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# Health Care Cost

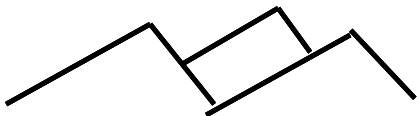
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“Why Do We Care?”

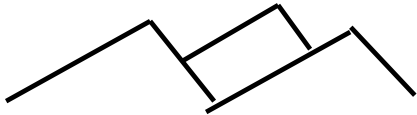
Presented by:

**Bill Lindsay**

Lindsay 3, LLC  
Consulting



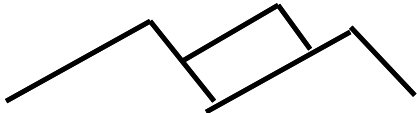
CAVEAT!



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# Colorado Commission on Affordable Health Care



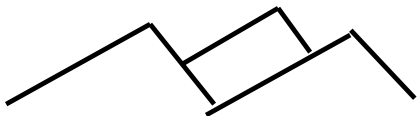
# Legislative Charge

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The Commission shall focus its recommendations on evidence-based cost-control, access, and quality improvement initiatives and the cost-effective expenditure of limited state moneys to improve the health of the state's population.

## *Duties of the Commission:*

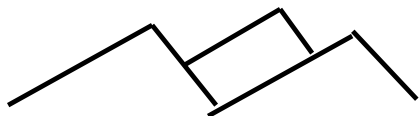
- ❑ Identify, examine, and report on cost drivers for Colorado businesses, individuals, Medicaid, and the uninsured.
- ❑ Data analysis on evidence based initiatives designed to reduce health care costs while maintaining or improving access to and quality of care. Analyze the impact of increased availability of information.
- ❑ Review, analyze, and seek public input on state regulations impacting delivery and payment system innovations.
- ❑ Analyze impact of out-of-pocket costs and high-deductible plans.
- ❑ Examine access to care and its impact on health costs.
- ❑ Review reports and studies for potential information.
- ❑ Report outcomes of the 208 Commission



# Commissioners

The Commission is comprised of a diverse and deeply knowledgeable slate of members representing every corner of Colorado.

- **Bill Lindsay (Chair) (Unaffiliated, appt. by Governor)** of Centennial, representing licensed health insurance producers
  - **Cindy Sovine-Miller (Vice-Chair) (R, appt. by House Minority Leader)** of Lakewood, representing small Colorado businesses
  - **Elisabeth Arenales (D, appt. by Speaker of the House)** of Denver, from an organization representing consumers and understands consumers with chronic medical conditions
  - **Jeffrey J. Cain, M.D., FAAFP, (D, appt. by President of Senate)** of Denver, a health care provider who is not employed by a hospital and who is a physician recommended by a statewide society or association whose membership includes at least one-third of the doctors of medicine or osteopathy licensed in the state
  - **Rebecca Cordes (D, appt. by Governor)** of Denver, representing large, self-insured Colorado businesses
  - **Greg D'Argonne (R, appt. by House Minority Leader)** of Littleton, with expertise in health care payment and delivery
  - **Steve ErkenBrack (R, appt. by Senate Minority Leader)** of Grand Junction, representing carriers offering health plans in the state
  - **Ira Gorman, PT, PhD, (D, appt. by President of the Senate)** of Evergreen, a health care provider who is not employed by a hospital and is not a physician
  - **Linda Gorman (R, appt. by Senate Minority Leader)** of Greenwood Village, a health care economist
  - **Marcy Morrison (R, appt. by Speaker of the House)** of Manitou Springs, from an organization representing consumers
  - **Dorothy Perry, PhD, (D, appt. by Governor)** of Pueblo, with expertise in public health and the provision of health care to populations with low incomes and significant health care needs
  - **Christopher Gordon Tholen (Unaffiliated, appt. by Governor)** of Centennial, representing hospitals and recommended by a statewide association of hospitals
- Ex officio Commission members
- **Susan Birch, MBA, BSN, RN, Executive Director** Colorado Department of Health Care Policy and Financing
  - **Alicia Caldwell, Communications Director,** Colorado Department of Human Services
  - **Marguerite Salazar, Commissioner of Insurance,** Colorado Department of Regulatory Agencies
  - **Jay Want, M.D.,** representing the Colorado All Payer Claims Database
  - **Larry Wolk, M.D., MPH, Executive Director,** Colorado Department of Public Health and Environment



# Cost of Health Care

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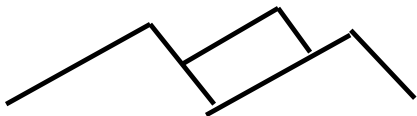
Health care cost, price, and spending are often interchangeable terms but are distinct concepts with distinct meanings. While much of the data analysis focuses on spending, and the public or purchaser is concerned with price, the work of the Commission has focused primarily on cost.

