

# The Economics of Healthcare

## Financial Forum, Rossmoor

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NEED



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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 2022, U.S. national health expenditures were **17.3% of GDP**, which is equivalent to around **\$4.5 trillion**.
  - U.S. Healthcare is the 3rd largest economy in the world.
- For comparison, GDP in each country in 2022:
  - China: \$17.9 trillion (2<sup>nd</sup> largest economy)
  - **US Healthcare \$4.5 trillion**
  - Japan: \$4.2 trillion (3rd largest economy)
  - Germany: \$4.1 trillion (4th 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**



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# The Three Legs of the Healthcare Stool



ACCESS

QUALITY

COSTS

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# Access

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# Health Insurance Coverage, 2022 – 92.1%



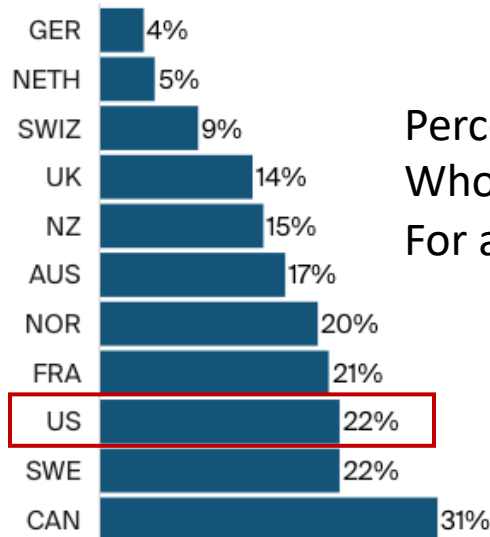
## • Countries with Less Than Universal Coverage

