

Republican Options for Health Care Reform: Costs, Coverage, Innovation



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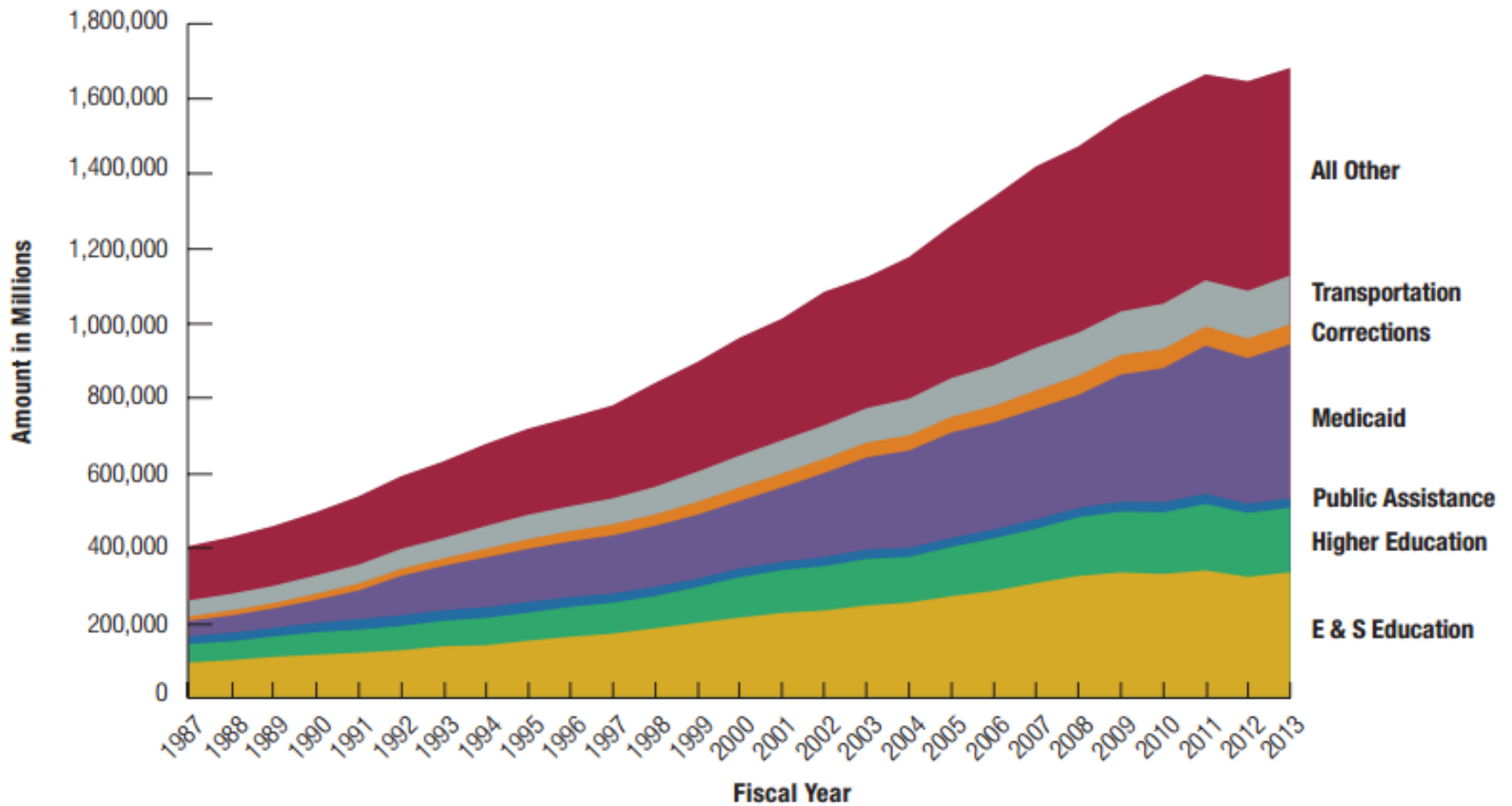
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The View from 2017: “Facts on the Ground”

- Medicaid Expansion
 - ~ 16 million new Medicaid enrollees (KFF, 06/15)
 - In expansion states, costs up by 18% (KFF)
 - Oregon experiment suggests that poor would value other services more
 - Access challenge – as many as 50% of primary care physicians do not accept new Medicaid patients (Decker 2012, *Health Affairs*)
 - Medicaid appears to be crowding out other critical priorities (NASBO 2014)



