**Then what is driving increases
in healthcare premiums?**

Why are premiums outpacing CPI?

- **Shifting cost to insurance buyers**
- Growing demand for services
- Shortage of caregiver supply
- Shifting access to high cost settings
- Administrative costs
- Free or premium-based healthcare

Medicare / Medicaid Reimbursement Falling Further Below Costs

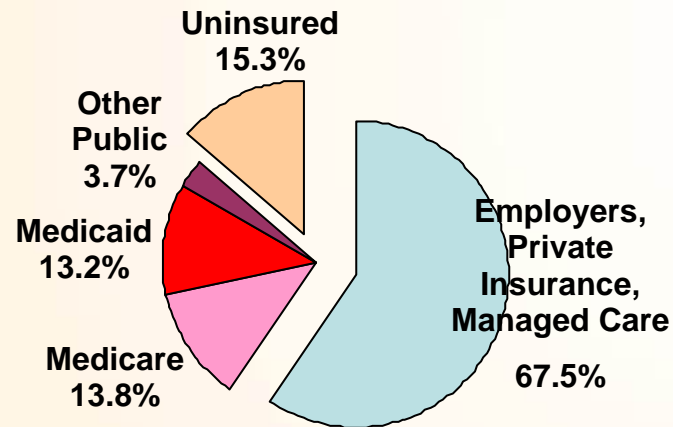
Hospital Payment-to-Cost Ratios for Medicare, Medicaid and Private Payers
1993-2007



Who is covered? Who is getting the care?

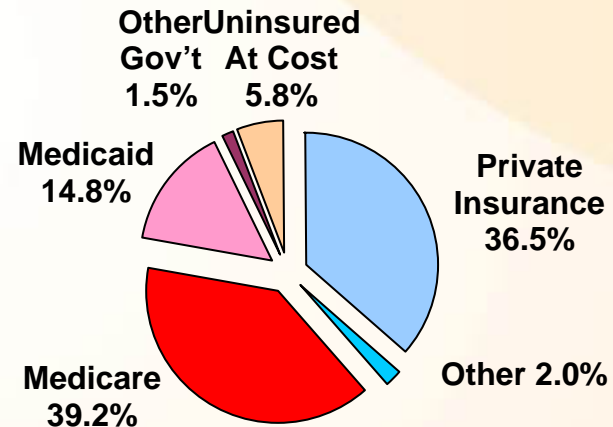
Who is covered?

Health Insurance Coverage



Who is getting the care?

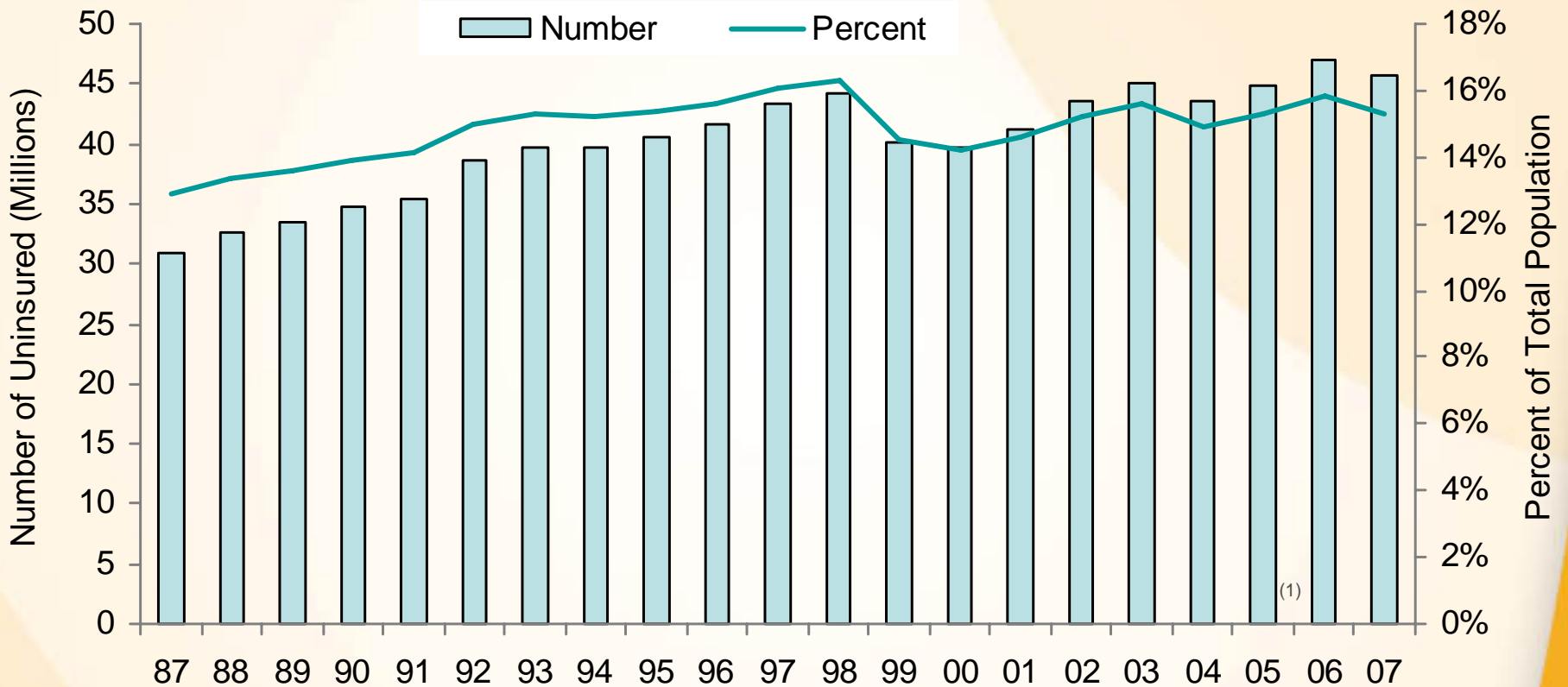
Hospitals Costs 2007



Cost Shifting

- For every \$1 increase in hospital costs – the insured pay \$3
 - \$1 for their share of the new costs
 - \$2 for the extra costs that government shifts to business by underfunding Medicare and Medicaid and not covering the uninsured

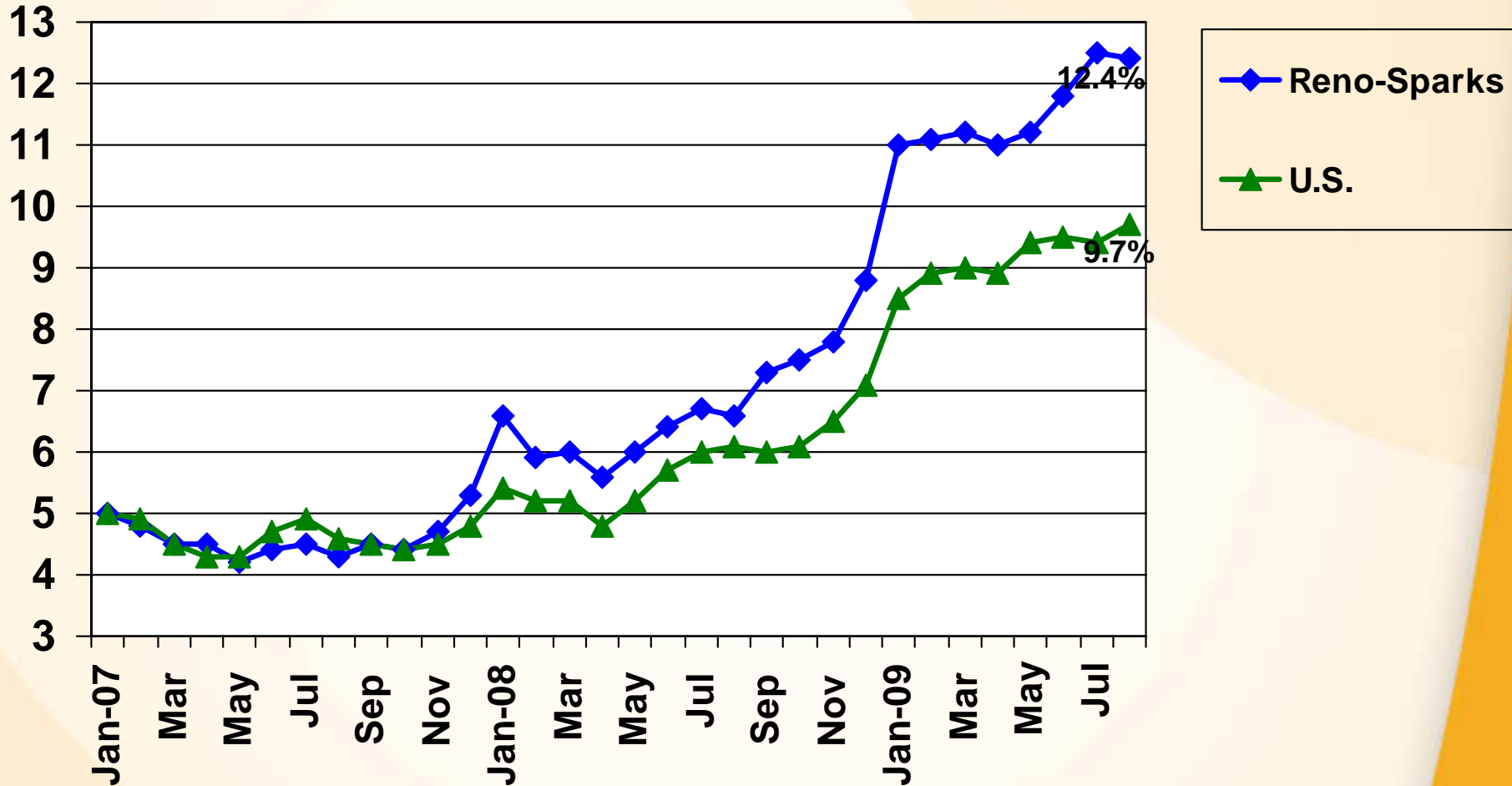
The Uninsured - A Growing Problem...



Source: US Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2007. Data released August 2008. Table 6. People Without Health Insurance Coverage by Selected Characteristics: 2006 and 2007. Link: http://www.census.gov/hhes/www/hlthins/hlthin07/p60no235_table6.pdf.

