

# Economics of Policy Issues

EC3060

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US Health Care – Case Study

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# Health Care in Ireland

- Two-tier System: Socialised medicine with private options
- Socialised Medicine
  - The government is financier of last resort through the government budget
  - Politicians become directly involved in health care
  - The administration of health-care spending becomes part of the government bureaucracy
  - Control of costs: Waiting times and low quality
- Approximately 50% with private health insurance.
  - One of the highest rates for countries with government funded health systems.



# US System

- Private health insurance system.
- 4/5 of hospitals are private, some for profit but most 'not for profit'.
- Significant government health spending via programmes such as Medicare, Medicaid, the Children's Health Insurance Program and the Veterans Health Program.
- Affordable Care Act ('Obamacare')
- 13% of Americans remain uninsured. Five tips for the uninsured:
  1. If you haven't already, check Medicaid eligibility. Could qualify if 1 person HH with  $Y < \$16,243$  or family of four less than  $< \$33,465$ .
  2. Seek cash-only medical providers – can be cheaper.
  3. Choose community health clinics – still costly but can be cheaper.
  4. Compare prices
  5. Negotiate bills afterwards.
- Health Insurance Debate Under Nixon

<http://www.youtube.com/watch?v=iGKkPEvD2OM>



# Issues with Health Insurance

- Health insurance spreads risk by providing protection against large, unforeseen medical expenses
- Private-insurance markets may fail to provide insurance because
  - Problems of verification
  - Moral hazard (skiing)
  - Adverse selection is the main problem



# Two Recent Policies

- Today's Focus: Obama's Affordable Care Act
- To have in the back of your mind: FG's Universal Insurance Proposal (2011 General Election)