The Commission operated using these definitions:

**Cost:** The resources it takes for health care suppliers to produce goods or services, including labor, equipment, facilities, and administration.

**Price:** The amount received by health care suppliers in exchange for their goods or services. In a free market economy, the price is determined by the interaction between the demand of buyers and the supply of sellers. When prices are higher than suppliers' costs, profits are generated; when prices are lower than suppliers' costs, losses occur. However, in some health care programs like Medicare and Medicaid, the government sets prices. When prices are set above what the free market would otherwise establish, supply often exceeds demand and surpluses occur. When prices are set below the market price, shortages occur.

**Spending:** The price of goods or services multiplied by the quantity purchased. This means that both price and quantity impact total spending.

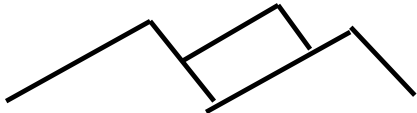


# Areas of Analysis

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The Commission identified key topic areas for investigation and discussion:

- Transparency
- Workforce
- Social Determinants
- Incentive Mechanisms
- Regulatory Costs
- Administrative Costs
- Payment & Delivery Reform
- Technology (telemedicine)
- Pharmacy
- Hospital Costs
- Fee Standing EDs
- End of Life
- Balance Billing/Out of Network
- Substance Use
- Rural Costs
- Impact of the Affordable Care Act

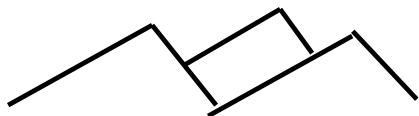


# Introduction

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- Rising health care costs pose significant challenges for families, businesses, and public agencies across Colorado. It is essential that the Centennial State find strategies to at a minimum stabilize health care costs and ultimately confront the root causes of this trend.

**Source:** Commission on Affordable Health Care, November 2016 report, p.7.



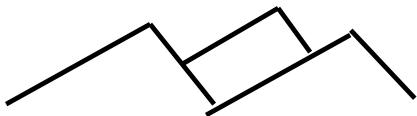


# Health Spending in Colorado: Research Analysis

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- Personal health care expenditures in Colorado reached an estimated \$36.3 billion in 2013. That is an increase of 327 percent over the past two decades, compared to 216 percent in the United States. And spending in Colorado has more than doubled from 2000, when it stood at \$16.3 billion. Since 2000, cumulative inflation in Colorado has been much lower at 33.3 percent.

