

Rising Health Care Costs

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Overview

- **Background**
 - Uninsured
 - Rising Health Care Spending
- **Health Care Cost Drivers**
 - New technology/treatments
 - Lifestyle
 - More generous benefit coverage
- **Other Factors**
 - Cost shifting
 - Adverse selection

Health care cost drivers

- Drivers that increase per unit costs
 - General inflation
 - Broader access provider networks
 - Provider consolidation
- Drivers that increase utilization
 - New technology and treatments
 - Lifestyle factors
 - More generous benefit packages
- Other factors
 - Cost shifting
 - Adverse selection

New technology and treatments

- Advances have brought breakthroughs; however some new advancements are additive not replacements
- May not always be better or more cost effective than existing treatments
- Options to address
 - Comparison effectiveness research
 - Implementation of evidence-based medicine

Lifestyle choices

- Increases in obesity → prevalence of diabetes
- Smoking → lung cancer and heart disease
- Lifestyle choices increase need for and utilization of medical services

- Options to address
 - Wellness and disease management programs
 - Imposes higher short-term costs with hope of lower long-term costs
 - Programs are relatively new; long-term effect uncertain

More generous benefit coverage

- Most health coverage programs today cover a comprehensive set of services
- Comprehensiveness lowers the cost of care to the insured and results in increased utilization
- Benefit design features (e.g., cost-sharing requirements) can discourage more effective use of health care services
- Options to address
 - Value based insurance design (VBID) is a new design concept
 - Attempts to set cost-sharing requirements to provide better incentives to seek needed care, while discouraging unnecessary care.

Cost shifting / Adverse selection

- Two other factors that affect spending among those with private insurance coverage
- Any potential measures to address rising costs (or attempt universal coverage) should not encourage or exacerbate these

Conclusion

- No magic bullet to reduce spending growth
- Factors to consider:
 - Magnitude of any cost savings
 - One-time or permanent cost savings
 - Will cost savings accrue in short-term or long-term?
 - Recognize any associated implementation expenses
 - Impact on health care quality