

# Sticker Shock! Economics and Health Care Pricing

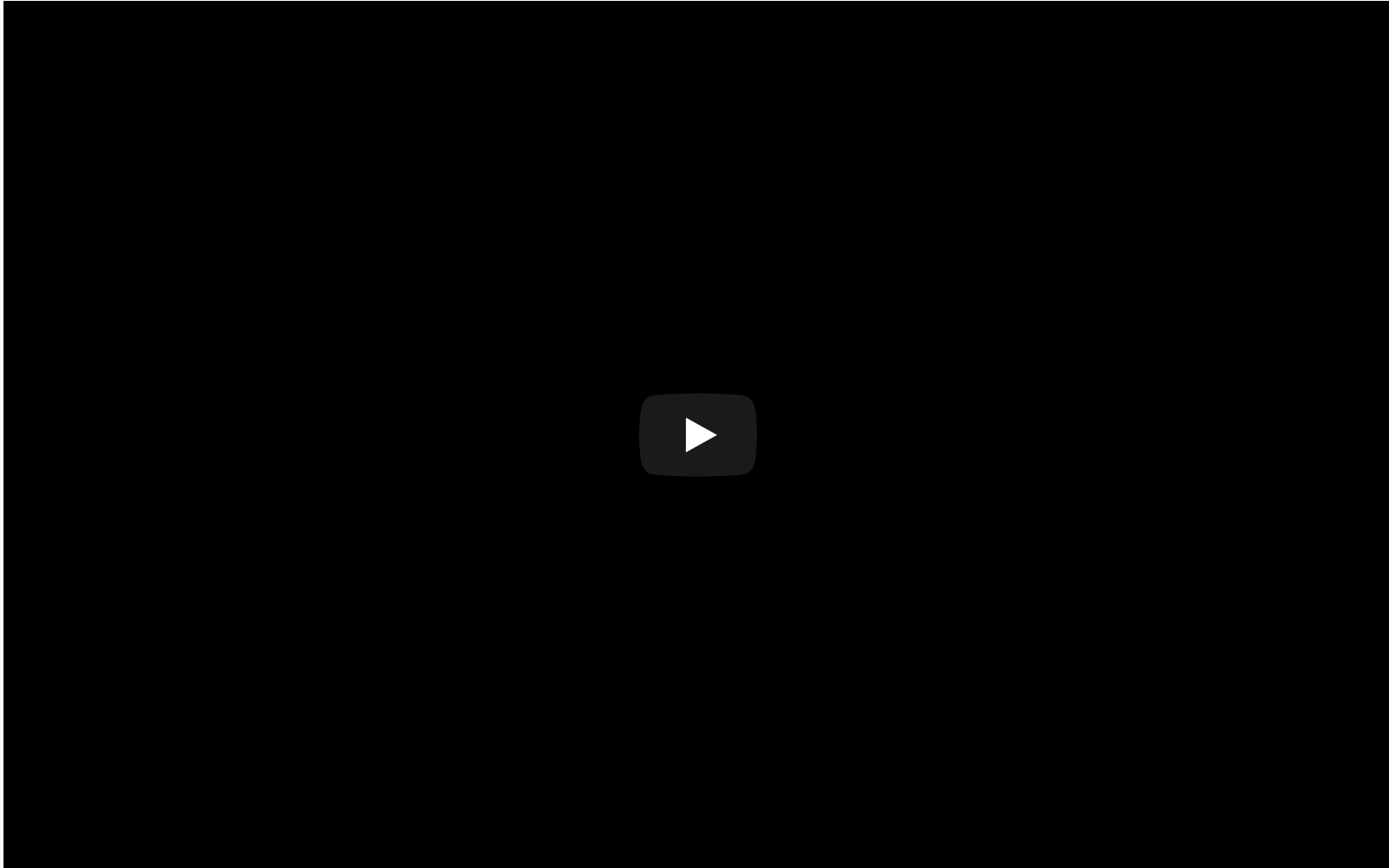
## and health economics at Emory

---

Ian McCarthy | Emory University

Tuesday, August 23, 2022

# Health care in the U.S.



# Some thought on U.S. health care...

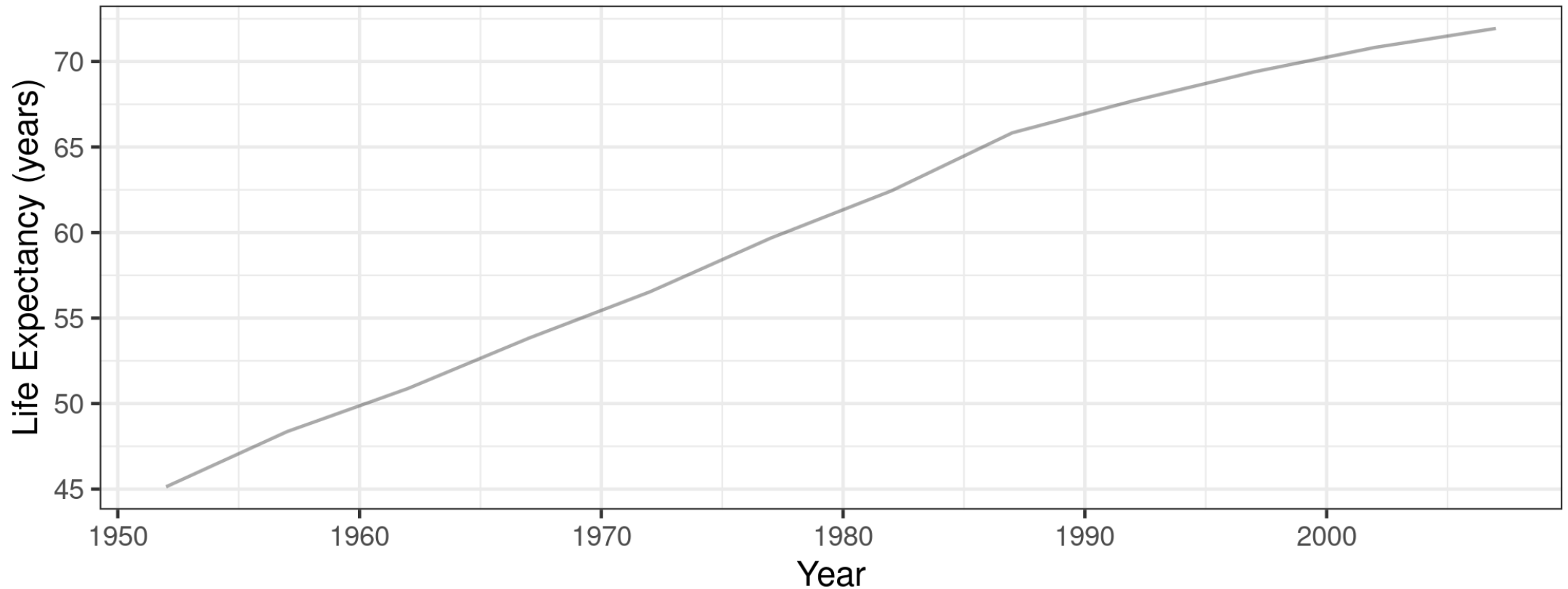
1. Quality is "Meh"
2. Lots of reasons
3. Economics can help
4. What we're doing at Emory

