



The Price of Healthcare: Exploring the Economics of Healthcare

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Jon Haveman, Ph.D.
NEED, Marin Academy



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- **This slide deck was authored by:**
 - Veronika Dolar, SUNY Old Westbury
 - Jon Haveman, NEED
- **This slide deck was reviewed by:**
 - Jonathan Gruber, MIT
 - Robert Hansen, Dartmouth College
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Outline

- What is Health(care) Economics?
- Health Insurance and Outcomes
- Health Care Systems and Institutions



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Health Economics is Big Business

- The United States spends A LOT on healthcare:
 - In 2019, U.S. national health expenditures were **17.5% of GDP**, which is equivalent to around **\$3.8 trillion**.
 - U.S. Healthcare is the 5th largest economy in the world.
- For comparison, GDP in each country in 2019:
 - Germany: \$3,845 trillion (4th largest economy)
 - **US Healthcare \$3.8 trillion**
 - UK: \$2,827 trillion (6th largest economy)
 - France : \$2,715 trillion (7th largest economy)



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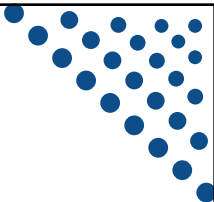
Markets Studied in Health Economics

- **Markets for:**
 - Physicians
 - Nurses
 - Hospital facilities
 - Nursing homes
 - Pharmaceuticals
 - Medical supplies
 - such as diagnostic and therapeutic equipment
 - **Health Insurance**

The Three Legs of the Healthcare Stool



Access

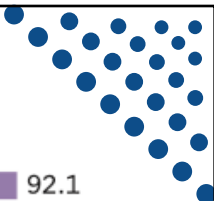


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Health Insurance Coverage, 2022 – 92.1%



Uninsured

7.9

With health insurance

92.1

• Countries with Less Than Universal Coverage

Country	% of Persons
Slovakia	94.5
Chile	94.3
UNITED STATES	92.1
Poland	91.5
Mexico	90.2
Algeria	90.9
Jordan	55.0

• Countries with Universal Coverage

Countries	% of Persons
Australia	100
Canada	100
Czech Republic	100
Slovenia	100
United Kingdom	100
Greece	100
Hungary	100
And 21 more	99+

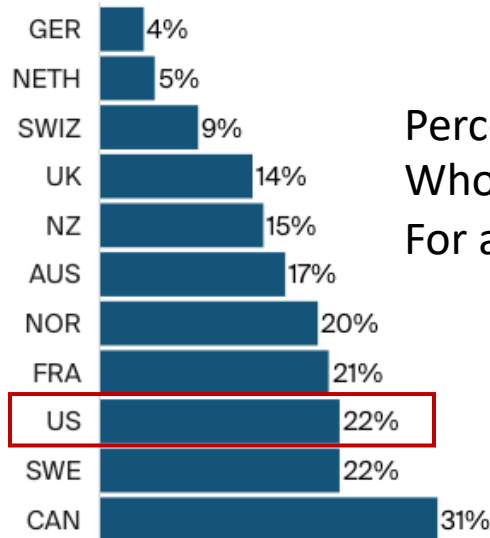
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Source: Organization for Economic Cooperation and Development

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But What About Wait Times?



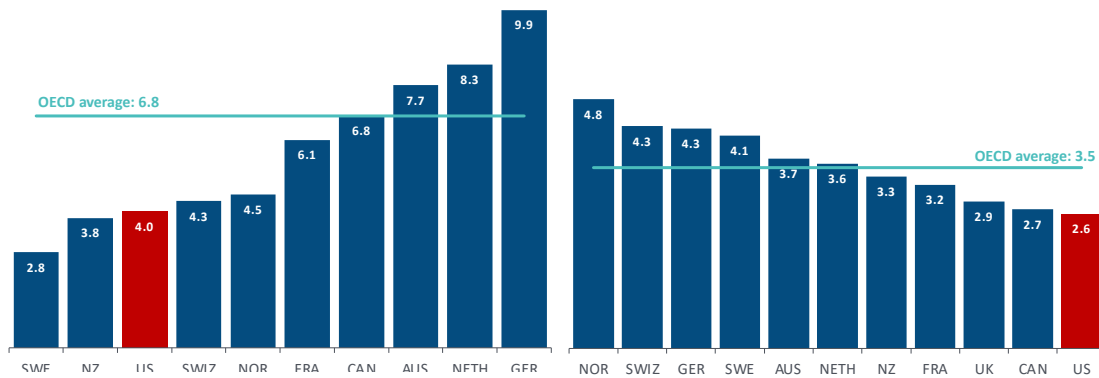
Percentage of adults aged 65+ Who waited more than 6 days For an appointment when sick.

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Physician Visits and Physician Supply

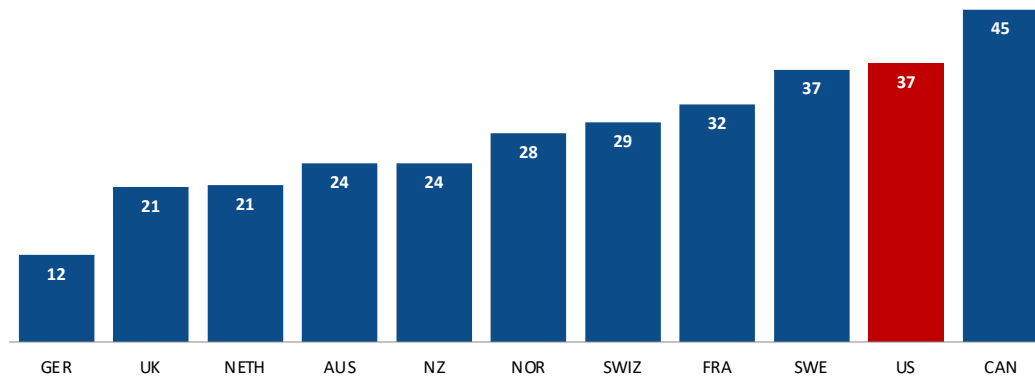
Average physician visits per capita, 2017

Practicing physicians per 1,000 population, 2018



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Percent of Women Ages 18–64 Who Reported Going to the Emergency Room in the Past Two Years



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Source: Munira Z. Gunja et al., *What Is the Status of Women's Health and Health Care in the U.S. Compared to Ten Other Countries?* (Commonwealth Fund, Dec. 2018).

