The Source Roundup: November 2019 Edition

Happy November! If you're wondering what to do with that extra hour as Daylight Savings ends, why not peruse the latest in healthcare news? In this month's Source Roundup, we look at articles that analyze 1) the role of waste and prescription drug prices in increasing healthcare costs, 2) the impact of market concentration and competition in healthcare pricing, and 3) the projected impact of healthcare reform proposals.

Healthcare Spending Increases Due to Waste and Rising Prescription Drug Costs

As Americans dig deeper into their pockets to pay for rising healthcare costs, many are asking why these increases seem to go unchecked and what can be done in response. In Waste in the US Health Care System: Estimated Costs and Potential for Savings, published in JAMA, William H. Shrank et al. assess waste in the American healthcare system, specifically failure of care delivery, failure of care coordination, overtreatment or low-value care, pricing failure, fraud and abuse, and administrative complexity. Evaluating peer-reviewed studies and publications from 2012 to 2019, Shrank and co-authors found about 20-25% of spending to be waste – the equivalent of $760 billion to $935 billion annually. Unsurprisingly, most of the waste was attributed to administrative costs. Shrank et al. propose that implementing certain cost-saving measures, such as following the best medical evidence, may lead to cost savings of $191 billion to $282 billion annually.

Turning to prescription drug costs, the Institute for Clinical and Economic Review published Unsupported Price Increase Report, in which David M. Rind and colleagues evaluate whether

price increases in certain prescription drugs (those that would cause the greatest increase in drug spending in America) were supported by clinical evidence of improved efficacy or other benefit. Out of the top nine drugs evaluated, seven had price increases unsupported by clinical evidence. The authors estimated that these drug price increases cost patients and insurers over $5 billion between 2017 and 2019.

Rising drug prices impact not only consumers but also federal government spending. The Kaiser Family Foundation focused on Medicare Part D prices in a recent data note titled Assessing Drug Price Increases in Medicare Part D and the Implications of Inflation Limits. Authors Juliette Cubanski and Tricia Neuman assess changes in Medicare Part D drug pricing relative to the rate of inflation to provide context to proposed legislation that would require drug manufacturers to pay rebates to the government when price increases exceed the inflation rate. Cubanski and Neuman found that of the 2,879 drugs reported in 2017 Medicare Part D spending, 60% (1,733 drugs) had list price increases that exceeded the 1.7% inflation rate. Among the top 25 Part D drugs, price increases ranged from three to sometimes more than nine times the rate of inflation. The analysis suggests that proposed legislation requiring companies to limit increases to the rate of inflation or pay government rebates if increases exceed that would curtail rising costs. In fact, the Congressional Budget Office (CBO) estimates a $57.5 billion reduction in Medicare spending should this proposal be adopted.

The Impact of Market Concentration and Competition on Healthcare Costs

As previously reported in various research studies, market concentration plays a significant role in rising healthcare costs. Richard M. Scheffler et al. of the Nicholas C. Petris Center of UC Berkeley School of Public Health take a closer

look in The Sky's the Limit: Health Care Prices and Market Consolidation in California. Published by the California Health Care Foundation, the report indicates that as the 16th most expensive state for common health services, California pays more than most states for healthcare even after adjustments for wage differences. The researchers found that market concentration – specifically through hospital consolidations and physician integration into hospital-owned practices – plays a key role in driving up healthcare prices. To counter these trends, the authors propose, among other strategies, better enforcement of antitrust laws, restricting anti-competitive actions among providers, and reducing market entry barriers.

Sabrina Corlette et al. examine market competition from a different perspective in a series of case studies titled Assessing Responses to Increased Provider Consolidation. Published in Georgetown University's Center on Health Insurance Reform, the studies address how the existing structure thwarts efforts to promote market competition and examine the strategies that payers have used, albeit with limited success, to reign in rising healthcare costs. With over 90% of the healthcare market already consolidated, efforts to control prices have been hindered as providers exert near monopolistic control in certain regions. For example, one factor is employers' unwillingness to cooperate with health insurance efforts to exclude high-cost providers, fearing backlash from employees, even though it may be payers' most powerful tool. The authors conclude that any progress in reigning in healthcare costs requires first limiting providers' disproportionate bargaining power in price negotiation.

No Perfect Answer to Reforming the Health Care System

While these studies increase our understanding of specific

problems contributing to high healthcare costs, they also call attention to the dire need for larger scale systemic reform. In From Incremental to Comprehensive Health Reform: How Various Reform Options Compare on Coverage and Costs, a study by the Urban Institute and Commonwealth Fund, Linda Blumberg et al. assess eight healthcare reform proposals and their potential impacts on health insurance coverage and spending. While a full-scale, single-payer, "Medicare for All" approach would eliminate consumer contributions and insure everyone, including undocumented immigrants, it would cost the government $34 trillion in healthcare spending over ten years. An alternative, mixed private and public health insurance approach lowers government and system-wide costs but at the expense of consumer contributions and no coverage for undocumented immigrants. It comes as no surprise that there is no single, one-size-fits-all solution that will address all the needs of the country's healthcare system. As such, in the accompanying data brief, Comparing Health Insurance Reform Options: From "Building on the ACA" to Single Payer, Blumberg et al. raise important considerations in designing and implementing health insurance reform, including provider payment rates, phase-in period, and the effects on employer, household, and national health spending.

Finally, in a different study – Is There Potential for a Public Option to Reduce Premiums of Competing Insurers? – Blumberg et al. assess the effect of a public option in Affordable Care Act (ACA) nongroup marketplaces. Conducted by the Urban Institute and the Robert Wood Johnson Foundation, the analysis suggests that provider payments in a public option set near Medicare rates could increase market competition, giving insurers greater bargaining power to in turn drive down rates. While not conclusive, the data models suggest a causal relationship between the presence of a Medicaid insurer and lower insurer premiums. The study provides preliminary evidence that introducing a public option into regions without competition may lead to premium savings.

That concludes this month’s Roundup. If you find articles or reports that we should include in the monthly Roundup, please send them our way. Happy reading!