# Spending and Quality

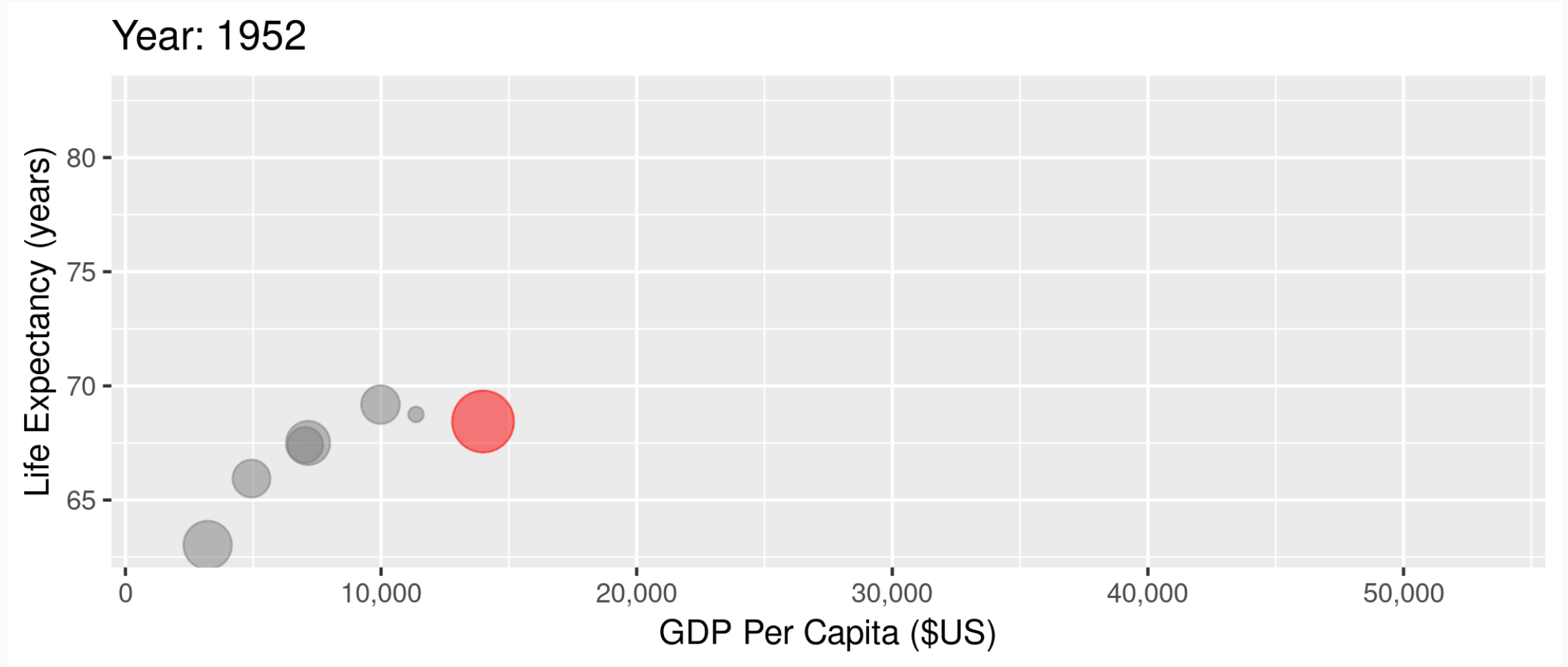
---

# Health improvements worldwide

Median life expectancy across the world

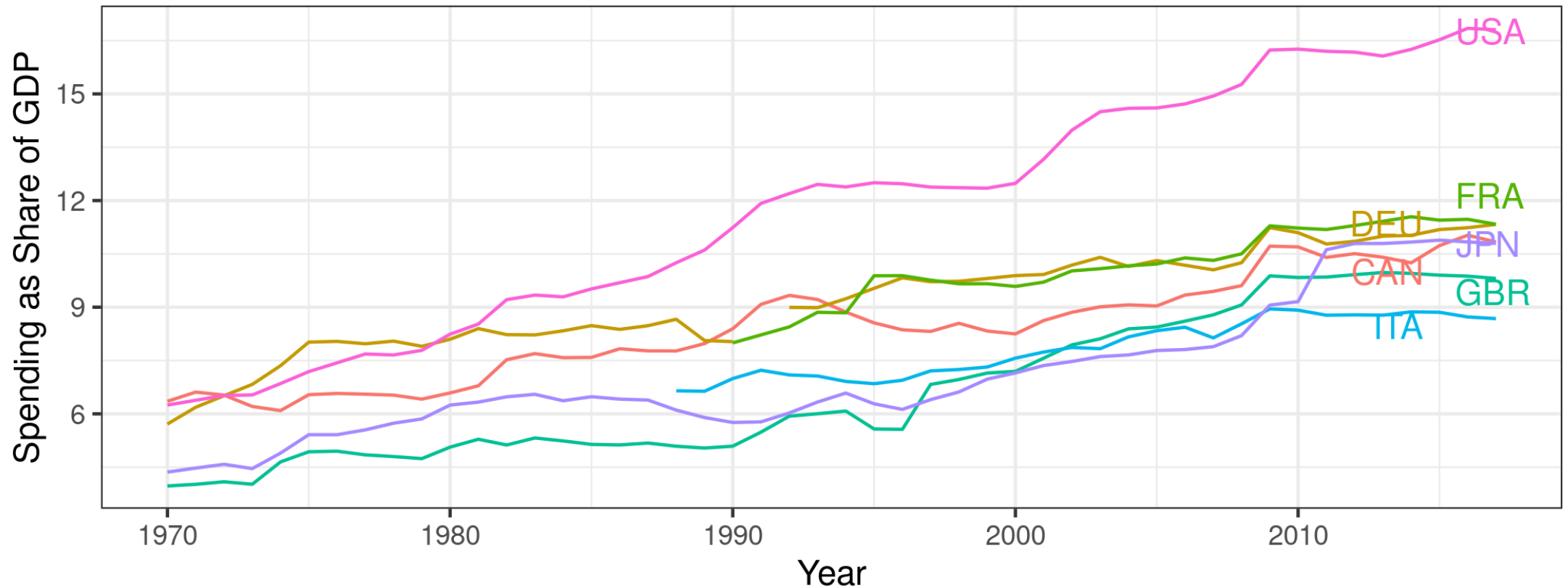


# But the U.S. is unique

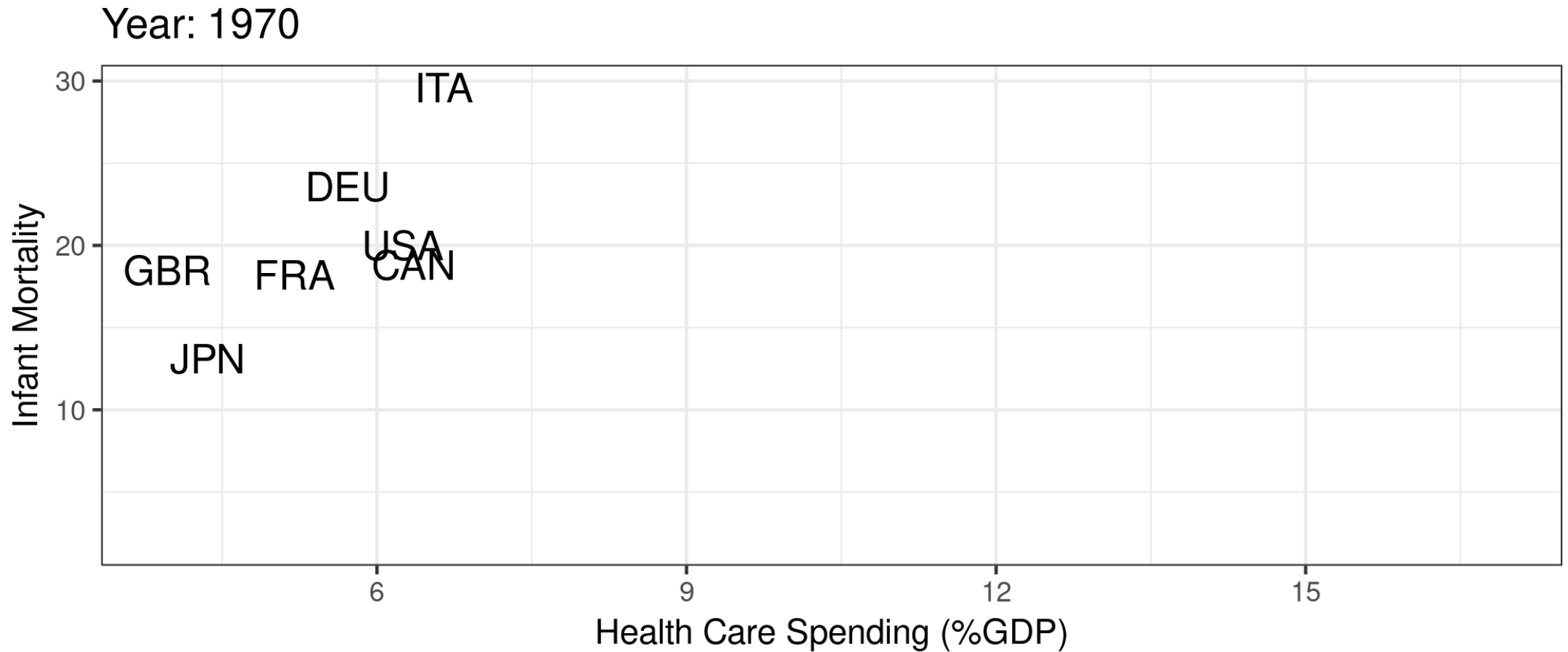


# The U.S. has very high spending

Health Care Spending over Time

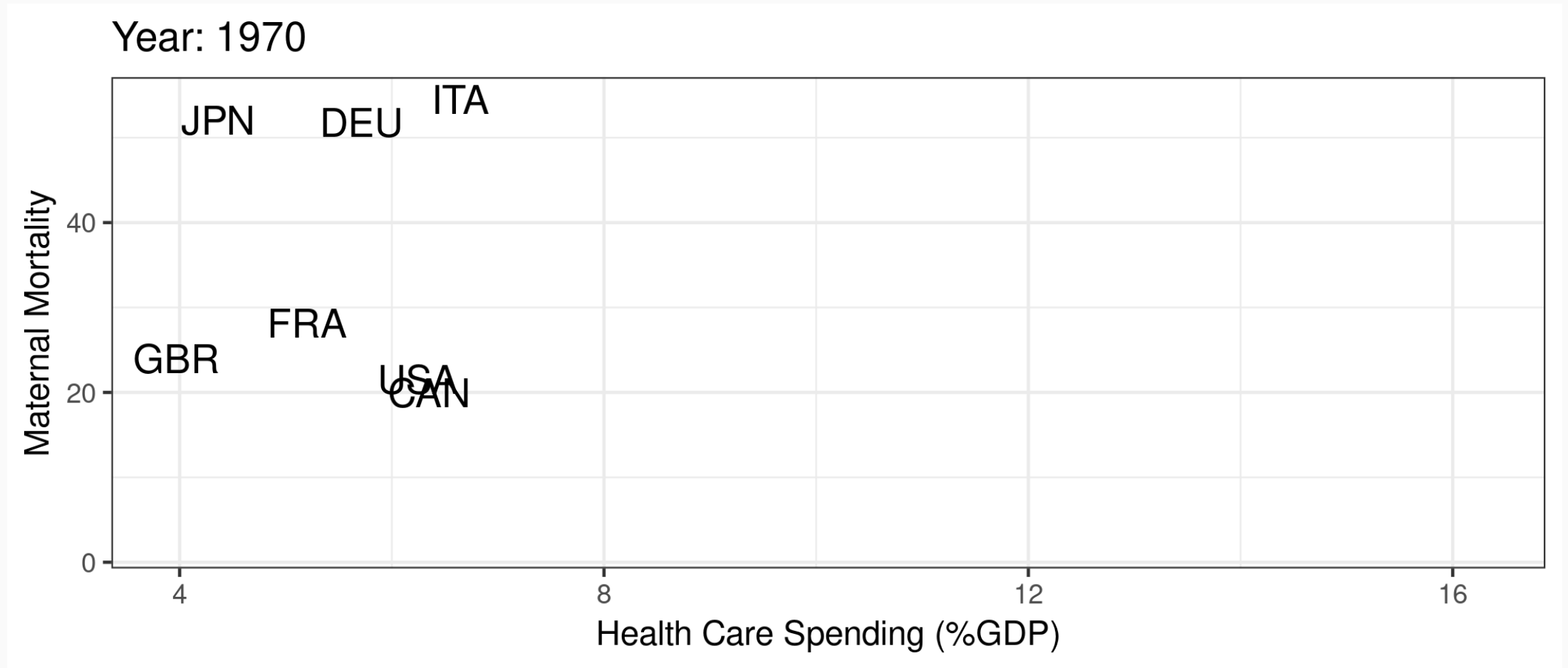