Unemployment still rising

Unemployment
Rate %



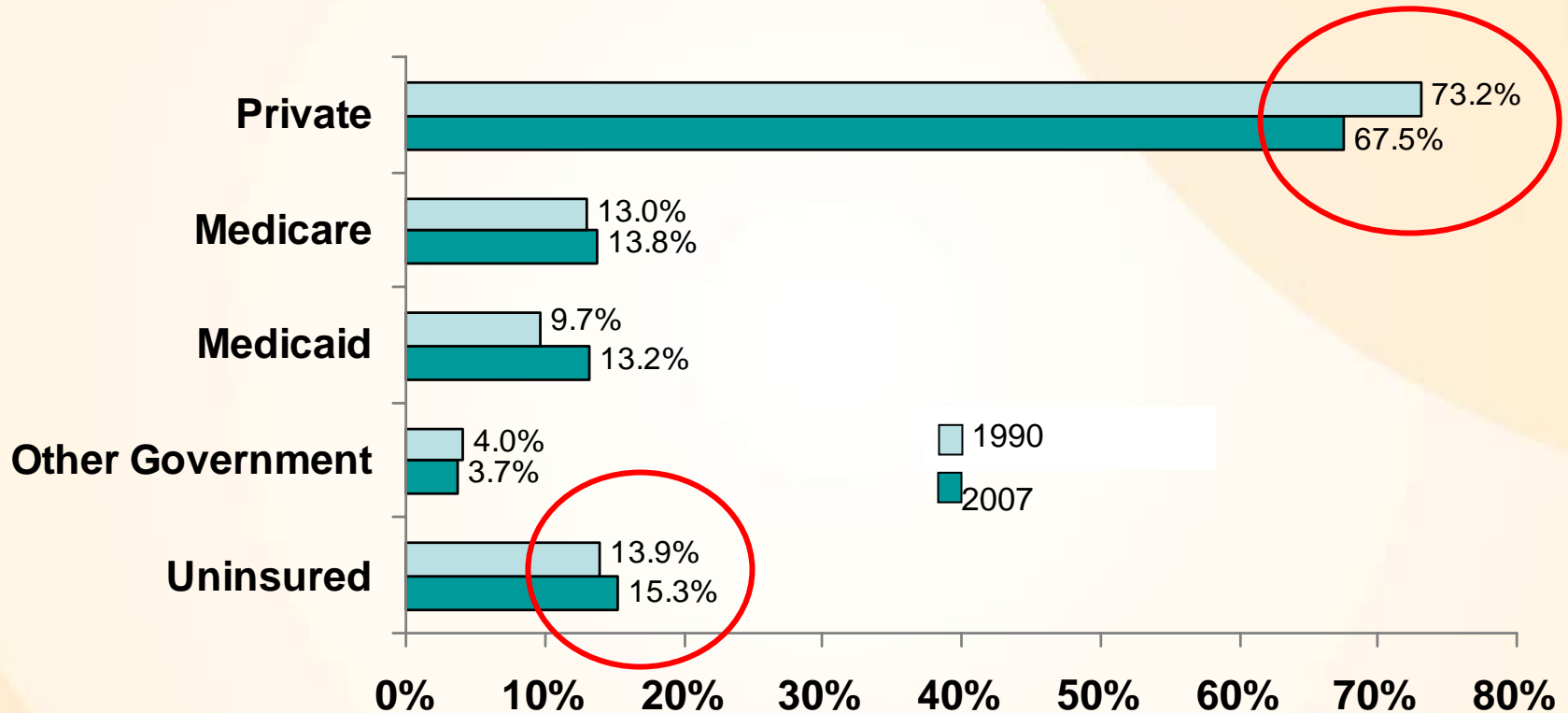
Sources:

Nevada Dept. of Employment, Training, & Rehabilitation

U.S. Bureau of Labor Statistics

More uninsured leads to less employer coverage

% of U.S. Population Covered by Payor



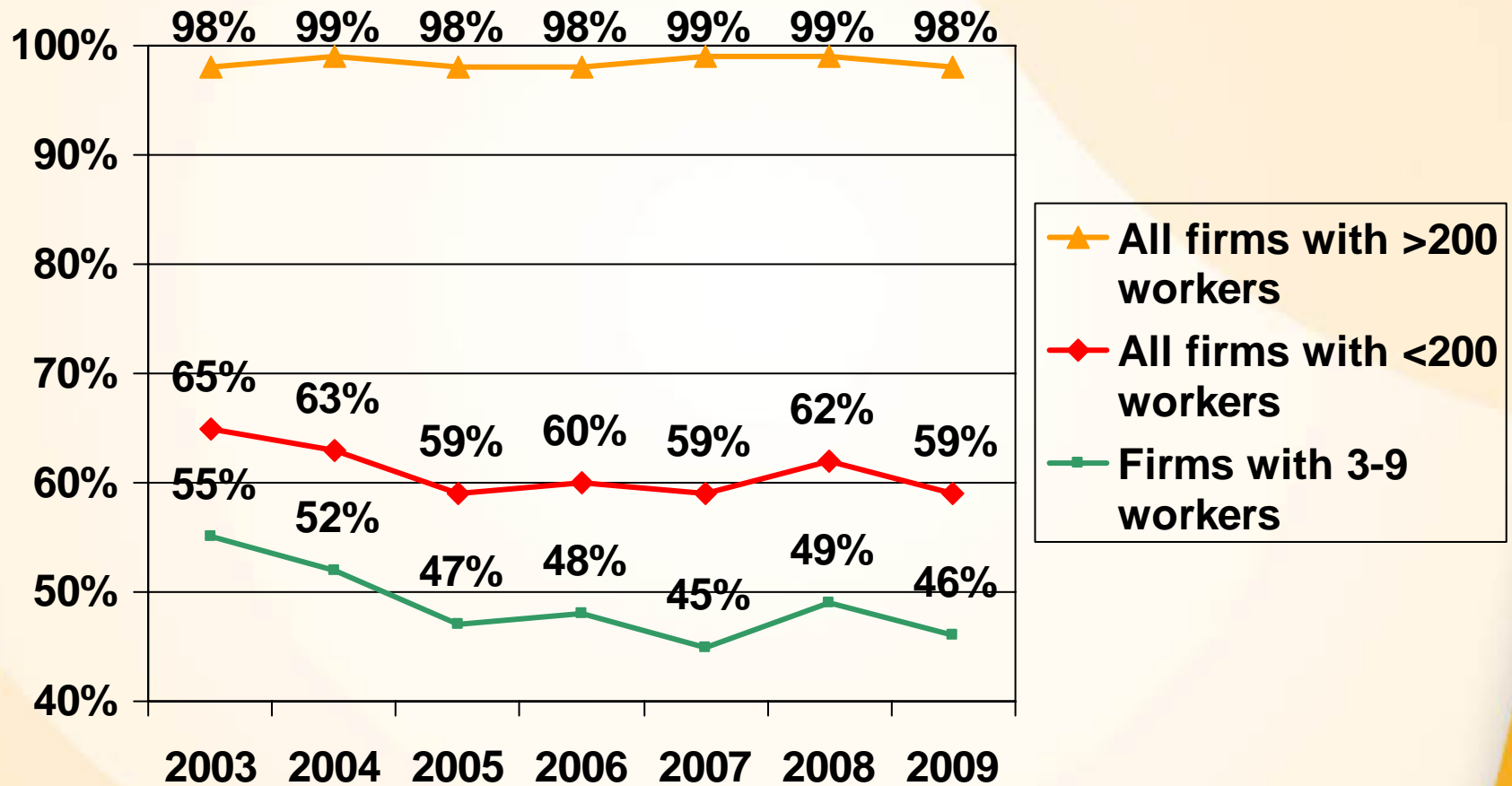
Source: US Census Bureau, Current Population Survey, 2008 Annual and Social Economic Supplement. Data released March 2008.

Table HI05. Health Insurance Coverage Status and Type of Coverage by State and Age for All People: 2007.

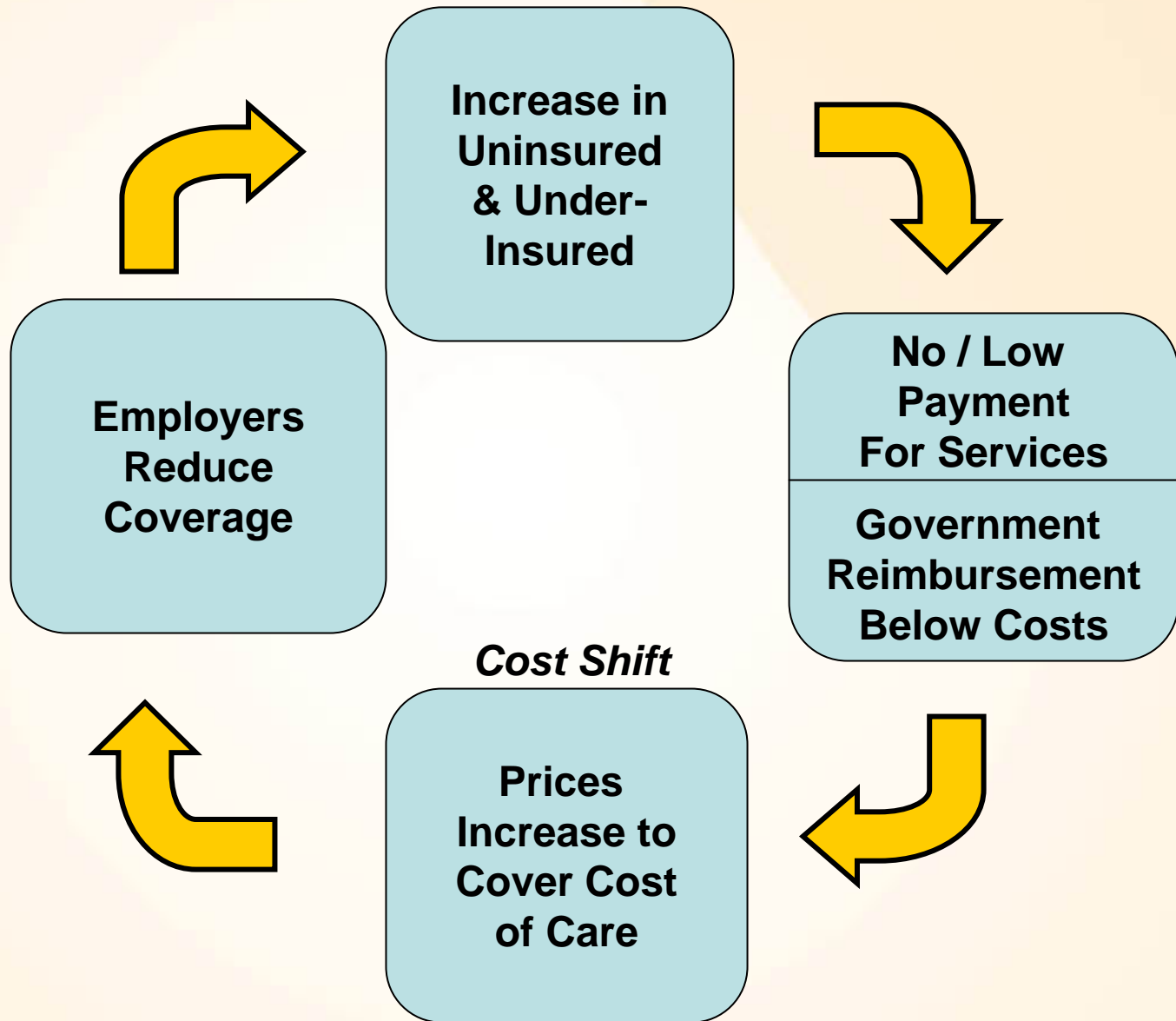
Link: http://pubdb3.census.gov/macro/032008/health/h05_000.htm.