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Access Notes

- **Insurance coverage in the U.S. is not universal.**
 - It is universal in every other developed country.
- **Wait times are not necessarily lower in the U.S.**
- **Supply of medical personnel and equipment may be lower than elsewhere.**
- **Emergency room use is higher in the U.S. than elsewhere.**



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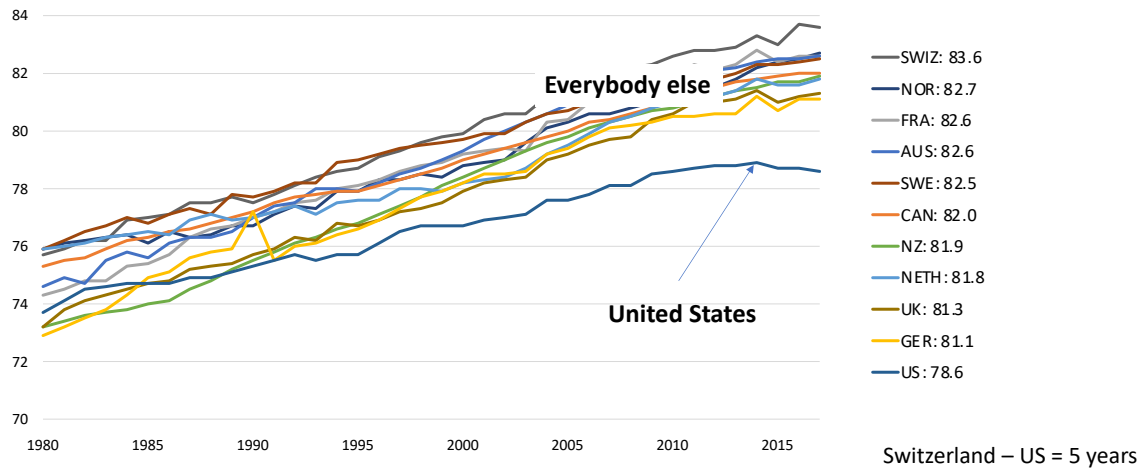
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Quality

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Life Expectancy: How Does the US Compare?



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Life Expectancy at Birth by Race/Ethnicity, 2019

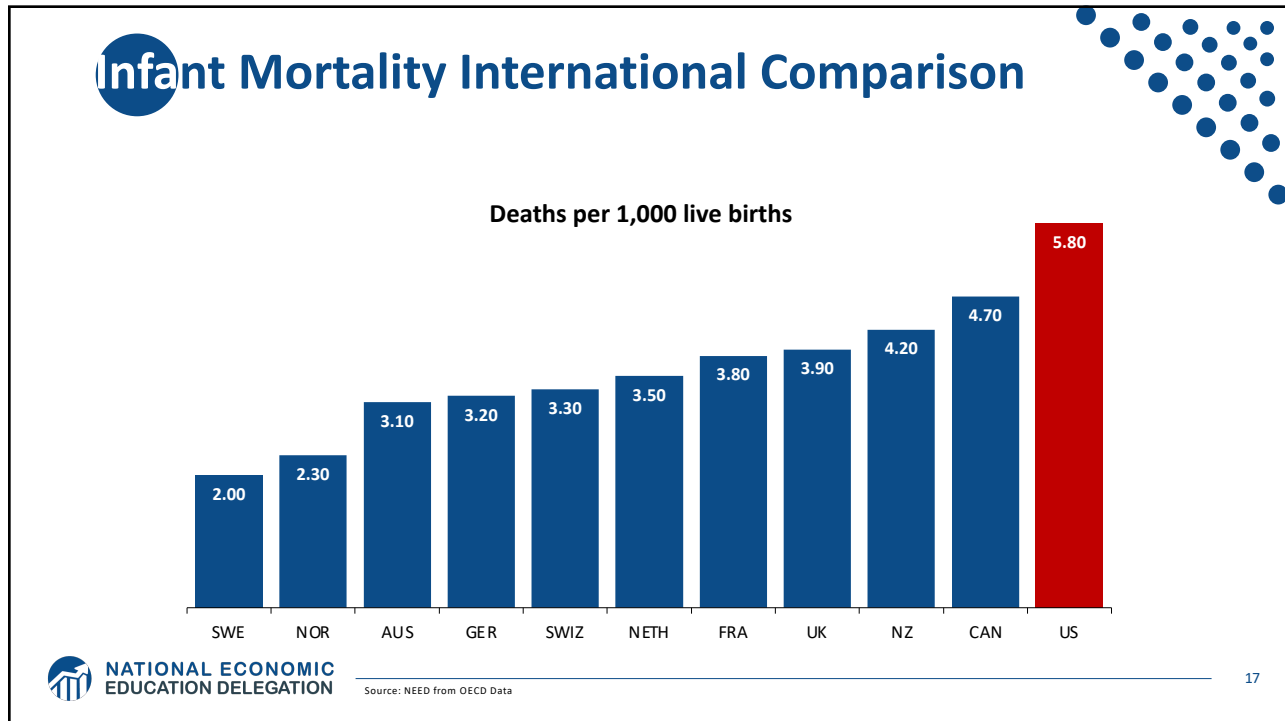
Race/Ethnicity	Life Expectancy (Years)
All Races	78.8
White	78.8
Black	74.8
Hispanic	81.9
Asian	85.6

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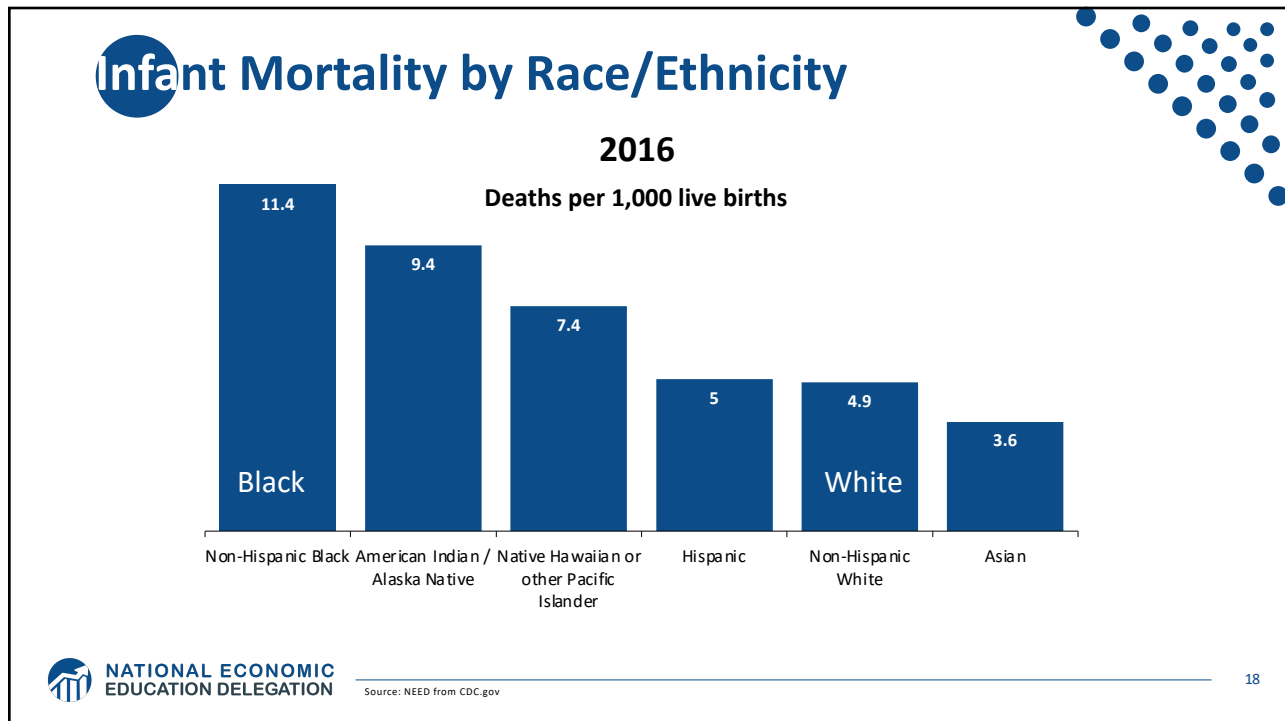
Income Also Matters – Reflecting Access?

