



Health(care) Economics: Costs

OLLI Brandeis University
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NEED



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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Who Are We?

• Honorary Board: 54 members

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

• Delegates: 652+ members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

• Global Partners: 49 Ph.D. Economists

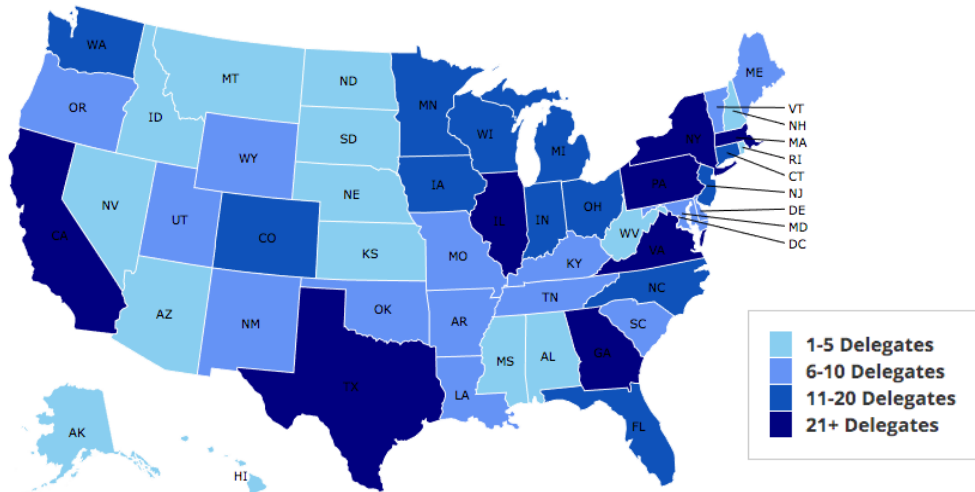
- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Veronika Dolar, SUNY Old Westbury
 - Jon Haveman, NEED
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

- What is Health(care) Economics?
- Healthcare costs



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What is Health(care) Economics?

- Health Economics is a field of **MICRO**economics that focuses on the health care industry.
- Examples of other subfields of microeconomics include:
 - labor economics, industrial organization, economics of education, public economics, and urban economics.



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Health Economics is part of Microeconomics

- Although health economics is part of “micro-” economics, it is actually very big:
 - In 2019, U.S. national health expenditures were **17.7% of GDP**, which is equivalent to around **\$3.8 trillion**.
- For comparison, GDP in each country in 2019:
 - Germany: \$3,845 trillion (4th largest economy)
 - UK: \$2,827 trillion (6th largest economy)
 - France : \$2,715 trillion (7th largest economy)



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What Is Health Economics?

- Health economics studies healthcare **resource markets** and **health insurance**.
- Healthcare is the biggest industry and the largest employer in the United States.



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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



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The Three Legs of the Healthcare Stool

- **The market for Health Insurance is where they all come together.**

- Access
- Quality
- Cost

- **We will be focusing primarily on cost.**


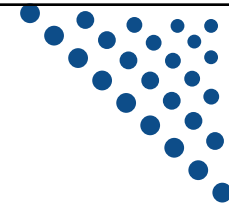


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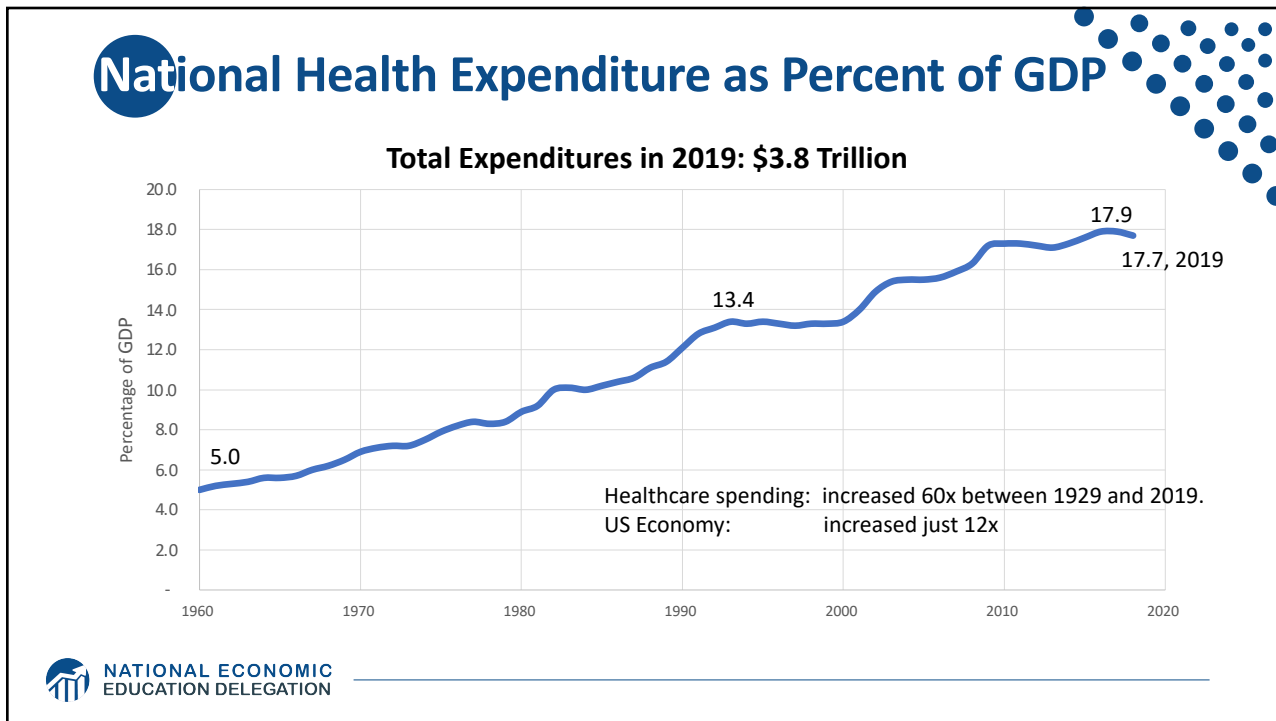
Costs