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

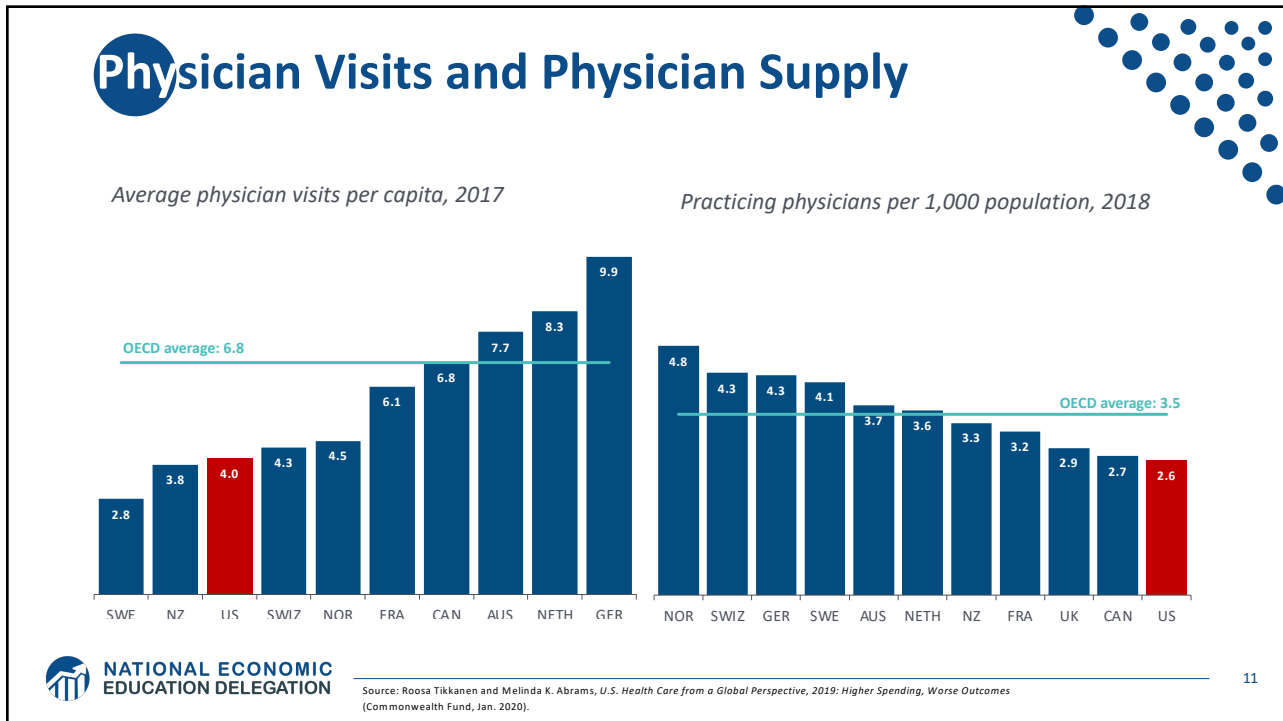
## • Countries with Universal Coverage

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

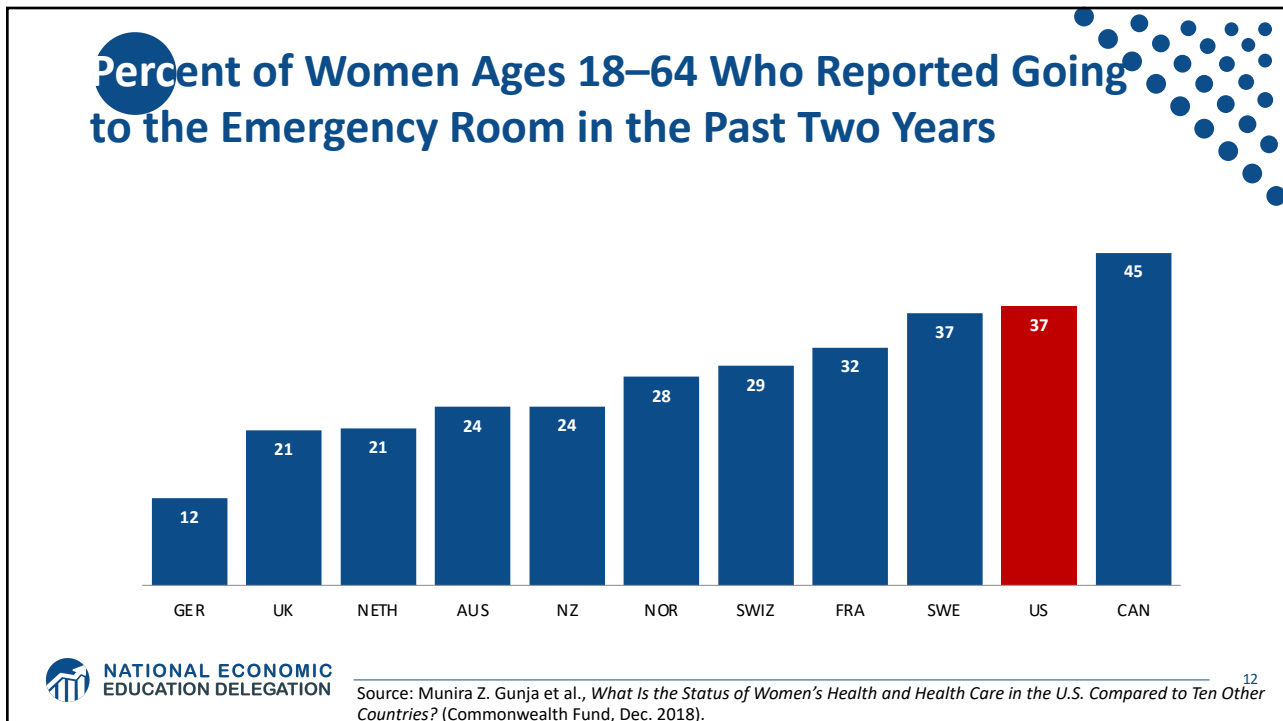
# But What About Wait Times?



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



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## 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.**

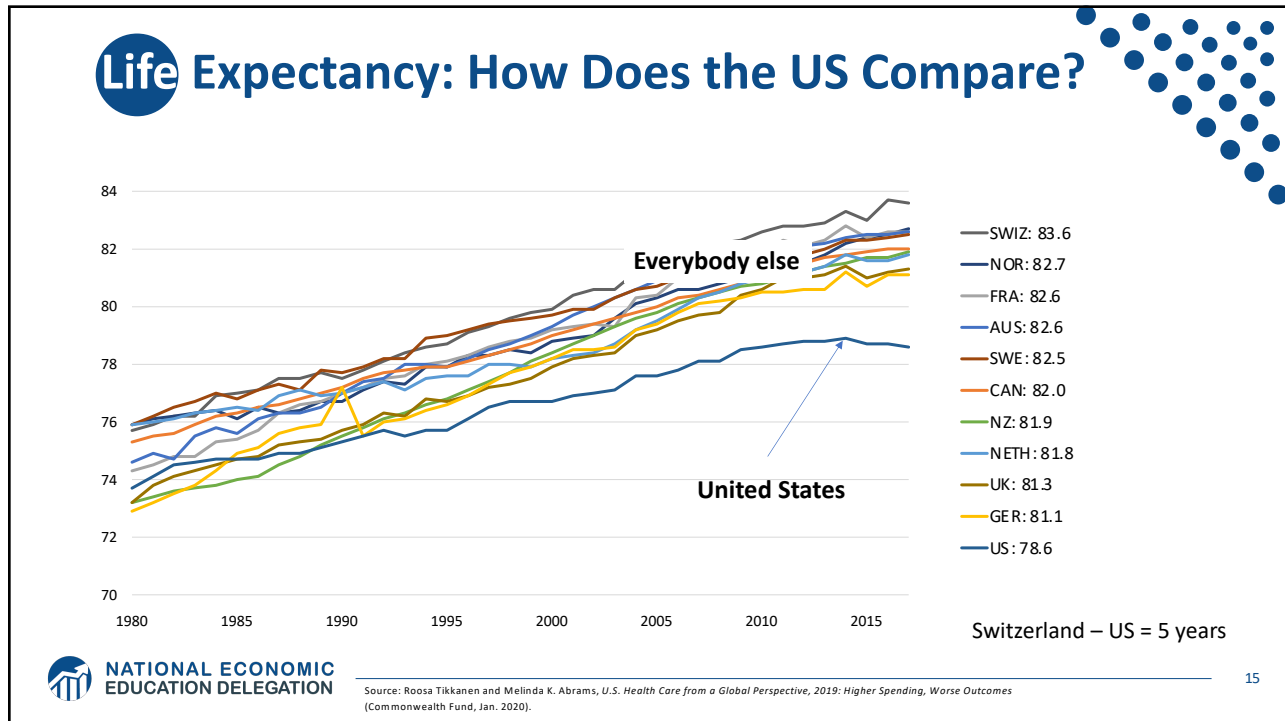


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## Quality



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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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Source: KFF, Key Data on Health and Health Care by Race and Ethnicity

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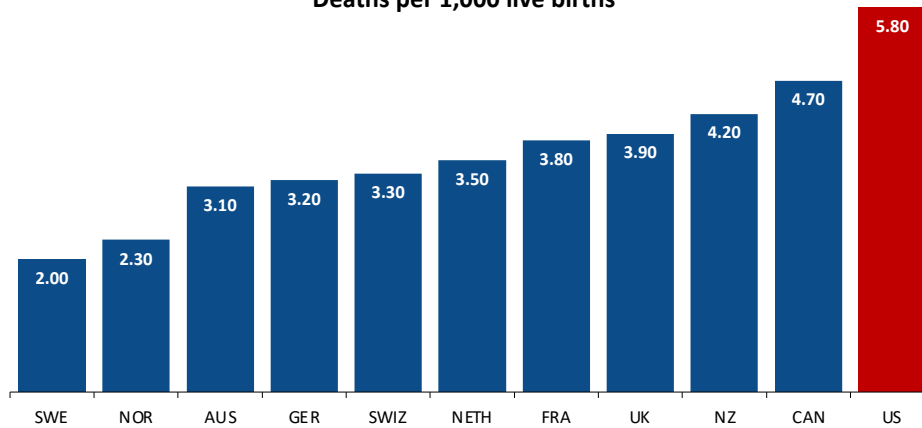
## Income Also Matters – Reflecting Access?

