The U.S. Health System in International Context

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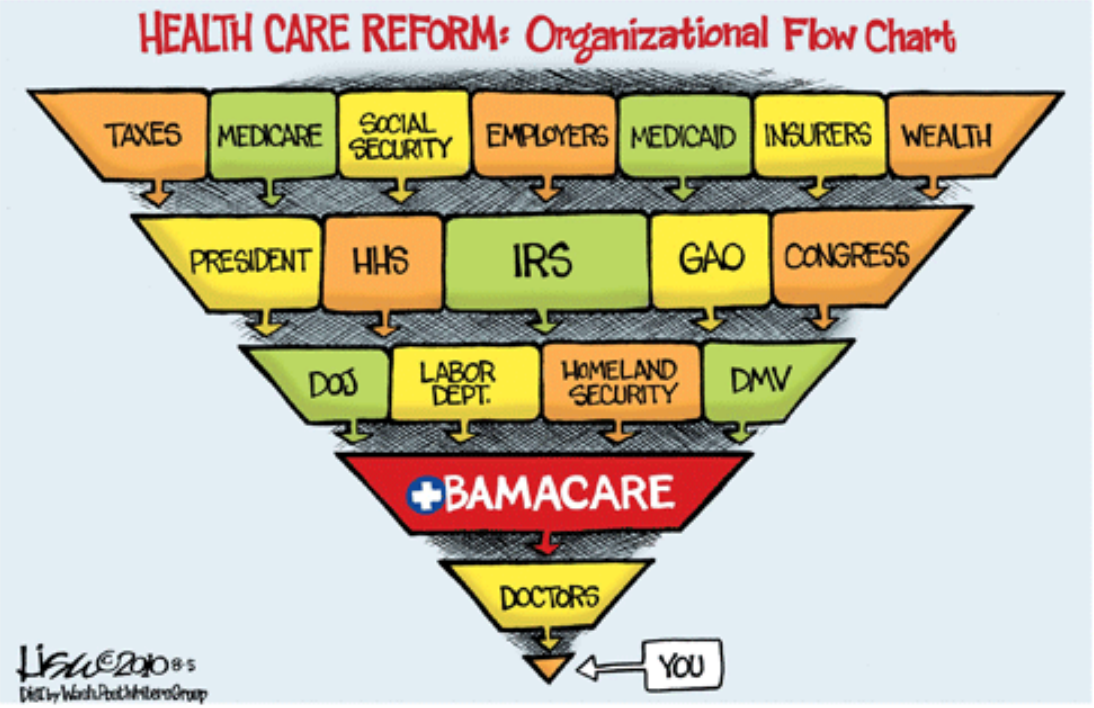

Health Systems

- **Financing and delivering care are separated worldwide**
- **Outpatient care delivery has been private in all but a very few countries … changes looming**

		Insurance	
		Public	**Private**
Care Delivery (Hospitals)	**Public**	U.K. / Australia	China / India
	Private	Canada / Taiwan	USA / Germany / Japan

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German Health System

- "Bismarck model"
- Krankenkassen (1883)
  - Corporatism: distribution of responsibility / coordination among "social partners"
  - Solidarity: wage-adjusted premiums, employers match employee contribution (employee picks insurer)
  - 40% GPs : 60% specialists
  - ~10% private insurance
  - Mandatory revenue-sharing (risk-adjusted) among insurers
  - New Institute for Quality and Economy in the Health Care Sector
  - New rules in 2011 for reference pricing (including for 'innovative drugs' after 12 months)
  - Healthcare serves a redistributive welfare function

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U.K. Health System

- "Beveridge model"
- National Health Service (1948)
  - Efficiency drive: cost-benefit analysis, QUALYs
  - 60% GPs : 40% specialists
  - ~ 10% private insurance
  - 6.3% avg. annual growth in 2000s = 20% of government budget [with debt / GDP over 90%]
  - NICE (1999): QALY method for reimbursement, 1 QALY = £20,000
  - Health services are public goods and health system builds collective identity