# And our spending doesn't pay off in some areas





# And our spending doesn't pay off in some areas

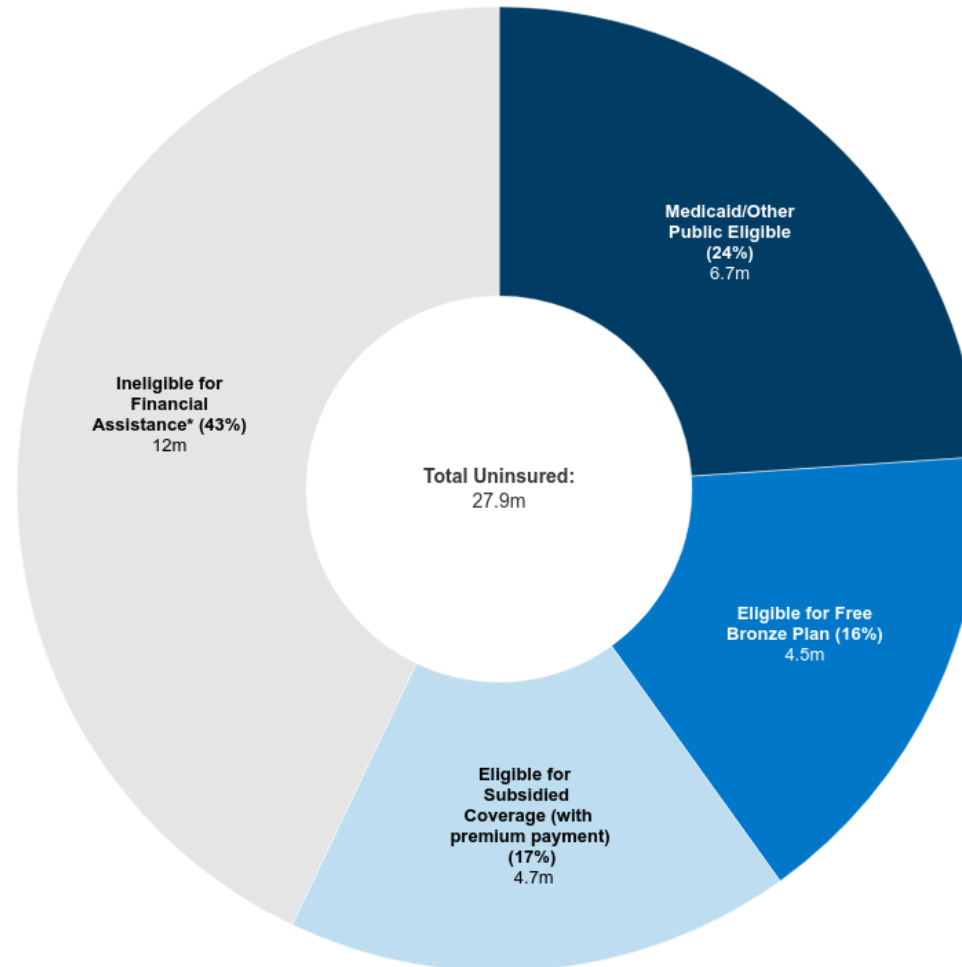


# Why?

---

# 1. Too many uninsured

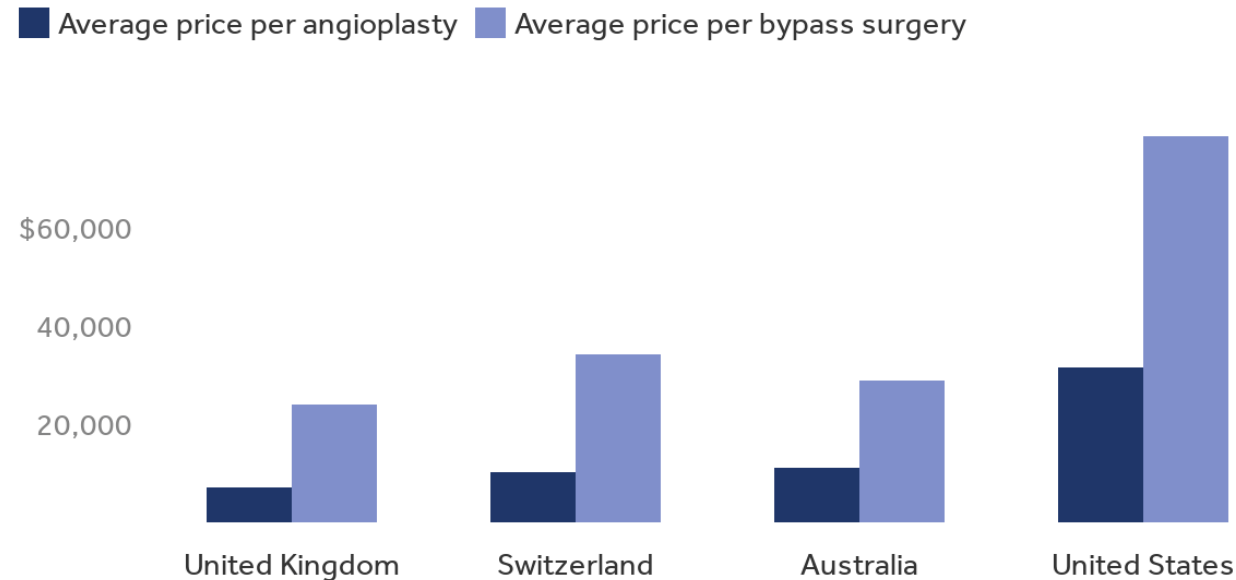
Distribution of Eligibility for ACA Health Coverage Among the Non-elderly Uninsured Before the Pandemic



NOTE: \*Ineligible for Financial Assistance includes people in the Medicaid Coverage Gap and those ineligible for tax credits due to income, ESI offer, or citizenship status.  