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	

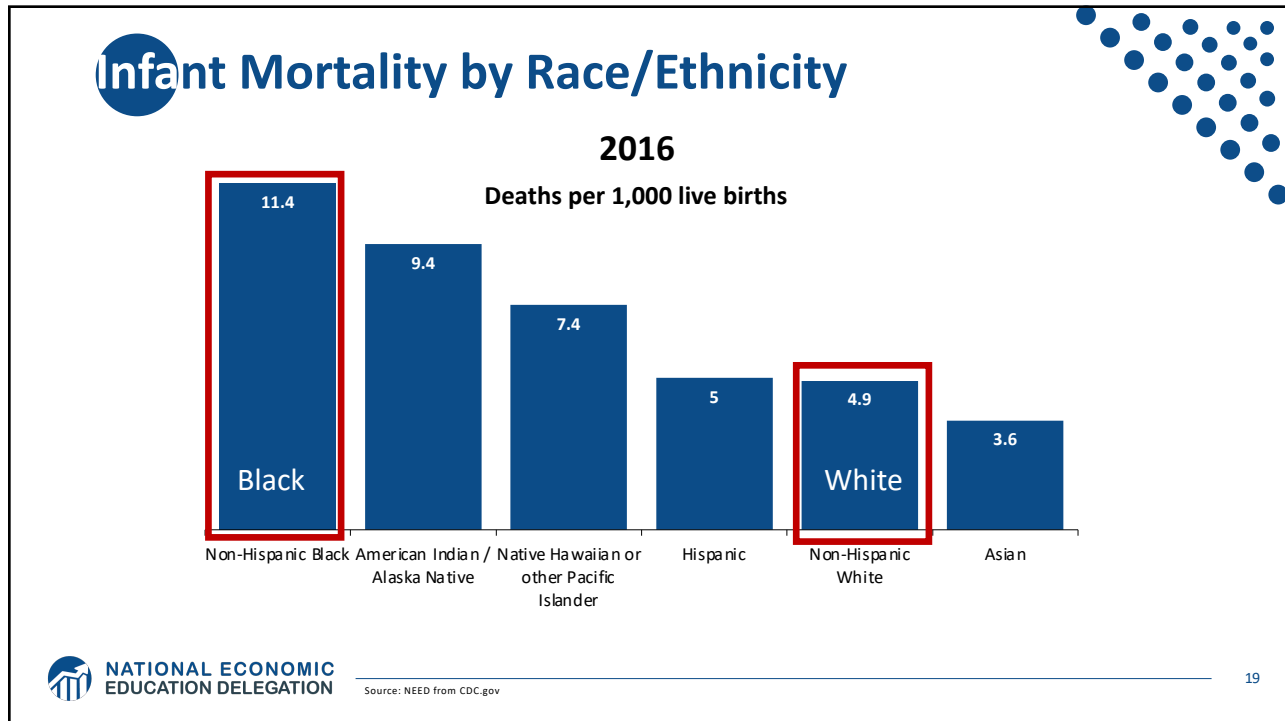
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## Infant Mortality International Comparison