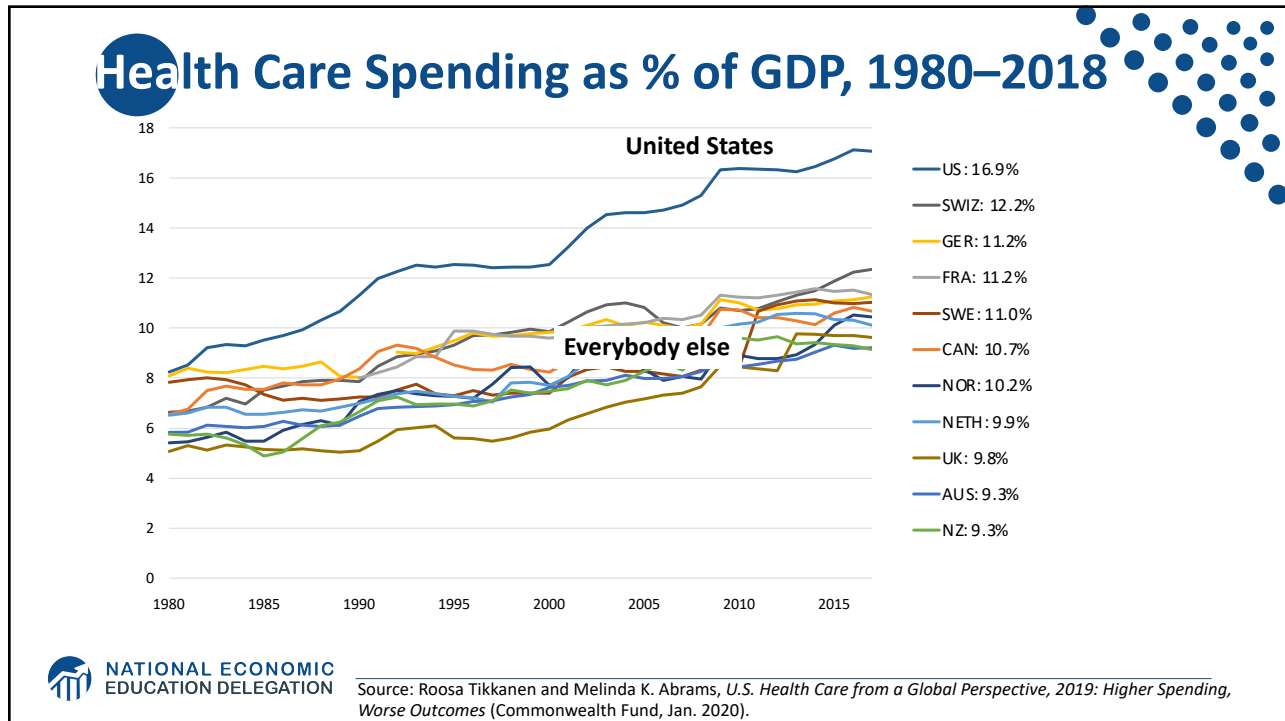
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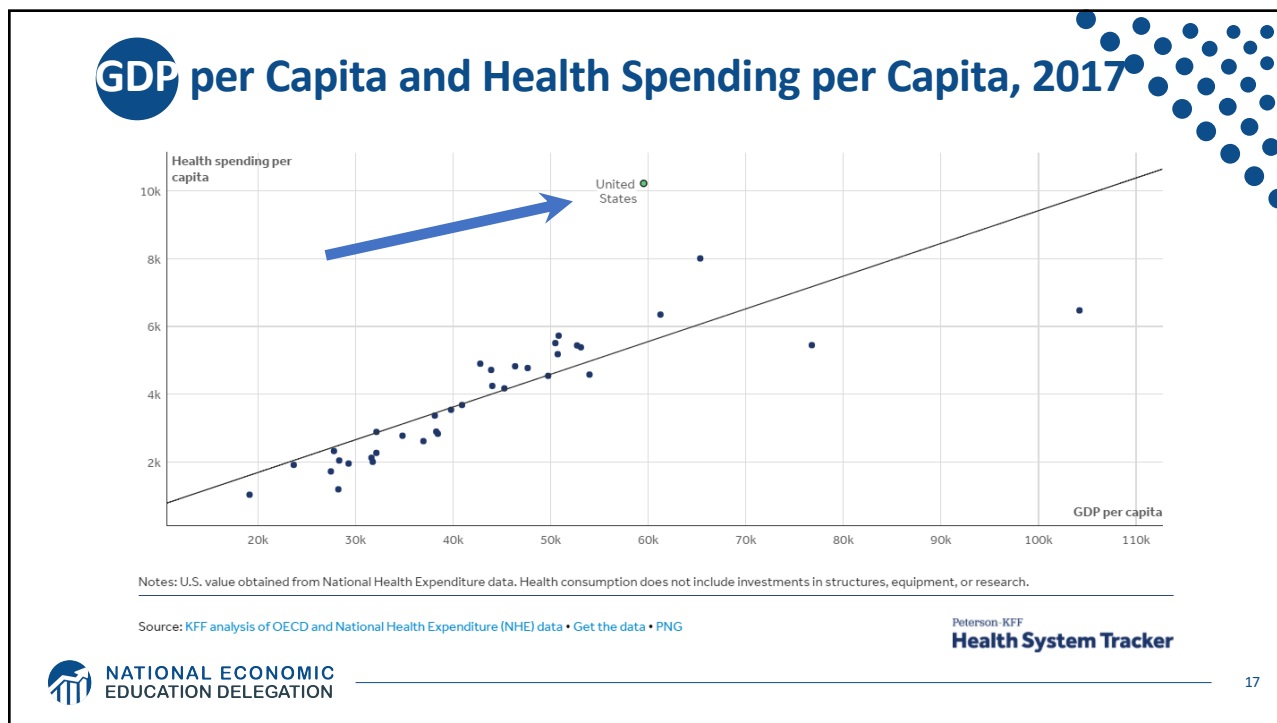
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Why is Healthcare Spending Increasing?