Sex	Income Category	Life Expectancy (Years)	Difference High vs Low
Women	Highest Incomes (top 1%)	88.9	10.1 years
	Lowest Incomes (bottom 1%)	78.8	
Men	Highest Incomes (top 1%)	87.3	14.6 years
	Lowest Incomes (bottom 1%)	72.7	

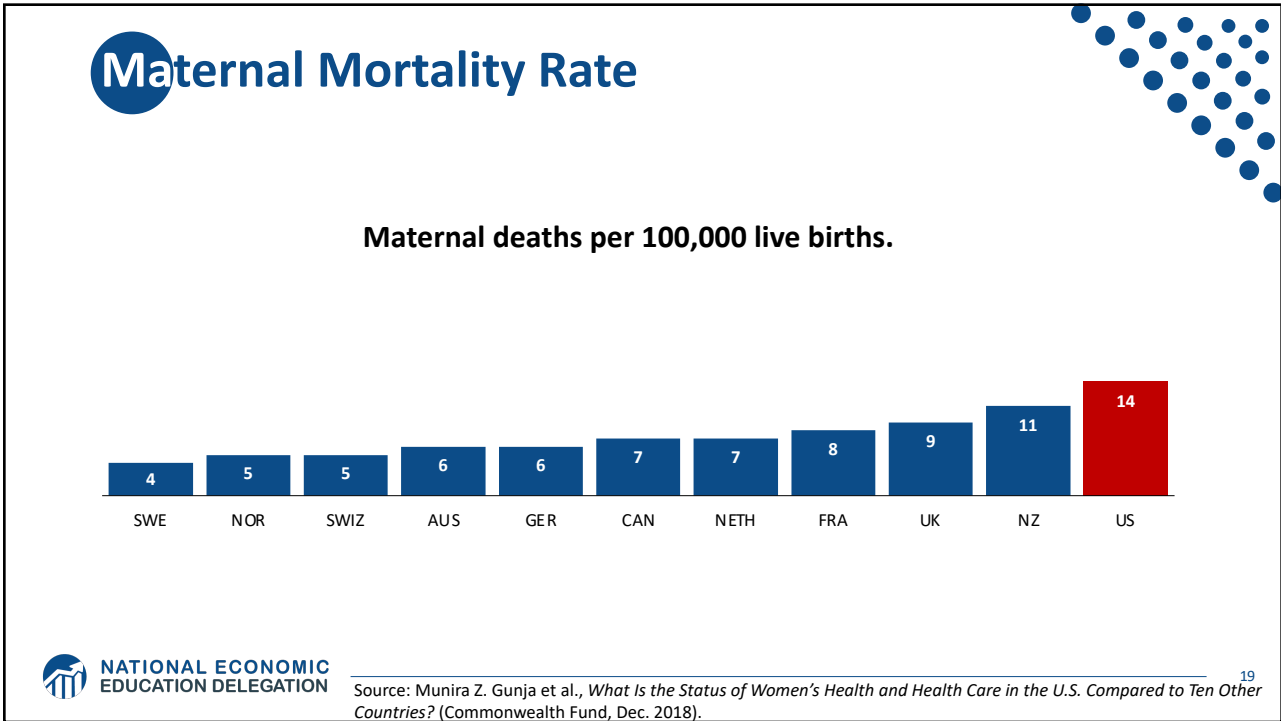
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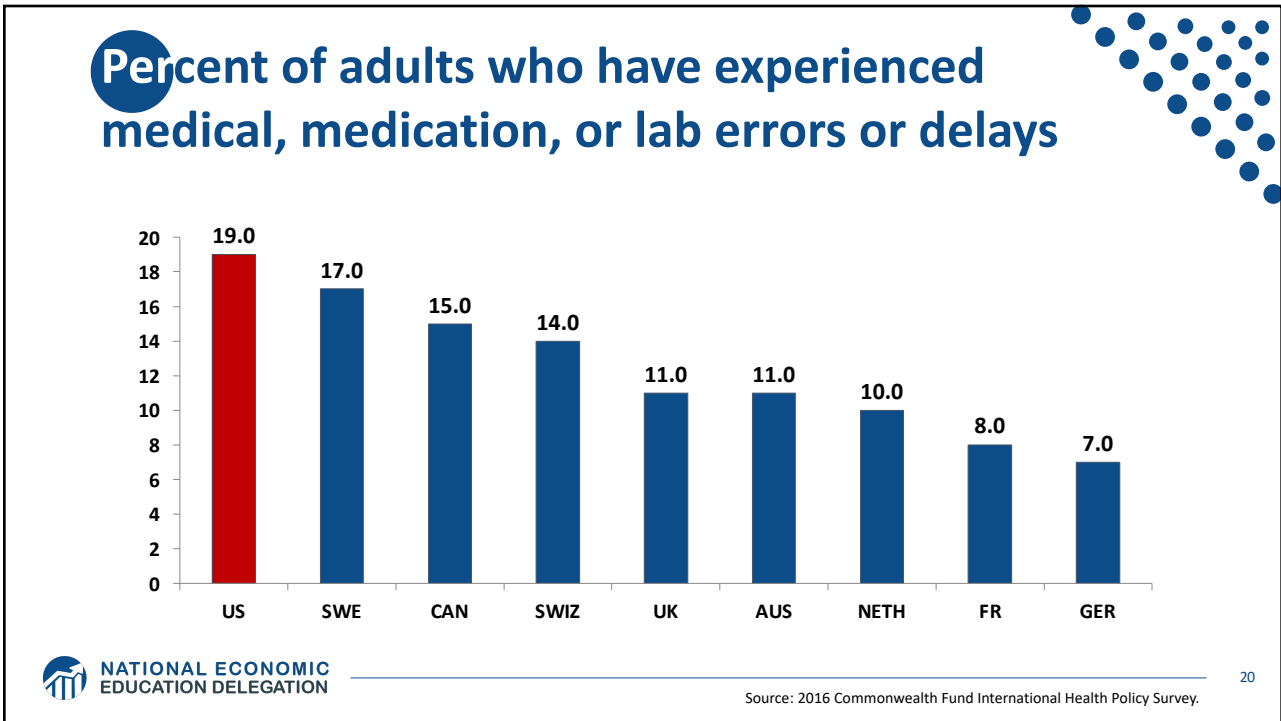
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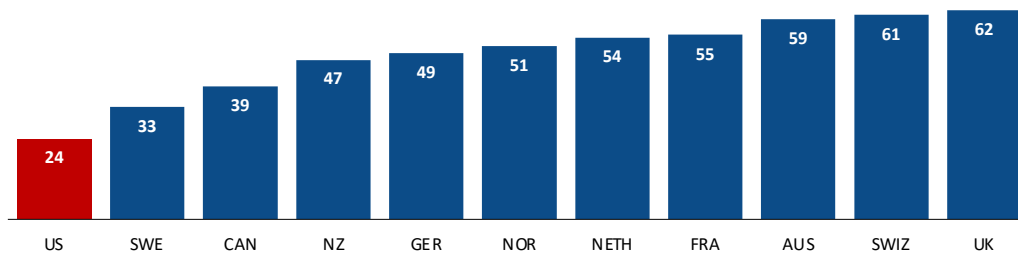
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Perception of Quality of Medical Care

Percent of women ages 18–64 who rated their quality of medical care as *excellent or very good*.



