Academic Articles & Reports Roundup: November 2017

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Happy December! In this Roundup, we cover four articles from November. The topics this month include: (1) new methods to measure healthcare costs and (2) economic impacts of ACA repeal efforts.

Better Understanding Healthcare Costs Through the Use of New Methodologies

Two articles in November propose two new methods of measuring healthcare spending rates. In Measuring the Burden of Health Care Costs on US Families: The Affordability Index (Journal of American Medical Association), authors Ezekiel Emanuel, Aaron Glickman, and David Johnson offer a new index measure defined as the Affordability Index, which relates health insurance costs to household incomes overtime. Currently, multiple measures are being used to quantify healthcare costs, including total health expenditures, health care inflation, healthcare spending as a percentage of the US economy, and healthcare waste. While these numbers show the high costs of healthcare, they are aggregate sums of data at the national level, which is deeply impersonal. The Affordability Index creates a ratio by dividing the mean cost of an employer-sponsored family health insurance policy by median household income. For example, the health spending ratio for 2016 was 30.7%, meaning the median family spent 30.7% of their annual income on health insurance premiums. The authors claim that the Affordability Index is better than these widely used measures, because it is reliable, generated regularly, accessible online, and widely understandable.

While this new calculation is easier for consumers to understand and demonstrates how healthcare costs affect each family, the Affordability Index does not incorporate all relevant cost measures. The index is only applicable for those with employer-sponsored insurance and does not take into account indirect healthcare costs such as time traveled, quality, caregiving for relatives, or lost opportunity costs. Even

though the metric is not perfect, the authors' proposal puts healthcare spending in a context that is understandable and relatable for consumers. It is hard to conceptualize what $3.2 trillion in spending looks like, let alone how that applies individually. The Affordability Index moves beyond aggregate cost data, which is easily and often ignored, and enables families to see how their healthcare costs grow each year in relation to their income. By providing a more targeted ratio that captures financial burdens at an individual level, the index could help sensitize physicians, hospital executives, pharmaceutical companies, and other health care professionals to rising healthcare costs.

In their article Primary Care Spending Rate – A Lever for Encouraging Investment in Primary Care (New England Journal of Medicine), Christoper Koller and Dhruv Khullar propose using a different type of measure known as the primary care spending rate. The primary care spending rate creates a formula that compares the proportion of primary care spending to all medical spending. The authors suggest that we should look at costs in the context of primary care spending, because investments in primary care improves patient outcomes and health systems. Ample research and evidence show that healthcare markets with more primary care physicians lead to fewer emergency department visits and higher patient satisfaction, resulting in lower overall spending rates and higher quality of care. For example, in 2009, Rhode Island required commercial insurers to raise their primary care spending rate of $47 million by 1% per year. By 2014, the state's spending on primary care had grown to $74 million, while per capita spending between 2009 and 2014 only grew at 0.6%. This is a stark contrast from other New England states that did not implement increased primary care spending. Those states had experienced much higher per capita spending growth percentages during the same time period – 2.8% growth in Massachusetts and 5.5% growth in Connecticut. The authors suggest that this outcome may inspire legislators to implement primary-care oriented reforms, and motivate insurers and delivery systems to reevaluate their distribution of resources to invest more in primary care.

Both articles offer simple solutions to help healthcare providers, insurers, delivery systems, and patients better understand healthcare costs by redefining the methodology of measuring the costs. While price transparency efforts are crucial to exposing irrational healthcare prices, these prices may be easily overlooked if

consumers do not feel the effect on a personal level. The Affordability Index replaces the industry wide spending data with a healthcare spending metric that is directly relevant to an individual's personal income, and the primary care spending rate offers a straightforward concept that is easily understood to expose the lack of investment for primary care services. Both measures can foster new conversations and inspire positive policy changes, which will in turn lead to lower healthcare spending and improved quality of care.

Economic Impacts of ACA Repeal Efforts

The Affordable Care Act (ACA) has been subject to various repeal efforts by the Trump administration, including bills to allow health plans that are not compliant with ACA standards and a tax overhaul bill to repeal the individual mandate. Two articles this month discuss the potential effects of these continued efforts to chip away at the ACA.

In their article for the Commonwealth Fund, How Do Noncompliant Health Plans Affect the Market, Mark Hall and Michael McCue look at data from existing ACA noncompliant plans to determine how additional ACA noncompliant health plans, made possible by ACA repeal efforts, would affect the market. ACA compliant plans cover a package of essential benefits and prohibit insurers from charging people more based on health status. Two types of noncompliant plans currently exist under the ACA: grandfathered plans that existed prior to the ACA's enactment and grandmothered plans, also known as transitional plans, exempt via executive order that existed when the ACA was first implemented. The authors used data from grandmothered plans relating to enrollment, premiums, and claims to examine the basic financial characteristics of ACA compliant and non-compliant plans offered in the individual and small group markets in 2015. For the individual market, monthly premiums were 54% higher in compliant plans than noncompliant plans. The authors hypothesize that the difference in costs may be attributed to the fact that transitional, noncompliant plans are able to charge higher premiums for individuals with preexisting conditions, a feature that is explicitly prohibited by ACA compliant plans. The higher premiums thus deter people with preexisting conditions from enrolling in noncompliant plans, resulting in a healthier pool of enrollees than compliant plans. As fewer patients require expensive treatment, noncompliant plans

become less costly than compliant plans. As a result, more healthy individuals opt for these cheaper noncompliant plans, leading to a decrease in the distribution of risk, which in turn drives up insurance prices. Thus, the authors conclude that allowing additional noncompliant plans to flood the market through ACA repeal would further destabilize the market and increase overall healthcare costs.

In the report titled "Repealing the Individual Health Insurance Mandate: An Updated Estimate," the Congressional Budget Office (CBO) provides an updated estimate on associated costs of the repeal of the Affordable Care Act (ACA) individual mandate, which was introduced by GOP senators on November 14, 2017 as part of a tax overhaul bill. ACA's individual mandate requires most Americans to have a basic level of health insurance coverage and imposes a tax penalty on those who fail to do so. The CBO concludes that repealing the individual mandate would reduce federal budget deficits by about $338 billion between 2018 and 2027, decrease the number of people with health insurance by 4 million in 2019 and 13 million in 2027, have minimal effect on non-group insurance markets, and increase the average premiums in the non-group market by about 10 percent. These changes are likely to occur because healthier people would be less likely to purchase insurance, which would drive up the premiums, causing more people to forego health insurance. The reports notes that these metrics are by no means certain. Future estimates are unable to precisely predict all effects, because how federal agencies, states, insures, employers, individuals, doctors, and hospitals will respond to the repeal is impossible to predict. What we do know is the federal deficit would be reduced by billions of dollars, and the number of uninsured would rise by millions.

The fate of the ACA remains unseen. For now, it appears that the common outcome of various efforts to repeal or replace the ACA is the destabilization of the insurance market. As healthier individuals opt for cheaper noncompliant health plans or forgo insurance altogether, they decrease the distribution of risk and increase insurance premiums as a result.

That's all for this month. As always, if you find articles or reports that you think should be included in the monthly Roundup, please send them our way. Enjoy your reading!