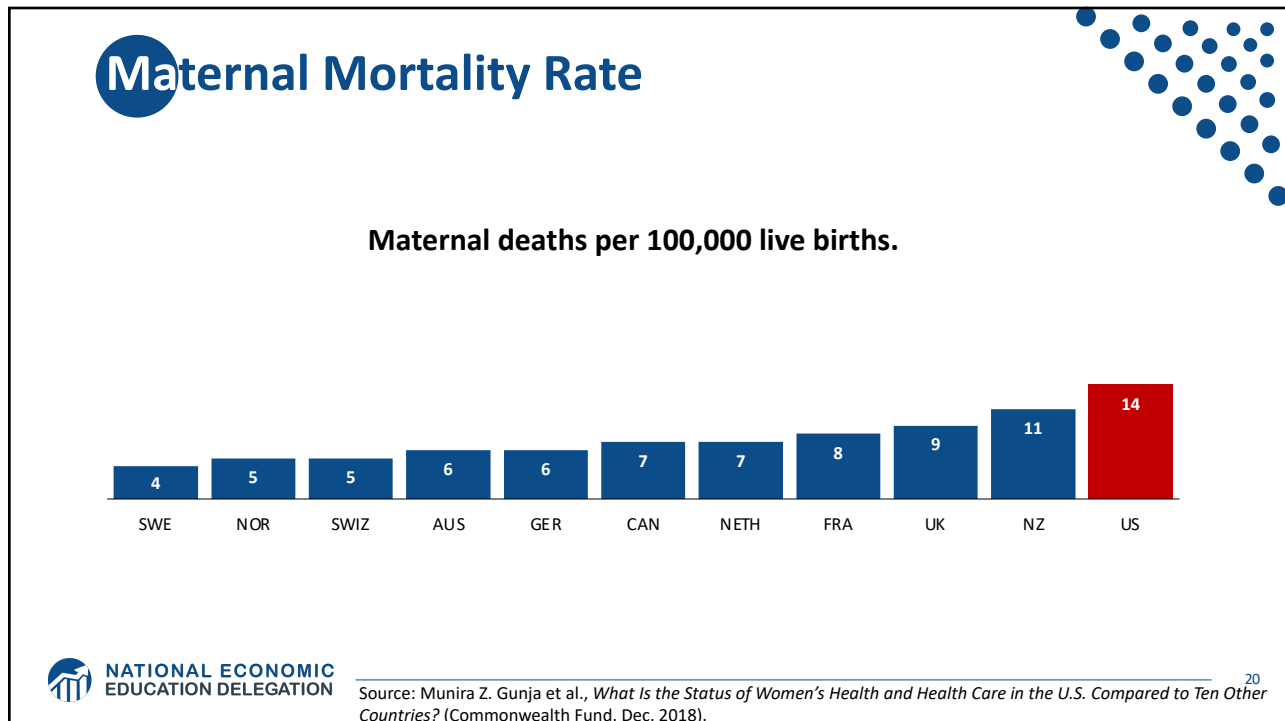
Deaths per 1,000 live births



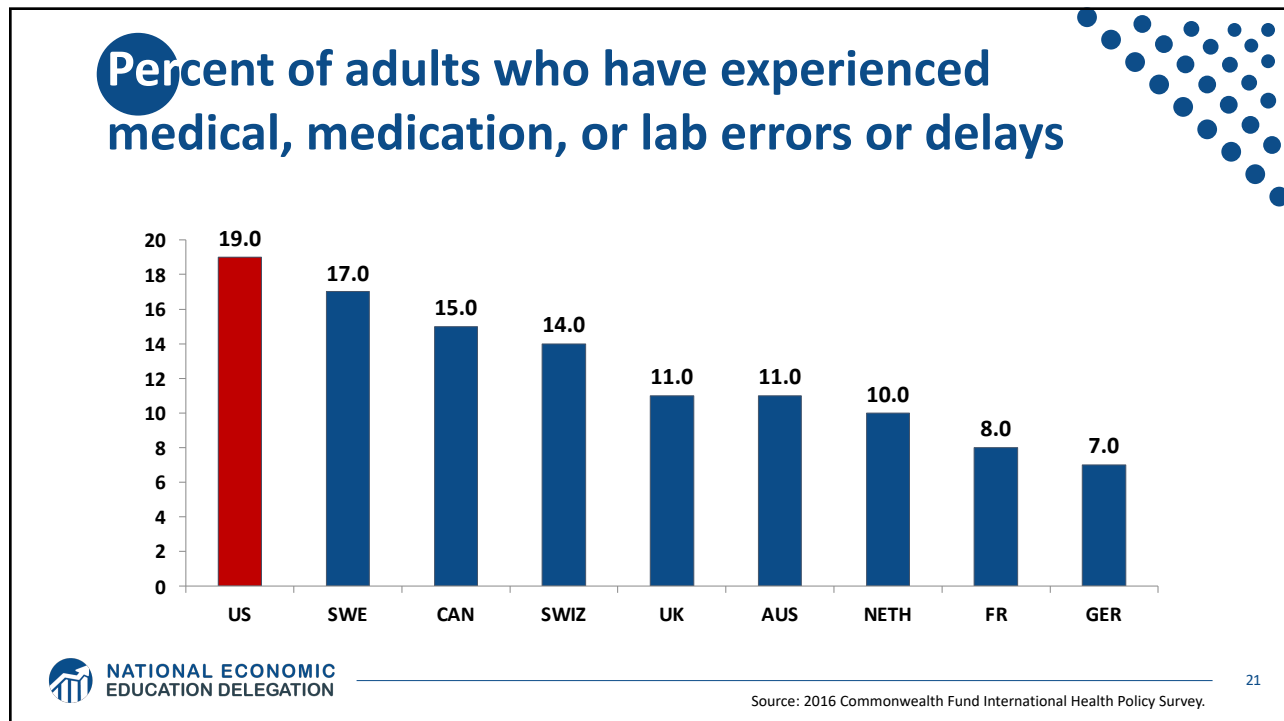
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## Prevention and Screening

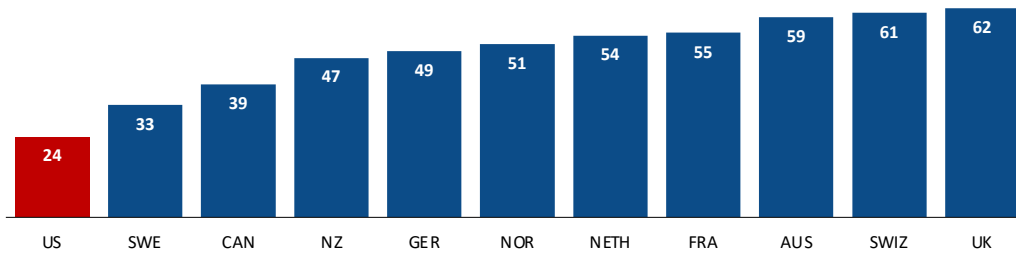
- The U.S. excels in **some** prevention measures (high ranking:
  - including **flu vaccinations** and **breast cancer screenings**.
- The U.S. has:
  - The highest average five-year survival rate for breast cancer,
  - but the Lowest for cervical cancer.