SOURCE: KFF analysis based on 2019 Medicaid eligibility levels and 2018 American Community Survey.

## 2. Really high prices

Average price of an Angioplasty, 2014; Average price of coronary bypass surgery, 2014



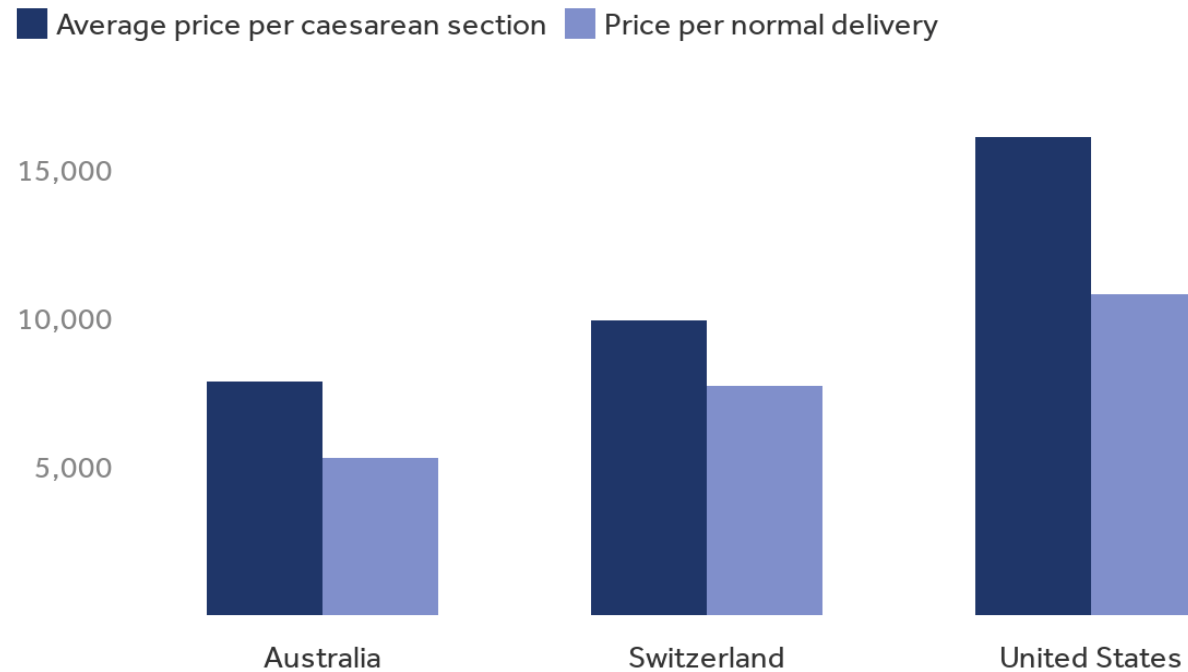
Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country" (Accessed on January 30, 2018).