Employers Dropping Coverage

% of Firms Offering Health Benefits
by Firm Size



A Vicious Cycle



Why are premiums outpacing CPI?

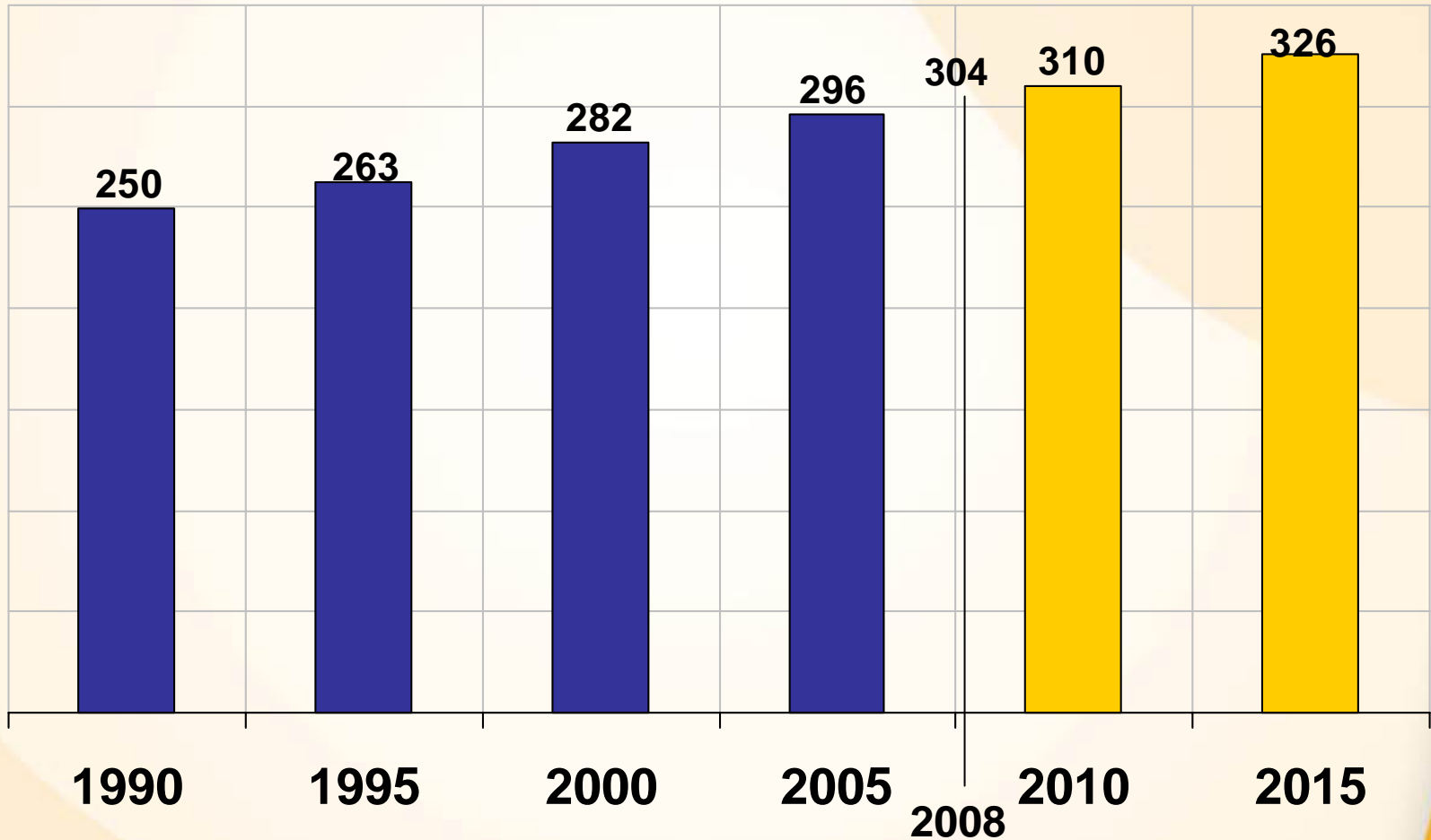
- Shifting cost to insurance buyers
- **Growing demand for services**
- Shortage of caregiver supply
- Shifting access to high cost settings
- Administrative costs
- Free or premium-based healthcare

Driving Demand Increases

- Population growth
- Aging and increasing life expectancy
- Lifestyle-related disease / chronic conditions
- Defensive medicine / malpractice costs
- New technology & drugs

