Financing, Payment, and Cost

TMC Health Policy Course
February 13, 2018
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The Nation’s Health Dollar, 2016: Where It Came From
($3.3 trillion, 17.9% of GDP, $10,348 per capita)

1 Includes worksite health care, other private revenues, Indian Health Service, workers’ compensation, general assistance, maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, school health, and other federal and state local programs.
2 Includes co-payments, deductibles, and any amounts not covered by health insurance.
Note: Sum of pieces may not equal 100% due to rounding.

The Nation’s Health Dollar, 2016, Where It Went
($3.3 trillion, 17.9% of GDP, $10,348 per capita)

- Hospital Care: 31%
- Physicians and Clinics: 20%
- Prescription Drugs: 10%
- Dental Services and Other Professionals: 7%
- Government Administration and Net Cost of Health Insurance: 8%
- Nursing Care Facilities and Continuing Care Retirement Communities: 5%
- Investment: 5%
- Growing at 4.4%
- Other: Includes Durable Medical Equipment, Other Non-Durable Medical Products, Other Health Residential and Personal Care, Public Health Activities, Home Health Care.

1 Other: Includes Durable Medical Equipment, Other Non-Durable Medical Products, Other Health Residential and Personal Care, Public Health Activities, Home Health Care.
Healthcare Production Function

Health

Factor inputs

Marginal value of health

A

B

C

(Allocatively inefficient)

(Productively inefficient)

Production possibility frontier

Adapted from: Where are the Health Care Entrepreneurs? The Failure of Organizational Innovation in Health Care, David M. Cutler. in Innovation Policy and the Economy, Volume 11, Lerner and Stern. 2010
Reimbursement Methodology - Shifting Risk

<table>
<thead>
<tr>
<th>Reimbursement Categories</th>
<th>Cost Based</th>
<th>Charge Based</th>
<th>DRG</th>
<th>Per-Procedure</th>
<th>Per diem</th>
<th>Bundled Payment</th>
<th>Capitation</th>
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<tbody>
<tr>
<td>Provider Incentive</td>
<td>Increase Volume of Services</td>
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<td></td>
<td>Decrease Volume of Services</td>
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<td>Provider Incentive</td>
<td>Maximize Costs</td>
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<td>Minimize Costs</td>
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<td>Providers</td>
<td>Lowest Financial Risk</td>
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<td>Payers</td>
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<td>Lowest Financial Risk</td>
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<td>Consumers</td>
<td>Risk of Over-treatment</td>
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<td>Risk of Under-treatment</td>
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<td>Employers</td>
<td>Risk of High Costs from Inefficiency</td>
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<td>Risk of High Costs from Under-treatment</td>
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Reimbursement Methodology – Future (Value Based Care)

- Pay-for-Performance (P4P) or Value
- Bundled Payment/Episode of Care
- Patient Centered Medical Home (PCMH)
- Shared Savings
- Full Risk
- Accountable Care Organization (ACO)
- Provider Sponsored Health Plans
Medicare Access and CHIP Reauthorization Act

• Repeal of SGR

• Establish a budget neutral quality payment program to spur movement from volume to value-based payments:
  o Alternative Payment Model (APM)
  o Merit-based Incentive Payment System (MIPS): combines several existing policies