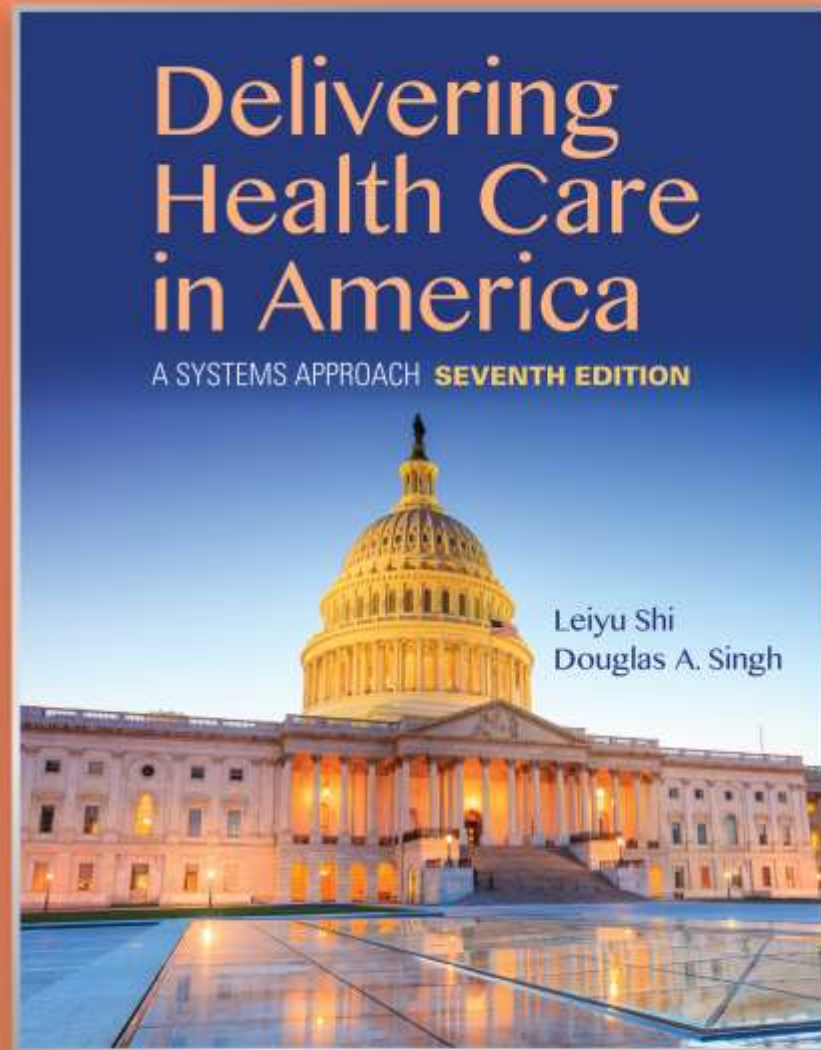


Chapter 6

Health Services Financing



Learning Objectives

(1 of 2)

- Role of health care financing and its impact
- Concept of insurance and general terminology
- Differentiate group insurance, self-insurance, individual health insurance, managed care, high-deductible, and Medigap plans
- Trends in employer-based health insurance
- Features of public insurance programs

Learning Objectives

(2 of 2)

- Various methods of reimbursement and trends
- National health care and personal health care expenditures and trends
- Effects of ACA on financing and insurance
- Current directions and issues in health care financing

Introduction

- Complexity of financing in the U.S.
 - Public and private financing play roles.
 - Insurance overlap is common.
 - Insurance financing shared between employer and employee.
 - ACA attempted to facilitate insurance purchase.

Role and Scope of Health Services Financing

(1 of 2)

- Financing pays health insurance premiums.
- Charity plays a noteworthy role for uninsured.
- Insurance increases demand for health care.
- Insurance lowers out-of-pocket costs.
 - Patients consume more.
 - Leads to higher utilization or moral hazard.