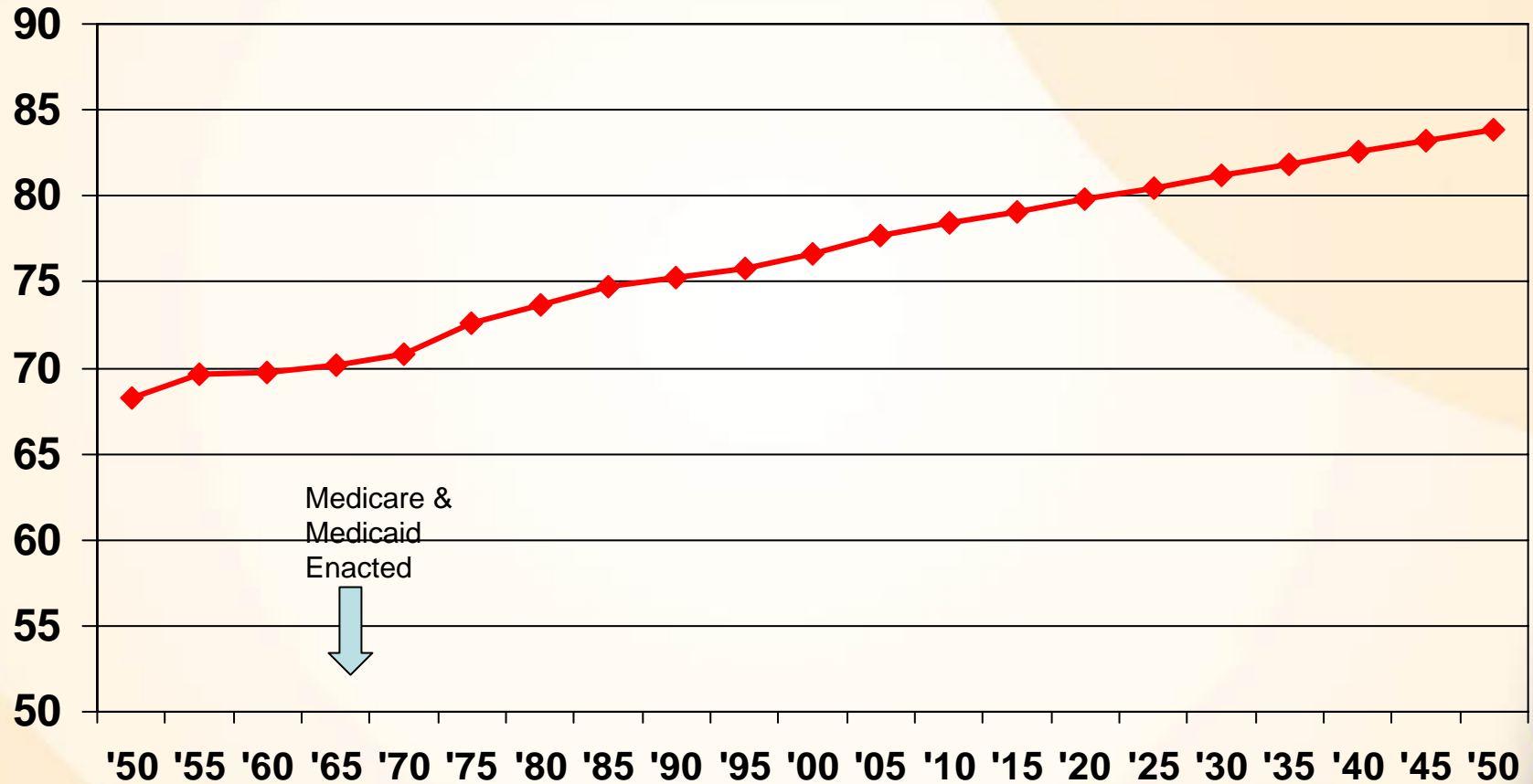
U.S. Population Growth

In Millions



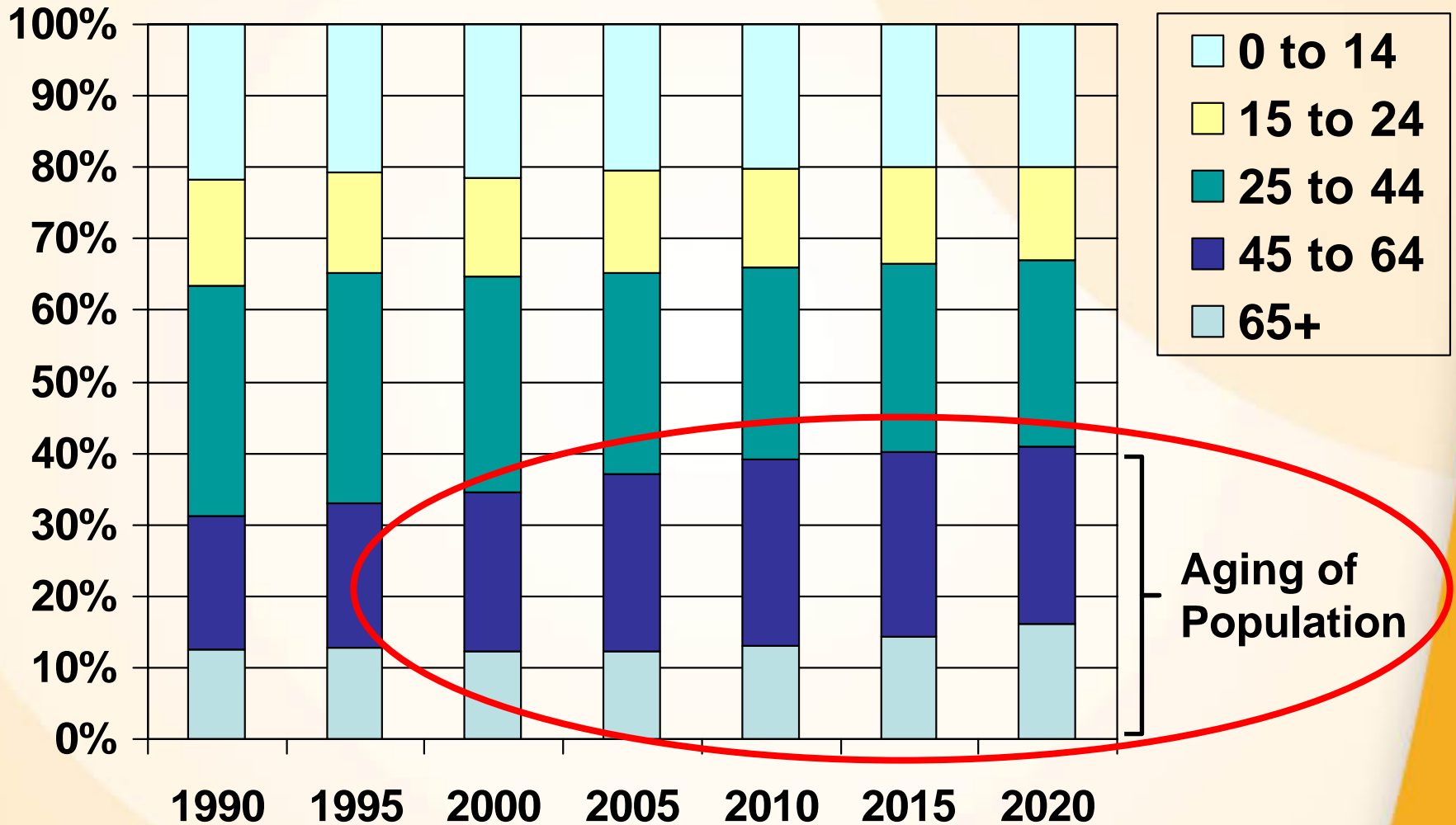
Aging

U.S. Life Expectancy



U.S. Population Aging

Population by Age Group

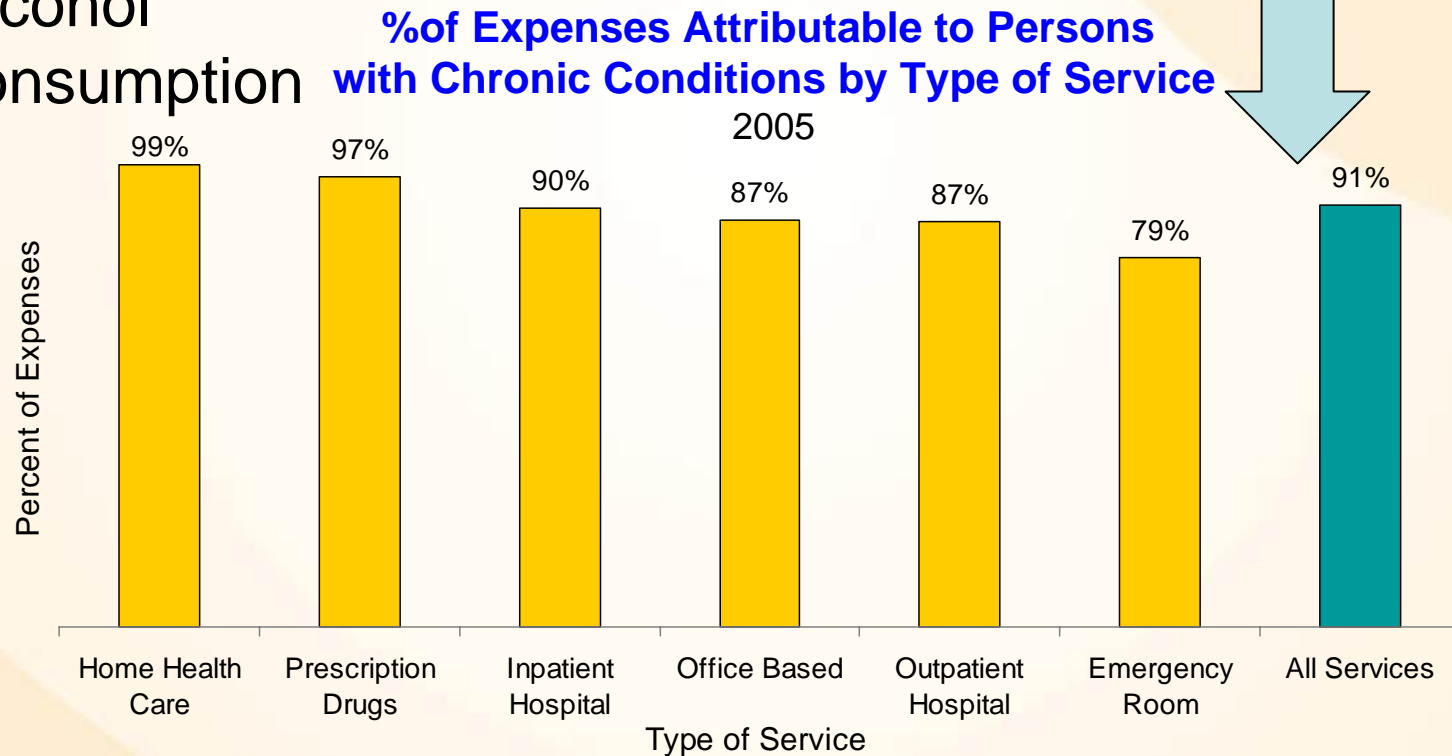


Lifestyle choices

- Smoking
- High fat diet
- Over eating
- Sedentary lifestyle
- Drug use
- Alcohol consumption

Chronic Illness

- Half of all Americans have one or more chronic illness
- 80+% of healthcare spending is linked to chronic illness in the U.S.



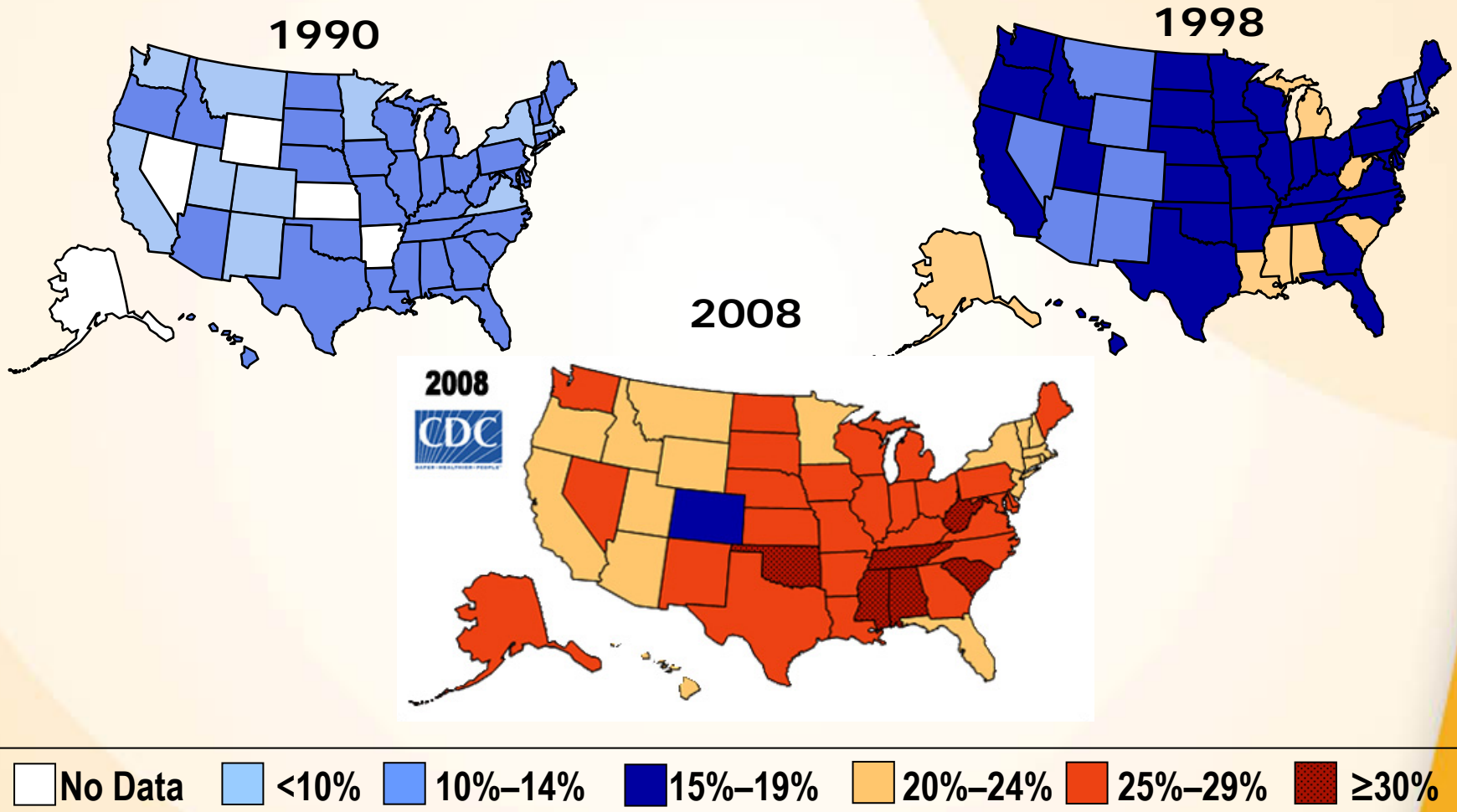
Source: Agency for Healthcare Research and Quality, Center for Financing, Access, and Cost Trends. Based on data from the Medical Expenditure Panel Survey, 2005. Link: http://www.meps.ahrq.gov/mepsweb/data_files/publications/st203/stat203.pdf.