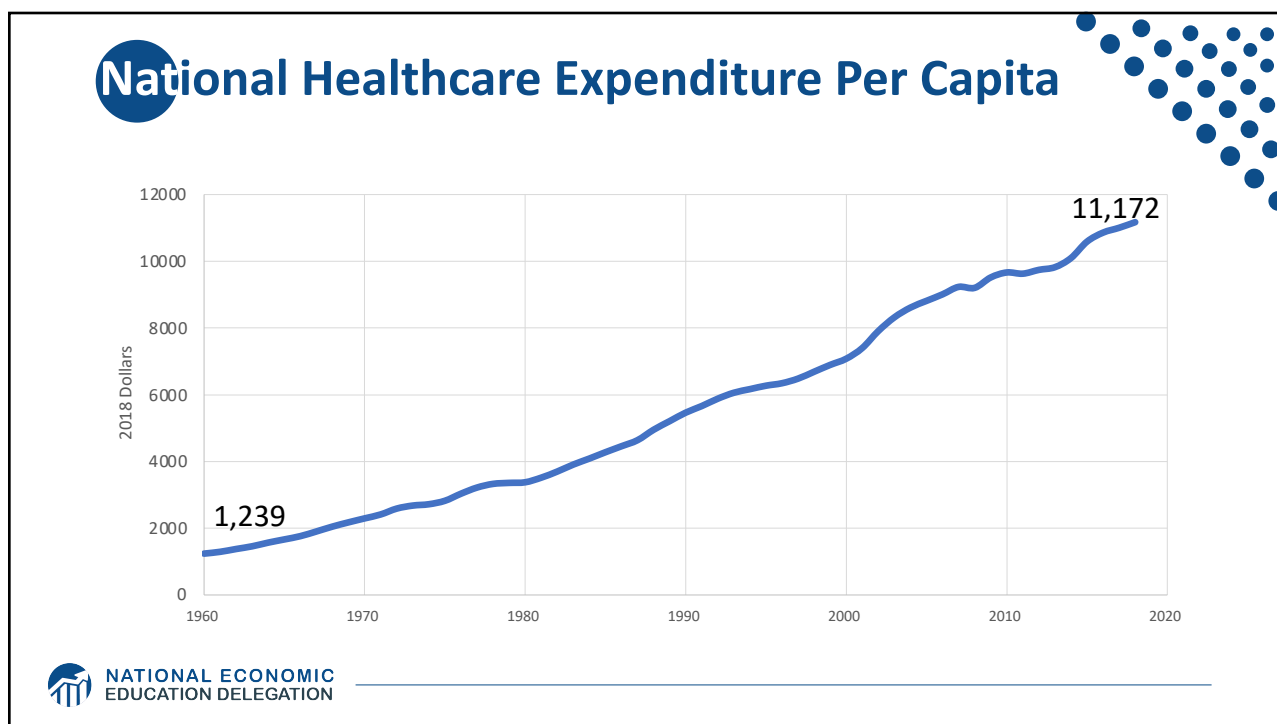
- The share of economic spending on health care has been steadily increasing for all countries because:
 - Health spending growth has outpaced economic growth.
 - Richer countries demand more services, like attention to health.
- Also:
 - Advances in medical technologies.
 - Rising prices in the health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

