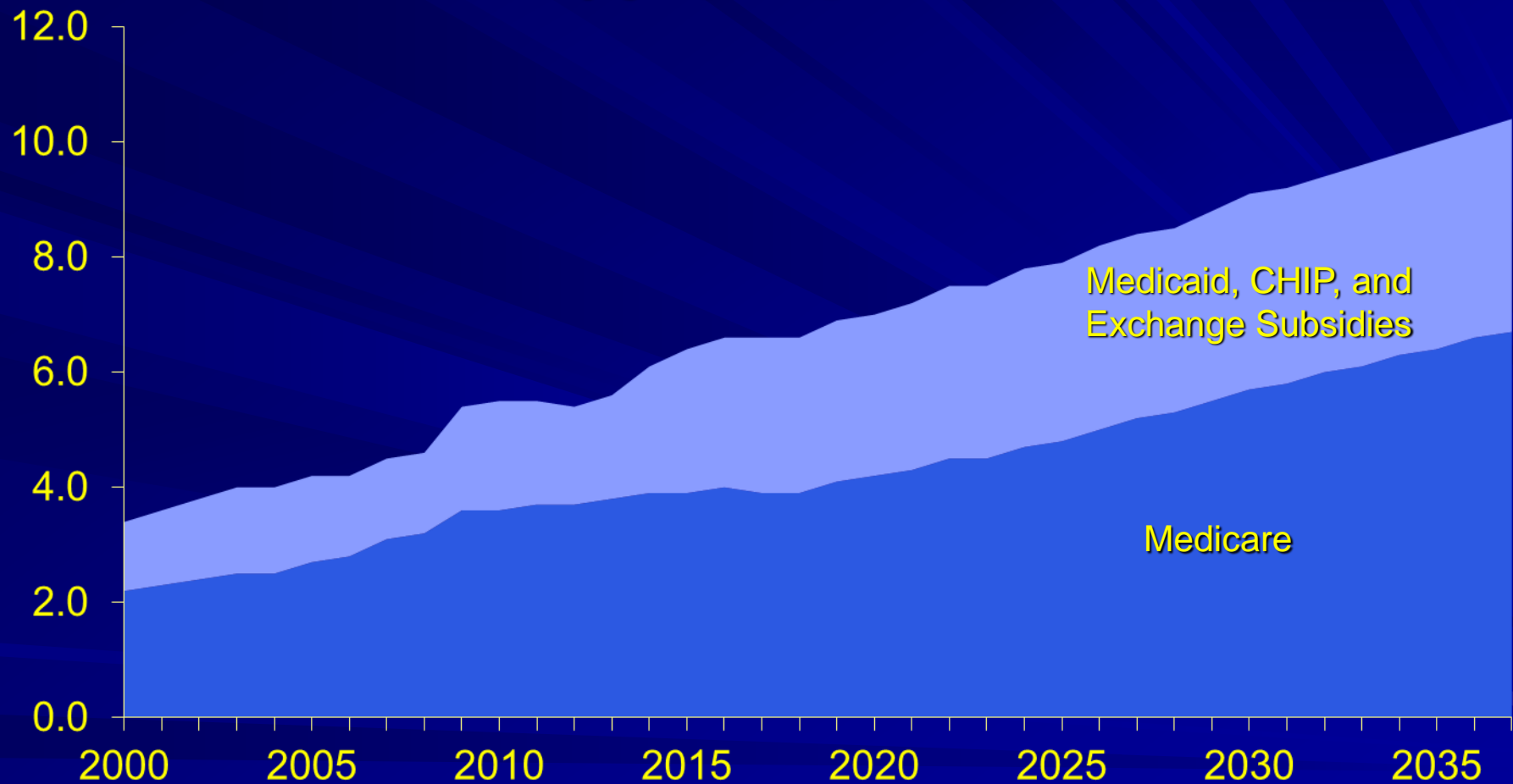


Confronting Our Fiscal Challenges While Ensuring Quality of Care

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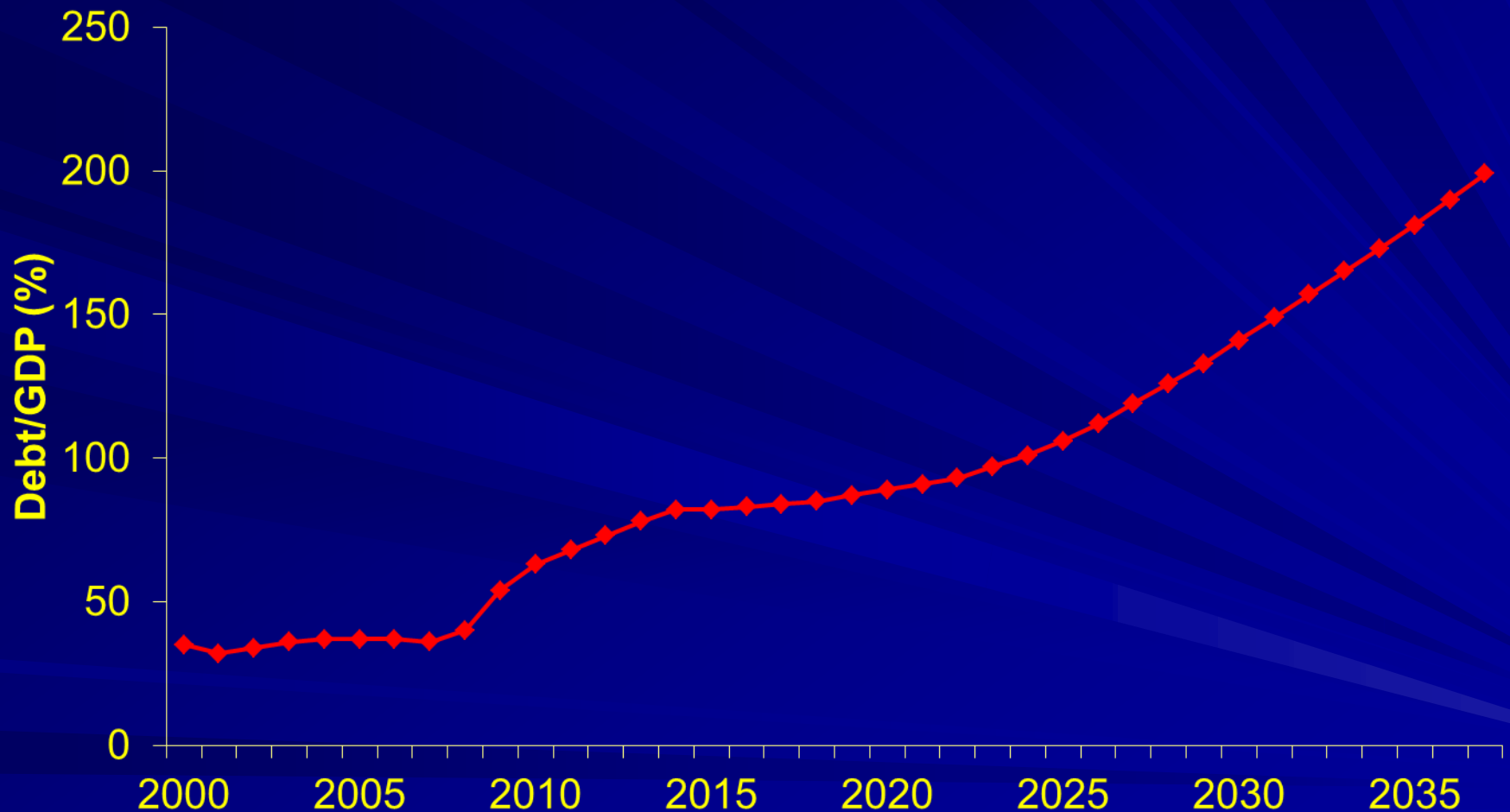
Oct. 30, 2012

Federal Spending on Health as % of GDP:



Source: Congressional Budget Office. The 2012 Long-Term Budget Outlook.
http://cbo.gov/sites/default/files/cbofiles/attachments/LTBO_One-Col_2.pdf

Our Debt is Unsustainable:



Source: Congressional Budget Office. The 2012 Long-Term Budget Outlook.
http://cbo.gov/sites/default/files/cbofiles/attachments/LTBO_One-Col_2.pdf

Consequences of Higher Taxes

- If finance higher health care spending by taxes:
 - Marginal tax rates of high income earners could rise to 70% by 2060
 - GDP declines(relative to trend) by 11%.
- Magnitudes depend on the exact assumptions about tax policy

Source: Baicker and Skinner: 2011: Assumes health care spending growth consistent with 2010 CBO long run forecast

Summary: Fiscal Challenges

- Value matters, but ultimately spending must grow more slowly
- Public spending drives taxes, taxes slow economic growth.
 - Public spending will slow
- Private spending will slow because firms and individuals cannot afford continued premium/ copay increases

Slowing Spending Growth

Who Will Slow Spending



What will slow spending growth

■ Payment reform

- Will drive and support changes in organization of medical practices

■ Consumer strategies (benefit design)

- Includes management of chronic conditions and wellness

Payment Reform

■ Pay less

- Reductions in payment to providers
- Reductions in payment to plans

■ Bundle payments: aggregate payment across services and providers

- Episode bundles
- Patient bundles (global payment)
 - Accountable Care Organizations
- Can slow spending, if payers hold the line in payment increases

Benefit Design Options

- Higher co-premiums/ premium support
- Higher copays, co-insurance or deductibles
- Reference pricing
- Tiered networks
- Value Based Insurance Design (VBID)
 - Align copays with value

End