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U.S. Health System

- Public → Private → Public Lifecycle
- Employer-based private coverage (WWII origins)
  - ~ 20% Americans switch coverage annually
- Public system
  - Medicare for all at age 65
    - DRG system (bundled / categorized treatments and payments)
    - Medicare projected at 7% annual growth over next 2 decades (baby boomers)
  - Medicaid and Children's coverage (managed by states)
- Individual purchase system
  - State-based exchanges
  - In very early stages
- 30% GPs : 70% specialists
- Health care as entitlement (elderly) and economic investment (R&D, jobs)

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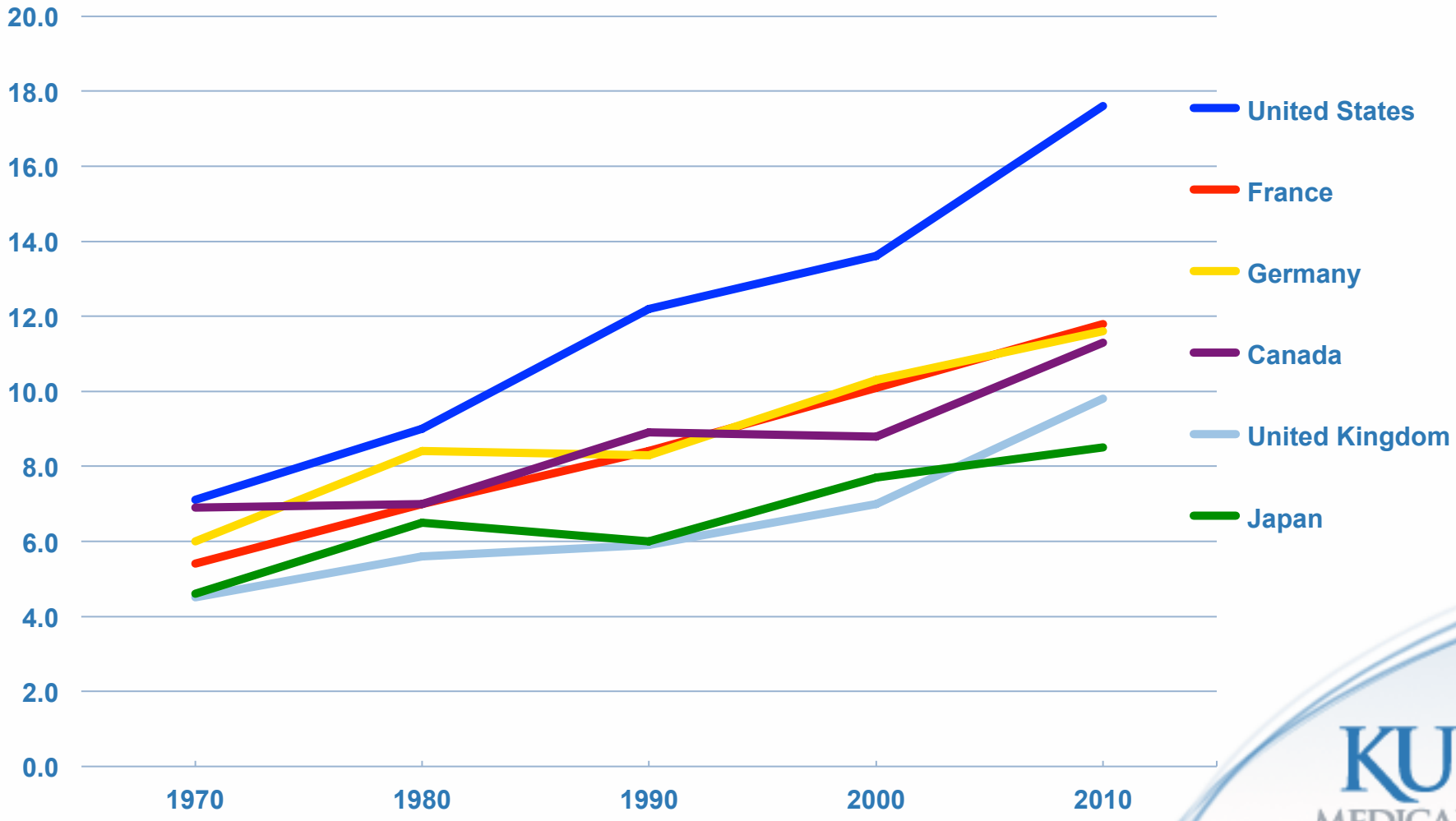
Health Spending, % of GDP