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## 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). <sup>23</sup>

## Quality of Care Notes

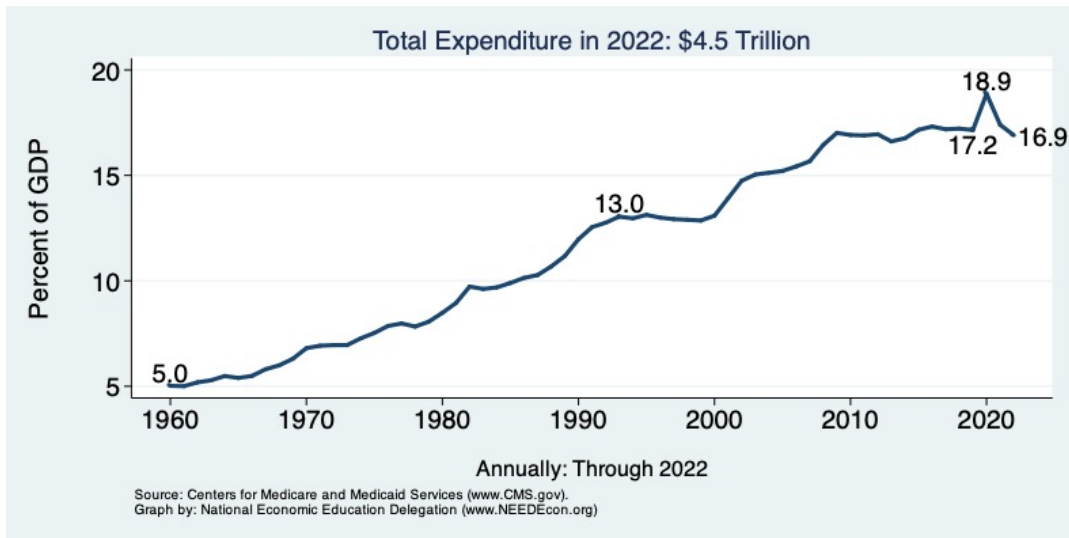
- Metrics of quality in the U.S. are not very good.
- Quality of care is not considered very good in the U.S.
- The system has bright spots!

