

Exploring Stakeholder Perspectives on What is Affordable Health Care*

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Purpose

- Provide a summary of different national-level and stakeholder-level definitions of affordability in the actuarial science and health care literature
- Identify what aspects of these definitions are important when defining affordability



Outline

- 1 Background
 - Introduction
 - NHE and GDP Projections
- 2 Affordability
 - Affordability: National Level
 - Affordability: Stakeholder Level
- 3 Summary
 - Dimensions of Affordability
 - Conclusions
- 4 References



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Background

- Financial forecasts have raised concerns as to whether the economy can sustain the projected growth of US health care spending
- Is the projected growth of US health care spending affordable?
- Two common measures of affordability:
 - Level of US health care spending: National Health Expenditure (NHE)
 - Percentage of US gross domestic product (GDP) devoted to NHE



Historical and Projected NHE and GDP

Item	1970	1980	1990	2000	2006	2007	2018
NHE (billions \$)	75	253	714	1,353	2,113	2,241	4,353
NHE (\$ (per-capita)	356	1,100	2,814	4,789	7,062	7,421	13,100.3
GDP (billions \$)	1,039	2,790	5,803	12,422	13,178	13,808	21,480
NHE as % of GDP	7.2	9.1	12.3	13.8	16.0	16.2	20.3

1. SOURCES: Centers for Medicare & Medicaid Services, Table 1:
www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf;
<http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2008.pdf>
2. All dollar amounts are in current US dollars.



Affordability Definitions at the National Level

- Def. 1: NHE are affordable if the difference between national income and the desired amount of non-health spending is positive (Chernew et al. 2003)
- Def. 2: NHE are affordable if there is never a downward trend in non-health spending (Chernew et al., 2003)
- Using Def. 2, Chernew et al. found that NHE would be affordable until:
 - 2075, if real annual NHE grew at a rate of 1% higher than real annual GDP
 - 2039, if a 2% growth rate was assumed



Motivation: Stakeholder Affordability Definitions

- No mechanism or methodology currently exists to guide decision-makers in affordability analyses
- Projections of NHE are useful for designing national health care policies
- Projections of NHE are inadequate for considering healthcare affordability for groups of stakeholders, which have different reasons, incentives, and desired levels of health spending



Motivation: Stakeholder Affordability Definitions Continued

- Stakeholders in the US health care system include:
 - Consumers (including employees)
 - Providers (including the US government and employers)
 - Payers (such as public and private insurers)
 - Other (uninsured and underinsured)
- We will discuss stakeholder affordability definitions in the context of consumers and the US government
 - Considering different affordability definitions will help identify dimensions of affordability that should be considered in any definition
 - Note: Different stakeholders will have their own health care affordability definitions, with different measures of affordability



Consumers

- Affordability is associated with an individual's "ability to pay," i.e., an income-based definition
- Def: Health care is affordable if a stakeholder can purchase a good or service without "unacceptable or unreasonable sacrifices" (Axene, 2004)
 - Important issue: economic concept of value
- Def: Affordability is the absence of economic barriers to a good or service, such as the ability to pay for and/or physical access to health care (Lee & McKercher, 2002)
- Def: Household Budget Approach (Blumberg et al., 2007)



Consumers Continued

- Ability to pay is further associated with the availability or cost of health insurance and out-of-pocket costs
- Def: Normative and Behavioral Affordability definitions (Burndorf & Pauly, 2006)
- Def: Benchmark standard for an individual or family, based on income level and family size (Blumberg et al., 2007)
 - Defined affordability of health insurance in Massachusetts
- Unaffordability of health insurance is a significant issue
 - In 2003, 48.8 million individuals in families were spending more than 10% of their family income on health care (Banthin & Bernard, 2006)



US Government

- Now consider affordability of a health care system
- Def: Health care system is affordable if the cost of providing health care did not create a budget deficit
 - Three Part Frameworks: affordability, access, and quality (Bolnick, 2003)
- More practically, an affordability crisis emerges when the growth in health care spending outpaces the growth of the sources of finance
 - Medicare
 - Medicaid
 - Social Security
 - Obama-Biden Health Care Reform



Other Issues: Differences between Stakeholders

- Consumers versus US Government
 - Government possesses legislative authority and market power; consumer does not
 - Government has a greater ability to finance health care purchases than the consumer by requesting additional funding and/or raising payroll taxes
 - For the government, purchase of health care is largely a financial decision; it is a more personal decision for the consumer
- Differences such as these mandate affordability be analyzed separately for each stakeholder group



Other Issues: Interaction Effects

- Classic example: cost shifting (Dranove, 1988)
- Decrease in the amount hospitals are reimbursed for treating Medicare beneficiaries -> hospitals increase the rates charged to private payers
- As a consequence of interaction effects, total health care affordability does not equal the sum of each stakeholder's health care affordability



Dimensions of Affordability

- Ability to pay for health care (either national or stakeholder level)
- Impact of health insurance
- Economic concept of value of health care
- Time horizon for paying for health care
- Potential interaction effects among stakeholders



Conclusions

- Health care is affordable for a particular stakeholder if the stakeholder is not adversely affected by a marginal change in health care spending requiring a non-acceptable tradeoff in the consumption of non health goods and services
- Each stakeholder requires a different affordability definition, based on the various dimensions of affordability
- Actuaries can apply their experience in analyzing selection risk to forecasting health spending at the stakeholder-level



Thank You!

- Questions?



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