FIGURE 5:
COMPOSITION OF TOTAL STATE EXPENDITURES BY FUNCTION, FISCAL 1987 TO 2013



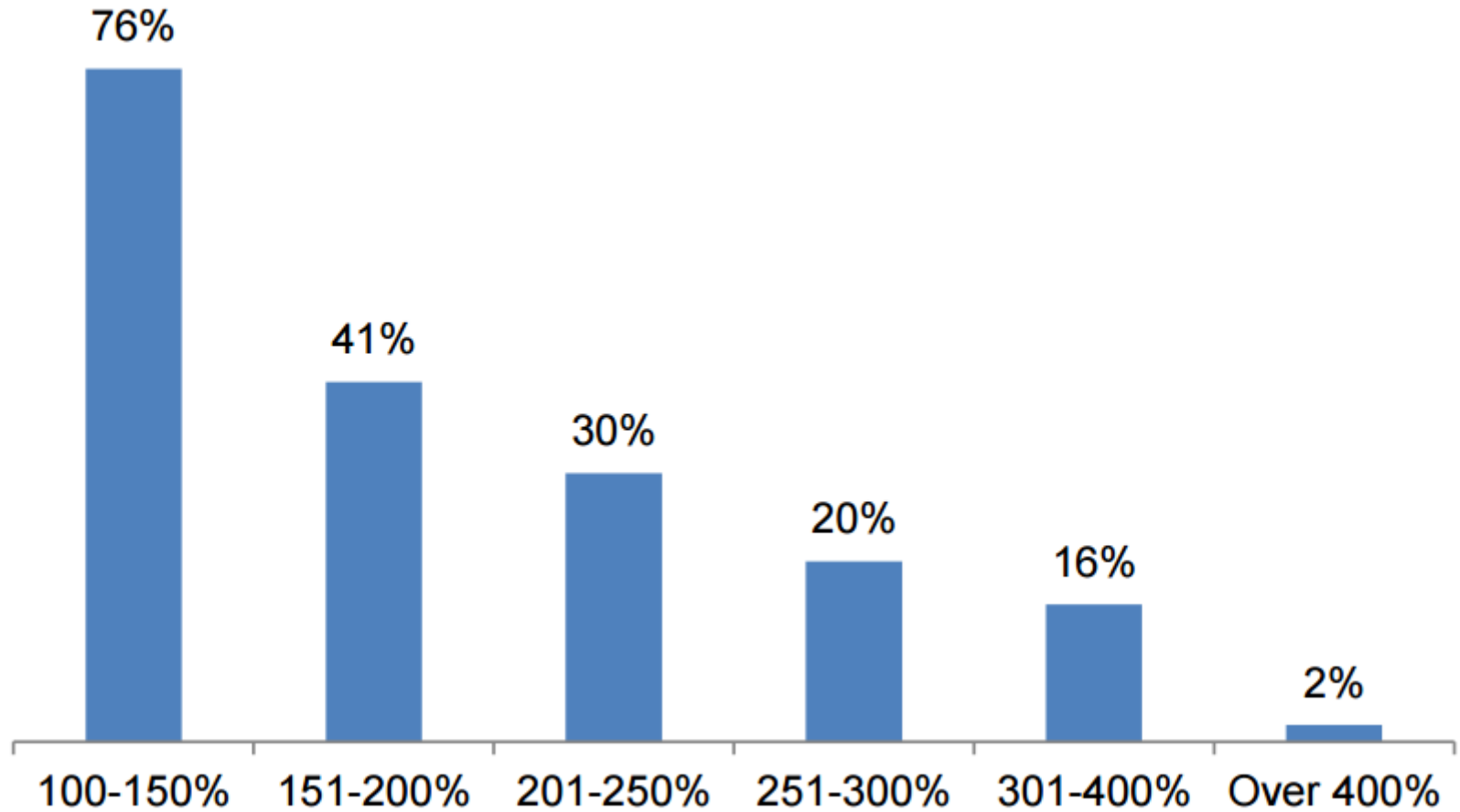
Source: NASBO, State Expenditure Report 2014

Facts on the Ground: The Exchanges

- Exchange coverage: The Good, Bad, and the Expensive
 - May have crested (~10 million, admin estimate v. 22m CBO in 2016)
 - Very heavily subsidized population (~ 8 in 10 eligible for CSR)
 - Very expensive for those w/o subsidies
 - The cost slowdown appears to be ending (NHE, rising 5.8%, 2015-2024)
 - Are the exchange risk pools viable? We're about to find out.
 - Travelocity style approach still needed (cost, quality, outcomes)



Percentage of Eligible Individuals Enrolled in Exchange Plans, by Income¹



Source: Avalere Health, “Exchanges Struggle to Enroll Consumers as Income Increases”

Facts on the Ground: ESI....