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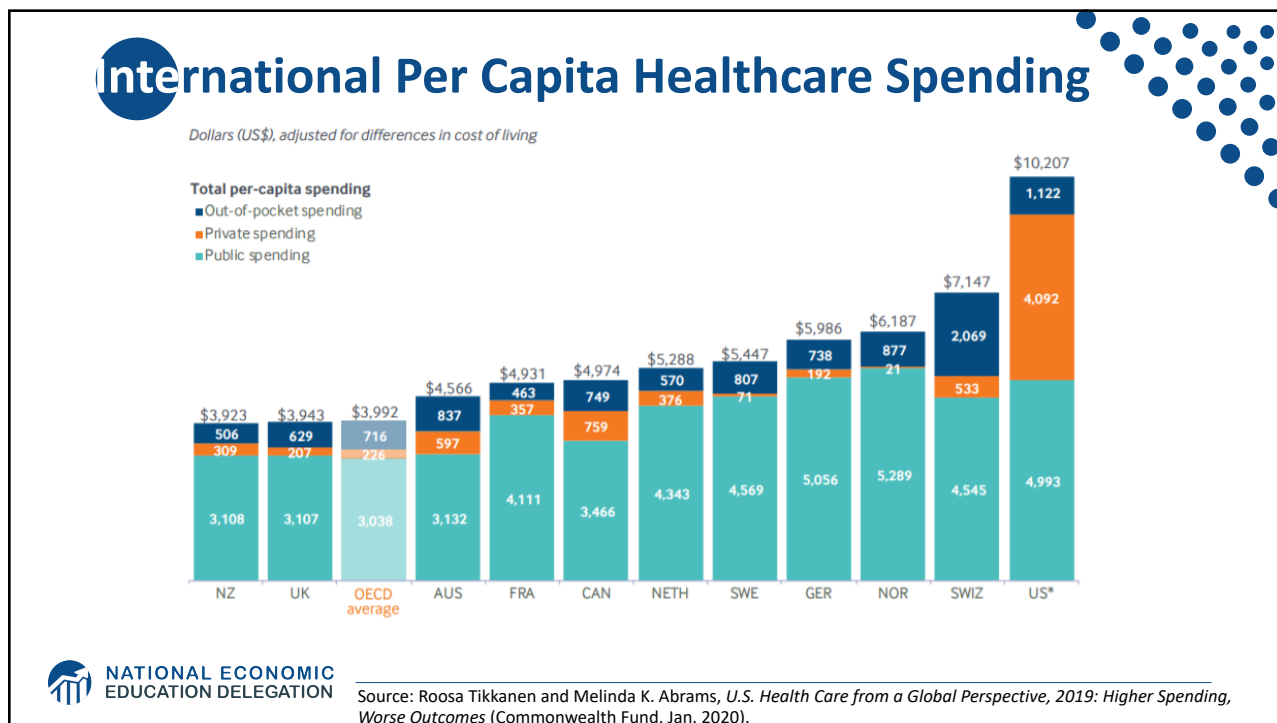
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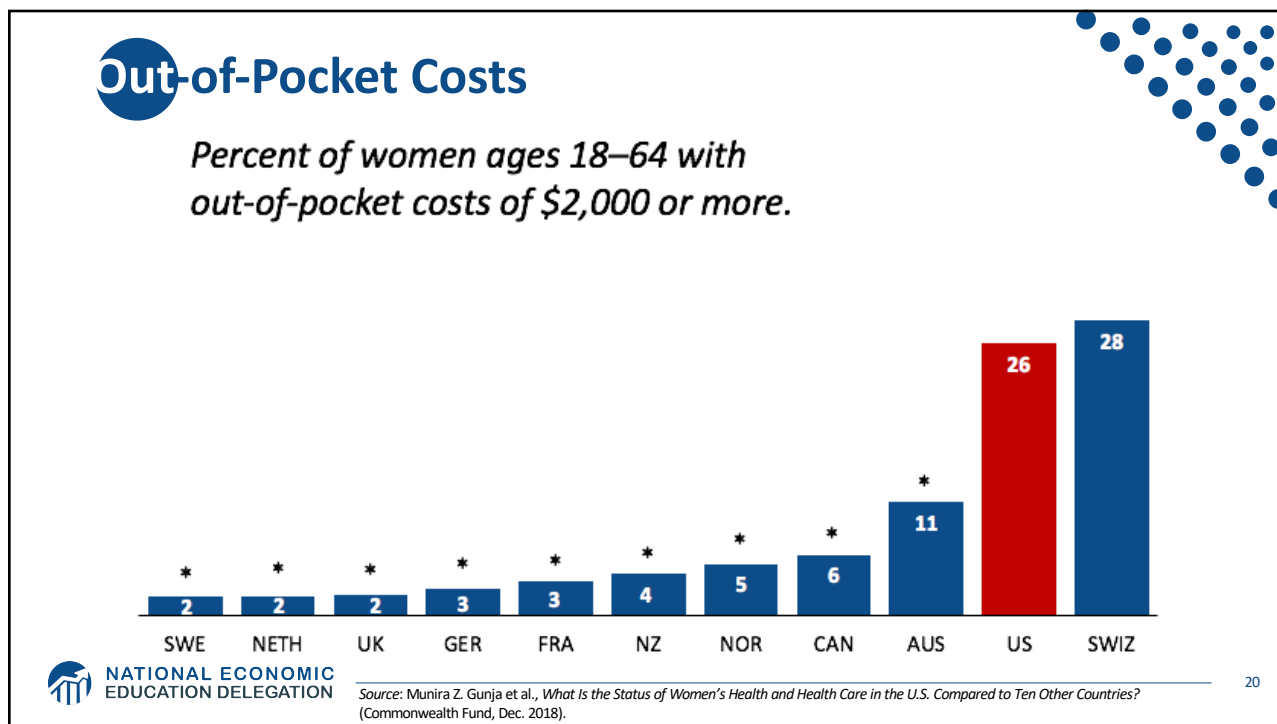
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Why Are Costs so High in the US?