(1) Data are for adults ages 18 years and older.

The Obesity Epidemic

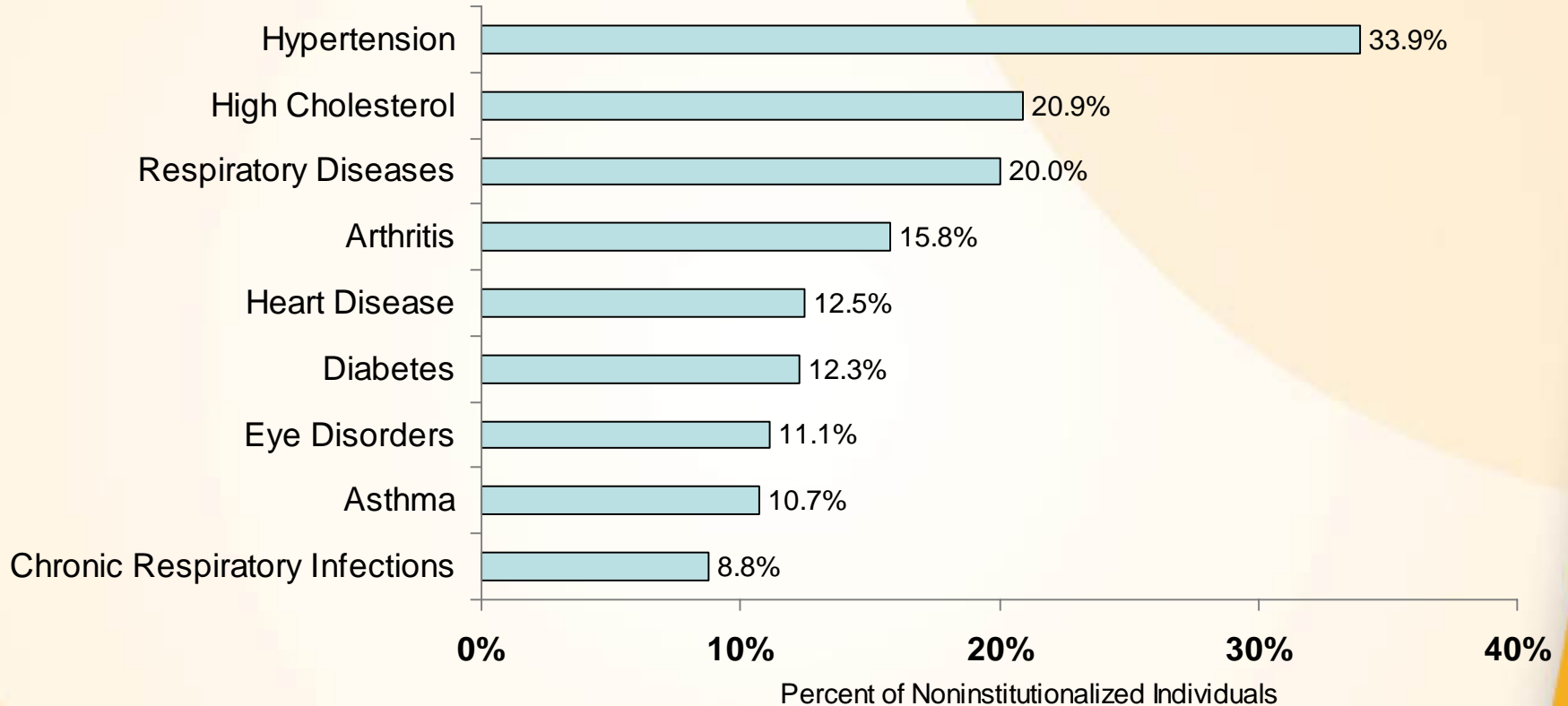
% of Population with Body Mass Index ≥ 30

(= about 30 lbs. overweight for 5'4" person)

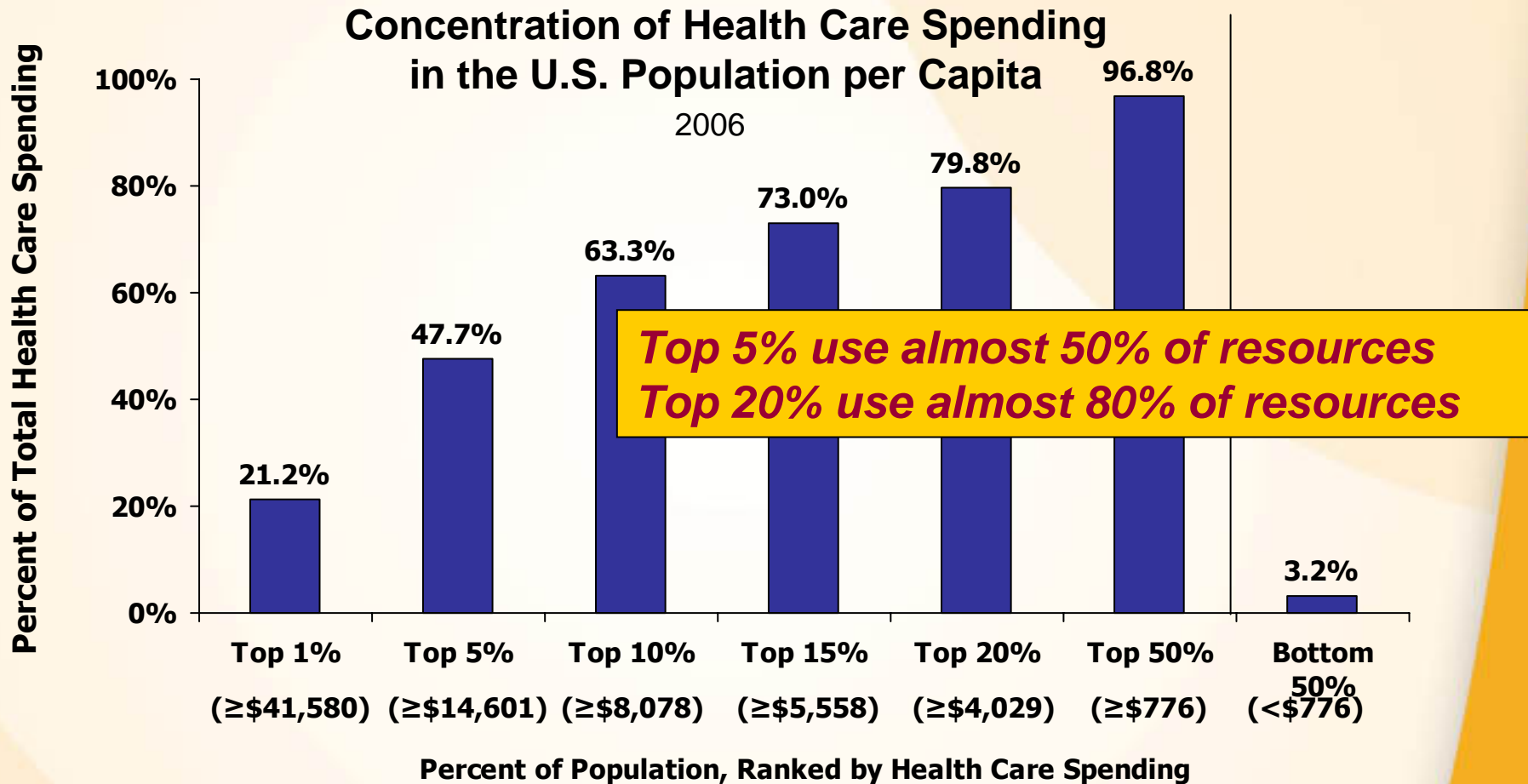


Lifestyle Creates Demand

Percent of People with Chronic Conditions by Type
2004



Healthcare spending concentrated in few due to chronic disease and other factors



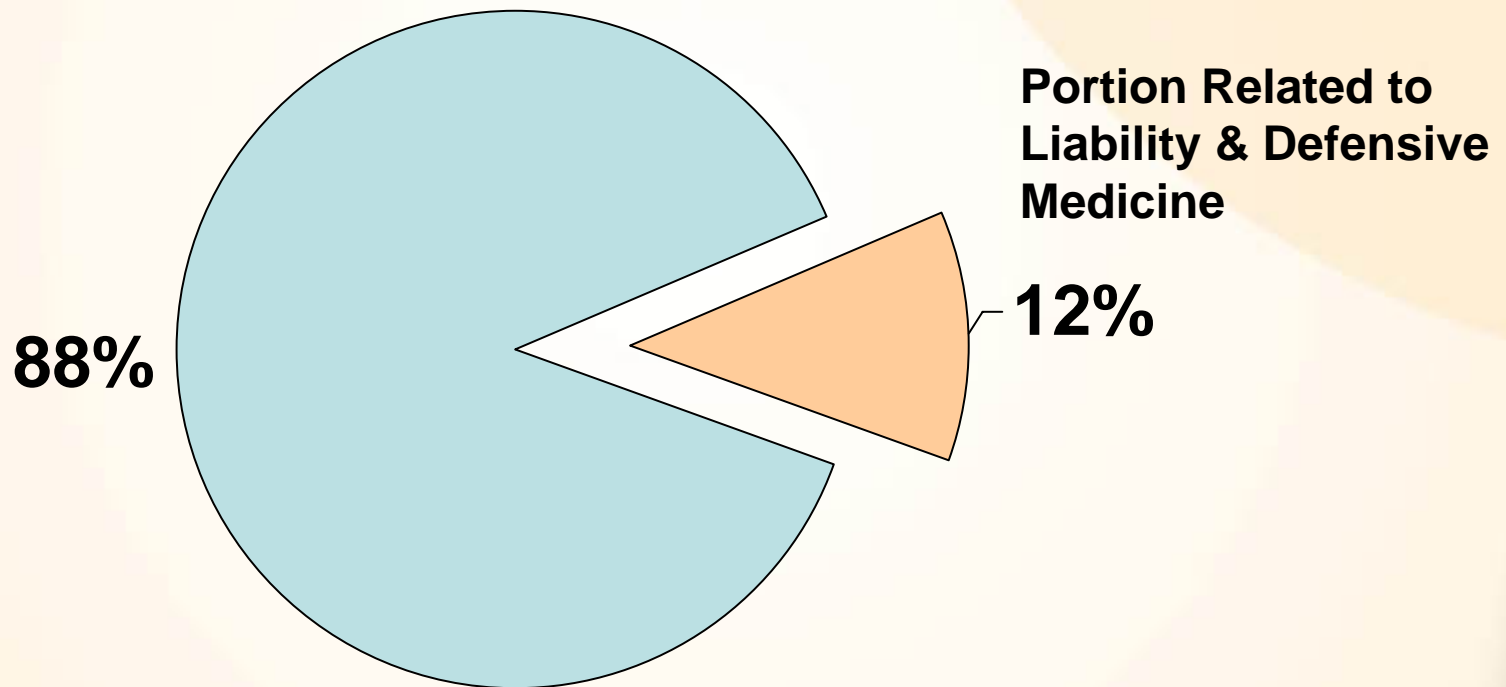
Note: Dollar amounts in parentheses are the annual expenses per person in each percentile. Population is the civilian noninstitutionalized population, including those without any health care spending. Health care spending is total payments from all sources (including direct payments from individuals, private insurance, Medicare, Medicaid, and miscellaneous other sources) to hospitals, physicians, other providers (including dental care), and pharmacies; health insurance premiums are not included.