Peterson-KFF  
**Health System Tracker**

## 2. Really high prices

Average price of caesarean section and of normal delivery, 2014



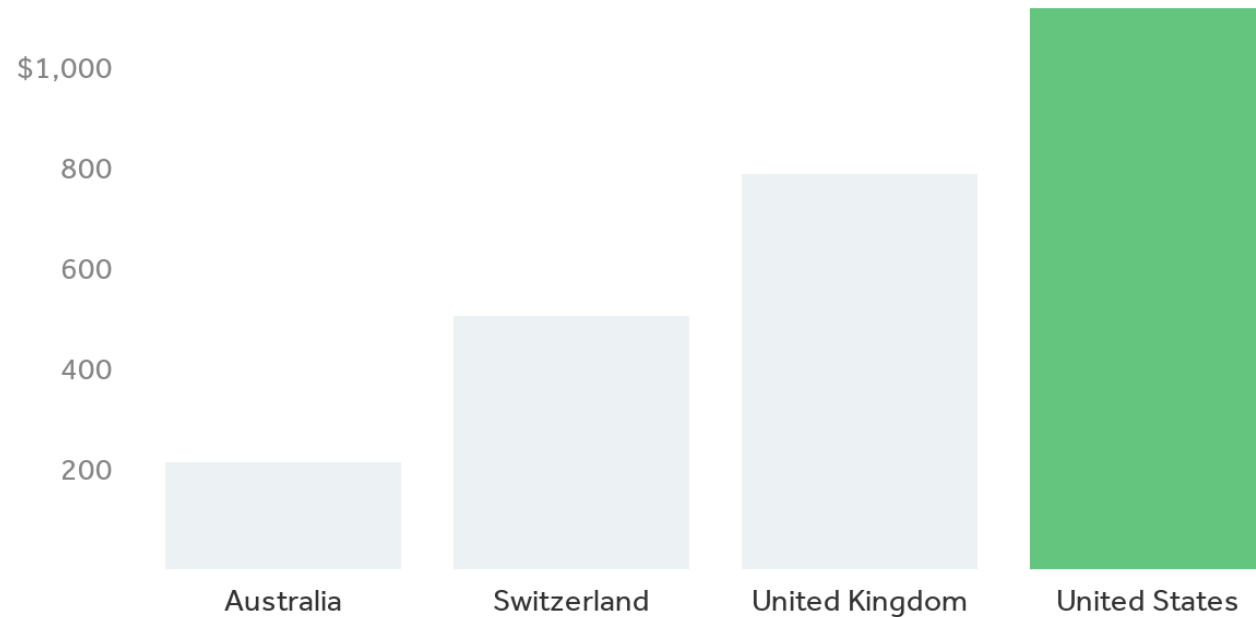
Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country" (Accessed on January 30, 2018).

Peterson-KFF  
**Health System Tracker**

## 2. Really high prices

Average price of an MRI, 2014



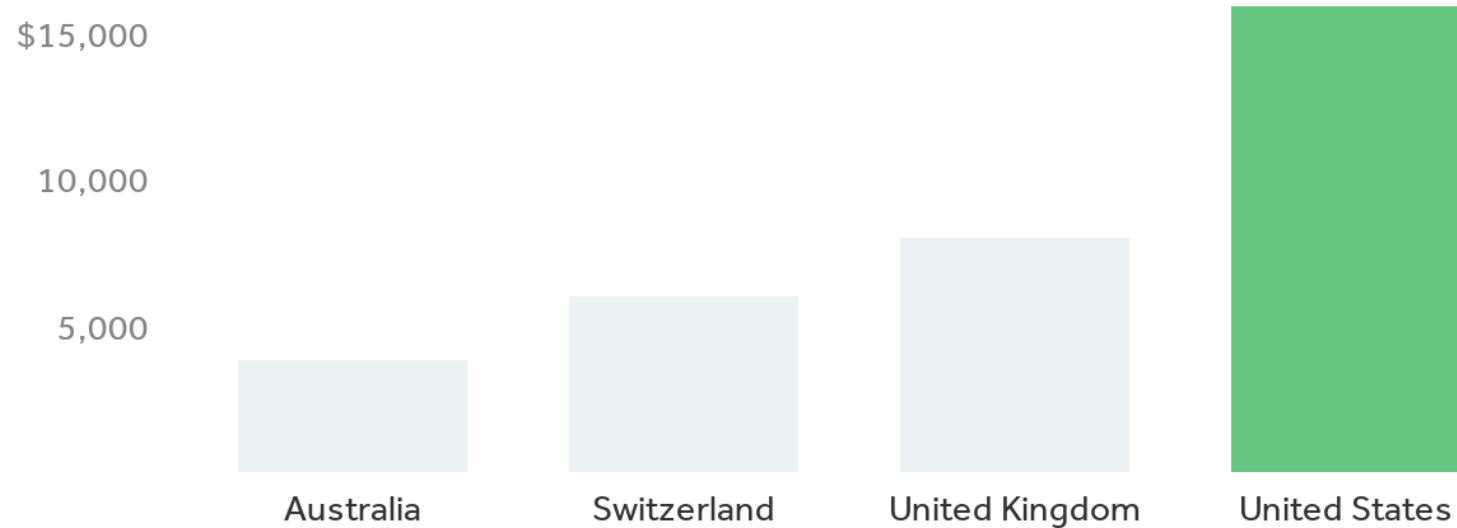
Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: Kaiser Family Foundation analysis of data from International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country"

Peterson-KFF  
**Health System Tracker**

## 2. Really high prices

Average price of appendectomy, 2014



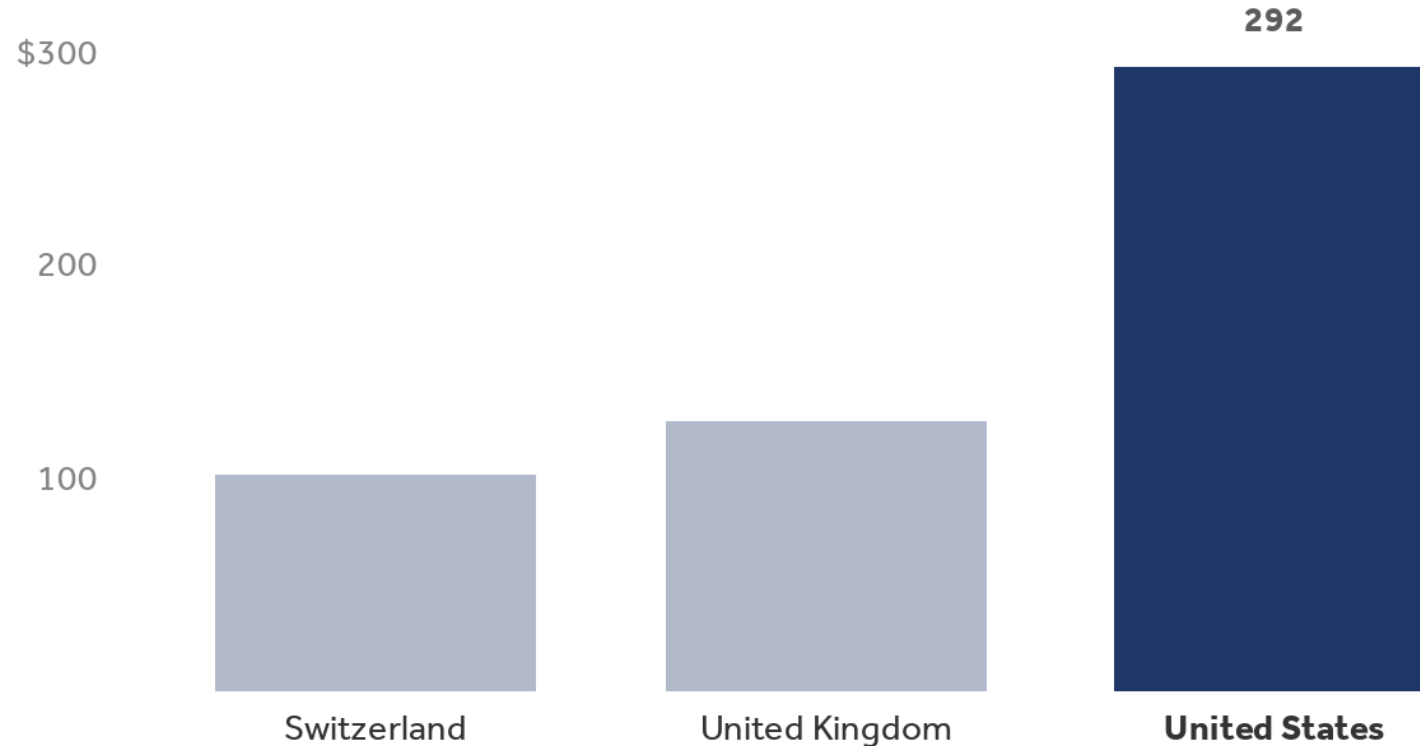
Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: Kaiser Family Foundation analysis of data from International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country"