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Source: Munira Z. Gunja et al., *What Is the Status of Women's Health and Health Care in the U.S. Compared to Ten Other Countries?* (Commonwealth Fund, Dec. 2018).

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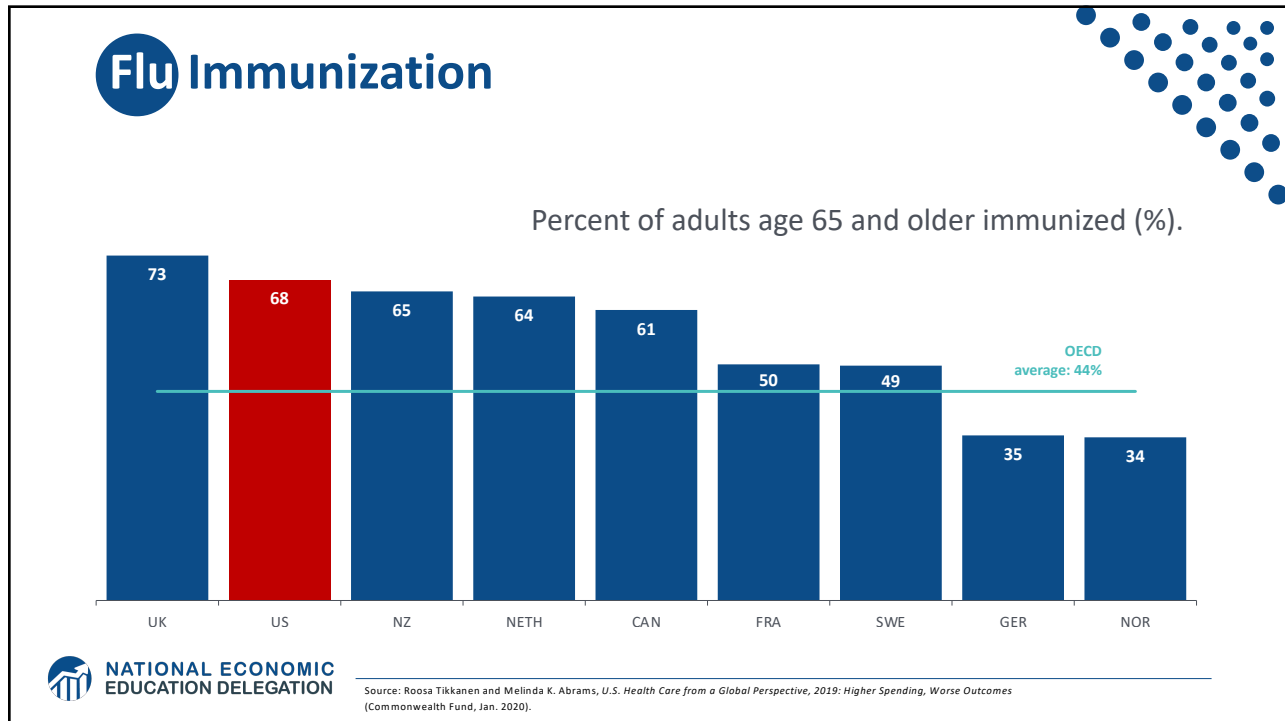
Prevention and Screening

- The U.S. excels in **some** prevention measures (high ranking:
 - including **flu vaccinations** and **breast cancer screenings**.)
- The U.S. has:
 - The highest average five-year survival rate for breast cancer,
 - but the Lowest for cervical cancer.