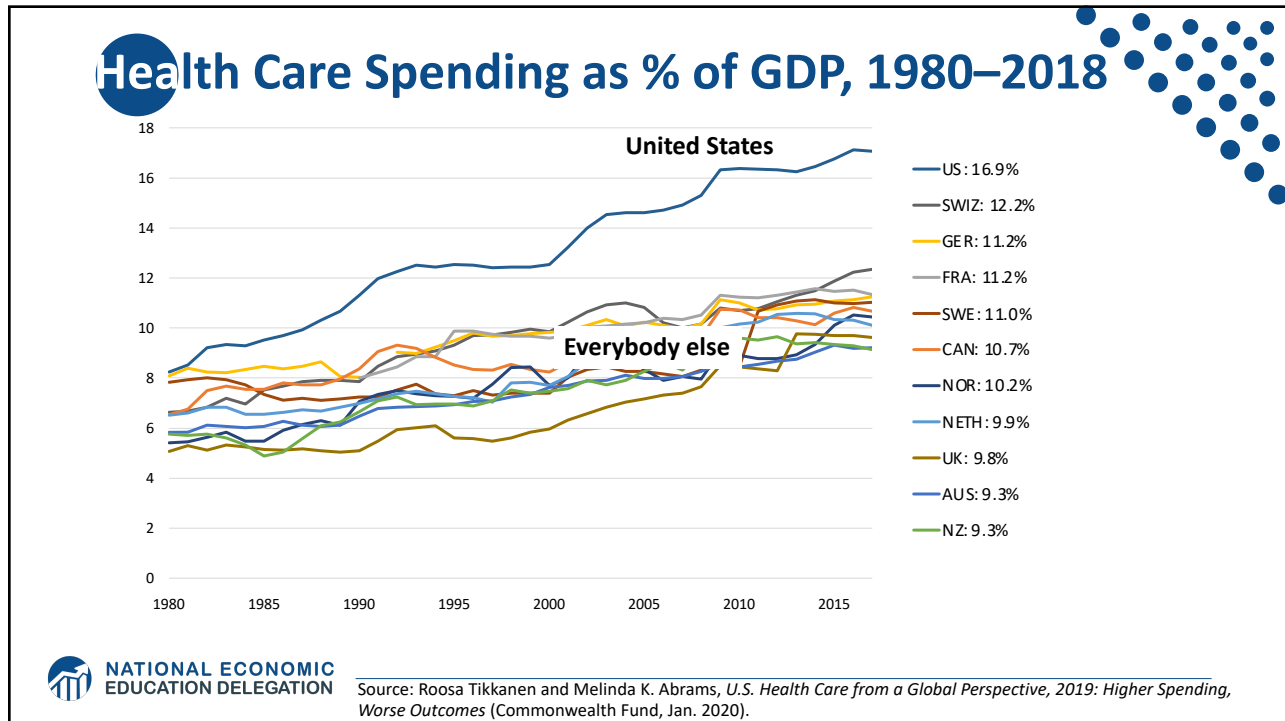


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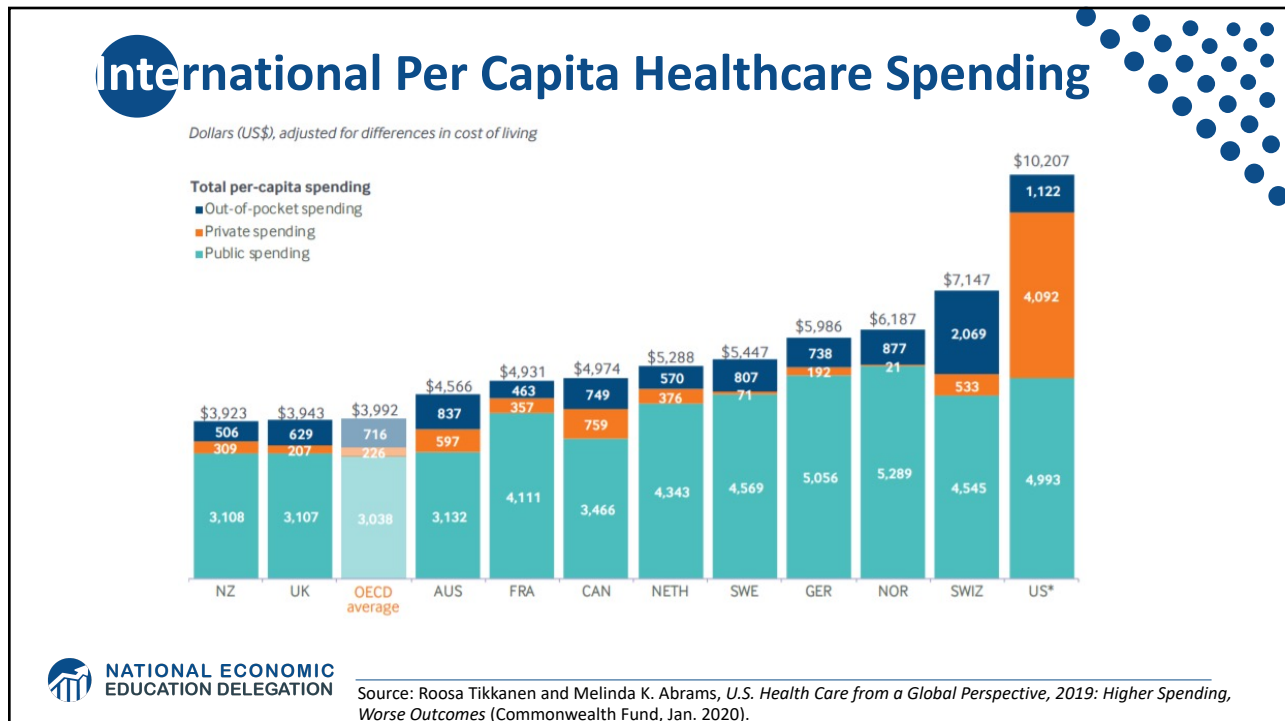
# Costs