Peterson-KFF  
**Health System Tracker**

## 2. Really high prices

Average price Xarelto, 30 capsules, 20mg, 30 day supply, 2014



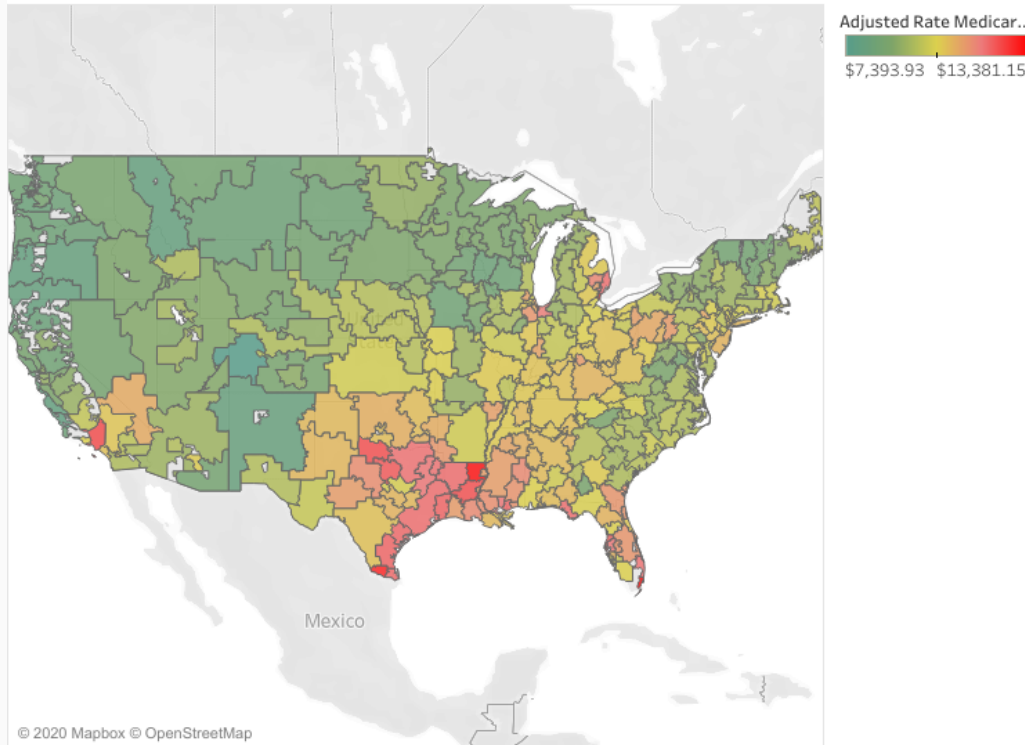
Source: International Federation of Health Plans 2015  
Comparative Price Report

Peterson-KFF  
**Health System Tracker**

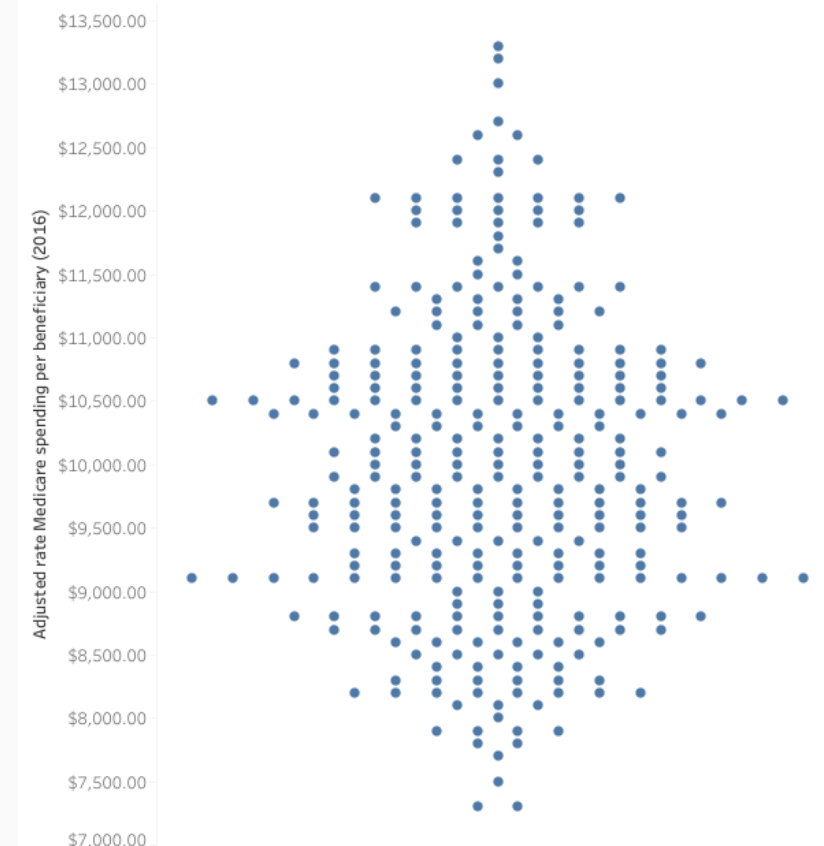


### 3. Variation in quantity

Map: Price-Adjusted Total Medicare Reimbursements per Enrollee (Parts A and B), by HRR (2016)  
(Price, Age, Sex, and Race adjusted)



Distribution: Price-Adjusted Total Medicare Reimbursements per Enrollee (Parts A and B), by HRR (2016)  
(Price, Age, Sex, and Race adjusted)