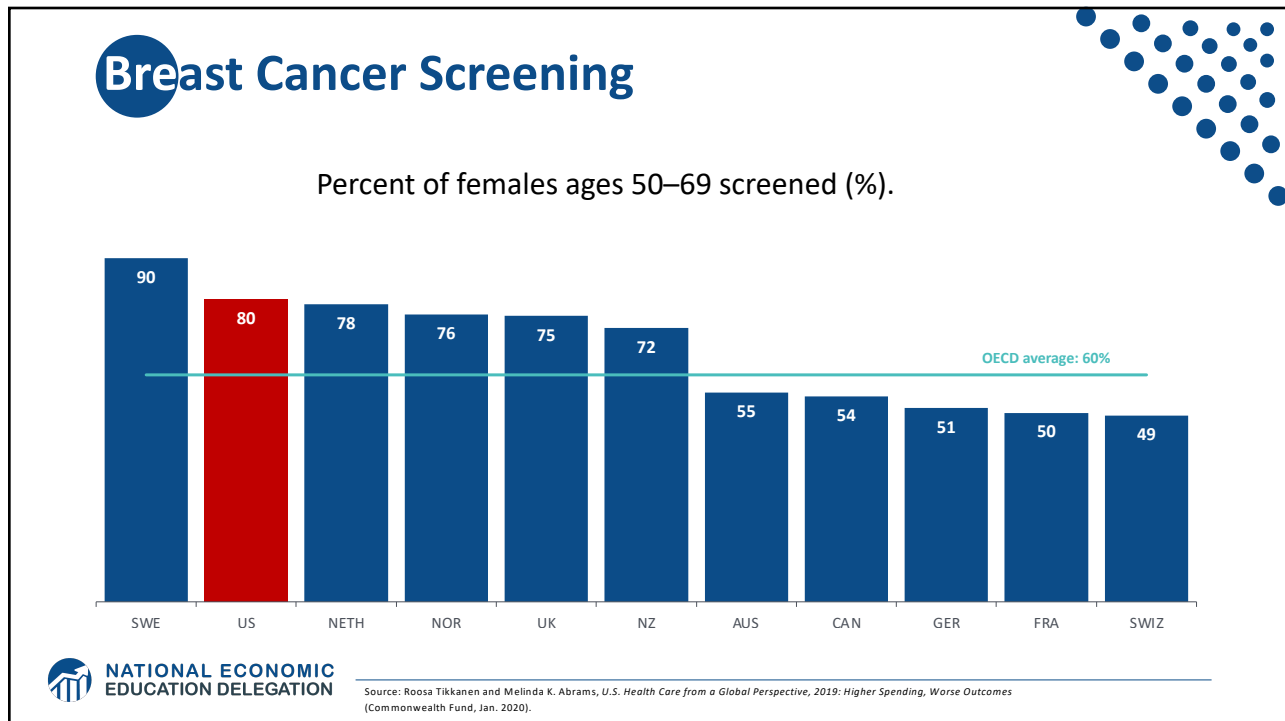


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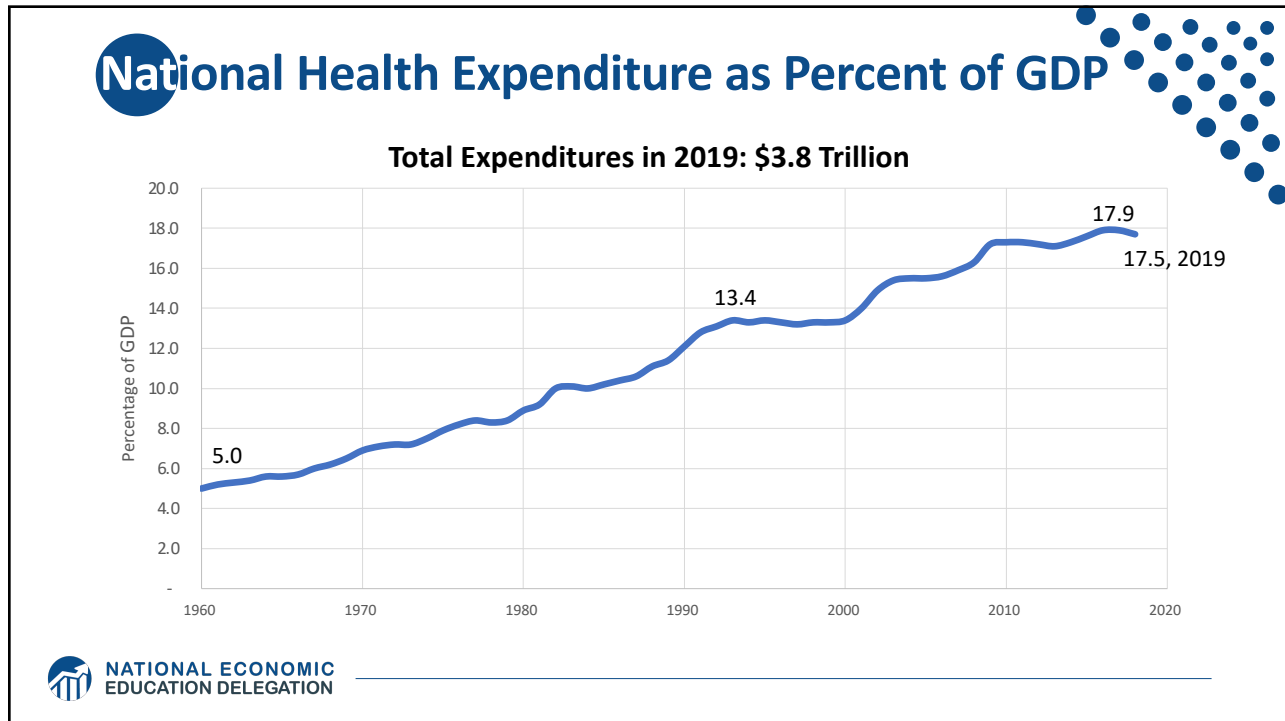
Quality of Care Notes

- Metrics of quality in the U.S. are not very good.
- Quality of care is not considered very good in the U.S.
- The system has bright spots!

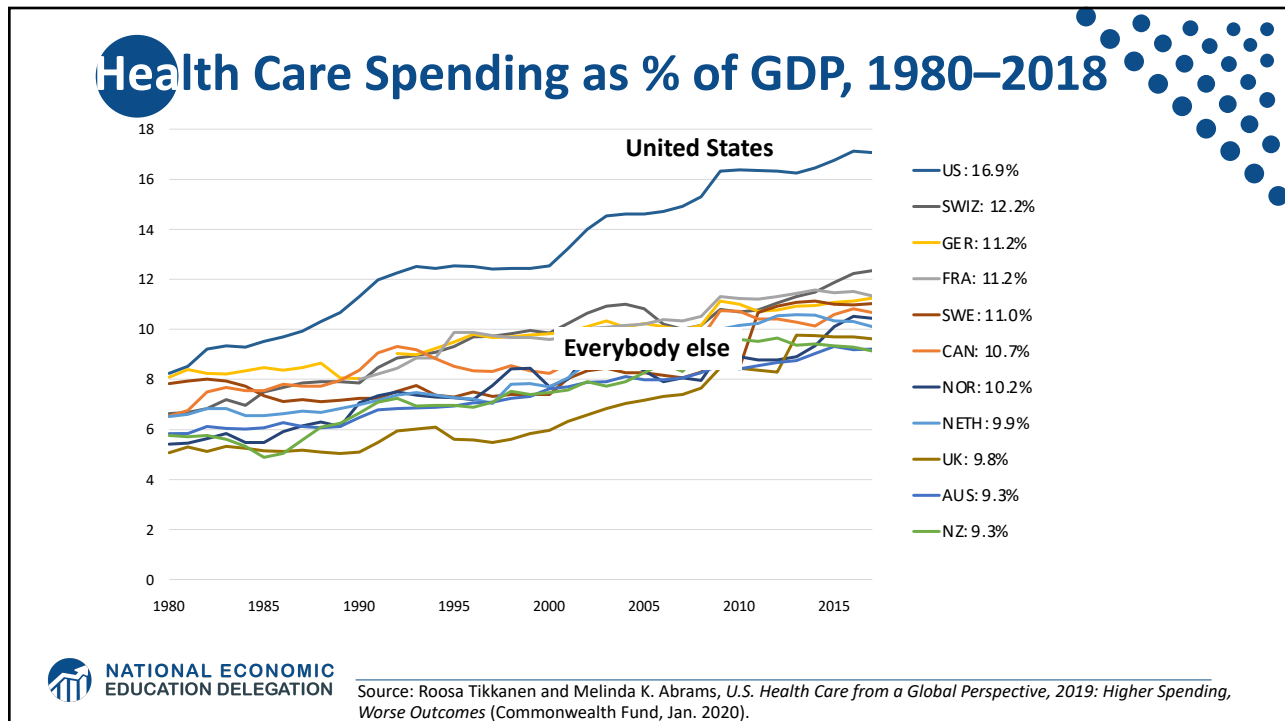
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Costs

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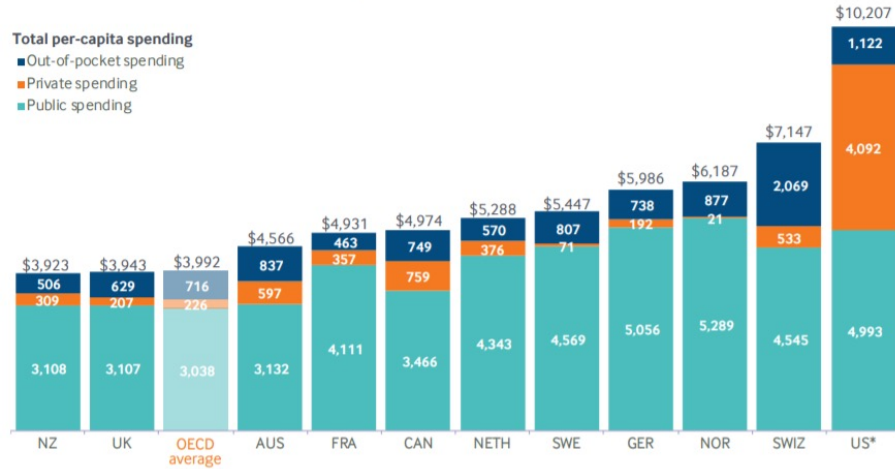


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International Per Capita Healthcare Spending