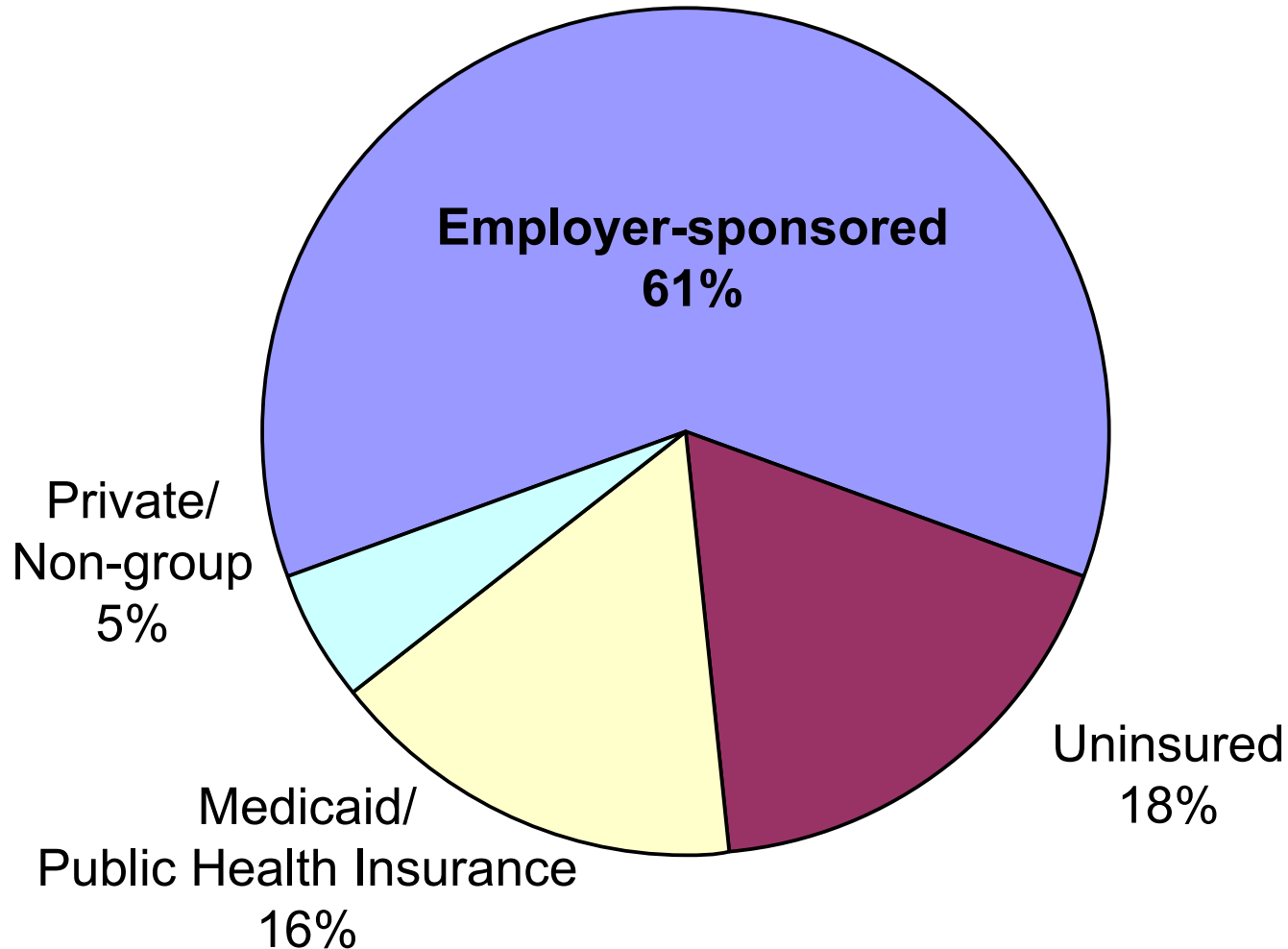


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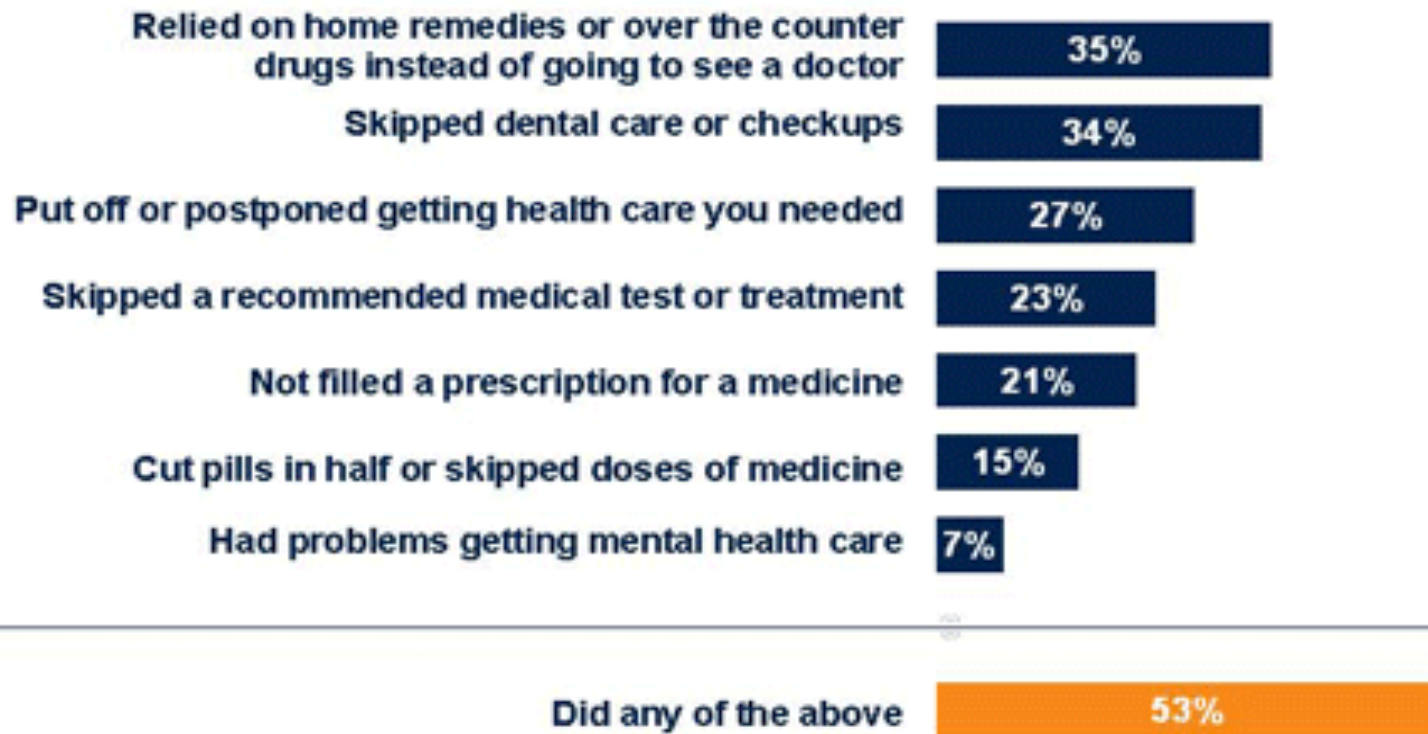