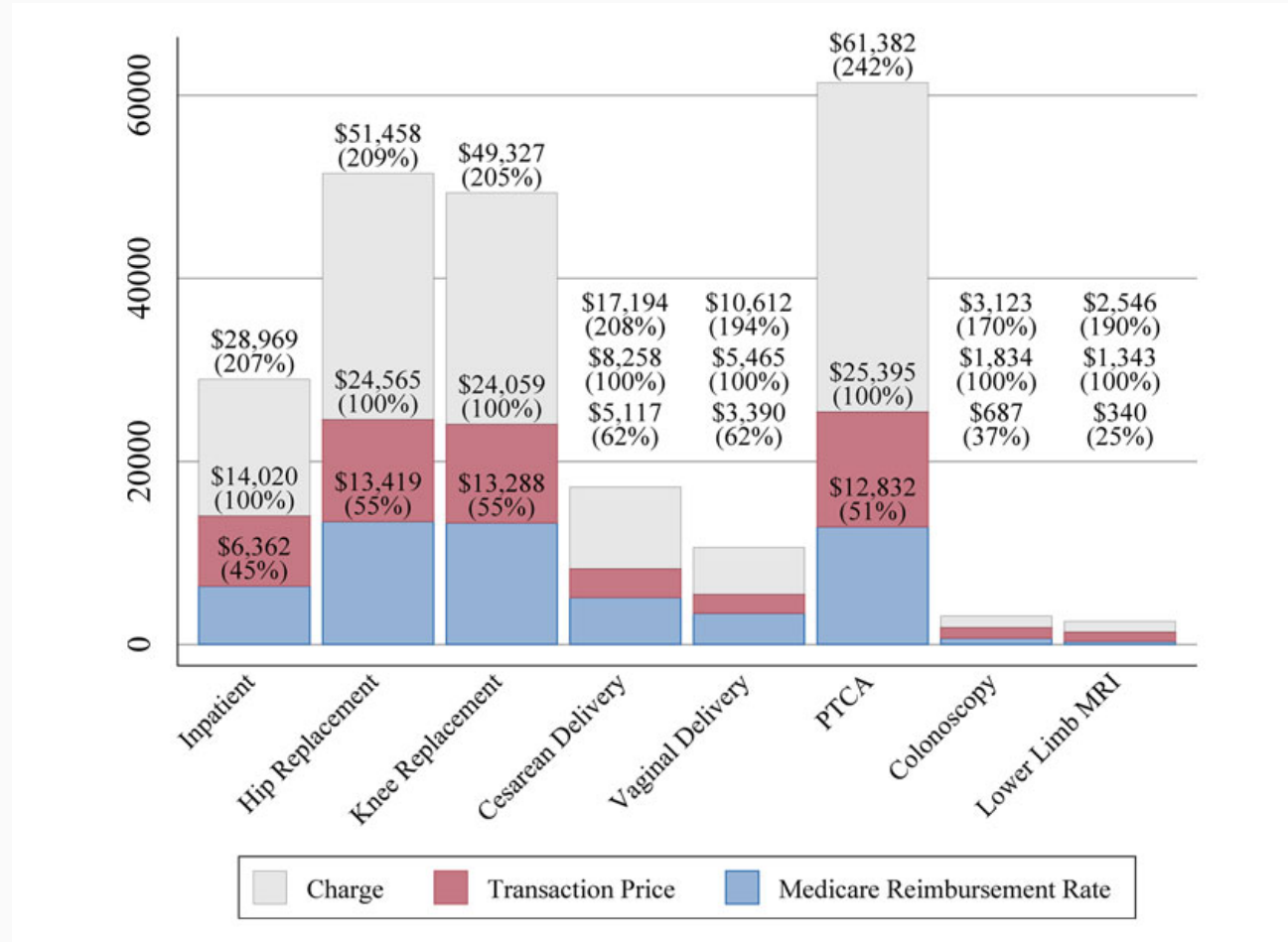
## 4. Variation in prices

Some variation due to different "prices" for different people

- Negotiation with private insurers (bargaining problem)
- Set payment from Medicare and Medicaid
  - Medicaid managed care (80%)
  - Medicare Advantage (45%)
- Uninsured patients (charge amounts)

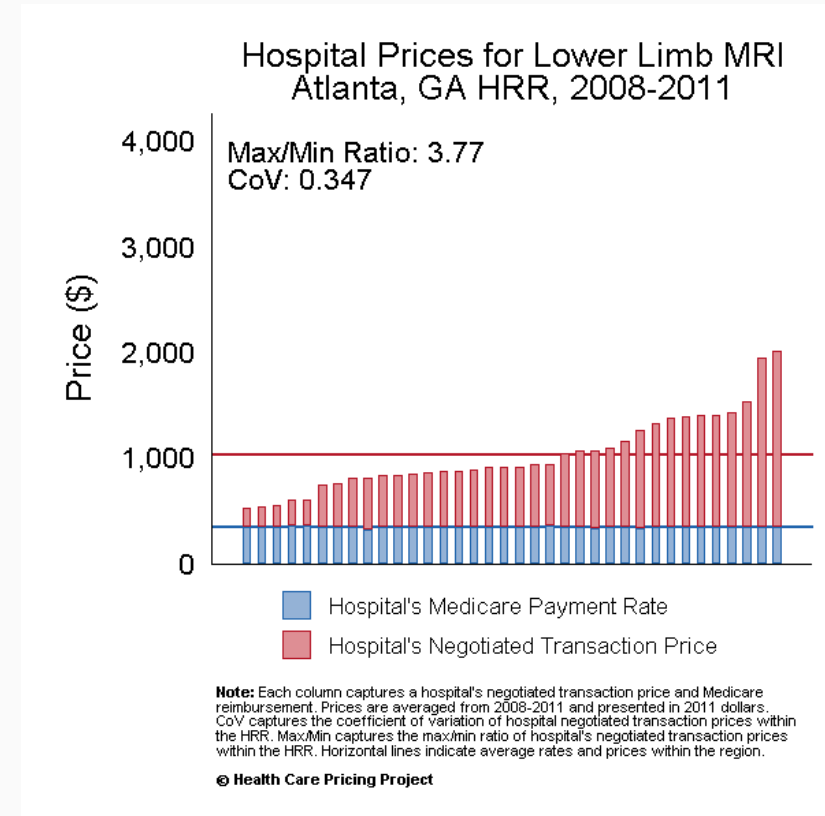
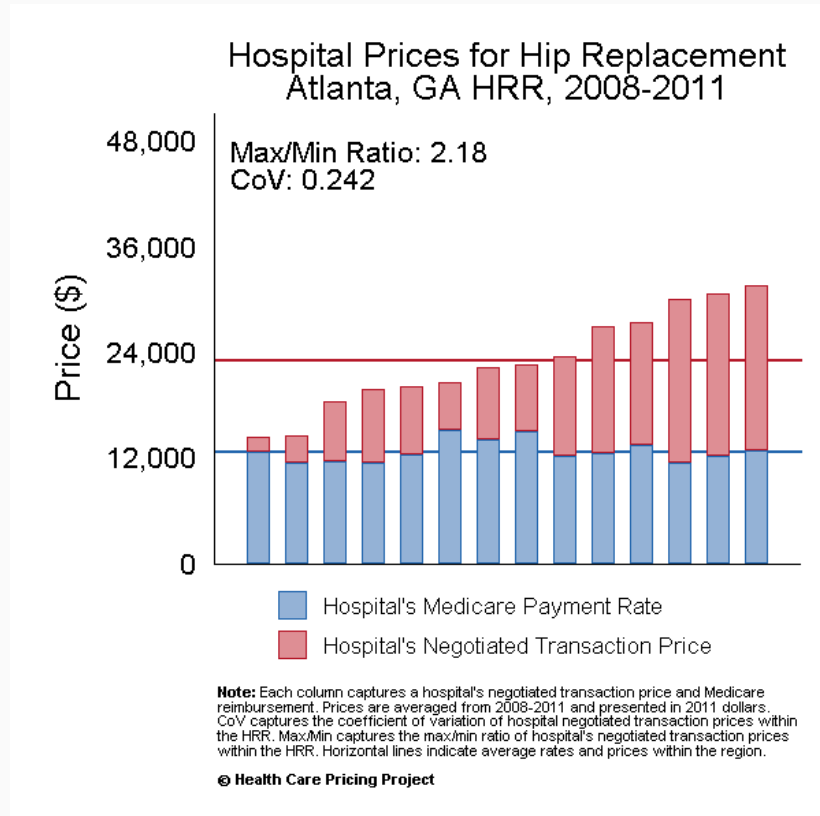
Price  $\neq$  charge  $\neq$  cost  $\neq$  patient out-of-pocket spending