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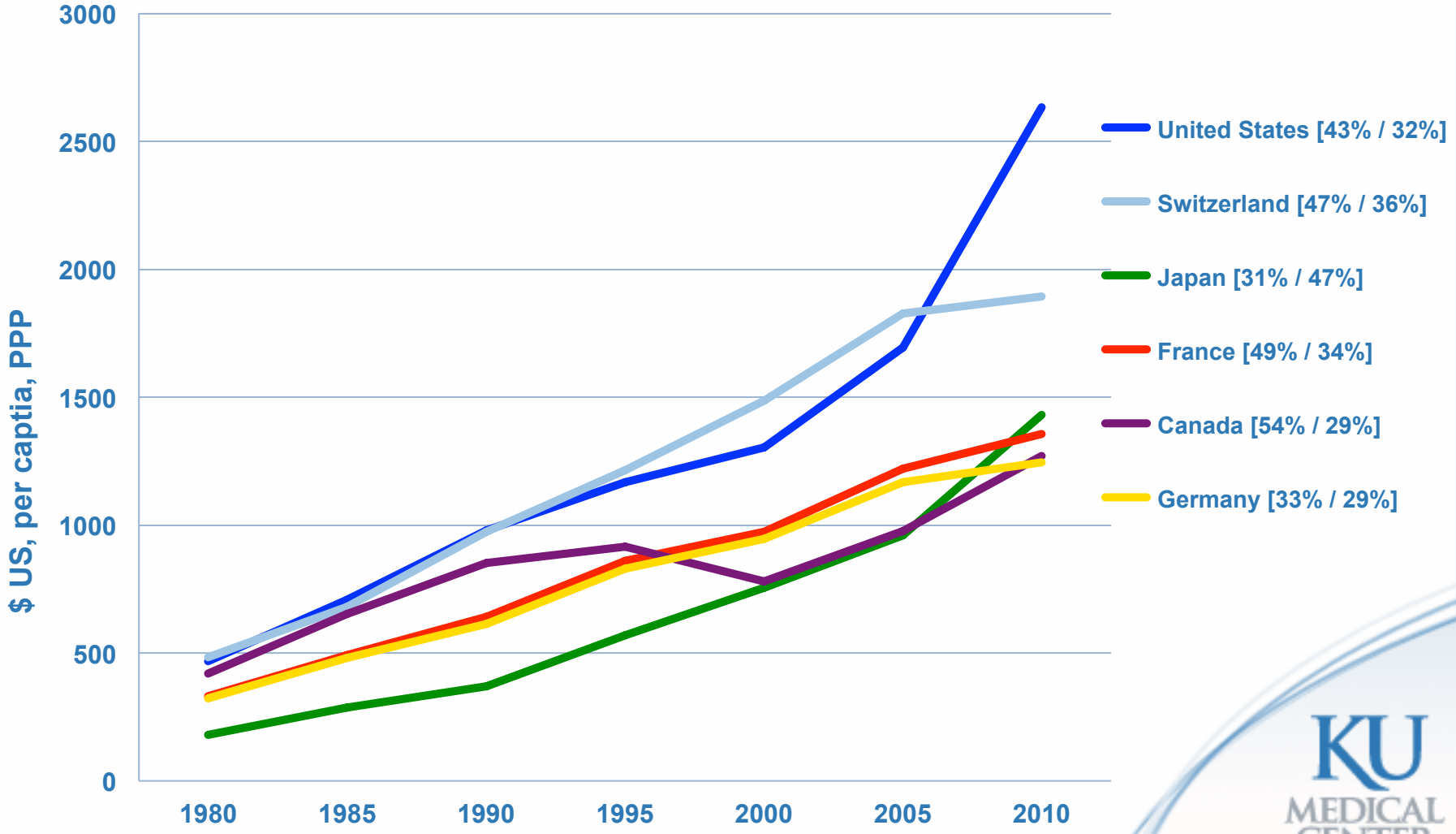
Inpatient Care Spending