# National Health Expenditure as Percent of GDP

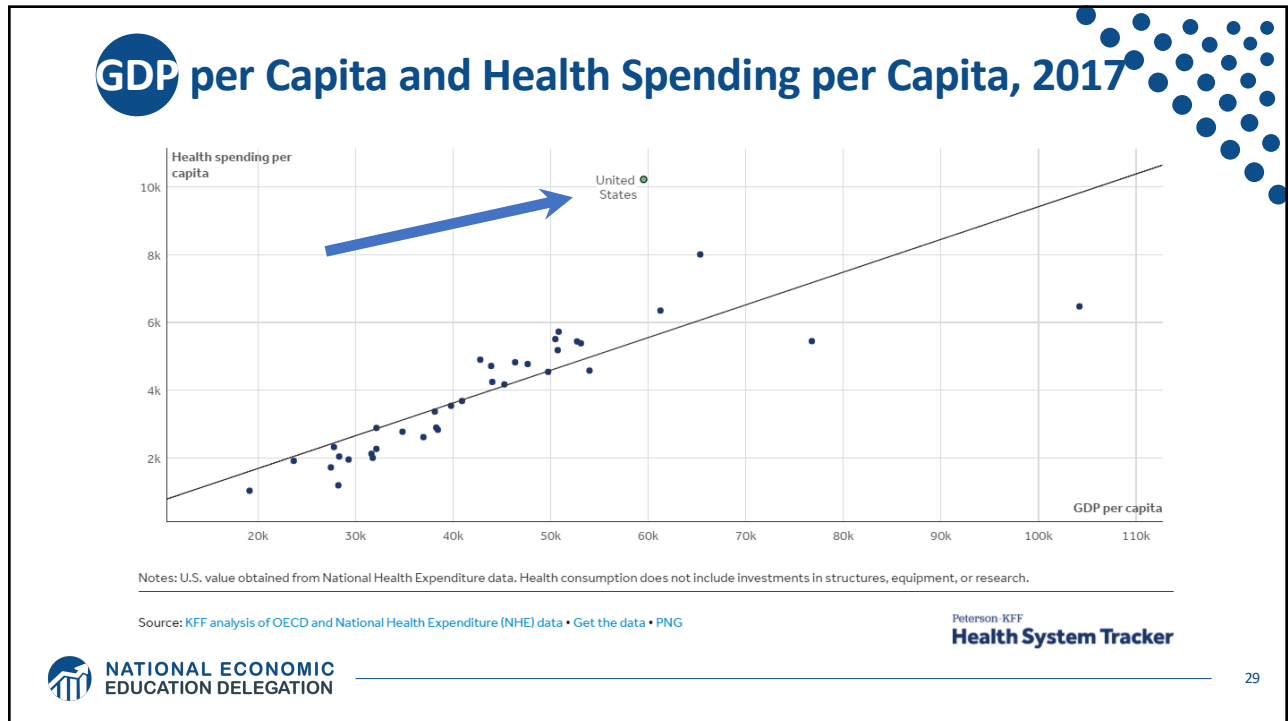




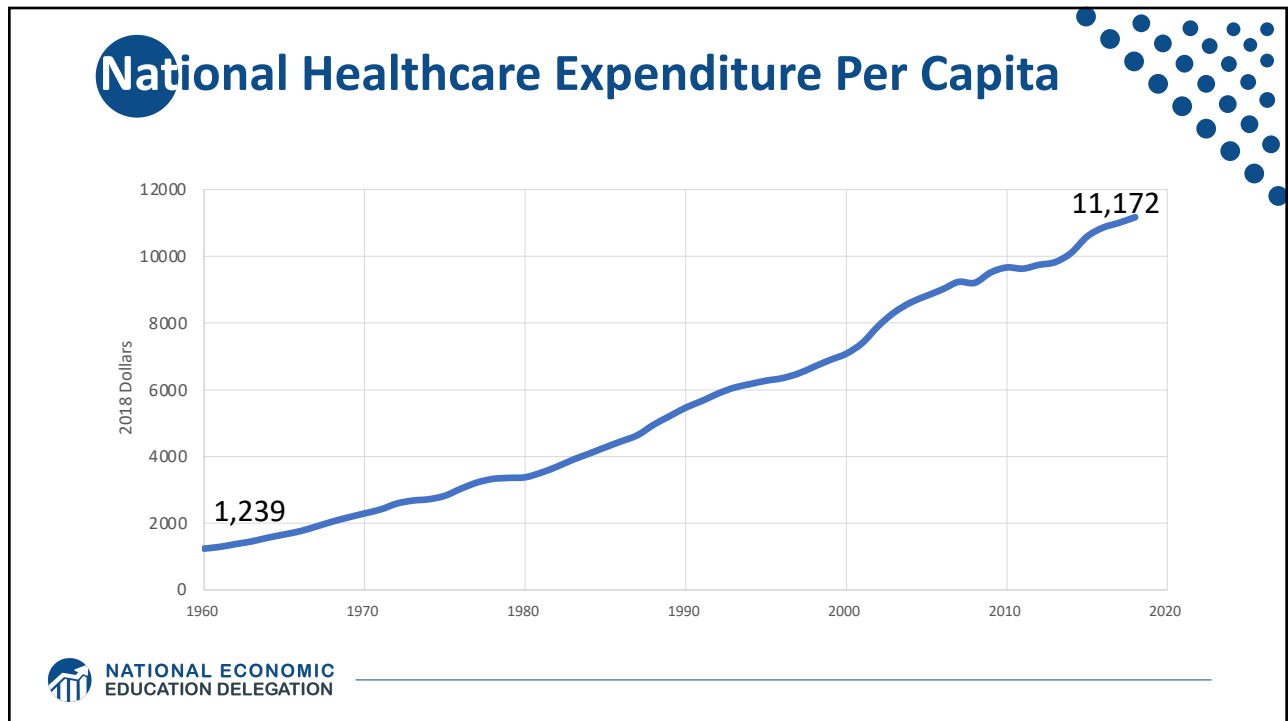
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## Why is Healthcare Spending Increasing?

- 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.
  - 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:

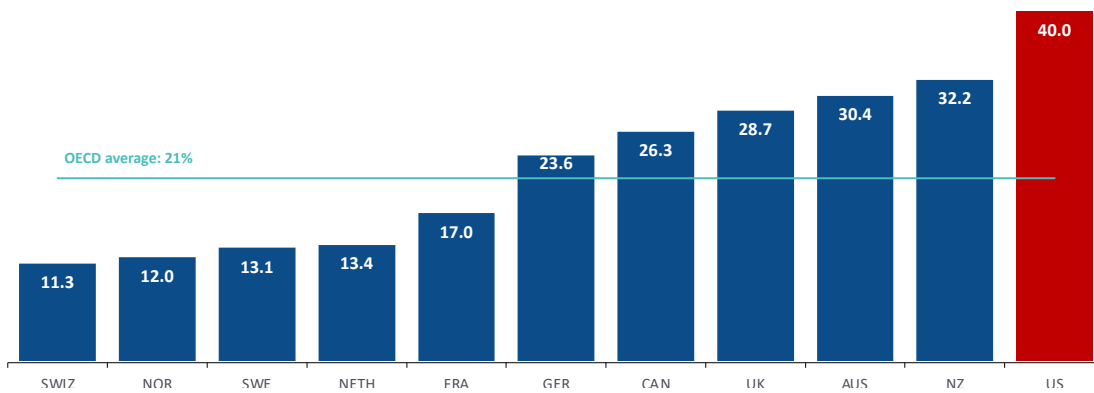
Our public health system isn't very good.

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

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# Obesity Rates, 2017

Percent (%)

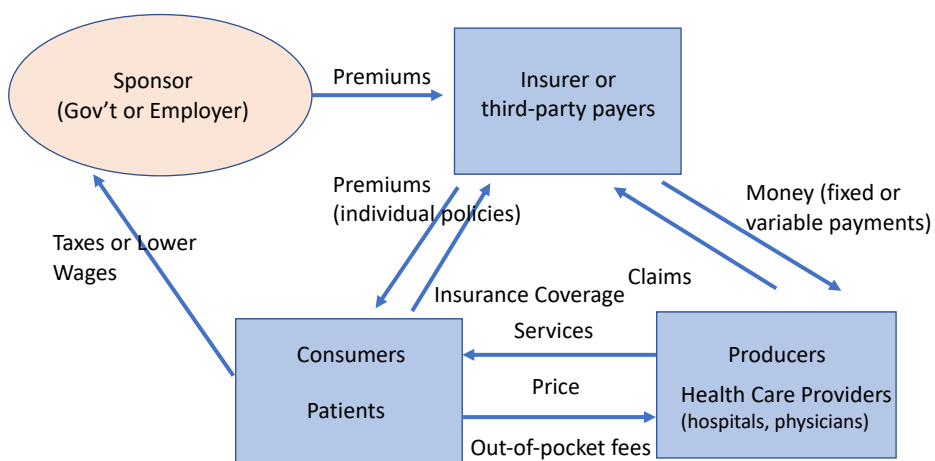


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# Markets Matter for Costs

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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:

- o Sacramento, CA \$85
- o Long Beach, CA \$42
- o 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.