**Source:** Commission on Affordable Health Care Report to General Assembly, November 2016 report, p.13.

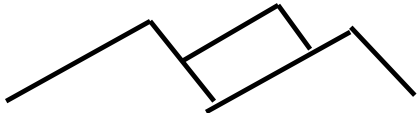


# Per Capita Spending Growth - Colorado

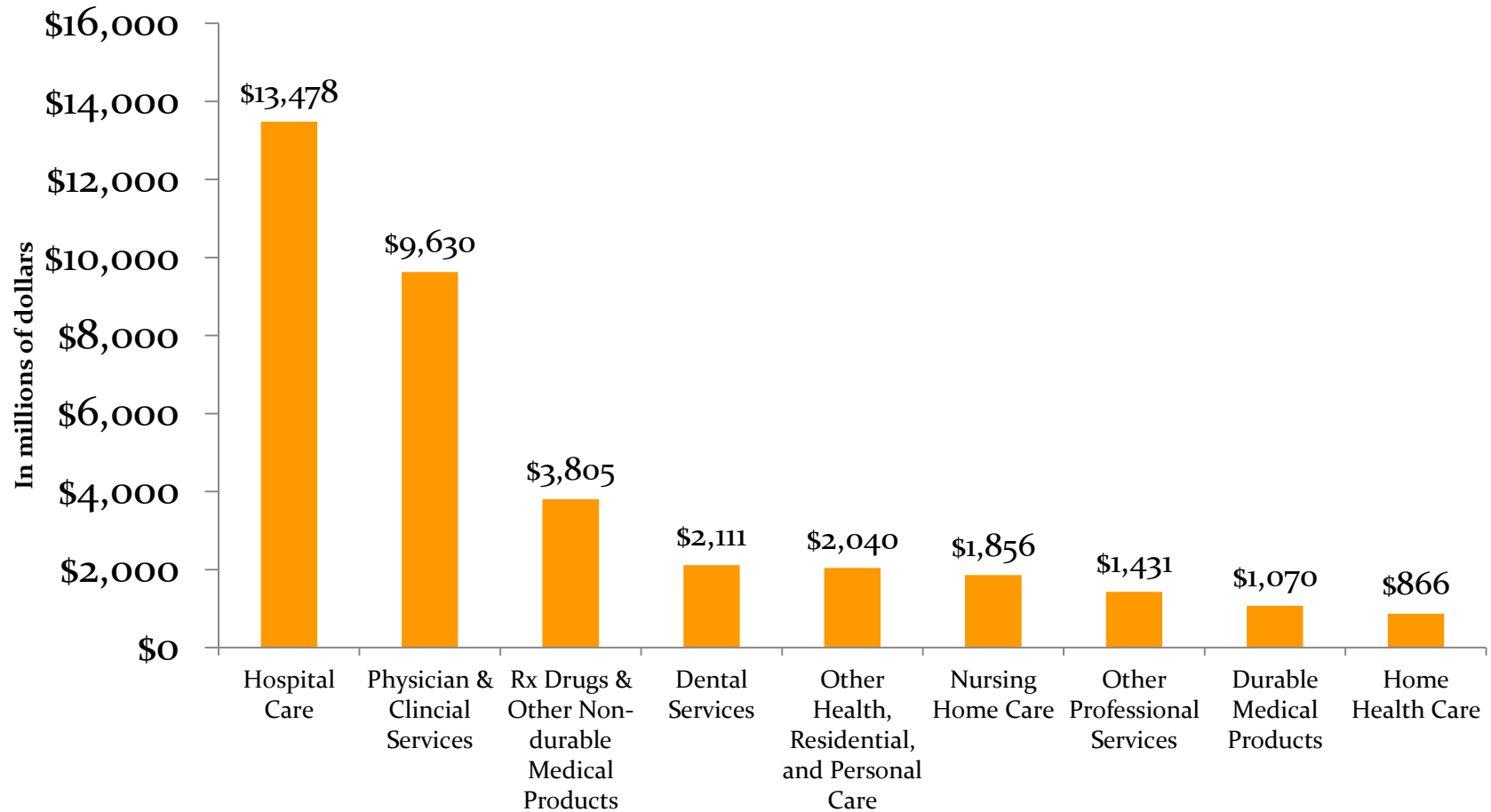
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1991	\$2,511	PPPY
2013	\$6,893	PPPY

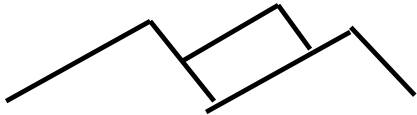
**Source:** CHI estimates using data from the National Health Expenditure Accounts, CenCMS, 2011 and 2014



# Spending on Health Care Services in Colorado 2013



Source: National Health Expenditure Accounts, CMS, Office of the Actuary, 2011 and 2014



# Colorado's Health Care Dollar

Spending by Service Type, 2013

**37¢**

**27¢**

**10¢**

**6¢**

**6¢**

**5¢**

**4¢**

**3¢**

**2¢**



Hospital Care

Physician and  
Clinical Services

Prescription  
Drugs and  
Other Non-  
durable  
Medical  
Products

Dental  
Services

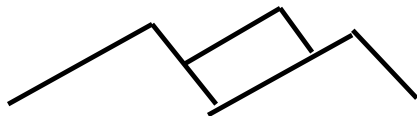
Other  
Health,  
Residential,  
and  
Personal  
Care