Role and Scope of Health Services Financing

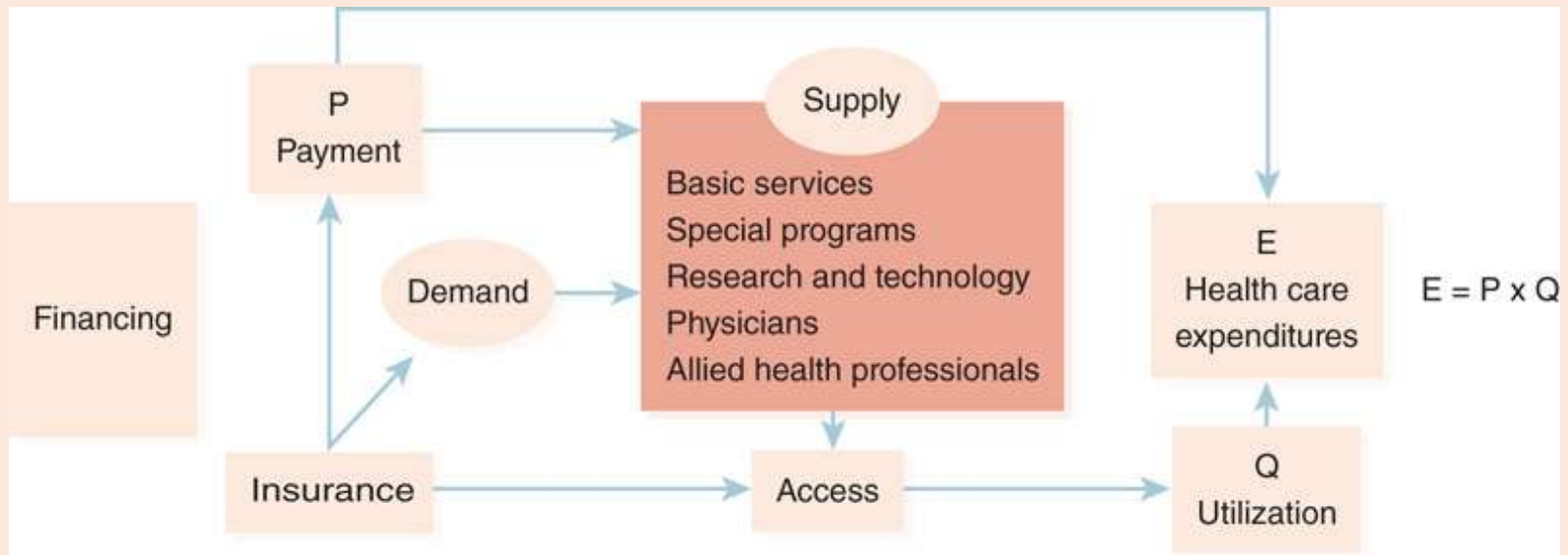
(2 of 2)

- Financing influences on supply-side factors.
- New models of organization may form.
- Demand-side factors.
- Financing influences the supply and distribution of health professionals.
- Resource-based relative value scale (RBRVS).

Financing and Cost Control

- Insurance extension to uninsured increases health care expenditures (E).
- Insurance with payment (price = P) influences supply.
- Insurance and supply of services determine access and service utilization (quantity of services consumed = Q).
- $E = P \times Q$