- Tax subsidy for employer sponsored insurance (ESI)
 - More than 151 million Americans benefit
 - Government loses 37 cents of tax revenue for each dollar paid in health insurance
 - Reduces federal and state tax revenues by \$260 billion
 - Encourages “over-insurance”, less cost sensitivity
 - Bipartisan agreement it needs reform



...But ACA Muddles Employment Markets

- Raises the cost of labor for low income workers for firms that don't offer insurance
- Discourages family formation (stay under 250% of FPL)
- Very hard to sort out ACA effects in a weak recovery generally. But it probably isn't helping.
- Cadillac Tax caps deduction – but has problems
 - 40% excise tax on value above pre-set thresholds
 - Exacerbates regressivity of ESI; applies highest tax rate to low-income labor



Herding Cats....Or Conservatives



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Republican Plans are Converging...

- Republican proposals move to a cap – set ceiling for ESI deduction, apply ordinary tax rates above
 - Shifts burden of tax away from lower-income
 - Cap must be lower than CT for revenue neutrality
- Premium tax credits are changed in two major ways
 - Smaller amount b/c of lower costs of insurance
 - Typically offered to fewer people (if income-based) b/c of a lower cutoff (i.e, 300% of FPL)
- Typically envision an HSA contribution instead of CSR



Addressing Low-Income Challenges

- Important to separate into two types of credits
 - One covers premiums; the other helps with OOP
 - ACA has both implicitly – CSR is effectively a credit for lower cost-sharing
- Both help with access
 - Premium credit allows entry into the market
 - OOP credit/CSR reduction eases access to care
- We can retool those credits into HSA plans, esp for picking lower cost plans.



Deregulate the Exchanges

- Reform the exchanges, regulations, & subsidies
 - Allow lower cost, less comprehensive plans (fewer benefit reqs)
 - Tax credits could be available for catastrophic plans
 - Allow CSRs to be deposited directly into savings accounts (HSAs tied to A/V value)
 - Baseline HDHP, HSA plans
 - Allow CSRs for Bronze & Catastrophic plans
 - Right now, shifting to Bronze from Silver can be a net loss



Freedom and Responsibility

- Republican plans would focus on high-risk pools and “continuous coverage” protection
 - Basic idea: extend COBRA to individual market. As long as you maintain coverage continuously, a new insurer can’t re-rate you for health status
 - Advantage over individual mandate + GI is that this is in effect a much higher penalty for being uninsured
 - Could encourage greater participation among higher income, invincibles



Re-Envisioning Medicaid

- Any serious Republican proposal has to contend with how to cover the Medicaid population, while also maintaining fiscal neutrality given Medicaid's low cost per-capita
- Approach is typically to block grant
 - Can block grant overall funding
 - Or block grant on a per-capita basis
 - Advantage is that states don't get penalized for enrolling sicker population



Federalism: Trust But Verify

- Red and Blue States may find a block grant both effective and attractive
 - New York has effectively capped Medicaid growth; “on the hook” if it doesn’t meet target savings through 1115 waiver
 - Obamacare’s 1332 Waiver Opportunities
 - Bundle other programs into standardized waivers – allow states to funnel HC funding into non-HC programs (supportive housing, prisoner re-entry, etc)



The Secret Sauce: Lower Cost Innovation

- Reform FDA drug development protocols
- Focus on getting better information through the exchanges (quality, pricing, formulary designs)
- Encourage states to revisit restrictions on provider licensing, anti-trust (hospital consolidation, anti-kickback)
- Cost of regulations: hundreds of billions of \$ annually
- Get Medicare out of the business of setting prices for individual procedures (MA competition plus mega-bundles, DRG+)