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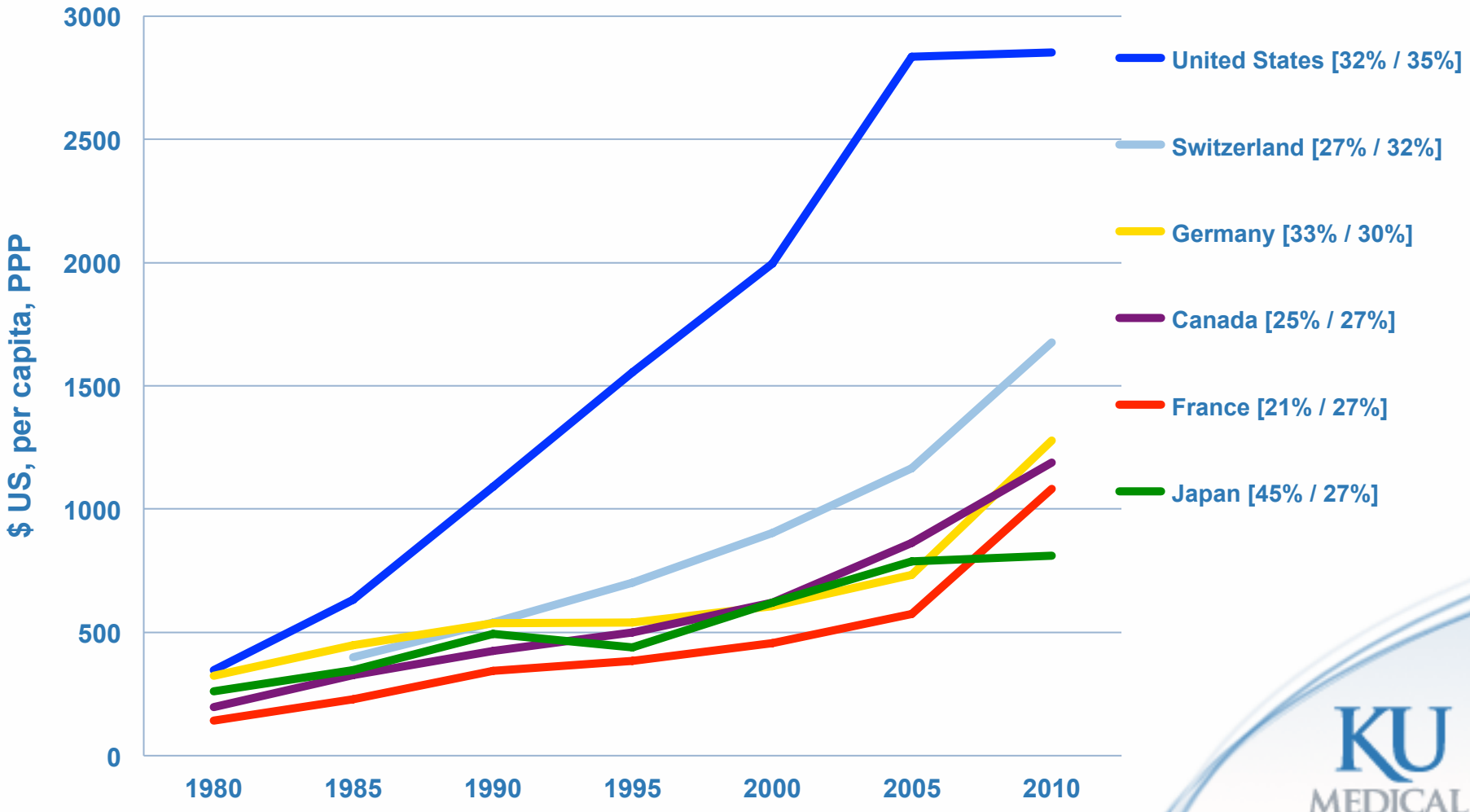
Outpatient Care Spending