Nursing  
Home Care

Other  
Professional  
Services

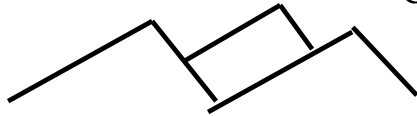
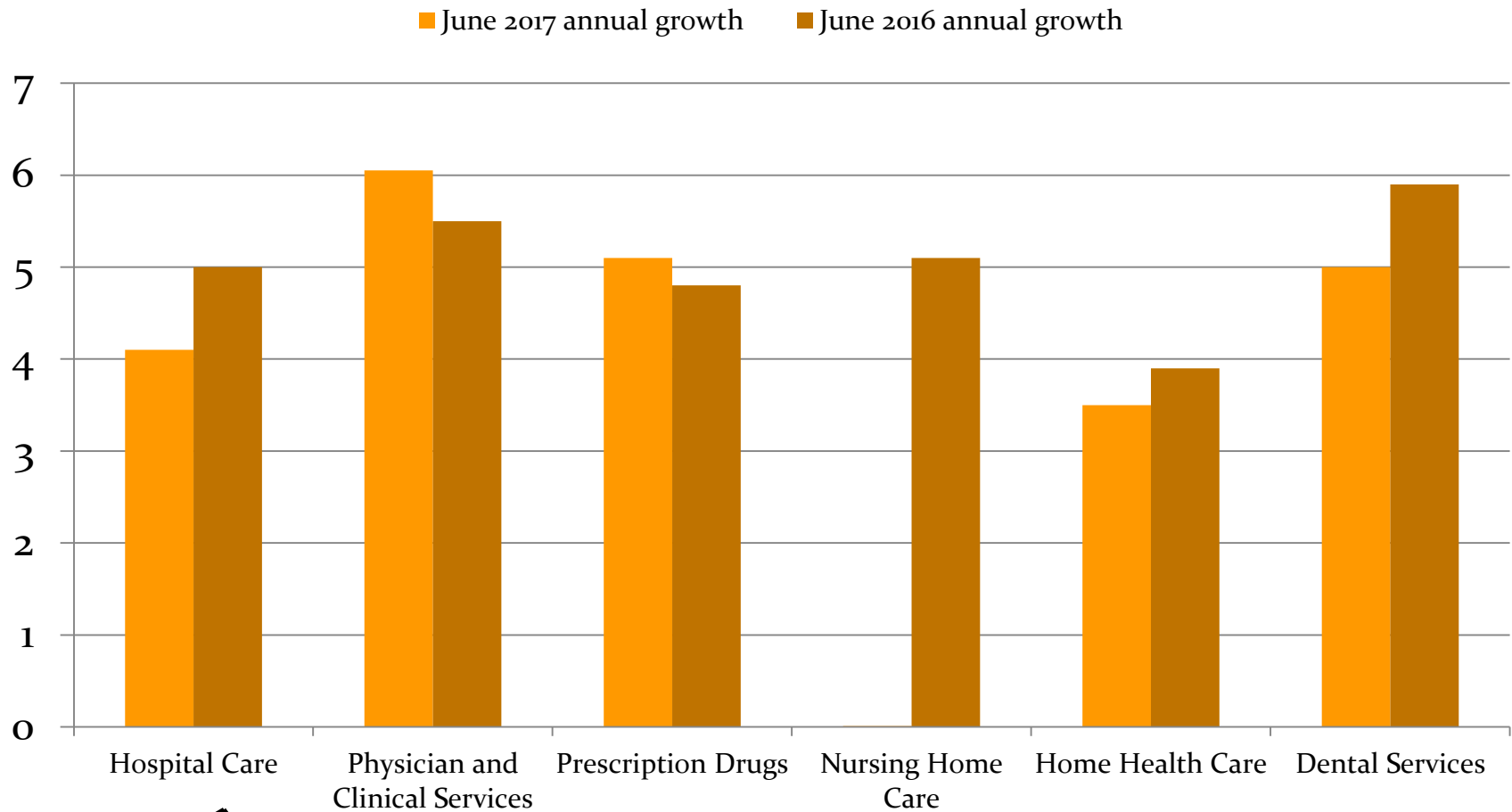
Durable  
Medical  
Products

Home  
Health  
Care



Source: National Health Expenditure Accounts, CMS, Office of the Actuary, 2011 and 2014

# Health Spending Year-over-Year Growth for Selected Categories Nationally



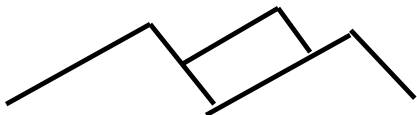
Source: Altarum monthly national health spending estimates