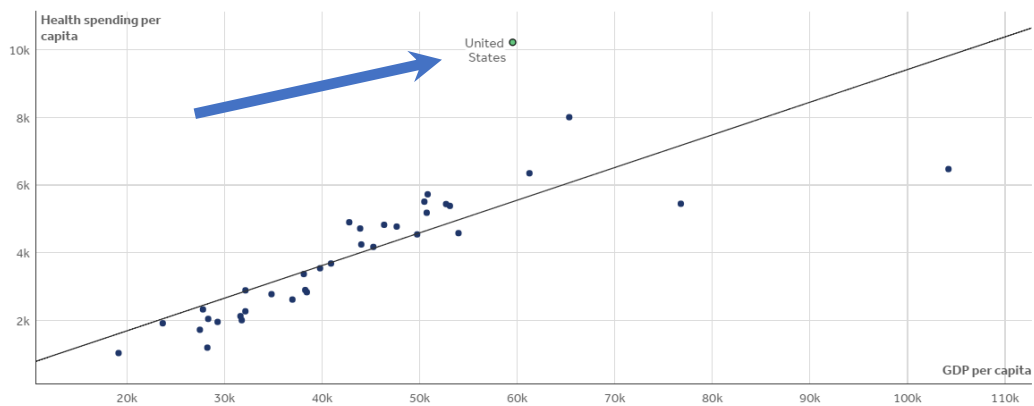
Dollars (US\$), adjusted for differences in cost of living

Total per-capita spending
 ■ Out-of-pocket spending
 ■ Private spending
 ■ Public spending



Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

GDP per Capita and Health Spending per Capita, 2017



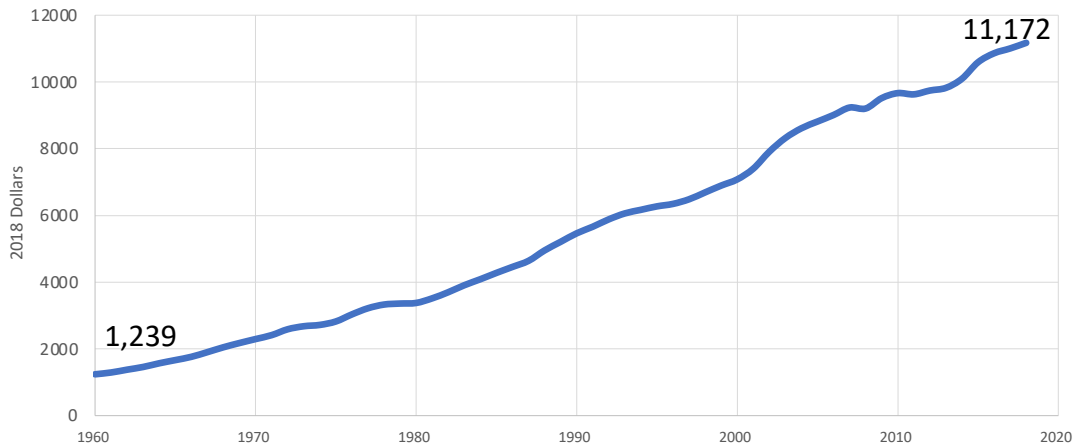
Notes: U.S. value obtained from National Health Expenditure data. Health consumption does not include investments in structures, equipment, or research.

Source: KFF analysis of OECD and National Health Expenditure (NHE) data • Get the data • PNG

Peterson-KFF
Health System Tracker



National Healthcare Expenditure Per Capita

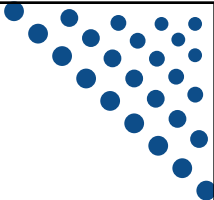


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Why is Healthcare Spending Increasing?

- Costs in the United States, and elsewhere are increasing rapidly.
- The share of economic spending on health care has been steadily increasing for all countries because:
 - Health spending growth has outpaced economic growth.
 - Richer countries demand more services, like attention to health.
- Also because of:
 - Advances in medical technologies.
 - Increased demand for services.
 - Rising prices in the health sector – why?


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Why Are Costs so High in the US?

One Reason:

The United States is the only profit-motivated healthcare system in the world.

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Why Are Costs so High in the US?

Another Reason:

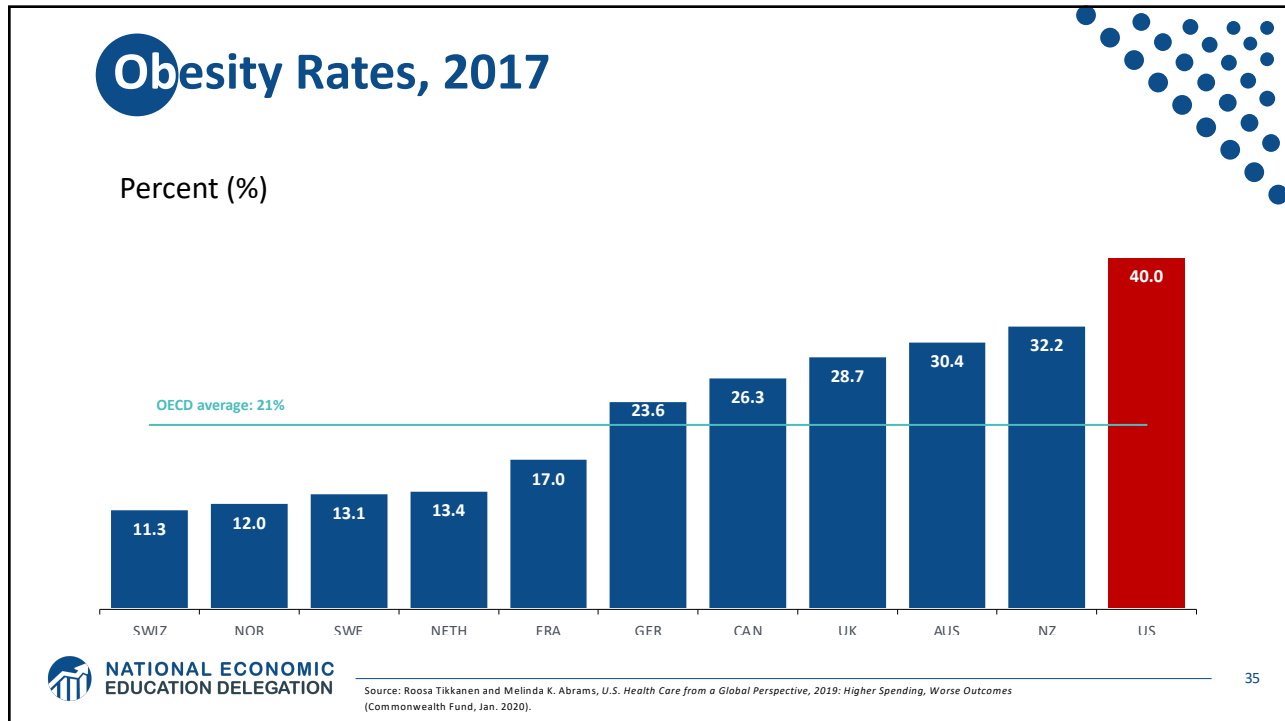
Our public health system isn't very good.

(We have a health RESTORATION system, NOT a health CARE system.)

