

# The Source Roundup: February 2022 Edition

This month's roundup focuses on articles and reports highlighting new research and insights relating to the high and rising costs of health care, which remain a major regulatory challenge for state and federal policymakers across the nation. First, we examine 1) research discussing potential strategies for price regulation and how it could support market competition, as well as 2) proposals for price growth caps via insurance rate review. Also highlighted in this month's roundup are studies on healthcare costs, specifically 3) state-level trends in the overall cost of employer health insurance, and 4) the growth of per-person spending by commercial insurers. Finally, we look at 5) trends in nationwide spending on prescription drugs, and 6) recent Congressional legislation aimed at promoting prescription drug competition.

## Rate Regulation

As high and rising hospital prices continue to be a concern in the U.S., there are a variety of cost containment policy models and approaches policymakers could take. A recent report published by *Health Affairs* made the case that contrary to conventional wisdom, market competition and price regulation are not mutually exclusive strategies to curb high and rising provider prices. In "[How Price Regulation is Needed To Advance Market Competition](#)," Source Advisory Board member Robert A. Berenson and Senior Health Policy Researcher Robert B. Murray demonstrate that price regulation not only would limit prices directly but also would promote competition on other factors, including quality, broadly considered. The authors reviewed international literature and interviewed U.S. health economics and policy experts and concluded that the U.S. is unique in assuming market competition requires price competition. Additionally, they found that hospital price regulation potentially can support competition over important care delivery components other than prices, including quality and patient choice, creating stronger incentives for providers to improve operating efficiency while addressing high and rising prices directly. The authors point out, however, that ill-designed price regulation can limit

competition. They review current approaches to regulating hospital prices and describe two low-intensity rate-setting proposals that support competition. Their analysis calls for a two-pronged strategy: 1) applying rate caps to out-of-network hospitals and 2) establishing flexible, all-payer hospital budgets that adjust to shifts in patient volumes. The authors conclude that rather than debating whether to regulate hospital prices, legislators and policymakers should consider how best to do so.

A new brief published by the National Academy for State Health Policy (NASHP) examines more options to address high hospital prices using insurance rate review models. In [“Disrupting Hospital Price Increases: Using Growth Caps in Insurance Rate Review,”](#) Johanna Butler identifies a few solutions to disrupt increasing price trends, each requiring reining in rising prices rather than regulating the contracting or consolidation practices of hospitals. One approach is to use insurance rate review to cap hospital price growth via “affordability standards,” a policy idea already implemented by Rhode Island and Delaware. Another approach is outlined in NASHP’s model legislation, which is very similar to Rhode Island and Delaware’s policy language but focuses exclusively on hospital price growth caps and allows states to add their own priorities to the affordability standards if appropriate, i.e., primary care spend obligation for insurers, etc. Additionally, policymakers may consider a more stringent, three-prong approach articulated by Chernew, Dafny, and Pany, a group of economists with expertise in health care financing: 1) address egregiously high-priced providers by establishing a hard upper limit on prices, essentially making it illegal to price above a certain level; 2) for pricing below the upper limit, control the rate of growth using provider-specific price growth caps to prevent runaway price increases; and 3) address the potential to game this type of approach through value-based contracting or reimbursements that occur outside the parameters of service-based pricing mechanisms. While each approach has its strengths and weaknesses, they are all iterations of the same type of policy that seeks to cap escalating hospital prices or interrupt the price growth trend in some capacity.

## **Healthcare Costs**

In a study published by the Commonwealth Fund, Sara R. Collins, David C. Radley, and Jesse C. Baumgartner report that the burden of healthcare costs has risen for American workers over the past decade. Their findings — [“State Trends in Employer Premiums and Deductibles, 2010-2020”](#) — show premiums and deductibles taking up a larger share of employee income than they did a decade ago. Specifically, workers in most states paid nearly 12% of median income for health insurance premiums and out-of-pocket expenses in 2020, up from 9% in 2010. Additionally, employees in 37 states spend more than 10% of their income on premiums and deductibles, up significantly from 10 states in 2010. Mississippi and New Mexico ranked highest among the states, with these costs representing 18%-19% of worker salaries. Other findings show that the total cost of premiums plus potential spending on deductibles ranged from a low of \$6,528 in Hawaii to a high of more than \$9,000 in Florida, Kansas, Missouri, South Dakota, and Texas. The report explains that rising health insurance costs and deductibles are fueled by high healthcare and drug prices. With the growing cost burden of commercial insurance weighing on so many working families, the authors conclude that recent proposals would provide temporary enhancements to coverage, but more work is needed to reduce deductibles and out-of-pocket costs when people get health care.

Another report highlights the growth of commercial insurers’ spending per person. Conducted by the Congressional Budget Office (CBO), the report examines [“The Prices That Commercial Health Insurers and Medicare Pay for Hospitals’ and Physicians’ Services”](#) between 2013 and 2018 and reveals that in recent years, commercial health insurer’s per-person spending on hospital and physician services has grown more quickly, caused by rapid price increases, than spending by the Medicare fee-for-service (FFS) program. In their report, the CBO examined potential explanations for why the prices paid by commercial insurers are higher and more variable than those paid by Medicare FFS. One takeaway is that greater market power among providers consistently leads to prices for commercial insurers that are higher than Medicare FFS’s prices and that vary more widely, both among and within areas. The CBO’s findings suggest that the rippling effects of growing variance would likely result in widespread premium increases, felt both by privately insured individuals and employers alike.

## **Prescription Drug Prices**

Another report released by the CBO this month examines trends in nationwide spending on prescription drugs over the period between 1980 and 2018 and provides a detailed analysis of trends in spending, use and prices in the Medicare Part D and Medicaid programs over the 2009-2018 period. The report, "[Prescription Drugs: Spending, Use, and Prices](#)" shows that the percentage of total spending on health care services and supplies has fallen, and that slower growth in spending is associated with the growing availability of generic drugs. There was, however, an exception between 2013 and 2015, as spending on prescription drugs increased sharply. The findings also show that consumers' use of prescription drugs increased over time, with a greater use of generic drugs as a key factor in that increase. The report further explains that whereas the average prices of brand-name drugs tend to rise over time, the opposite is true for generic drugs. Between 2009 and 2018, the average price of a prescription for brand-name drug more than doubled in the Medicare Part D program. Meanwhile, average prices for generic drugs fell from \$22 to \$17. According to CBO, average prices for generic drugs tend to fall over time as competitors enter the market, which has led to a decline in the average prices of generic drugs in recent years. This means that on average, Americans may be paying less for their prescription drugs if they can get the treatment they need with generics. However, those who have no choice other than a brand-name drug may be paying a whole lot more.

As noted in the CBO report, brand-name prescription drug prices tend to increase compared to generic prices. In a new article published by the Journal of Law, Medicine & Ethics, Sarosh Nagar and Aaron S. Kesselheim explain that this is because brand-name manufacturers use many strategies to extend the market exclusivity of their products. The article, "[Promoting Competition in Drug Pricing: A Review of Recent Congressional Legislation](#)" examines and analyzes recent Congressional legislation aimed to target such tactics and assesses their likely effect on competition in the U.S. prescription drug market.

That concludes this month's Roundup. If you find articles or reports that you think

should be included in the monthly Roundup, please send them our way. Stay safe and healthy!