One Reason:

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

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Three Potential Reasons for Higher Costs

- Quantity of care
- Administrative costs
- Costs of service

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Markets Matter for Costs



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Are Health Care Markets Special?

- Market Structure
- Type of products and services
- Principal-Agent Problem
- Asymmetric Information
- Moral Hazard
- Moral Imperative (?)

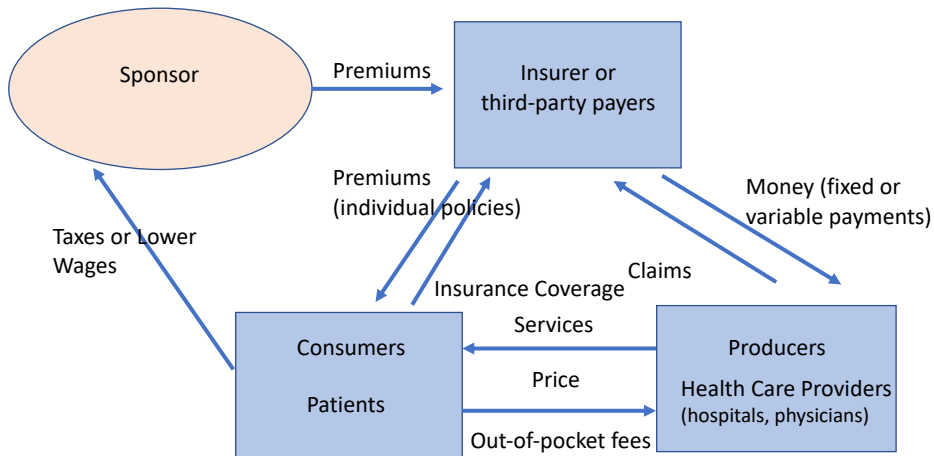


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Health Care Markets are Different



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Policy Matters for Costs

Competition Policy in Particular

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Hospital Monopolization

- Market consolidation among and between health systems, hospitals, medical groups, and health insurers has surged over the last decade.
- 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.



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Concentration in Pharmaceutical Companies

- The number of mergers and acquisitions involving one of the top 25 firms more than doubled:
 - 29 in 2006 to 61 in 2015
- Between 1995 and 2015, 60 drug companies merged into 10.



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Drug Price Comparisons

Drug Prices for 30 Most Commonly Prescribed Brand-Name and Generic Drugs, 2006–07

US is set at 1.00

	AUS	CAN	FR	GER	NETH	NZ	SWITZ	UK	US
US Higher									
Brand-name drugs	0.40	0.64	0.32	0.43	0.39	0.33	0.51	0.46	1.00
US Lower									
Generic drugs	2.57	1.78	2.85	3.99	1.96	0.90	3.11	1.75	1.00



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Source: IMS Health; analysis by Gerard Anderson, Johns Hopkins University.

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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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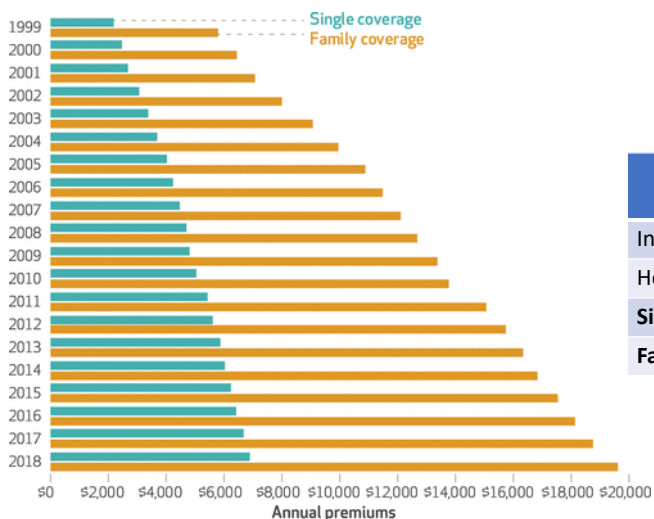
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Monopolization of Health Insurance Market

- 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 the United States, **markets are state specific** and consumers may choose from plans available in the state in which they reside.
- In 2014, of the 50 states and the District of Columbia:
 - 11 had only 1 or 2 insurers
 - 21 had 3 or 4, and
 - only 19 states had 5 or more. (CA has 11)
- As of July 2019, the number of states with only 1 or 2 insurers had increased from 11 to 20.

Average Annual Insurance Premiums, 1999-2018

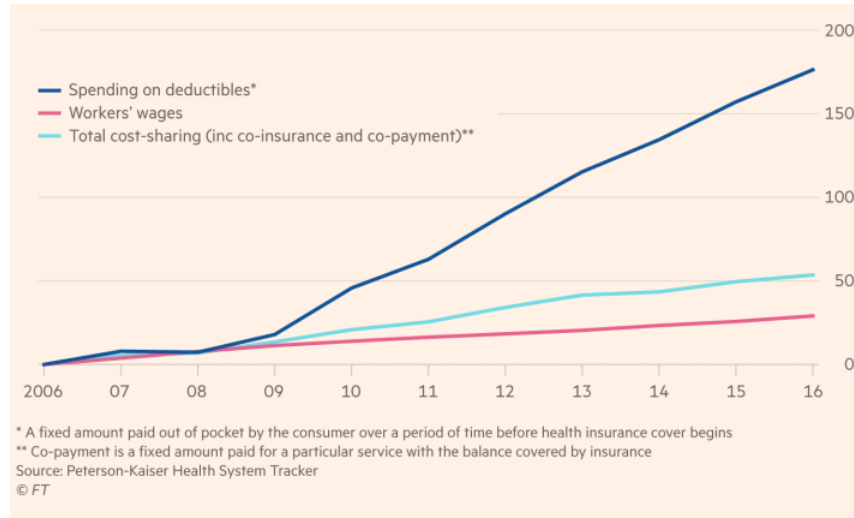
Employer provided, Not Adjusted for Inflation