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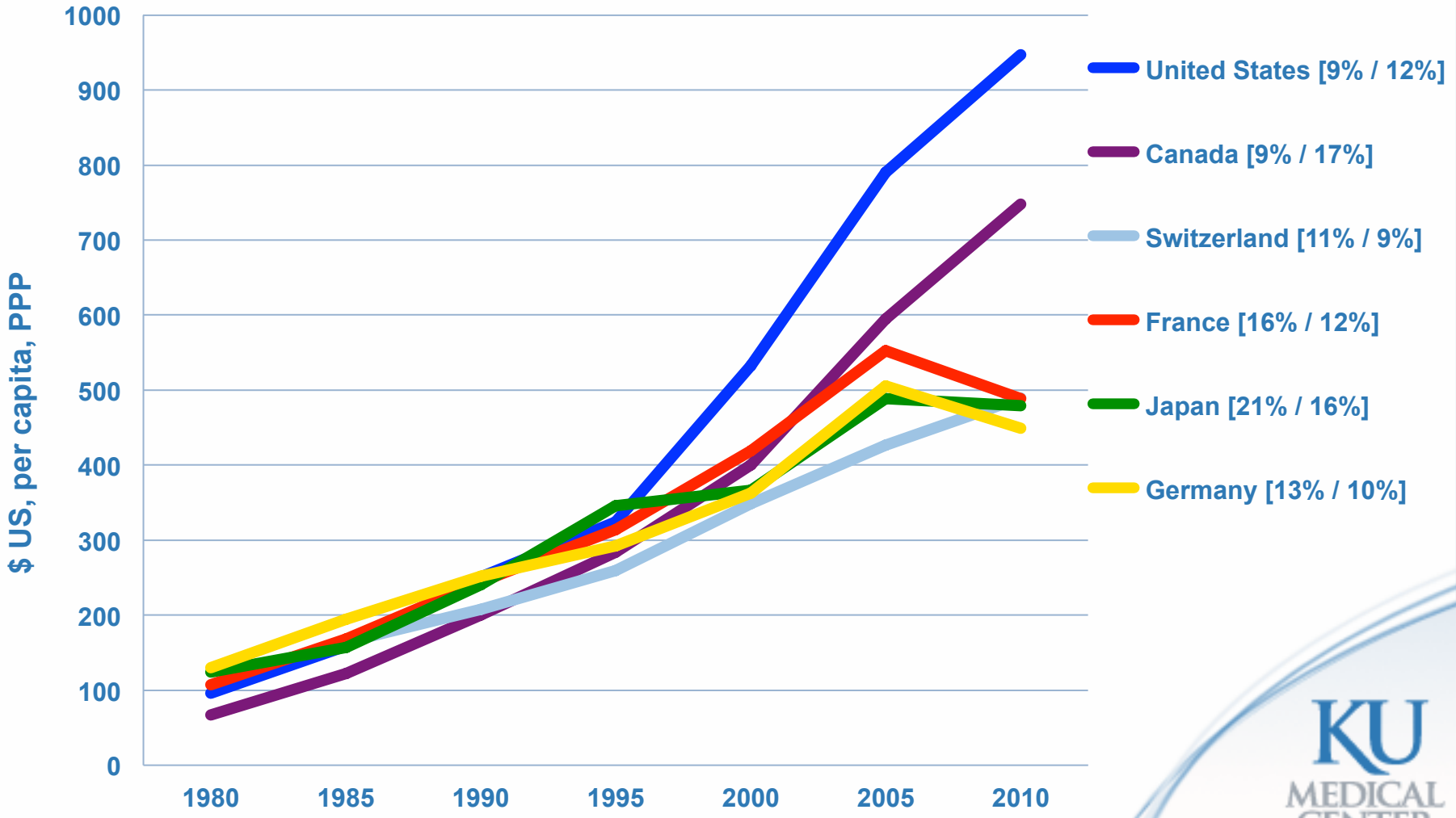
Prescription Drug Spending