# National Health Spending and GDP\*

	June 2015	June 2016	May 2017	June 2017
GDP	18.20	18.58	19.26	19.36
National Health Spending	3.20	3.35	3.4	3.51
Health Spending Share of GDP	17.6%	18.0%	18.1%	18.1%
Health Spending Share of PDGP	17.6%	17.8%	18.1%	18.2%
Growth from Prior 12 Months				
Health Spending	5.9%	4.6%	4.5%	4.8%
GDP	4.5%	2.1%	4.1%	4.1%
Health Spending Minus GDP	1.4%	2.5%	0.5%	0.6%
Health Spending Minus PDGP	3.1%	1.6%	1.6%	1.9%

**Source:** Altarum Institute monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.

\*Spending is in trillions of dollars at a seasonally adjusted annual rate.



# Key Take Aways

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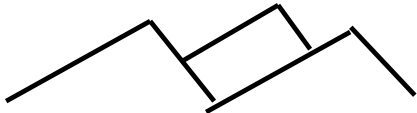
- Spending = Price X Utilization
- What drives utilization?
  - Concept of “supply induced demand” (e.g., Free Standing EDs)
  - “Direct to consumer advertising” (e.g., ads for Humira)
- “Consumerism” can not work without information:
  - Cost
  - Quality



# Advanced Imaging by Facility

			Advanced Imaging								
Rating Area	Member Months	Average Members	Allowed \$	Capitation \$	Units/ 1000 members	Cost Per Unit	Allowed PMPM	Capitation PMPM	Avg. Performing Facilities	Facilities/ 10,000 members	Units/ Facility
Boulder	3,269,560	112,743	\$5,585,182	\$14,071	38.57	\$1,284	\$1.71	\$0.00	63	6	69.0
CO Springs	4,224,890	145,686	\$7,439,448	\$4,415	21.17	\$2,413	\$1.76	\$0.00	32	2	96.4
Denver	26,583,786	916,682	\$39,464,275	\$1,527,267	21.86	\$1,969	\$1.48	\$0.06	278	3	72.1
Fort Collins	1,979,573	68,261	\$5,222,508	\$3,814	33.40	\$2,290	\$2.64	\$0.00	45	7	50.7
Grand Junction	1,471,718	50,749	\$10,174,738	\$0	61.54	\$3,258	\$6.91	\$0.00	25	5	124.9
Greeley	1,763,452	60,809	\$5,685,545	\$6,853	52.66	\$1,776	\$3.22	\$0.00	15	2	213.5
Pueblo	1,208,937	41,687	\$3,396,558	\$5,143	51.60	\$1,579	\$2.81	\$0.00	24	6	89.6
East	1,272,358	43,874	\$7,508,905	\$4,277	67.33	\$2,542	\$5.90	\$0.00	91	21	32.5
West	2,952,552	101,812	\$21,489,695	\$14,282	76.18	\$2,771	\$7.28	\$0.00	103	10	75.3
<b>TOTAL</b>	<b>44,726,826</b>	<b>1,542,304</b>	<b>\$105,966,854</b>	<b>\$1,580,122</b>	<b>32.01</b>	<b>\$2,168</b>	<b>\$2.37</b>	<b>\$0.04</b>	<b>676</b>	<b>4</b>	<b>73.0</b>

- After adjusting for population, the West has a high facility to member ratio (10 per 10,000 members)
- This does not reduce units/facility, compared to the average, so demand is either significantly higher (across all diagnoses), or facilities, as a whole, are ordering these tests more than in other areas.