## 4. Variation in prices



Source: Health Care Pricing Project

## 4. Variation in prices



Source: Health Care Pricing Project

# Where does economics fit in here?

---

# Health care and economics (in general)

Lots of interesting economic issues in health care (not all unique to the U.S.):

1. Extremely heterogeneous products
2. Asymmetric information between patients and physicians
3. Unobservable quality (experience good)
4. Unpredictable need (inability to shop in many cases)
5. Distortion of incentives due to insurance
6. Adverse selection (asymmetric information between patients and insurers)

# How is the U.S. unique?

These factors exist in other markets and in other countries, but...

- Health care is unique in the combination of these issues
- U.S. is unique in the extent of these issues in health care (policy problems)
- We have a market based system but **without much competition...**

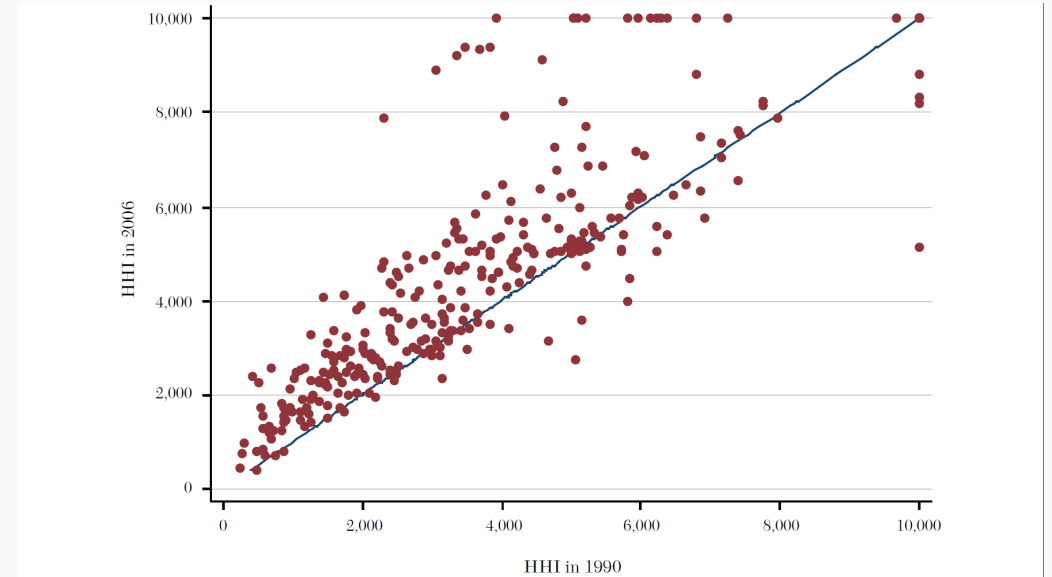
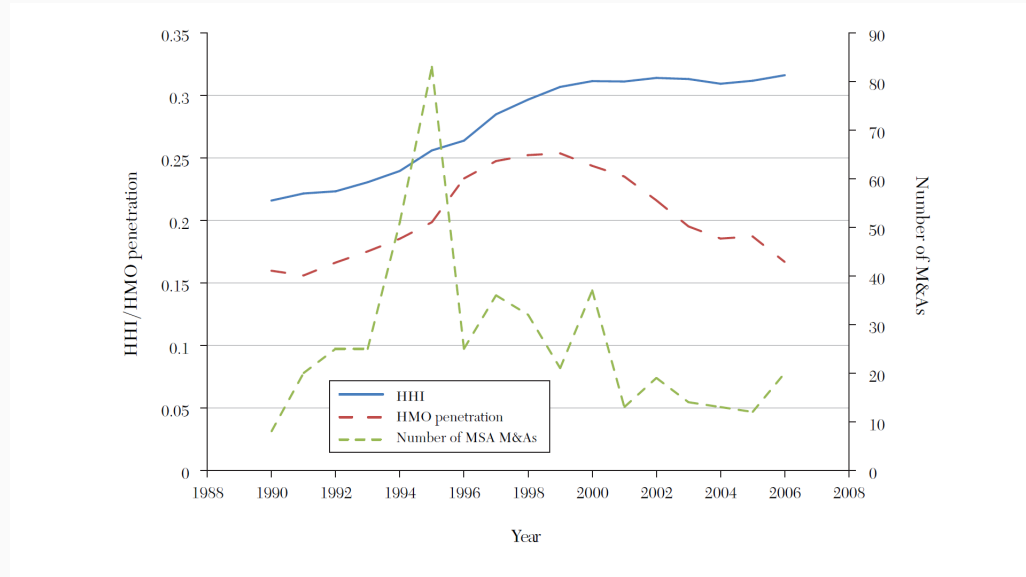
# Trends in competitiveness

Almost any way you define it, hospital markets are more and more concentrated (less competitive) in recent decades.

- 1990: 65% of MSAs highly concentrated, 23% unconcentrated
- 2006: 77% highly concentrated, 11% unconcentrated



# Hospital concentration over time



Source: Gaynor, Ho, and Town (2015). The Industrial Organization of Health Care Markets. Journal of Economic Literature.

# Effects of reduced competition

1. Higher prices
2. Lower quality, 2020 NEJM Paper
3. Maybe lower costs (but not passed on to lower prices)

# Why?

Historical perception of hospital competition as "wasteful" and assumption that more capacity means more (unnecessary) care:

- Certificate of need laws
- Certificate of public advantage
- Scope of practice laws
- Any willing provider laws
- Site-based payment differentials (encourage vertical integration)

# Where do we go from here?

1. Adopt sensible policies
2. Antitrust enforcement

# What are we doing at Emory?

---

# Health economics at Emory

Graduate program:

- Economics program focus on health as a subfield of economics
- 20-30% of our graduate students are specifically interested in health

# Health economics at Emory

Undergraduate program:

- Significant interest in health policy and pre-med
- Recent launch of joint major in economics and human health
- 35 majors right now

# Health economics at Emory

## Rollins School

- Strong collaboration with Department of Health Policy and Management
- Coauthorship
- Classes and graduate student committees



# Some success stories

Undergraduate:

- Many examples of placements in health-related companies (startups, consulting, Aetna)
- MPH at Johns Hopkins and Michigan
- Harvard Law School and Harvard Medical School
- Rising senior in Econ-HH, featured speaker at Georgia CTSA Conference and accepted to World Stroke Conference in Singapore

# Some success stories

Econ PhD Graduates:

- Eric Nesson (Ball State)
- James Robinson (UAB)
- Otto Lenhart (Glasgow)
- Kaylyn Sanbower (U.S. Department of Justice)

# Some success stories

Rollins PhD Graduates:

- Lindsay Allen (WVU, now Northwestern)
- Manasvini Singh (UMass Amherst)

Thank You!