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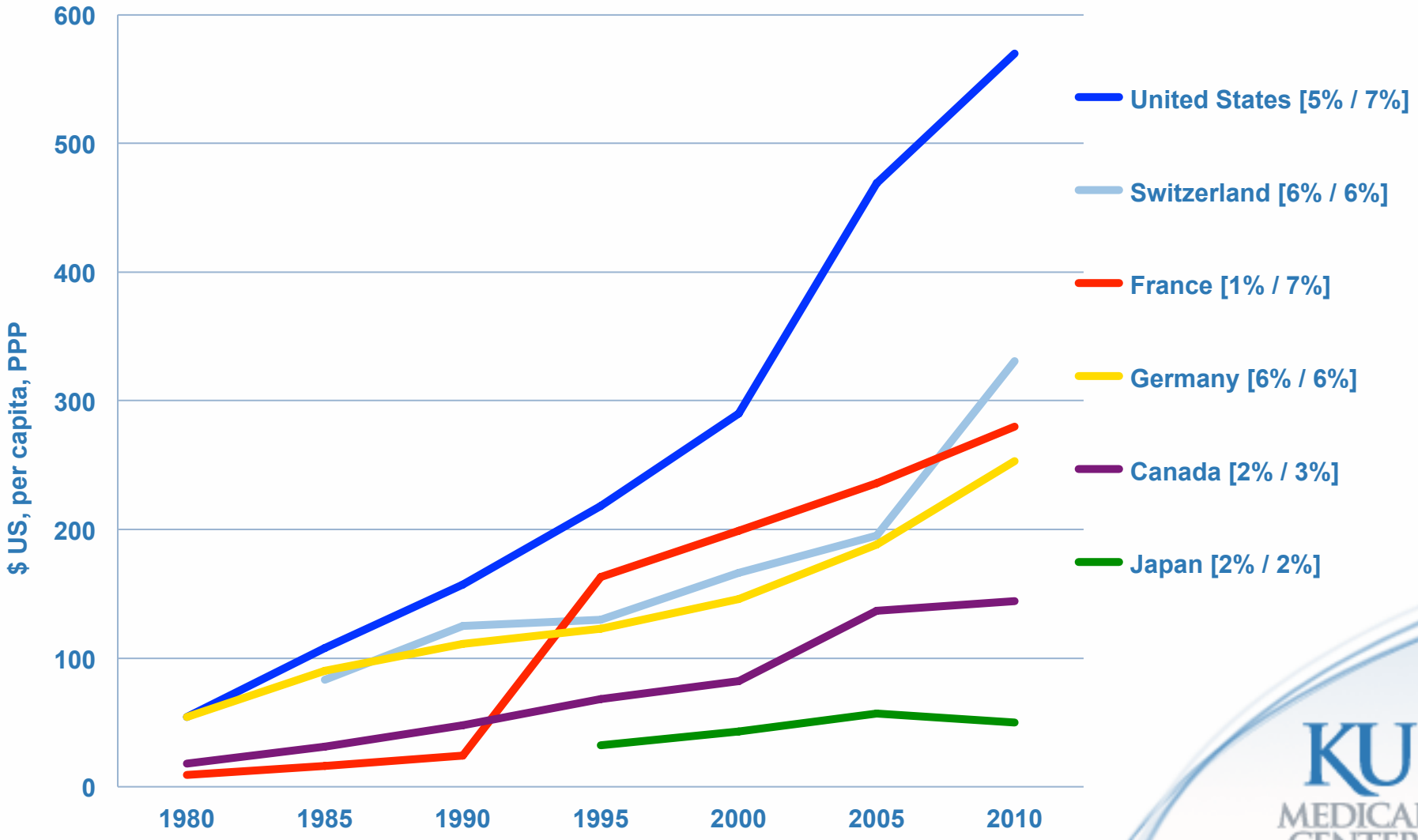
Healthcare Administration Spending



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Regulatory Choices and System Management

- **Information Asymmetries**
  - Patients collectively want more care than the system can afford (everywhere) = concern with free-riders
  - Insurers lack information on the insured and cannot control physicians
  - Price transparency (key to competition and lowering costs) is very hard to achieve:
    - Care provider lacks information about the illness in advance of seeing the patient
    - Care quality and outcomes are difficult to standardize or guarantee (…some recent progress)
    - Sick patient has no time or education to comparison shop
- **Moral Hazard, Externalities & Opportunity Costs**
  - Negative externalities from illness
  - Positive externalities from comprehensive insurance (diverse risk pool that redistributes)
  - Moral hazard from insurance = over-use / abusive use of collective resource
  - U.K.: balancing national budget against individual (grouped into standardized categories); rationing by queue
  - Germany: collective management of opportunity costs (solidarity), with rationing by local providers; shift to no co-payment for doctor visits
  - USA: pretending that there are no opportunity costs; rationing by price (sort of …); significant attention to moral hazard with rising co-payments
- **History matters**
  - Societies get locked into particular ways of dealing with externalities and have cultural norms for risk and insurance that make reform difficult