Single: ~\$2,000 to ~\$7,000
 Family: ~\$5,900 to ~\$19,500

	Average Annual Rate of Change
Inflation	2.19
Health Care CPI	3.68
Single coverage	6.51
Family coverage	6.52

Spending on Copays and Deductibles



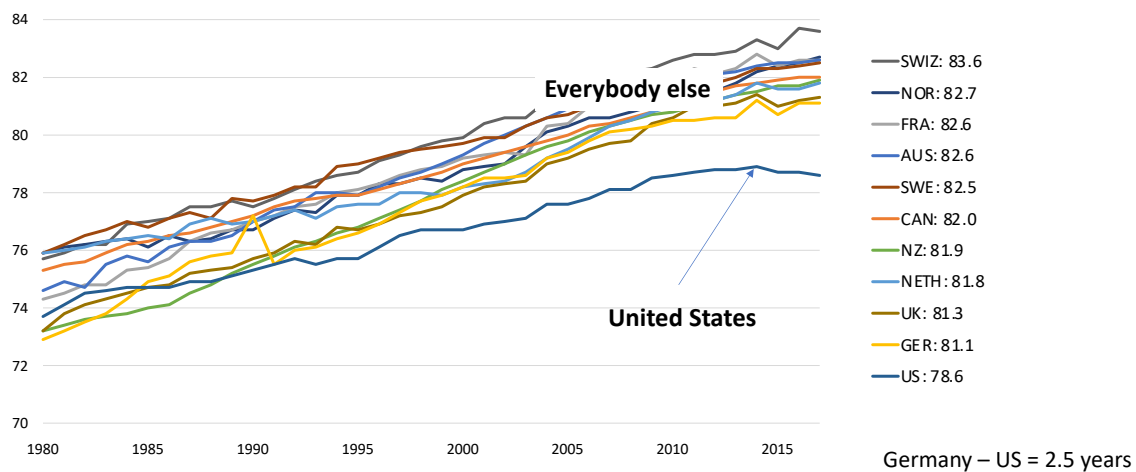
Reason for Higher Health Insurance Rates

- Rising prices in the health sector
- Advances in medical technologies
- Increased demand for services
- Concentration of insurance companies!

What do we get for these higher costs?

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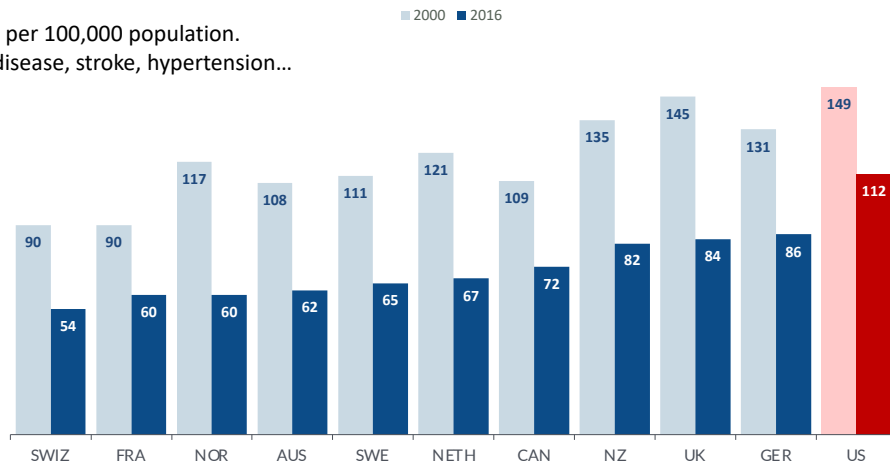
Life Expectancy: How Does the US Compare?



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Avoidable Deaths

Deaths per 100,000 population.
Heart disease, stroke, hypertension...



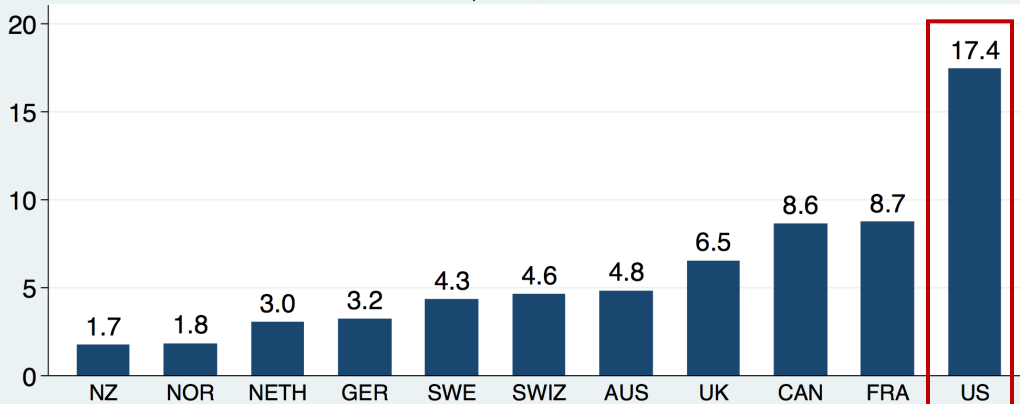
Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