Source: Kaiser Family Foundation calculations using data from U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey (MEPS), 2006.

Defensive Medicine & Malpractice Costs

Medical Costs Paid by Employer-Based Premiums

Hospital, Physician, Outpatient, Drugs, Other



Source: "Factors Fueling Health Care Costs 2006"

PriceWaterhouseCoopers.

Prepared for America's Health Insurance Plans

Adapted from Centers for Medicare & Medicaid Services,

National Health Accounts 2005

And Midwest Business Group on Health, April 2003

Medical Costs Only

- Excludes Health Plan Admin. Costs

New Technology

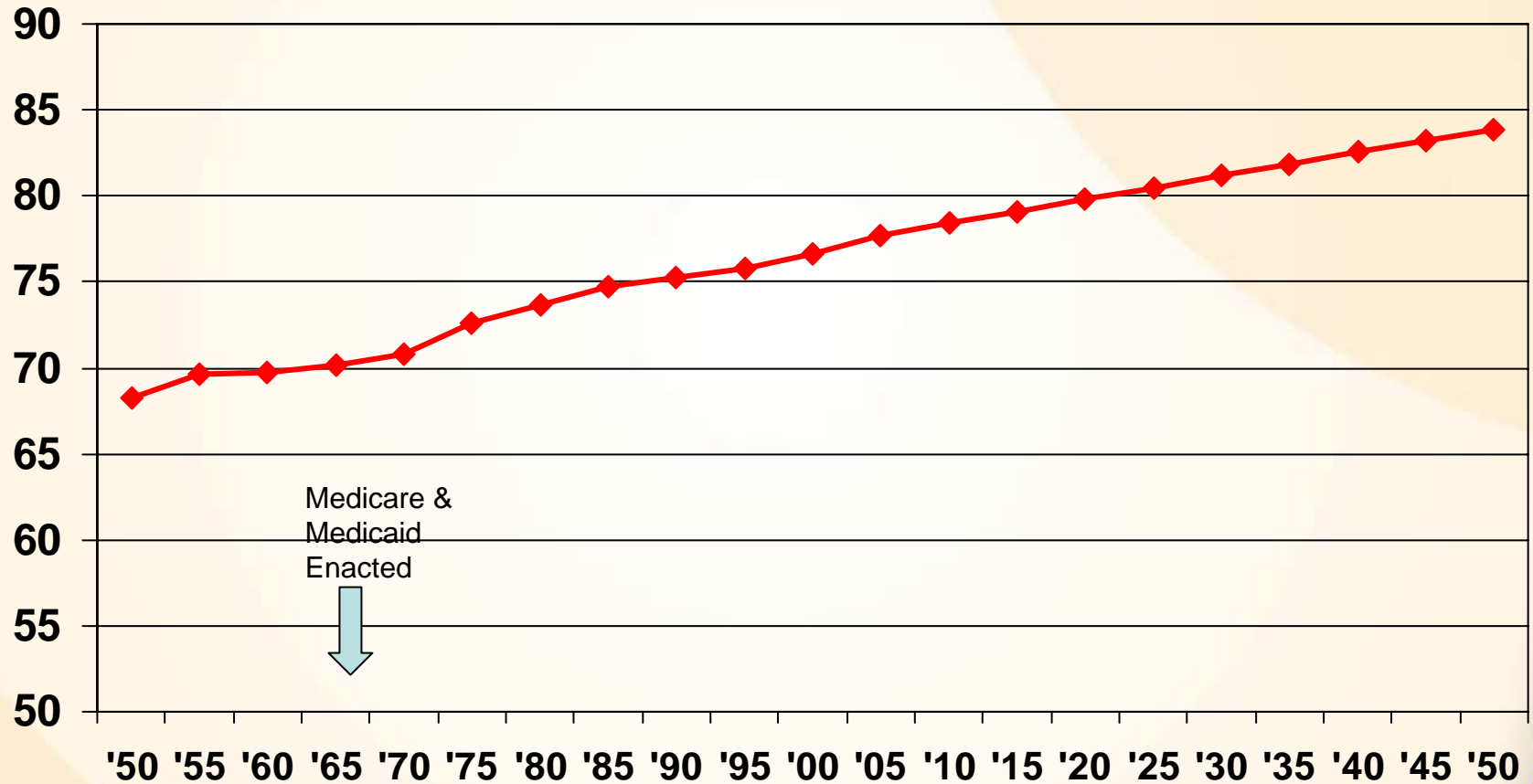
- New technology – people live longer – spend more over lifetime on chronic disease

Examples:

- Minimally invasive surgery
- New drugs
- Heart surgery
- Imaging
- Radiation Therapy
- Joint Replacement / New Joint Implants

Aging

U.S. Life Expectancy

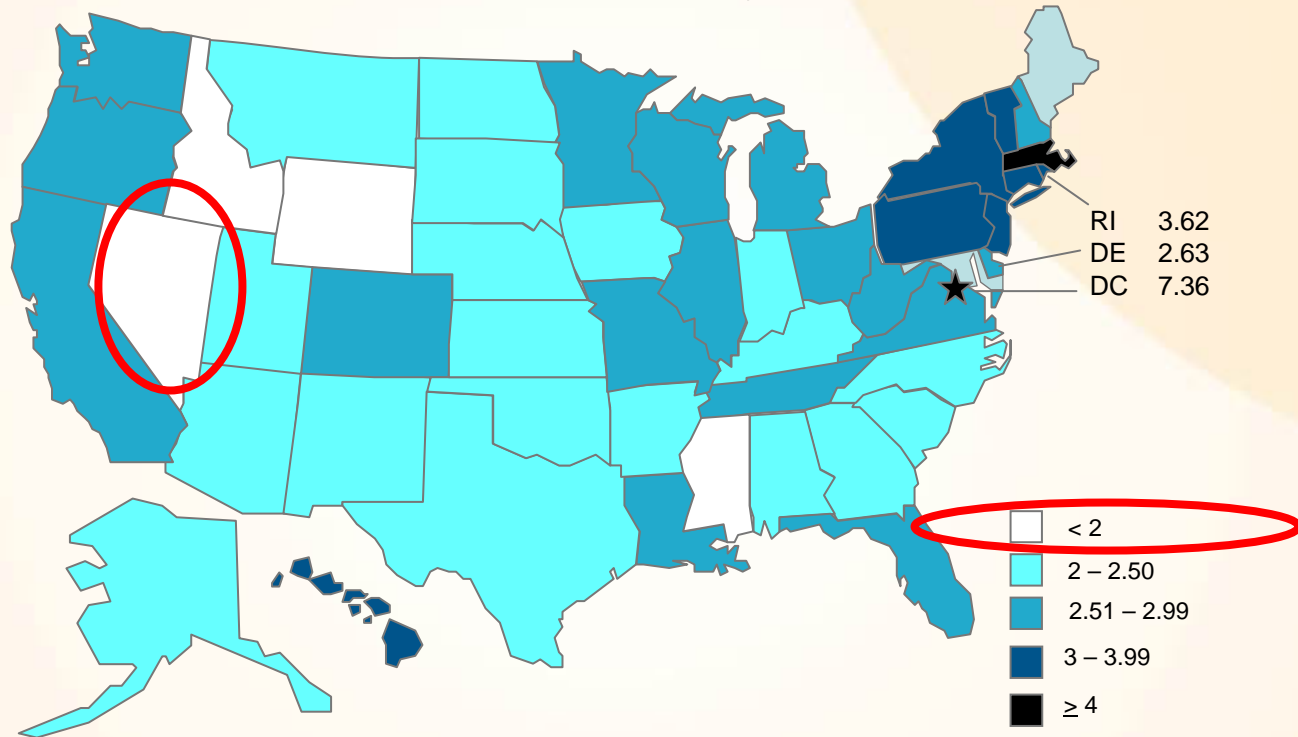


Why are premiums outpacing CPI?