# Where does insurance come from?



# Cutting back on care

In the past 12 months, have you or another family member living in your household done each of the following because of the cost, or not?



Source: Kaiser Health Tracking Poll (conducted Feb. 3-12, 2009)



# Increasing Cost of Health Insurance

	2000	2007	2016
Employer + Employee	\$6,817	<b>\$12,151</b>	<b>\$18,142</b>
Employer	\$5,869	<b>\$9,587</b>	<b>\$13,319</b>
Employee	\$948	<b>\$2,564</b>	<b>\$4,823</b>



# U.S. Health Care Spending

**2018: \$4.4 Trillion**



**2008: \$2.4 Trillion**



	Australia	Canada	Germany	New Zealand	United Kingdom	United States
<b>Overall Ranking (2007)</b>	<b>3.5</b>	<b>5</b>	<b>2</b>	<b>3.5</b>	<b>1</b>	<b>6</b>
<b>Quality Care</b>	<b>4</b>	<b>6</b>	<b>2.5</b>	<b>2.5</b>	<b>1</b>	<b>5</b>
<b>Right Care</b>	<b>5</b>	<b>6</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>1</b>
<b>Safe Care</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>6</b>
<b>Coordinated Care</b>	<b>3</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>5</b>
<b>Pt-Centered Care</b>	<b>3</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>5</b>
<b>Access</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>6</b>
<b>Efficiency</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>6</b>
<b>Equity</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>6</b>
<b>Healthy Lives</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>4.5</b>	<b>4.5</b>	<b>6</b>
<b>Expenditures per Capita,2004</b>	<b>\$2,876</b>	<b>\$3,165</b>	<b>\$3,005</b>	<b>\$2,083</b>	<b>\$2,546</b>	<b>\$6,102</b>



# Overview of US Health Care Reform Proposals

- President Obama's Principles for Health Reform
  - Reduce long-term growth of health care costs.
  - Protect families from bankruptcy or debt because of health care costs.
  - Guarantee choice of doctors and health plans.
  - Assure affordable, quality health coverage for all Americans.
  - Maintain coverage when you change or lose your job.
  - End barriers to coverage for people with pre-existing medical conditions.



# Overview of US Health Care Reform Proposals

1. Coverage (expanding Access)
  - Individual/employer mandates: Require individuals to have a minimum level of health insurance. Require employers of a certain size to offer insurance or help pay for coverage of their employees.
  - Provide subsidies for low income individuals – linked to a % of poverty metric to help them access the private insurance market
  - Create a Public Insurance Option that competes with other insurance plans and serves as an option of last resort for those who cannot get coverage elsewhere.
2. Efficiency Improvements
  - Invest heavily in Health IT
  - Reduce Medicare and Medicaid payments to providers
  - Reward quality with incentive payments. Reduce payments to those that don't show quality improvement or invest in Health IT

See: [http://www.kff.org/healthreform/upload/healthreform\\_sbs\\_full.pdf](http://www.kff.org/healthreform/upload/healthreform_sbs_full.pdf)



# Overview of US Health Care Reform Proposals

## 3. Insurance Market Reforms and Regulations

- Ban on preexisting conditions (medical underwriting)
- Eliminating premium markups based on health status
- Minimizing premium variation based on age
- Capping admin overhead and profits



# Overview of US Health Care Reform Proposals

## 4. Prevention

- Develop a national strategic prevention plan.
- Reward seniors who adopt healthier behaviours with lower Medicare premiums.
- Promote prevention and wellness by providing grants to states to implement innovative approaches to promoting integration of health care services to improve health and wellness outcomes and providing tax credits to small businesses that implement proven wellness programs.