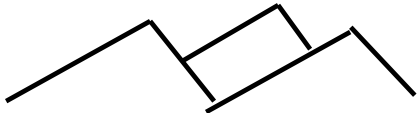




# Lab/Pathology by Facility

			Lab/Pathology								
Rating Area	Member Months	Average Members	Allowed \$	Capitation \$	Units/ 1000 members	Cost Per Unit	Allowed PMPM	Capitation PMPM	Avg. Performing Facilities	Facilities/ 10,000 members	Units/ Facility
Boulder	3,269,560	112,743	\$4,639,885	\$38,237	68.24	\$603	\$1.42	\$0.01	72	6	106.8
CO Springs	4,224,890	145,686	\$14,110,681	\$9,064	161.48	\$600	\$3.34	\$0.00	87	6	270.4
Denver	26,583,786	916,682	\$57,807,567	\$4,209,070	88.33	\$714	\$2.17	\$0.16	556	6	145.6
Fort Collins	1,979,573	68,261	\$10,301,455	\$9,376	367.63	\$411	\$5.20	\$0.00	84	12	298.7
Grand Junction	1,471,718	50,749	\$10,458,393	\$1,227	777.22	\$265	\$7.11	\$0.00	75	15	525.9
Greeley	1,763,452	60,809	\$7,672,077	\$25,894	203.56	\$620	\$4.35	\$0.01	33	5	375.1
Pueblo	1,208,937	41,687	\$3,878,409	\$1,254	97.23	\$957	\$3.21	\$0.00	32	8	126.7
East	1,272,358	43,874	\$8,831,130	\$1,061	388.02	\$519	\$6.94	\$0.00	245	56	69.5
West	2,952,552	101,812	\$23,889,000	\$14,051	442.04	\$531	\$8.09	\$0.00	250	25	180.0
<b>TOTAL</b>	<b>44,726,826</b>	<b>1,542,304</b>	<b>\$141,588,598</b>	<b>\$4,309,233</b>	<b>166.31</b>	<b>\$555</b>	<b>\$3.17</b>	<b>\$0.10</b>	<b>1,434</b>	<b>9</b>	<b>178.9</b>

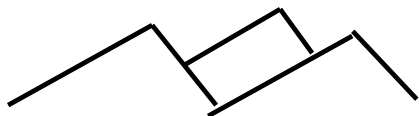
- After adjusting for population, the West has a high facility to member ratio (25 per 10,000 members), and units/facility has remained high.
- The West has a lower than average cost per unit.



# Key Take Aways

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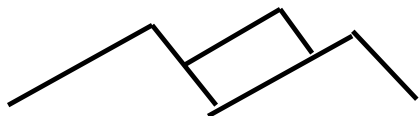
- Transparency requirements:
  - Ease of access
  - Ease of navigation
  - Understandable
- Legislation/Regulation is not the only answer
  - Can the market work?
  - How do we promote ideas in the private sector?
- Social Determinates of Health drive cost



# Look to Other States

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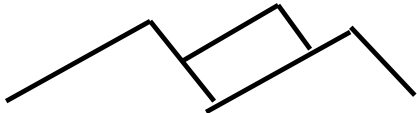
- Maryland – multi-payer equity
- Rhode Island – division of insurance to regulate networks
- Alaska and Maine – State reinsurance pool



# Potential Ideas to Explore – Legislative/Regulatory

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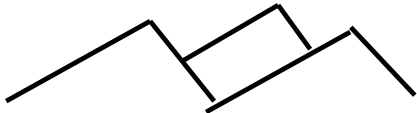
- “Dual track EDs” to be created in all emergency settings
- Enact licensing standards for Free Standing EDs
- Pilot pre-K education for Medicaid recipients
- Enact limits on Opioids
- Fund enhanced data/analytics at HCPF and APCD
- Identify and domicile for continued study on cost and quality
- Address mental health:
  - “Be real” about Mental Health Parity
- Consider pharmacy recommendations:
  - Multi-state compact for purchasing
  - Reinsurance mechanism to spread costs