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Maternal Mortality Rate

Maternal Mortality Rates, 2018
Deaths per 100,000 Live Births



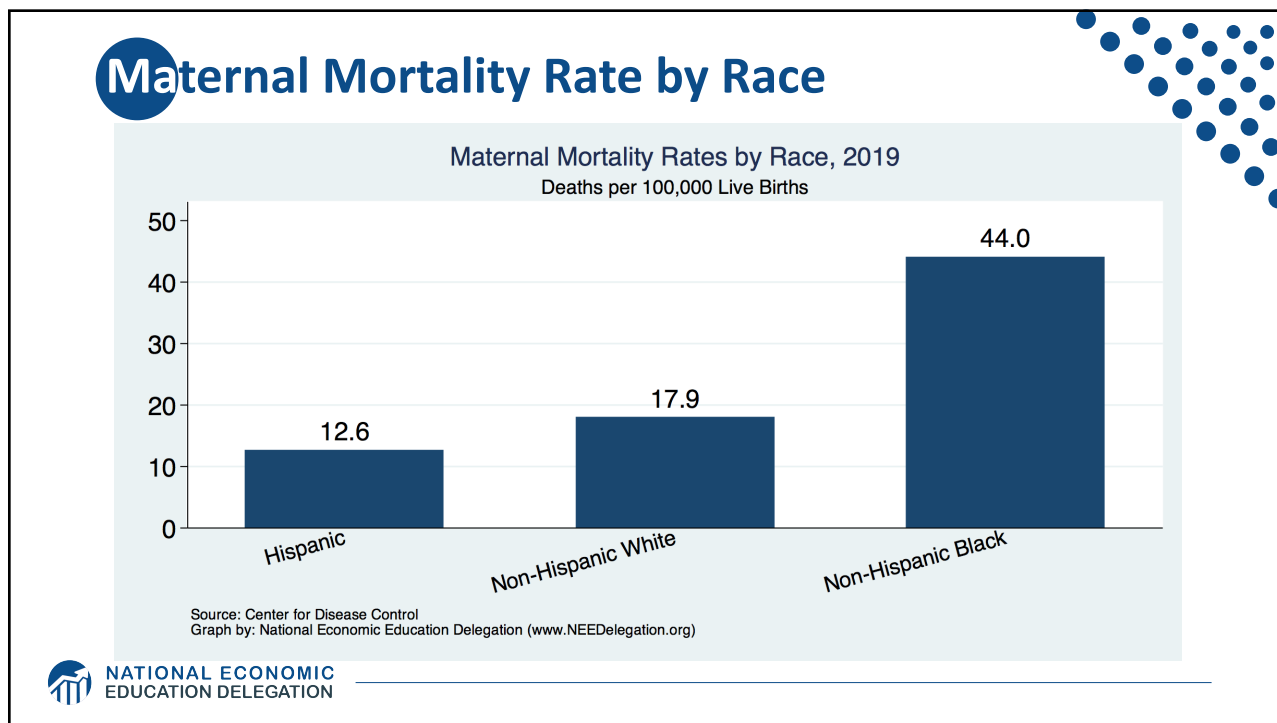
Source: Roosa Tikkanen et al., 2020, Commonwealth Fund
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



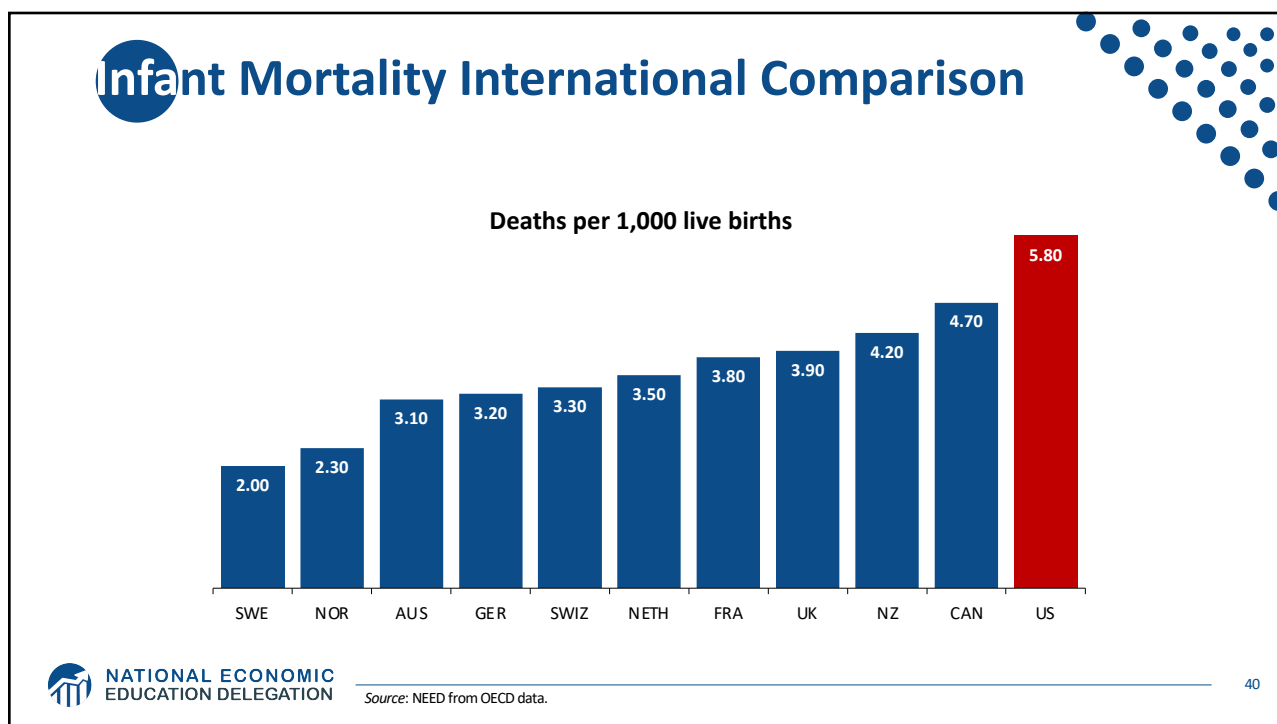
Source: Roosa Tikkanen et al., *Maternal Mortality and Maternity Care in the United States Compared to 10 Other Developed Countries* (Commonwealth Fund, Nov. 2020). <https://doi.org/10.26099/411v-9255>