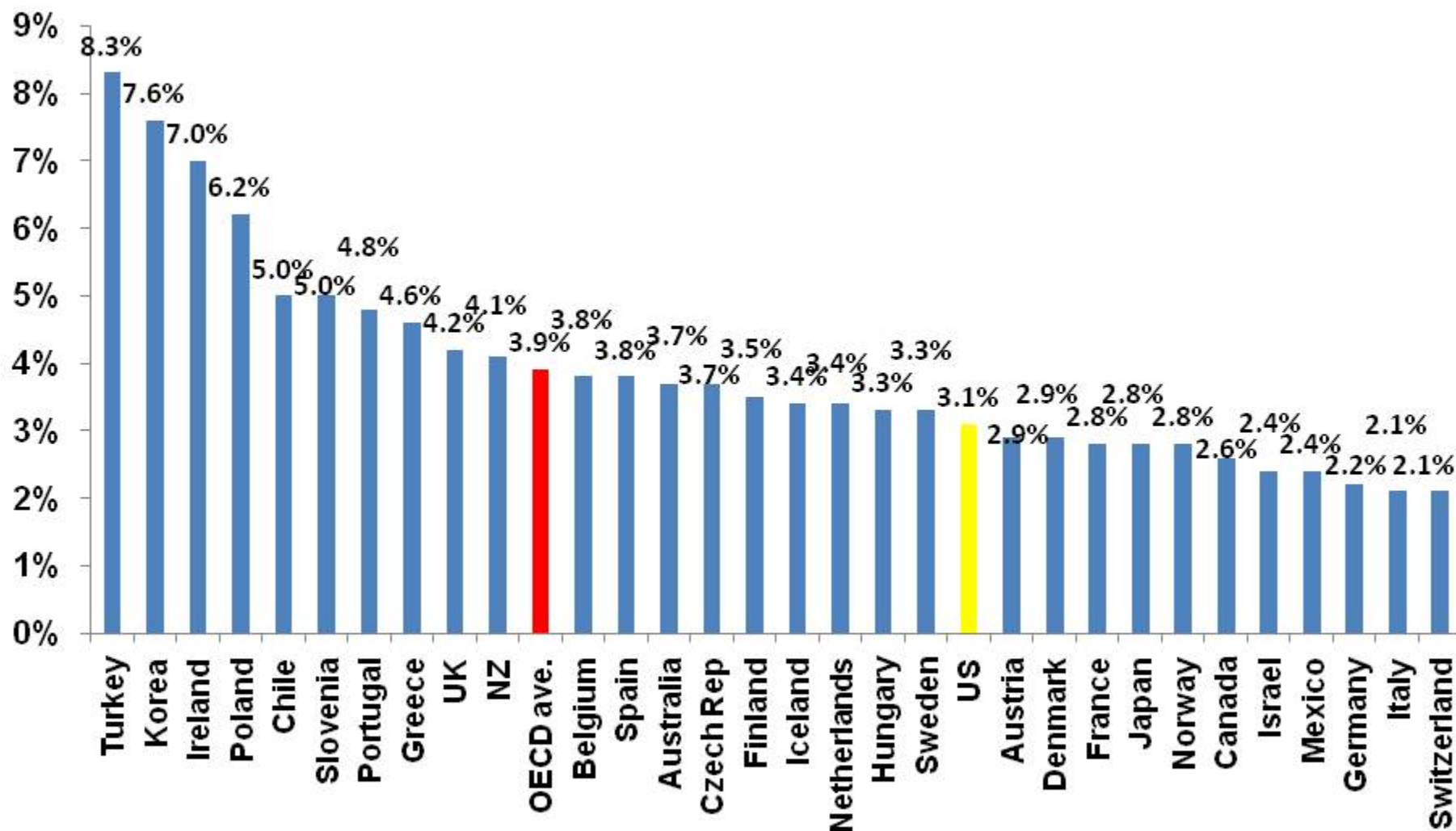


Markets: Do We Have Any Other Choice?

- In context: the U.S. is an outlier, but our OECD competitors are facing the same challenges (and from a demographics perspective, a more severe one)
- U.S. is actually about the middle of the pack in OECD health care inflation
- Biggest problem is a misalignment between prevention and treatment, labor and capital. A more efficient, more consumer-directed system would reward efficient interventions (“precision medicine”)
- Non-Communicable Diseases: Tsunami of Costs



Annual Growth Rate of Health Expenditures, OECD Countries, 1993-2008



Source: Value for Money in Health Spending, OECD, October 2010

The Train has Left the Station For Both Parties



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Does Everybody Get the Lamborghini or the Camry?

The 2014 Lamborghini Veneno (\$4.5 million)....



the Toyota Camry Hybrid (\$27,000)



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Thank You!



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