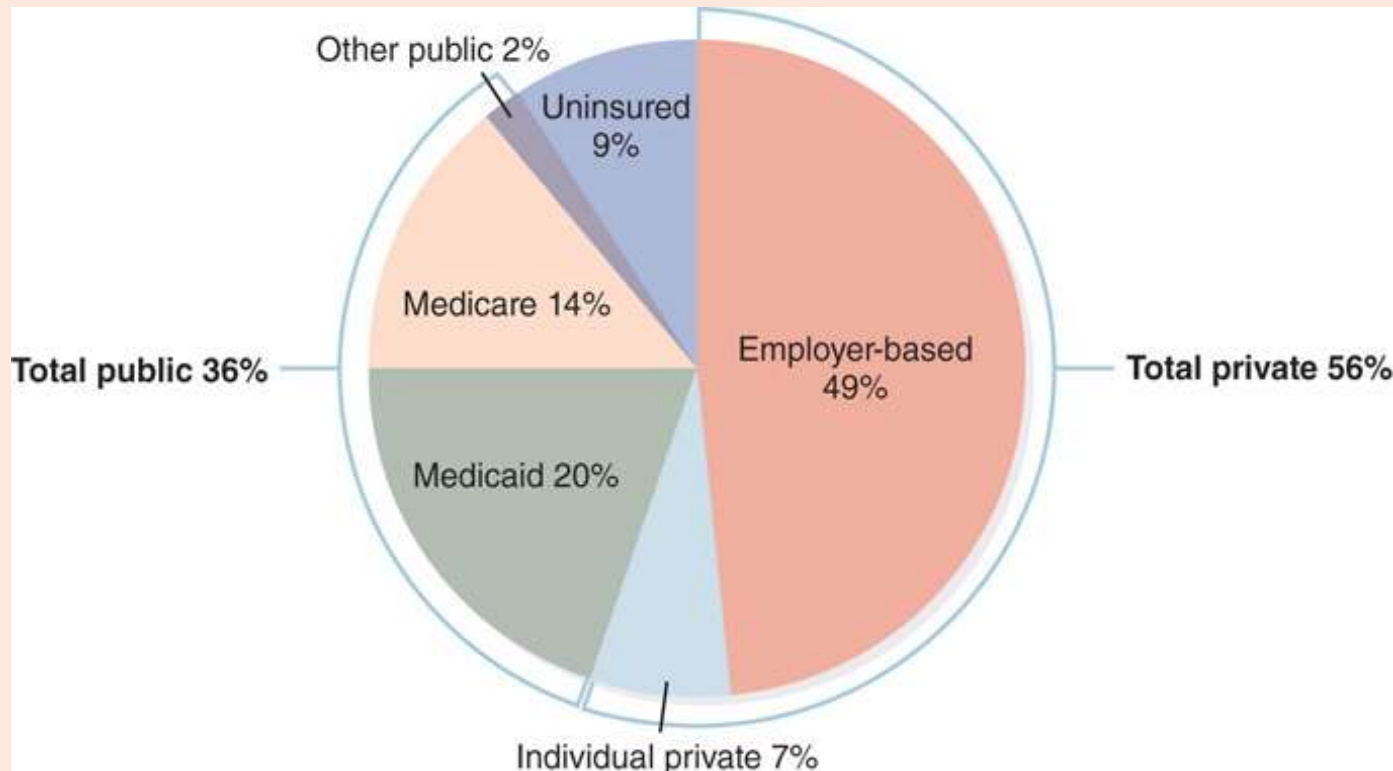
Figure 6-1: Influence of financing on the delivery of health services.



Insurance Function

- Four fundamental principles
 - Risk is unpredictable for the insured.
 - Risk can be predicted with a reasonable accuracy.
 - Insurance mechanism transfers risk from the individual to the group.
 - Members of insured group share losses.

Figure 6-2: Health insurance status of the total U.S. population, 2015.



Data from Kaiser Family Foundation. 2017. Health insurance coverage of the total population. Timeframe: 2015. Available at: <http://kff.org/other/state-indicator/total-population/?currentTimeframe=0>. Accessed January 2017.

Private Health Insurance

- Private health insurance is also called “voluntary health insurance.”
- Most private health insurance is employment based.
 - Workers are not mandated to buy it.
- Many businesses are self-insured.