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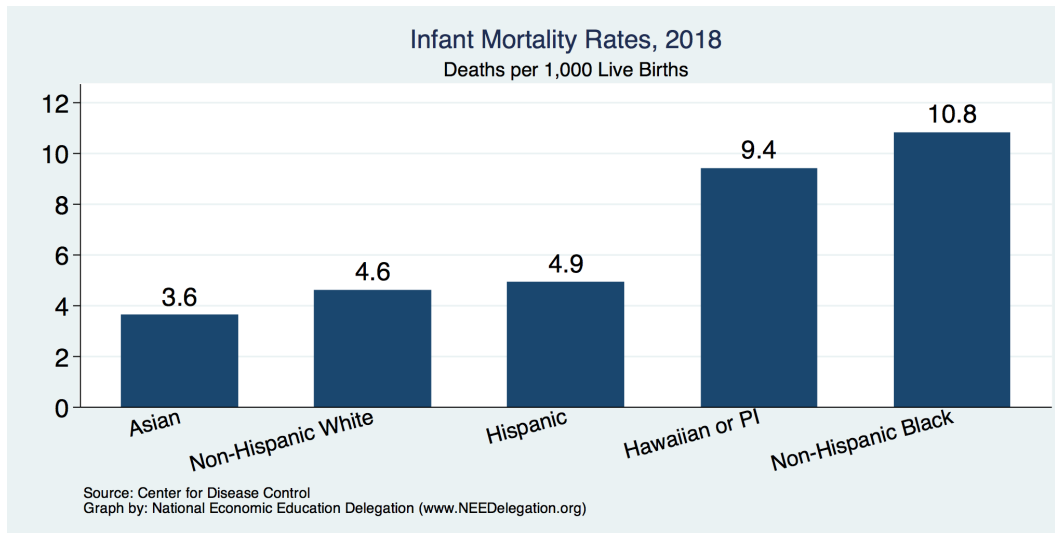


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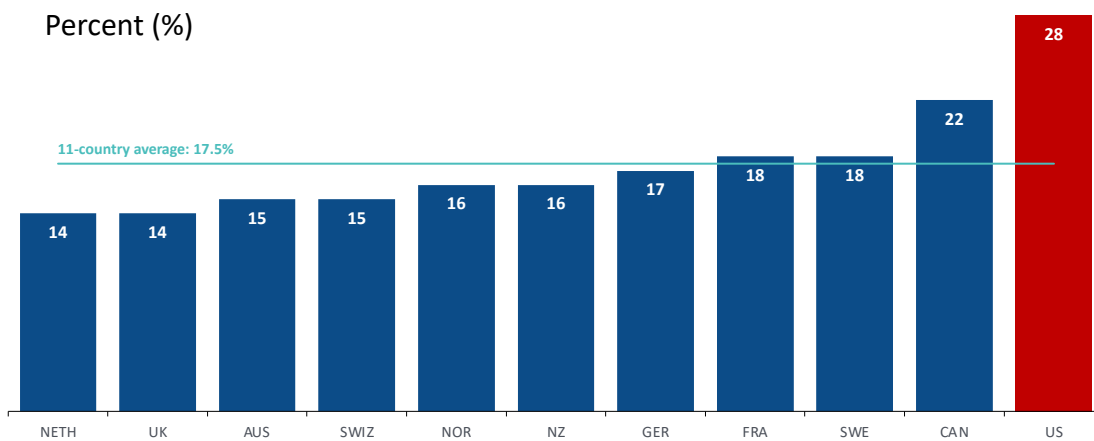
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Infant Mortality by Race/Ethnicity



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Adults with Multiple Chronic Conditions, 2016



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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.
 - Hospitals, health insurance, big pharma, physicians, etc.
- A few simple solutions could drastically reduce costs:
 - Enforcement of antitrust laws in this sector.
 - Introduction of a public option in the health insurance market.
 - Ability for the US government to negotiate drug prices like most every other nation.
- Universal health insurance would increase access and perhaps also reduce costs.



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Thank you!

Any Questions?

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