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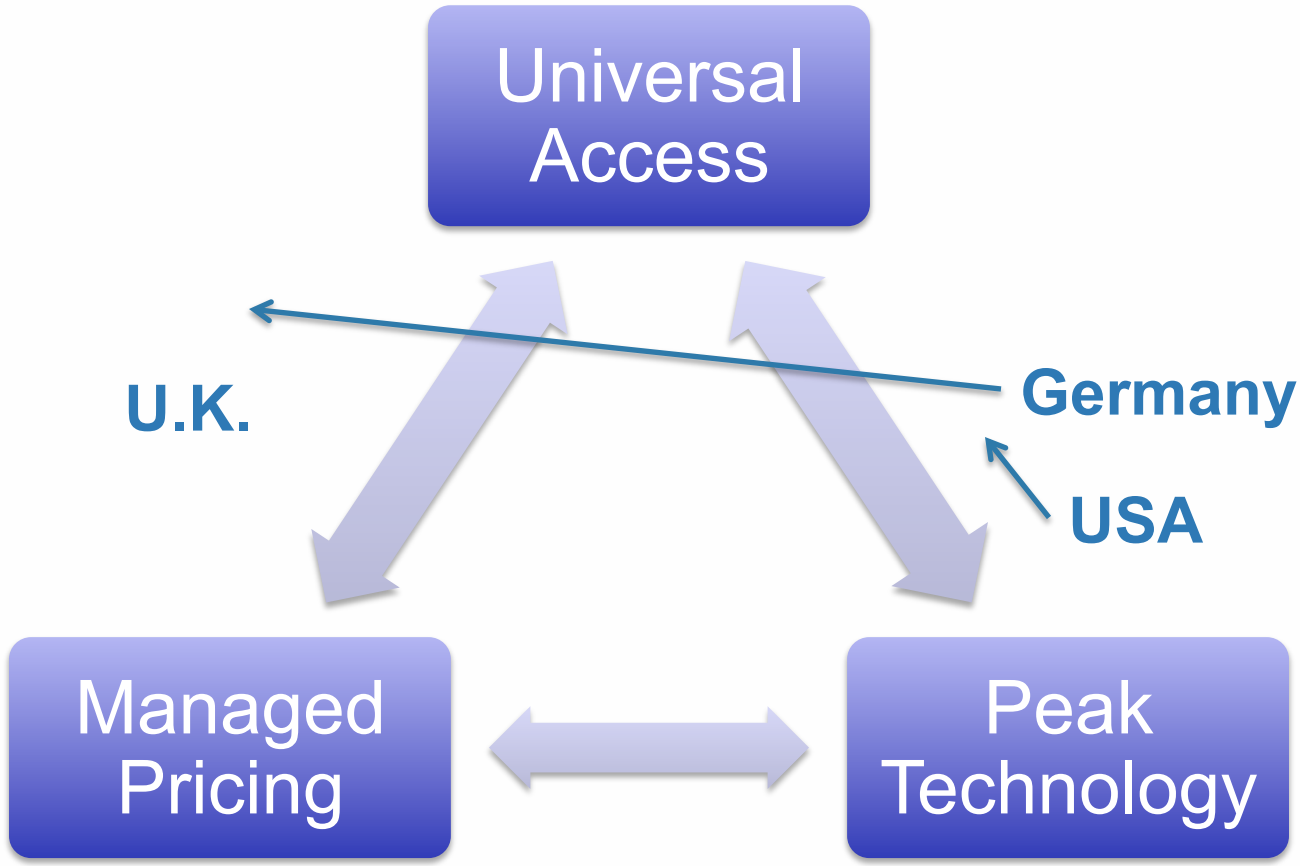
Healthcare Trilemma



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The U.S. in Context

- Success of innovation incentives
- Competing private insurers
  - Market dynamic pushes insurers to compete on membership size
  - Results in expanded coverage options
- Individual insurance purchase will have ramifications
  - Job mobility
  - Fewer, national insurers
  - Market forces push toward insurance system more like that of Germany
- Unresolved issues:
  - Risk pooling and risk distribution
  - Americans are underwriting pharma, biotech, and device innovation for the world … for how much longer?
  - Information transparency and pricing: will we see competition in care delivery?
  - Catastrophic illness, like other catastrophes (natural disasters) is hard to insure privately – requires government backstop (pandemics) …

    What about the costs of terminal care?

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