Basic Health Insurance Terminology

- Premiums
- Risk rating
 - Experience and community ratings
- Cost sharing
 - Deductible
 - Copayment
 - Coinsurance
- Covered services or benefits

Types of Private Insurance

(1 of 2)

- Group insurance
- Self-insurance
- Individual private health insurance
- Managed care organizations (MCOs)
 - Health maintenance organizations (HMOs)
 - Preferred provider organizations (PPOs)

Types of Private Insurance

(2 of 2)

- High-deductible health plans and savings options
- Short-term stop-gap coverage
 - Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Medigap
 - Does not cover extended long-term care, vision, dental, hearing aids, or private nursing
- Trends in private health insurance

Trends in Employment-Based Health Insurance

- Play-or-pay mandate
- Premium costs in employment-based plans
- Trends in utilization costs: cost sharing
 - ACA limits out-of-pocket cost sharing
 - Deductibles and copayments/coinsurance

Table 6-1: Trends in Employment-Based Health Insurance, Selected Years

	Workforce Size	2005	2010	2015	2016
Percentage of employers offering health insurance	3–9 workers	47	59	47	46
	10–24 workers	72	76	63	61
	25–49 workers	87	92	82	80
	≥ 200 workers	97	99	98	98
Percentage of covered workers	3–24 workers	41	44	35	32
	25–49 workers	55	59	49	47
	≥ 200 workers	66	63	63	61

Data from Kaiser Family Foundation and Health Research and Educational Trust (Kaiser/HRET). 2016. Employer health benefits: 2016 annual survey. Menlo Park, CA: Author.

Private Coverage and Cost Under the Affordable Care Act (1 of 2)

- Six main ACA provisions
 1. Insurers mandated to enroll young adults until age 26 under parents' plans
 2. Illegal to charge more or refuse coverage for preexisting conditions
 3. All health plans had to include certain “essential health benefits”.
 4. Fee on insurers for the privilege of selling plans through the exchanges

Private Coverage and Cost Under the Affordable Care Act (2 of 2)

- Six main ACA provisions (*continued*)
 5. Medical loss ratio (MLR)
 6. Legal U.S. residents required to have health insurance, or else pay a penalty tax
- Deductibles at often-unaffordable levels
- Some large insurers left ACA exchanges

Public Health Insurance

- Public financing supports programs benefiting certain categories of people.
 - Medicare for elderly and disabled individuals
 - Medicaid for the indigent
 - Department of Defense programs for active service members and their families
 - Department of Veterans Affairs (VA) health care for military veterans

Medicare

(1 of 2)

- Title 18 of Social Security Act benefits
 1. Those 65 years old or older
 2. Disabled who are entitled to Social Security
 3. Those with end-stage renal disease
- Part A: Hospital Insurance

Medicare

(2 of 2)

- Part B: Supplementary Medical Insurance
- Part C: Medicare Advantage
- Part D: Prescription Drug Coverage
- Medicare financing and spending for services
- Medicare trust funds

Medicaid

(1 of 2)

- Title 19 of Social Security Act
- Finances health care for the indigent
- Almost entirely a taxpayer-financed program
- Means-tested program
 - Eligibility depends on financial resources

Medicaid

(2 of 2)

- Rules for Medicaid eligibility
- Dual-eligible beneficiaries
- Medicaid experiences under the ACA
- Issues with Medicaid
- Medicaid enrollment and spending

Children's Health Insurance Program (CHIP)

- Title 21 of Social Security Act.
- Federal block grants to states.
- Covers children up to age 19.
- No federal income threshold.
- States cover children in families with incomes up to 200% of the FPL.

Health Care for the Military

- U.S. Department of Defense
 - Known as the Military Health System.
 - For active duty and retirees, dependents, survivors, and former spouses.
 - Each branch operates its own medical facilities.
 - TRICARE is the insurance arm.