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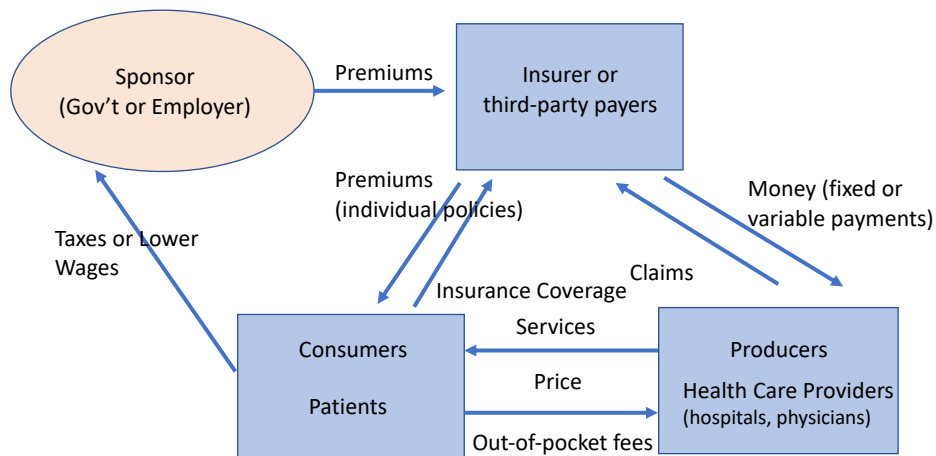
Markets Matter for Costs

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Health Care Markets are Different



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How Much Did Your Flu Shot Cost?

- **Who knows? It's generally offered for free.**

- **Providers of the shot do pay for it.**

- Some reported prices:

- Sacramento, CA \$85
- Long Beach, CA \$42
- Washington, DC \$15

Prices are negotiated with the
Vaccine producer.

Differences are a reflection of
More or less bargaining power.

- **Who really pays for the flu shot?**

- YOU DO! Higher premiums.



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Source: <https://kffhealthnews.org/news/the-startlingly-high-cost-of-the-free-flu-shot/>

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Policy Matters for Costs



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Hospital Monopolization

- Less competition in health systems, hospitals, medical groups, and health insurers has surged in recent years.
- Over an 18-month period between July 2016 and January 2018:
 - Hospitals acquired 8,000 more medical practices.
 - 14,000 more physicians left independent practice to become hospital employees.
- Between 1999 and 2018, hospital profit margins soared!
 - From 100% in 1999 to 317% in 2018.



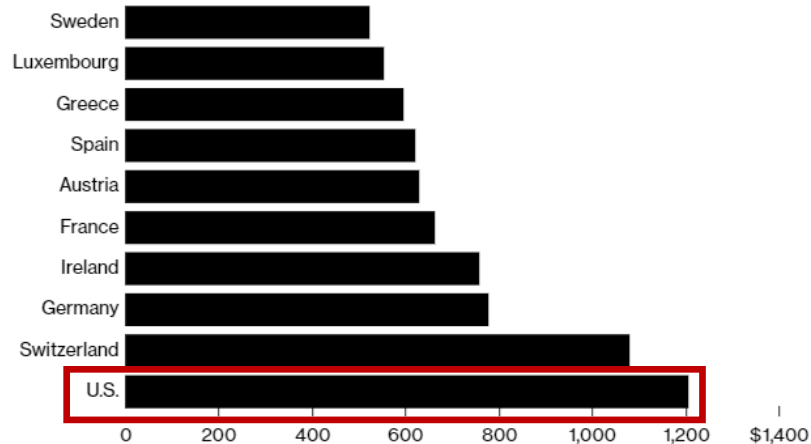
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Spending on Pharmaceuticals

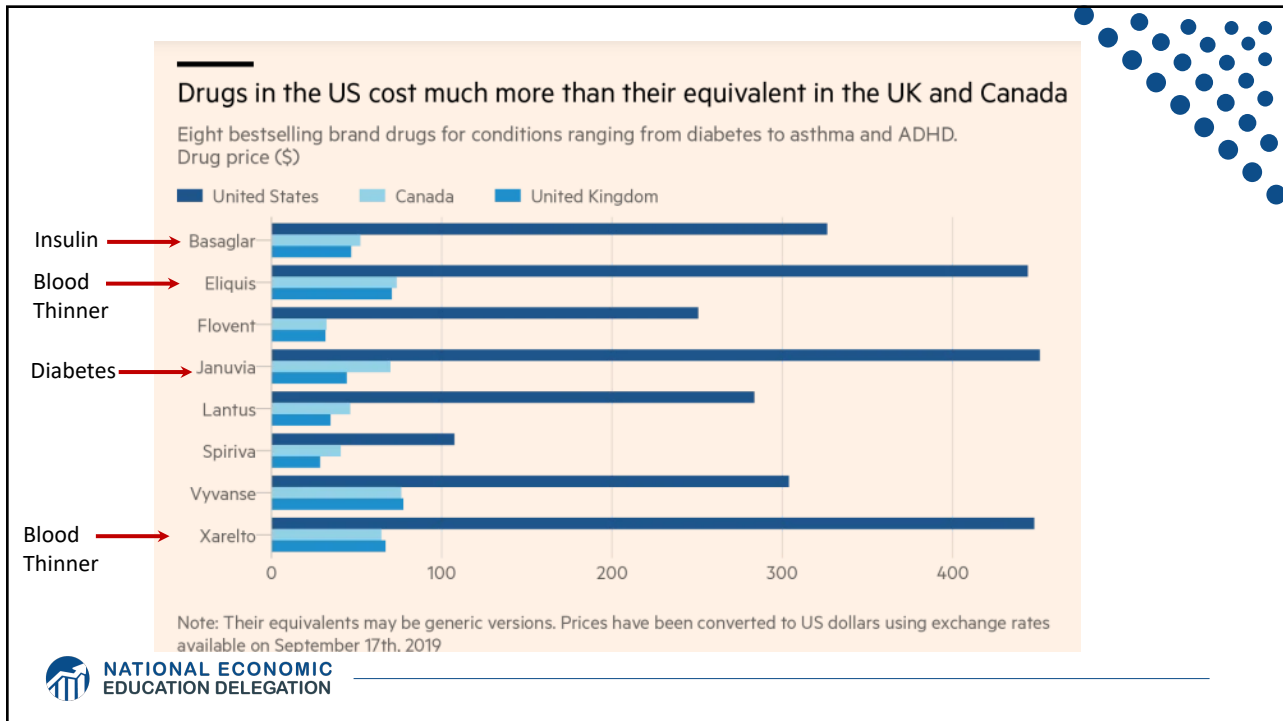
Top spenders per capita on drugs in 2016, in U.S. dollars