- Shifting cost to insurance buyers
- Growing demand for services
- **Shortage of caregiver supply**
- Shifting access to high cost settings
- Administrative costs
- Free or premium-based healthcare

Physician Shortage

Total Number of Active Physicians⁽¹⁾
per 1,000 Persons by State, 2006

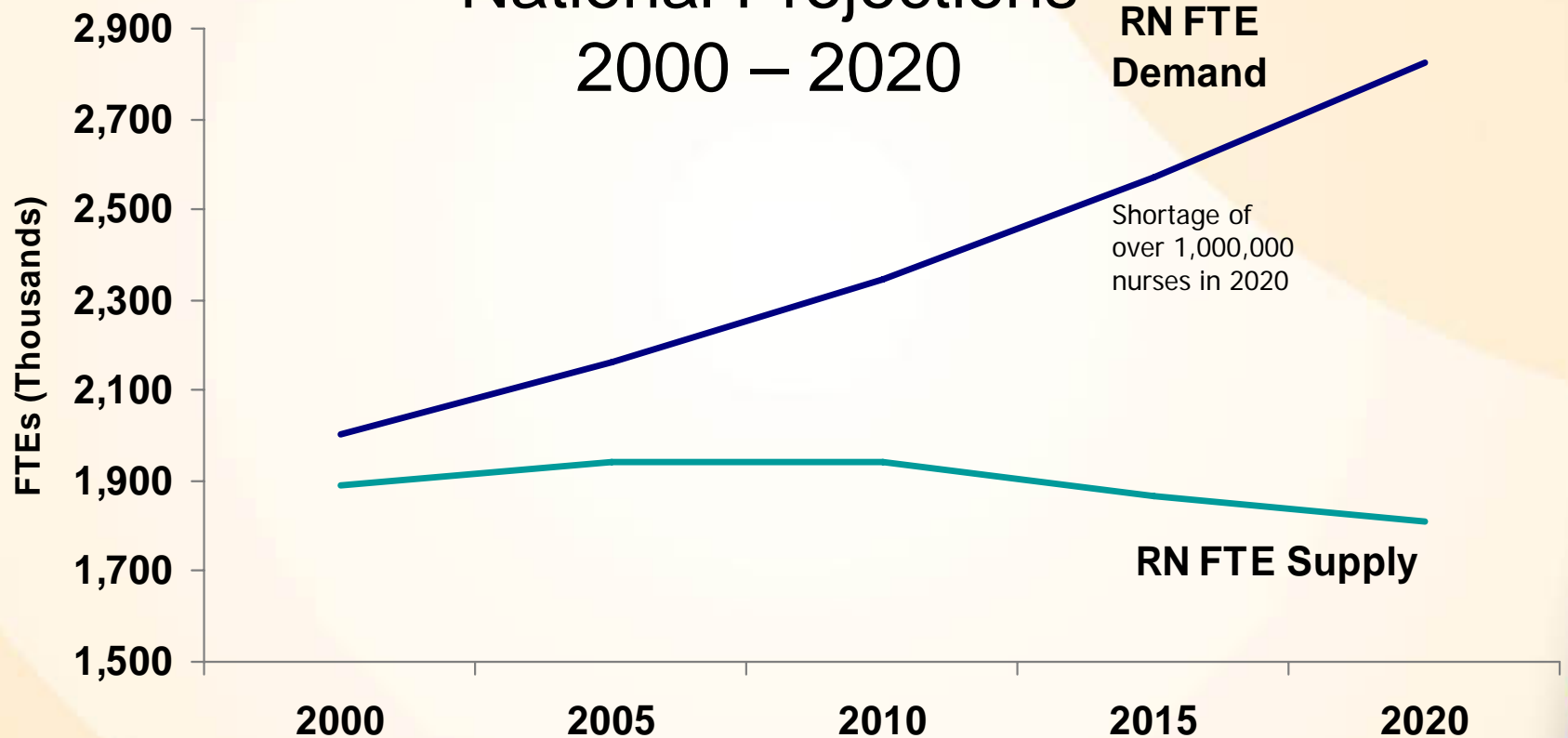


Source: National Center for Health Statistics. (2008). *Health, United States, 2008 with Chartbook on Trends in the Health of Americans*. Hyattsville, MD.

⁽¹⁾ Includes active federal and non-federal doctors of medicine and active doctors of osteopathy.

Compounding the Capacity Challenge - Nursing Shortage

RN Supply & Demand National Projections 2000 – 2020



Why are premiums outpacing CPI?

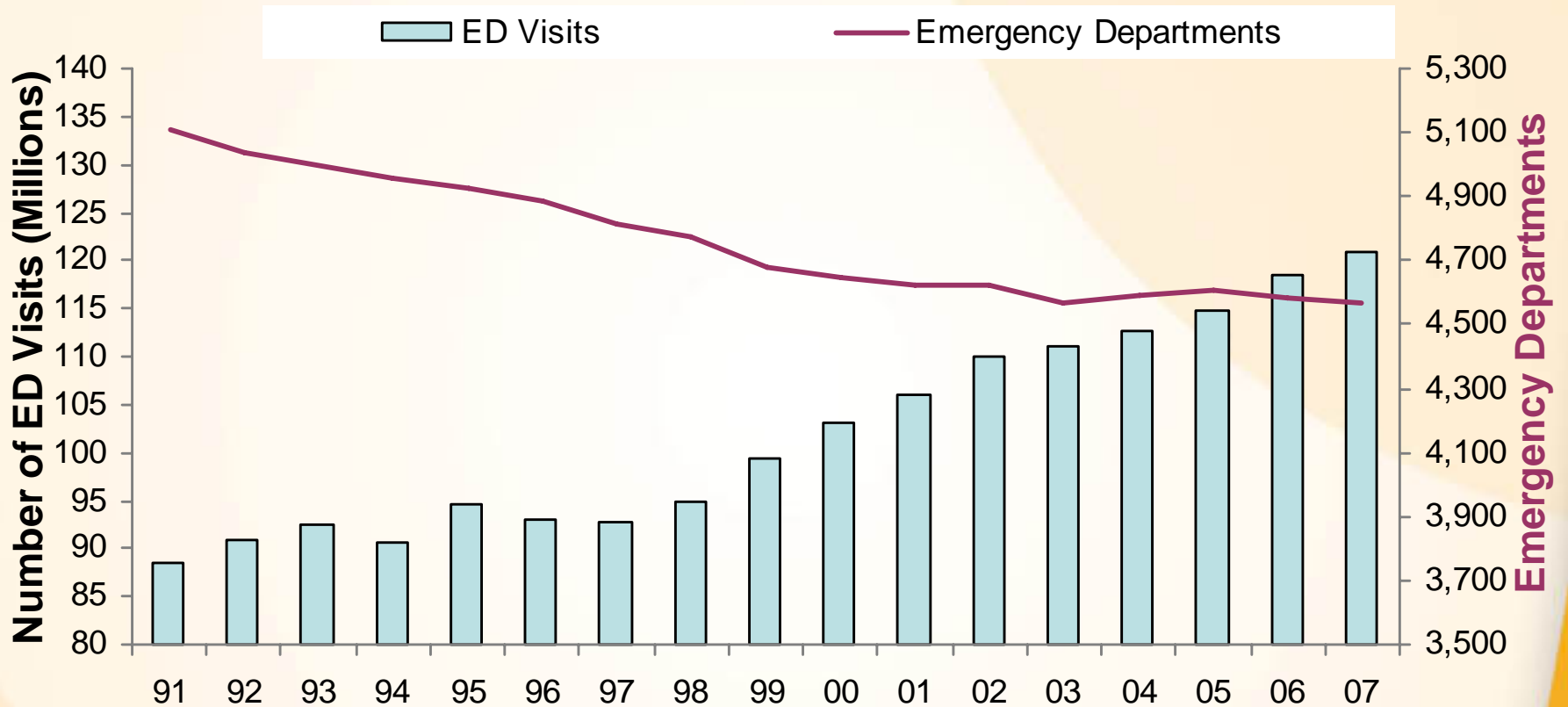
- Shifting payment to insurance buyers
- Growing demand for services
- Shortage of caregiver supply
- **Shifting access to high cost settings**
- Administrative costs
- Free or Premium-Based Healthcare

Demand for Healthcare

**Healthcare is a legislated right,
but funded as a privilege!**

ER Crowding

ER visits have increased, while the # of ERs has decreased.



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2007, for community hospitals.

(1) Defined as hospitals reporting ED visits in 2005 AHA Annual Survey.

Why are premiums outpacing CPI?

- Shifting payment to insurance buyers
- Growing demand for services
- Shortage of caregiver supply
- Shifting access to high cost settings
- **Administrative costs**
- Free or Premium-Based Healthcare

Administrative Costs Run 8-15% in U.S. Healthcare

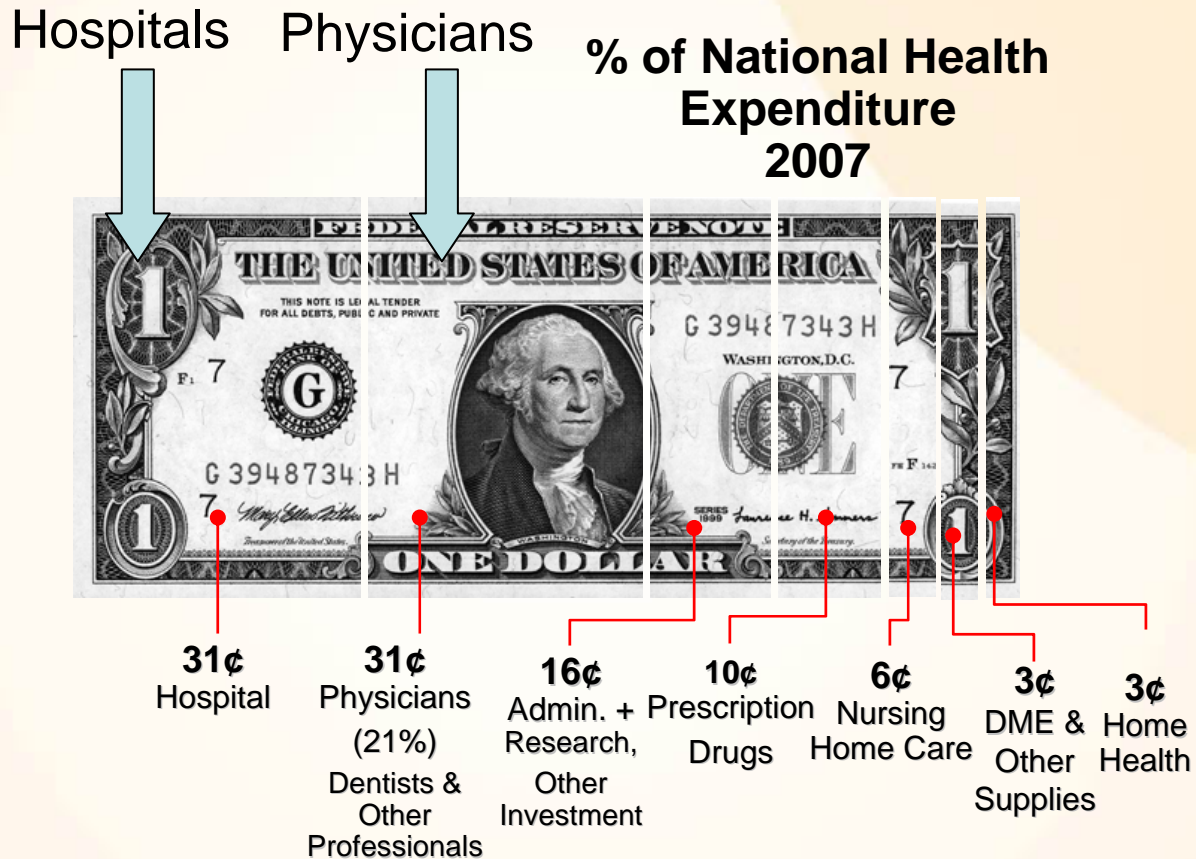
- Customer Services, Provider Support, Marketing 4%
- Premium Taxes & Government Compliance 2%
- Claims Processing 3%
- Other Operations (i.e. underwriting, premium collection) 1%
- Profits 3%

- Total Average Administrative Costs 13%

Source: America's Health Insurance Plan
The Factors Fuelling Rising Health Care Costs 2008
PricewaterhouseCoopers

The U.S. Centers for Medicare and Medicaid Services provides data on the net cost of private health insurance. This data showed administrative expenses comprised 12.3 percent of total premiums in 2006. This data series includes the administrative costs of private health insurance and third-party administrators for employer plans, individually purchased health insurance, Medigap, and long-term care insurance. The 13% estimate shown here reflects an adjustment for non-medical coverages included in this data. See the National Health Expenditure Historical and Projections 1965-2016 at the website:
http://www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp

Where does the money go?