# Debate on Obamacare

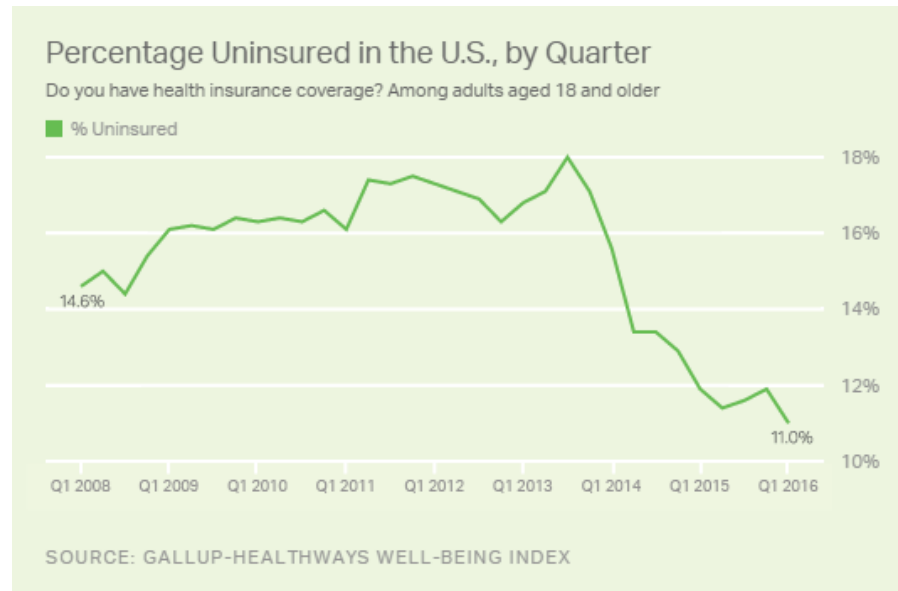
- Left wing debate
- [http://www.youtube.com/watch?v=w7K\\_fACi2JM](http://www.youtube.com/watch?v=w7K_fACi2JM)