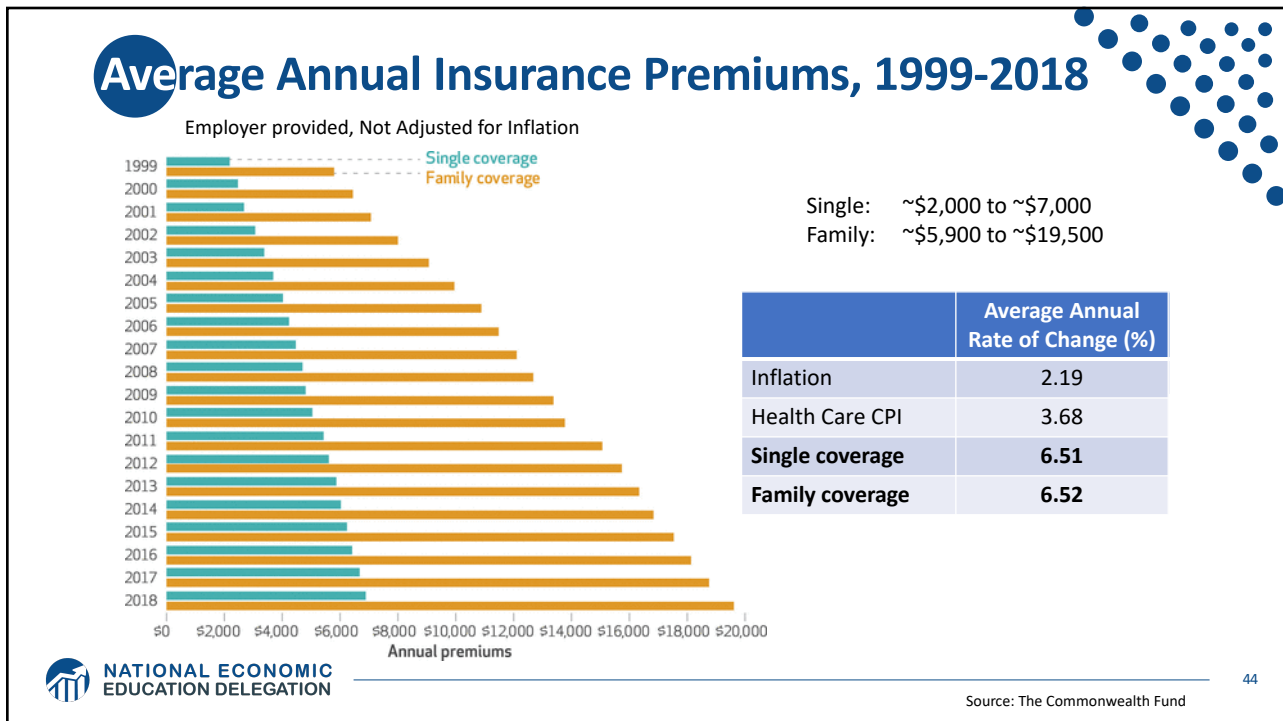
Source: Organisation for Economic Co-operation and Development

Medicare Modernization Act

- Prescription Drug Component
- Medicare Part D, **by law**, cannot negotiate drug prices like other governments do.
- In 2017, Medicare spent nearly \$8 billion on insulin.
 - The researchers said that if Medicare were allowed to **negotiate** drug prices like the U.S. Department of Veterans Affairs (VA) can, Medicare could **save about \$4.4 billion just on insulin**.



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Reason for Higher Health Insurance Rates

- Rising prices in the health sector
- Advances in medical technologies
- Increased demand for services
- Lack of competition in health insurance markets



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Monopolization of Health Insurance Markets

- As of 2011, there were close to **100 insurers** in **Switzerland** competing for consumer health care dollars, **forcing firms to compete** by setting prices to just cover costs.
- In 2019, of the 50 states and the District of Columbia:
 - 21 had only 1 or 2 insurers
 - 14 had 3 or 4, and
 - 16 states had 5 or more. (CA had 11)



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Source: KRR, Number of Issuers Participating in the Individual Health Insurance Marketplaces

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Health Care Systems and Institutions



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Definition: Universal Coverage

- **Universal coverage** – refers to health care systems in which *all* individuals have insurance coverage.
- Generally, this coverage includes:
 - Access to all needed services and benefits.
 - Protects individuals from excessive financial hardships.
 - Medical indebtedness is the #1 cause of bankruptcies in the United States.
- Canada has universal coverage, the United States does not.



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Definition: Single-Payer

- **Single-payer** - refers to financing a health care system by making one entity solely and exclusively responsible for paying for medical goods and services.
 - Not necessarily the government.
- **It is only the financing component that is socialized.**
 - The money for the payment can be either collected by:
 - Taxes collected by the government.
 - Premiums collected by National or Public Health Insurance.
- **Single-payer systems: 17 countries**
 - Norway, Japan, United Kingdom, Kuwait, Sweden, Bahrain, Brunei, Canada, United Arab Emirates, Denmark, Finland, Slovenia, Italy, Portugal, Cyprus, Spain, and Iceland.



Definition: Socialized Medicine

- **Socialized medicine** – this model takes the single-payer system one step further.
 - Government not only pays for health care but operates the hospitals and employs the medical staff.
- This has NEVER been a part of the debate in the United States.



Definition: Third-Party Payer

- A **third-party payer** is an entity that pays medical claims on behalf of the insured. Examples of third-party payers include government agencies, insurance companies, health maintenance organizations (HMOs), and employers.
 - Employer-sponsored health plans
 - Individual market health plans
 - National health insurance



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Health System Classification

- **Developed countries of the world have each taken a different approach for their health care delivery systems.**
- **5 basic models:**
 - Beveridge – socialized medicine (United Kingdom, Spain, New Zealand)
 - Bismarck (France, Germany, Japan, Switzerland)
 - National health insurance (Canada)
 - Out of pocket model – self insurance
 - Mixed (United States)



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Model 1: Beveridge

- **In this model, health insurance is paid for through TAXATION.**

- Everybody has insurance, universal coverage. Everybody receives care at no cost.
- All insurers are public.
- Supplemental insurance is available in the private market.
- Similar to public libraries and police forces.

- **Pros:**

- Universal coverage.
- Government controls quality of care, so cost of care may be low.
- No medical bills or co-pays.

- **Cons:**

- Taxes are high, regardless of use of healthcare.
- Government controls quality of care, so service availability might be low.
- Longer waiting times for non-emergency care.
- Potential for excessive use of the system.



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<https://www.ahaap.org/beveridge-model>

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Model 2: Bismarck

- **In this model, health insurance is paid for through PREMIUMS.**

- Everybody must have insurance, only poor don't have to pay premiums.
- Premiums are paid into the "gov't sickness fund" or directly to private insurers.
- All insurers are private, but can't make money off the sickness fund.

- **Pros:**

- Everybody is covered and can avoid expensive healthcare bills.
- Administrative costs are much lower than in the U.S.
- Little waiting time to receive basic services.

- **Cons:**

- Focus on low costs can mean fewer services are available in rural areas.
- Mandatory premiums are high.
- Longer waiting times for elective services.



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<https://www.ahaap.org/bismarck-model>

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Model 3: National Health Insurance

- **This model has elements of both Beveridge and Bismarck.**
 - Like Beveridge: government is the single payer and paid for through taxes.
 - Like Bismarck: All health-care providers are in the private sector.
- **Pros:**
 - Lowers the cost of healthcare for the economy – bargaining power.
 - Low administrative costs for care.
 - No incentive to deny claims.
 - Healthier workforce.
- **Cons:**
 - Everybody pays regardless of health care received.
 - May stop people from being careful about their health.
 - Limits payouts to doctors.
 - May affect technology adoption.



US Health Care System

- **Medicare – National Health Insurance**
- **Military Veteran Care – Beveridge model (socialized medicine)**
- **Employer-sponsored insurance – Bismarck model**
- **Individual market health plans – Bismarck model**
- **Uninsured – Out of pocket model**



Summary

- US HealthCare system is **not performing well**.
 - Very expensive with low quality and access.
- One of the main reasons for very high costs is the **monopolization** of healthcare markets.
- **Universal health insurance** would increase access and perhaps also reduce costs.
- Changing the **focus** from maximizing **profits** to maximizing **care** would help.



A Few Simple Solutions Could Reduce Costs

- **Encourage competition in healthcare markets.**
- **Introduction of a public option in the health insurance market.**
- **Allow the US government to negotiate drug prices**
 - like most every other nation.
 - Biden administration is making some progress on this.



Thank you!

Any Questions?

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Jon D. Haveman, Ph.D.

Jon@NEEDEcon.org

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