Why are premiums outpacing CPI?

- Shifting payment to insurance buyers
- Growing demand for services
- Shortage of caregiver supply
- Shifting access to high cost settings
- Administrative costs
- **Free or Premium-Based Healthcare**

If groceries were free,
how full would your basket be?



**Most U.S. citizens get free or
premium-based care.
They rarely know the actual cost
of the care.**

Could private insurance be made affordable if not for cost shifting, caregiver shortages, tort reform...?

Common Reform Proposals

Covering More People

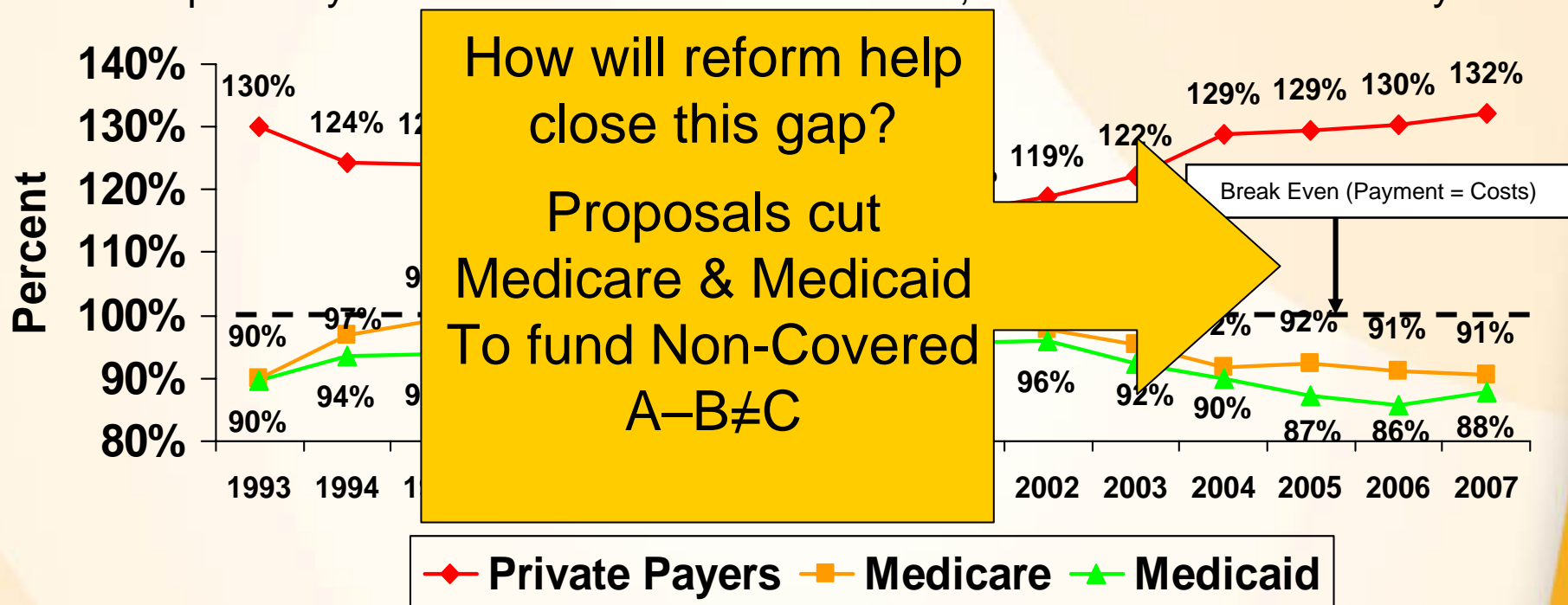
- Estimated to cover up to 95% of population
- Expand Medicaid & SCHIP
 - States have to fund their share
 - Some relief for high unemployment states
- Individuals required to buy insurance
- Subsidies for lower income
- May create:
 - Insurance exchanges & gateways
 - Non-profit insurance cooperatives
 - Government public option?
- Requires 3-4 benefit tier options including a minimum plan
- Requires guarantee insurance issuance and renewal
 - No pre-existing condition exclusions

Cost Containment Provisions

- Restructure Medicare managed care payments
 - Reduce payments
- Reduce annual payment updates to providers
 - hospital, physicians, home health, skilled nursing, and others
 - grows underfunding for programs already underfunded
- Reduce payments for hospital readmissions
- Expand bundled payment structure demonstrations
 - Reduce payments
- Create new independent Medicare Commission for cost savings to reduce payments

Medicare / Medicaid Reimbursement Falling Further Below Costs

Hospital Payment-to-Cost Ratios for Medicare, Medicaid and Private Payers



Other Provisions

- Encourage states to adopt alternative dispute resolutions
- Quality reporting, institutes, and incentives
- Medicare and insurance prevention & wellness plan requirements and incentives
- Long-term care insurance tax incentives and Medicaid demonstration programs
- Graduate medical education funding redistribution to primary care
- National workforce commissions

How does reform
address factors driving healthcare
cost and premium increases?

Shifting cost to insurance buyers

- Government program underfunding
- Uninsured patients

Proposals:

- Payment cuts across most government programs
= increase underfunding
- Requires individuals to buy insurance
= reduces # of uninsured patients
- Requires insurance to accept everyone
 - No provision for high numbers of sick

Key Questions:

- *Will covering more people with the same \$\$ resolves underfunding?*
- *Will paying less and less to providers result in reduced access?*
- *Will insurers go out of business?*

Growing demand for services

- Cost of an aging population
- Cost of increasing life expectancy
- Lifestyle choices & chronic disease
 - TBD - Some incentives for prevention and wellness

Key Questions:

- *Will reforms address individual responsibility?*
- *Will these incent better lifestyle choices?*

Growing demand for services

- Tort reform

- Demonstration projects?
- Encourage states to expand Alternative Dispute Resolution

Key Question:

- *Will these reduce defensive medicine?*

- Technology / Drugs

- Payment reductions
- Taxes on medical device and pharmaceutical manufacturers

Key Question:

- *Will lower payments impact innovation & availability?*

Caregiver shortage

- National workforce advisory committees / commission
- Expand / redistribute graduate medical education towards primary care
- Additional funding for federally-qualified health centers and other teaching centers for teaching expenses

Key Questions:

- *Will these address caregiver shortages?*
 - *Enough to address availability and rising cost?*
- *With declining payments will we have the doctors we need?*

Shifting Access to High Cost Settings

- Expand coverage by 5 to 10%
- Provide incentives for prevention & wellness

Key Questions:

- *Will these actually change individual behaviors?*
- *Will there be enough primary care access?*

Administrative Costs

- Administrative transaction standards for eligibility, claims processing, electronic payment
- Additional reporting requirements

Key Questions:

- *Will these increase or decrease administrative costs?*

Free or Premium-Based Healthcare (Personal Responsibility)

- Individual must have or buy coverage

Key Questions / Issues:

- *What is individual's role in waste?*
- *What is individual's role in price to value?*
- *What is individual's responsibility for lifestyle?*

Who will pay?

- Employer / individual mandates to pay something
- Taxes, Taxes, Taxes – Tax everything
 - Wealthy?
 - Insurance Benefits (all or enhanced?)
 - Provider Taxes?
 - Increase Medicare payroll tax?
 - Premium taxes?
 - Penalties?
- Provider payment reductions (lack of increases)
 - Reductions in Medicare and Medicaid (already underfunded)
- Potential Savings - Reduce unnecessary utilization
 - Preventative care (almost nothing here)
 - Chronic disease management (the dream)
 - Reduce variation in utilization and outcomes?
 - Eliminate fraud & abuse?
- Cost Failsafe
 - Cut Medicare & Medicaid
 - = Growing government underfunding

Summary

What isn't working

- Government programs don't pay the cost of care even now
- More and more people don't have coverage
- Shortage of health care professionals
- Aging / lifestyle / chronic disease driving cost
 - 5% of population use almost 50% of funds
- Limited personal responsibility and accountability for lifestyle and cost
- An environment that requires defensive medicine

Reform Proposals

- Create coverage opportunities
- Start setting a standard plan
- Get government or non-profits more in the game
- Reform insurance – can't keep anyone out
- Who will pay:
 - Providers through reduced payment for more work
 - Employers
 - Taxpayers

What's missing?

- Full funding of the cost of government programs
- Tort reform – reduce defensive medicine
- Funding for education to reduce caregiver shortage
- Personal responsibility for payment & lifestyle
 - Understand & consider costs
- Insurance company risk equalization pools
- The minimum plan design

In the end....what do we get?

- Expanded, but not universal coverage
- Insurance reform that may drive out insurers
- Some other reforms meant to contain costs, improve quality, and address other issues
 - Possibly just more costs and government
- Increased taxes or deficit spending & unknown costs
- Increased government underfunding / provider payment reductions
 - May lead to more providers unwilling to provide services for low pay
- Higher cost for private insurance likely
- Very limited efforts to address:
 - Many factors driving costs (i.e. tort reform, caregiver shortage)
 - Lifestyle choices, chronic disease, individual responsibility