Veterans Health Administration (VHA)

- Largest integrated U.S. health system
- Cost control through global budgets
- 23 geographically distributed Veterans Integrated Service Networks (VISNs)
- Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA)
 - Covers dependents of disabled veterans

Indian Health Service (IHS)

- Comprehensive care to members of federally recognized tribes and their descendants
- American Indian and Alaska Native (AIAN)
- Facilities include
 - Hospitals and health centers
 - School centers
 - Health stations and Alaska village clinics

Payment Function

(1 of 3)

- Third-party payers
 - Insurance companies, managed care organizations, Blue Cross/Blue Shield, government
- Payment function has two facets
 1. Determine methods and amounts of reimbursement in advance of the delivery
 2. Actual payment after services rendered

Payment Function

(2 of 3)

- Fee for service
- Bundled payments
- Resource-based relative value scale
- Value-based reimbursement
- Managed care approaches
- Cost-plus reimbursement

Payment Function

(3 of 3)

- Prospective reimbursement
 - Diagnosis-related groups
 - Psychiatric DRG-based payment
 - LTC hospital payment system
 - Outpatient prospective payment system
 - Case-mix methods
 - Home health resource groups
- Disbursement of funds

National Health Care Expenditures

(1 of 2)

- National health expenditures (NHE)
 - \$3.2 trillion
 - Average per-capita spending of \$9,990 per American
- NHE represented 17.8% of the U.S. gross domestic product (GDP)

Table 6-4: U.S. National Health Expenditures in Selected Years

Year	Amount (in Billions)	Percentage of GDP	Amount per Capita
1960	\$27.2	5.0	\$146
1970	74.6	6.9	355
1980	255.3	8.9	1,108
1990	721.4	12.1	2,843
2000	1,369.7	13.3	4,857
2010	2,596.4	17.4	8,404
2015	3,205.6	17.8	9,990
2020 (projected)	4,198.3	18.7	12,490

Data from Centers for Medicare and Medicaid Services (CMS). 2016c. National health expenditure data: Historical. Available at: <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nationalhealthaccountshistorical.html>. Accessed January 2017.

National Health Care Expenditures

(2 of 2)

- Differences between national and personal health expenditures

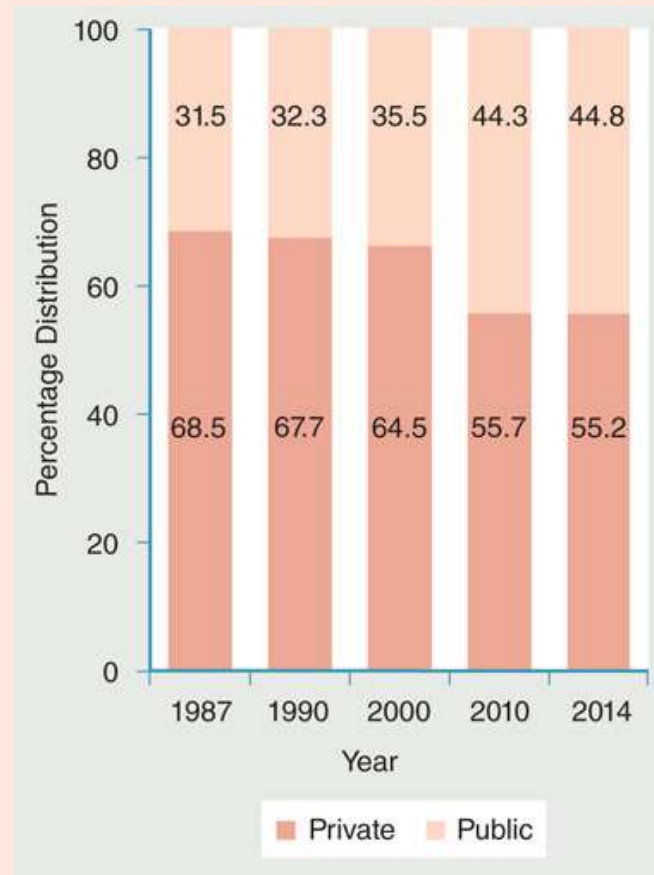
	2010	2015
NHE	100.0	100.0
Personal health care	84.5	84.8
Hospital care	31.7	32.3
Physician and clinical services	19.8	19.8
Dental services	4.0	3.7
Nursing home care	5.4	4.9
Other professional services	2.7	2.7
Home health	2.7	2.8
Prescription drugs	9.7	10.1
Other personal health care	5.0	5.1
Other medical products	3.5	3.4
Government administration and net cost of private health insurance	7.1	7.9
Government public health activities	2.9	2.5
Investment	5.5	4.8
Noncommercial research	1.9	1.5
Structures and equipment	3.6	3.4
Total NHE (billions)	\$2,596.4	\$3,205.6
Personal health expenditures (billions)	\$2,194.6	\$2,717.2

Table 6-5 Percentage Distribution of U.S. National Health Expenditures, 2010 and 2015

Data from Centers for Medicare and Medicaid Services (CMS). 2016c. National health expenditure data: Historical. Available at: <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nationalhealthaccountshistorical.html>. Accessed January 2017.