# Impacts

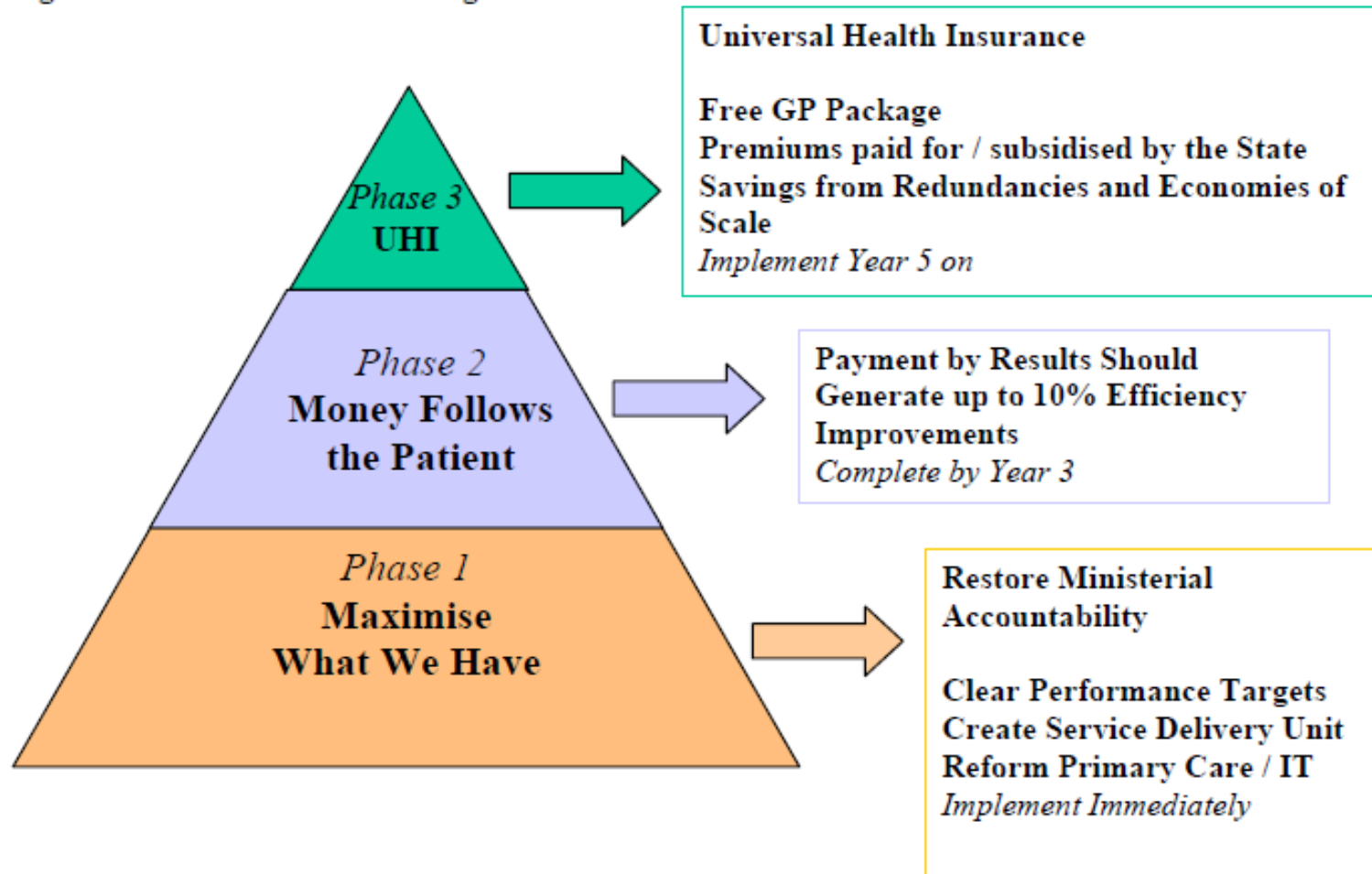
- **17 million people newly insured**
- **Premium prices for health insurance are increasing** (Insurers citing Obamacare)
  - But fell in year after Obamacare
  - Recent increases have been recorded. Rises due to other reasons.
- **Decrease in charity care** — healthcare costs that are not reimbursed by the government — because of the drop in the uninsured population.
- **One-quarter of people 'underinsured'**. High deductibles, core illnesses not covered.
  - newly insured have seen a sharp drop in health related financial distress and report a high degree of satisfaction with their coverage.



- FG's Proposal ("Faircare") to introduce universal health insurance.

➤ <http://patburton.com/doc/FairCare.pdf>

**Figure 2: A 3-Phase Reform Programme**



# Consequences of government enforcement of universal health insurance

- Regulation of incomes of medical staff and hospitals
- Regulation of pharmaceuticals
  - Designating permissible medicines and setting maximum prices at which pharmaceutical companies are permitted to sell their products
- Income redistribution
  - Universal mandatory health insurance requires a source of financing: If some people cannot pay for their coverage, others pay for them
- Health-insurance companies and health-care providers confront a soft-budget constraint
  - principal-agent problem



# Dilemma

- The dilemmas of the choice between market decisions and government entitlements
  - Where health care is provided through government, the criticisms are about inefficiencies, waiting times and quality of treatment, and insufficient individual choice; also incentives for medical practitioners to emigrate
  - When health care is through private markets, the criticisms are about social injustices because of exclusion of people from health insurance and about unnecessary profit-motivated procedures that increase costs but do not benefit patients



# Cost escalation

- Increased health-care spending does not always result in increased benefits
  - Asymmetric information can make unclear what people are buying (or what the government is paying for)
  - Studies show that greater spending on health care does not necessarily improve the quality of health care
- Containing health costs
  - Special attributes of health care make cost containment difficult and can lead to cost escalation over time
  - Attempts to contain costs by limiting the use of new procedures or by limiting access to new medicines encounter ethical objections
  - Sarah Palin and the Death Squads of a national health system:  
[http://www.huffingtonpost.com/2009/08/07/palin-obamas-death-panel\\_n\\_254399.html](http://www.huffingtonpost.com/2009/08/07/palin-obamas-death-panel_n_254399.html)