# Policy Matters for Costs

## 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.



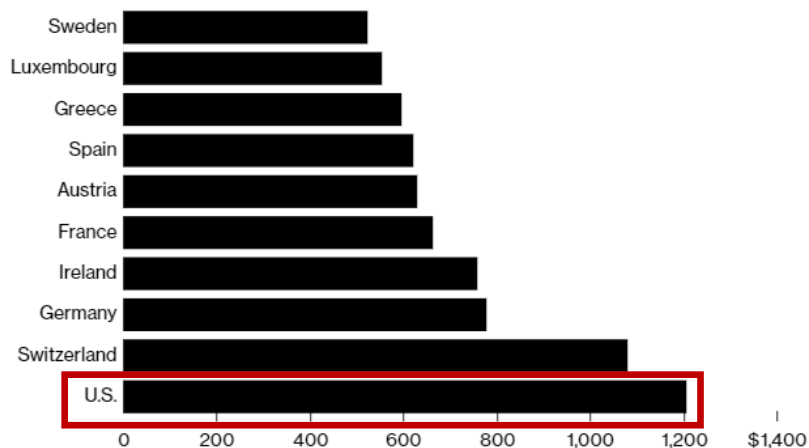
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## Spending on Pharmaceuticals

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



Source: Organisation for Economic Co-operation and Development



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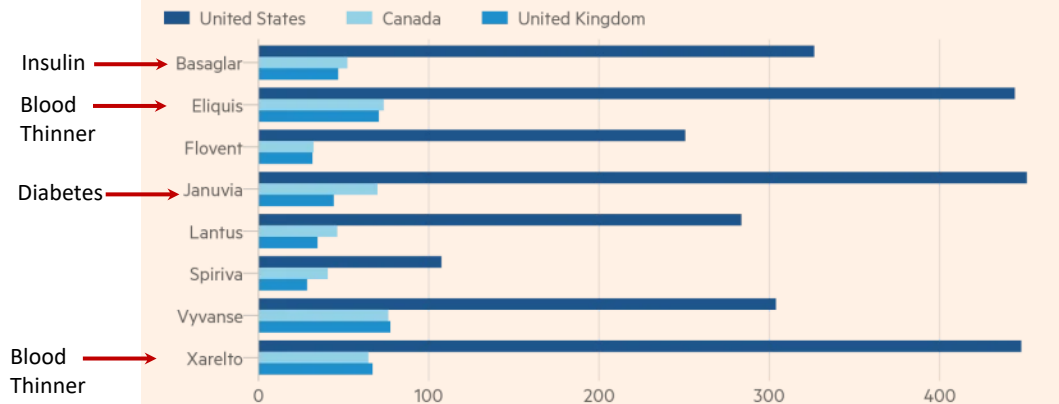
# Medicare Modernization Act

- 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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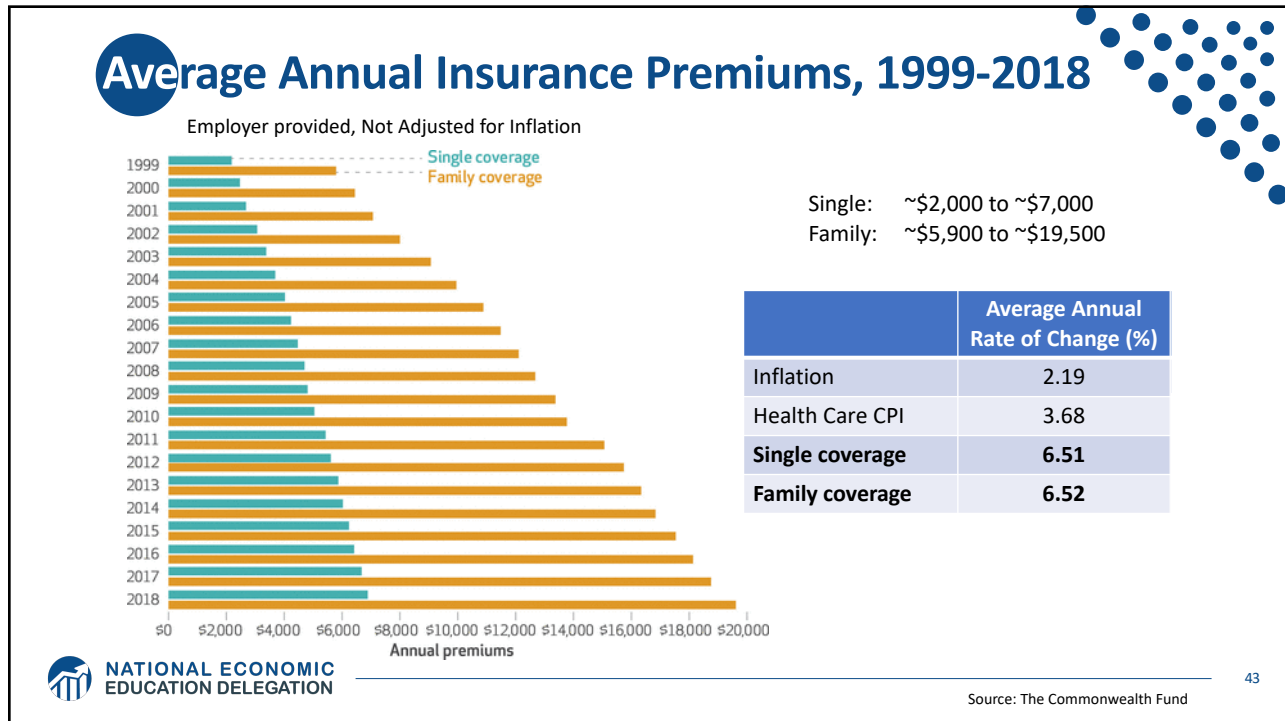
## Drugs in the US cost much more than their equivalent in the UK and Canada

Eight bestselling brand drugs for conditions ranging from diabetes to asthma and ADHD.  
Drug price (\$)



Note: Their equivalents may be generic versions. Prices have been converted to US dollars using exchange rates available on September 17th, 2019

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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.



## 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



## 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.



## 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.
    - o 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



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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.
- Universal health insurance would increase access and perhaps also reduce costs.
- Changing the focus from maximizing profits to maximizing care would help.



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# A Few Simple Solutions Could Reduce Costs

- Pursue competition in healthcare markets.
  - Hospitals, pharmaceuticals, insurance.
- Introduction of a public option in the health insurance market.
- Allow the US government to negotiate drug prices
  - like most every other nation.

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# Thank you!

## Any Questions?

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