Trends in Private and Public Expenditures

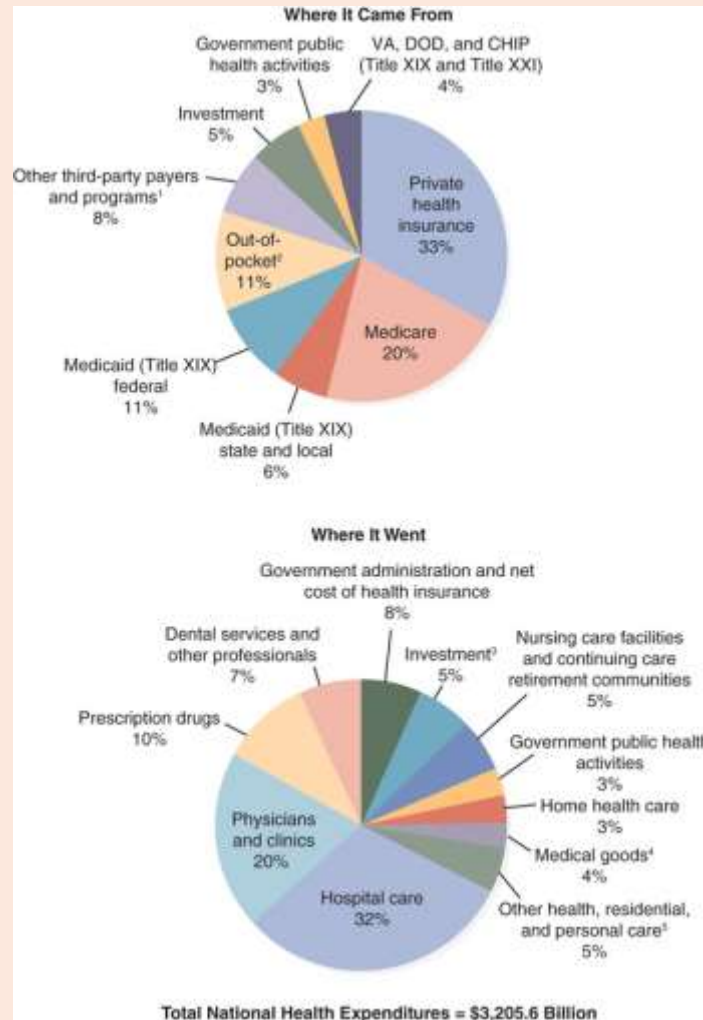
Figure 6-6 Proportional distribution of U.S. private and public shares of national health expenditures.



Data from National Center for Health Statistics (NCHS). 2016. Health, United States, 2015. Hyattsville, MD: U.S. Department of Health and Human Services. pp. 310–311.

The Nation's Health Care Dollar

Figure 6-7 The U.S. health dollar, 2015.



Data from Centers for Medicare and Medicaid Services (CMS). 2016c. National health expenditure data: Historical. Available at: <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nationalhealthaccountshistorical.html>. Accessed January 2017. See NHE Tables.

Current Directions and Issues

- Value and affordability
- Adverse selection
- Cost shifting
 - Mechanism to make up for revenue shortfalls
- Fraud and abuse
 - False Claims Act, Social Security Act, and the Anti-Kickback statute

Summary

- Financing determines
 - Who pays for health care services and for whom
 - Who produces which types of health care services
- Financing affects
 - Demand and supply sides of the health care equation