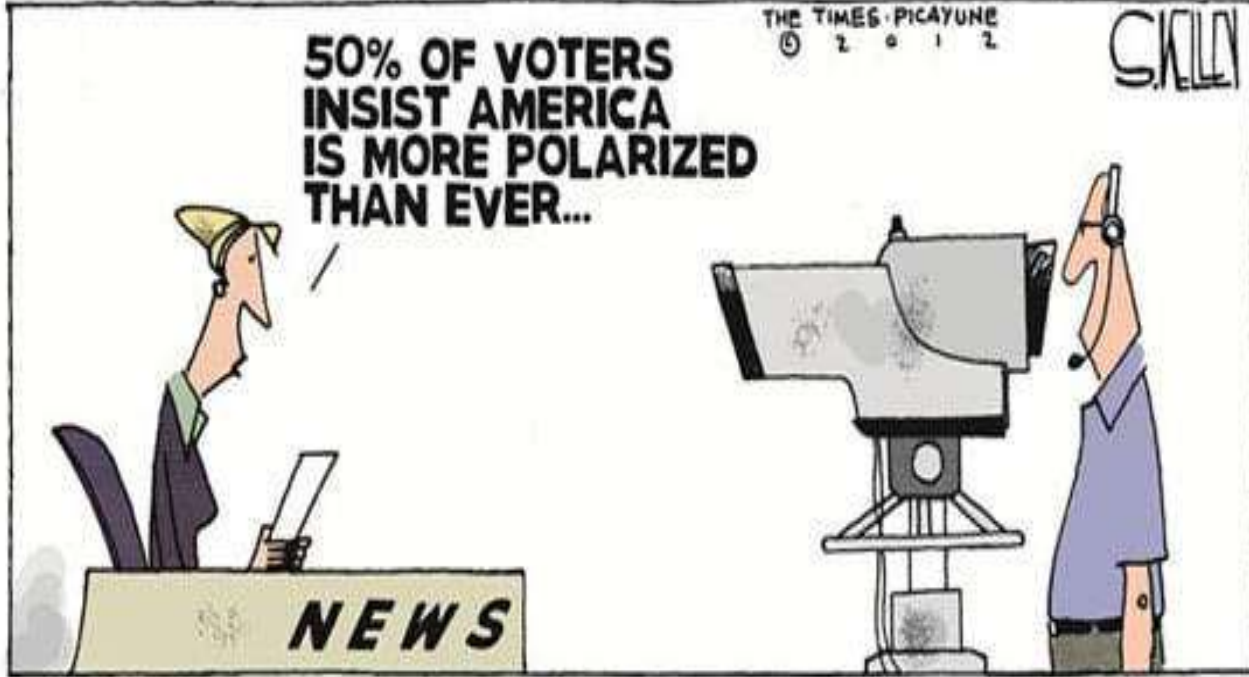
# Potential Ideas to Explore – Market Based

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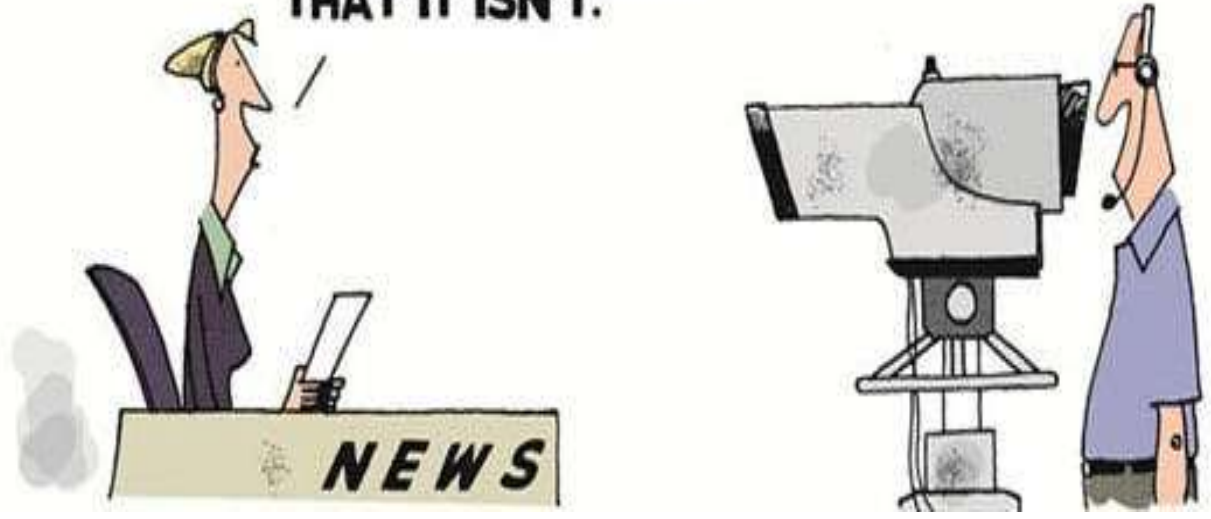
- Create a voluntary portal for Living Wills, Medical Powers of Appointment
- Publish average prices for common procedures
- Publish quality data on all providers
- Experiment with Transparency Tools and Value-Based Plan Design
- Address mental health:
  - Role in comorbidity solutions
  - Address lack of providers
  - Try new models (e.g., Telemedicine, etc.)
- Consider pharmacy recommendations:
  - Push Congress to act



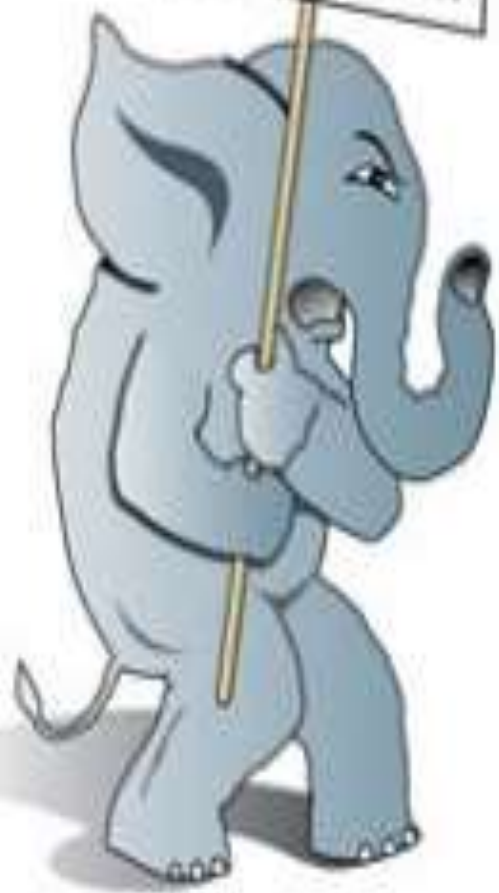
**50% OF VOTERS  
INSIST AMERICA  
IS MORE POLARIZED  
THAN EVER...**



**THE OTHER 50% REMAIN  
JUST AS ADAMANT  
THAT IT ISN'T.**



**I AM RIGHT,  
and YOU LIE!**



**No, I'm Right  
and YOU lie!**



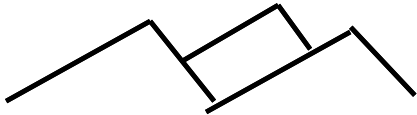




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# Questions?



# Recommendation:

## Rural Health Care Costs

**What's the problem?** High insurance premiums reflect high levels of spending on health care services. Data show that large differences in health care spending exist across the state, which raises questions about why such differences exist and what options exist to address those differences.

**Source:** Lewis & Ellis, Rural Cost Analysis for Commission

		2015								
		Total Cost per Member per Year			Units per 1,000 Members per Year			Cost Per Unit		
		All	Region	Country	All	Region	Country	All	Region	Country
High Level	Category	Regions	Rating Area 9-West	Denver	Regions	Rating Area 9-West	Denver	Regions	Rating Area 9-West	Denver
OP	Emergency Room	\$387	\$376	\$327	164.3	157.2	155.9	\$2,354	\$2,389	\$2,094
OP	Outpatient Surgery	\$445	\$921	\$329	97.9	131.3	84.4	\$4,547	\$7,016	\$3,900
OP	Observation	\$16	\$34	\$8	7.0	9.3	3.6	\$2,293	\$3,665	\$2,261
OP	Advanced Imaging	\$46	\$177	\$27	21.9	67.4	16.0	\$2,082	\$2,630	\$1,695
OP	Imaging	\$79	\$189	\$66	123.3	266.2	96.8	\$641	\$709	\$678
OP	Lab/Pathology	\$78	\$257	\$67	119.4	416.8	108.1	\$656	\$618	\$621
OP	Therapy (PT/OT/ST)	\$21	\$50	\$17	45.4	70.5	40.6	\$457	\$704	\$414
OP	DME/Prosthetics/Supplies (OP)	\$2	\$0	\$2	0.8	1.2	0.6	\$2,689	\$262	\$3,446
OP	Mental Health Outpatient	\$7	\$3	\$9	9.0	1.3	17.2	\$809	\$1,968	\$546
OP	Other Outpatient	\$129	\$255	\$108	101.6	92.6	157.7	\$1,265	\$2,751	\$682
<b>OP TOTAL</b>	<b>TOTAL</b>	<b>\$1,210</b>	<b>\$2,262</b>	<b>\$960</b>	<b>690.5</b>	<b>1,213.9</b>	<b>681.0</b>	<b>\$1,752</b>	<b>\$1,863</b>	<b>\$1,409</b>