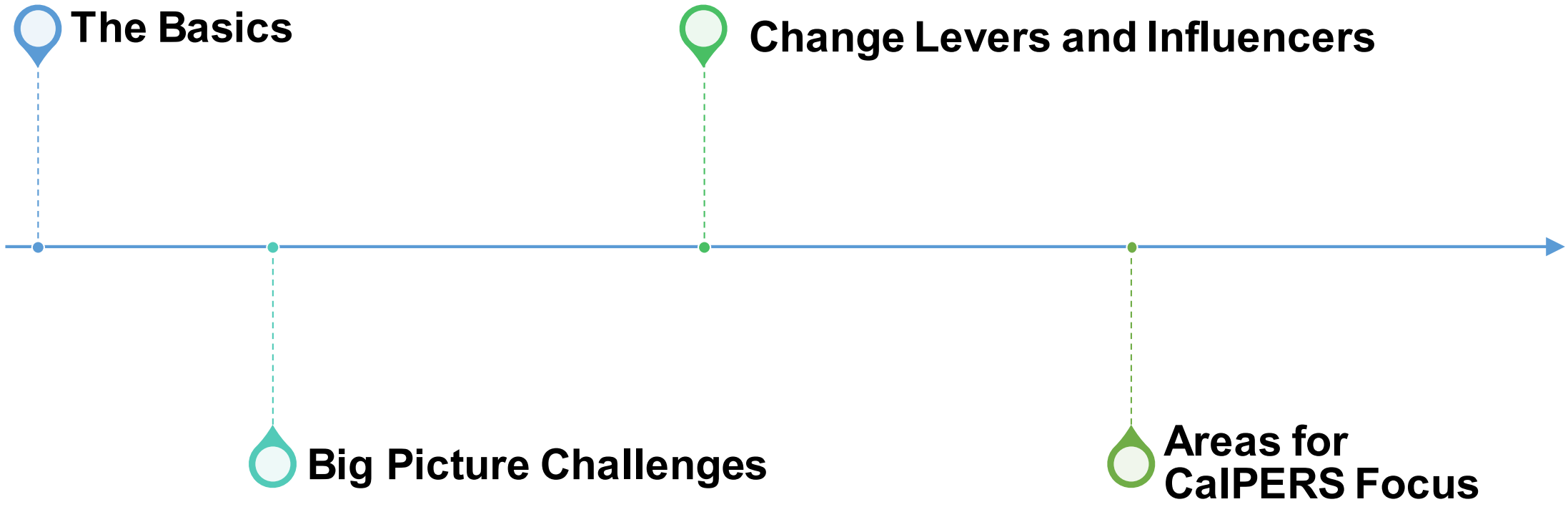
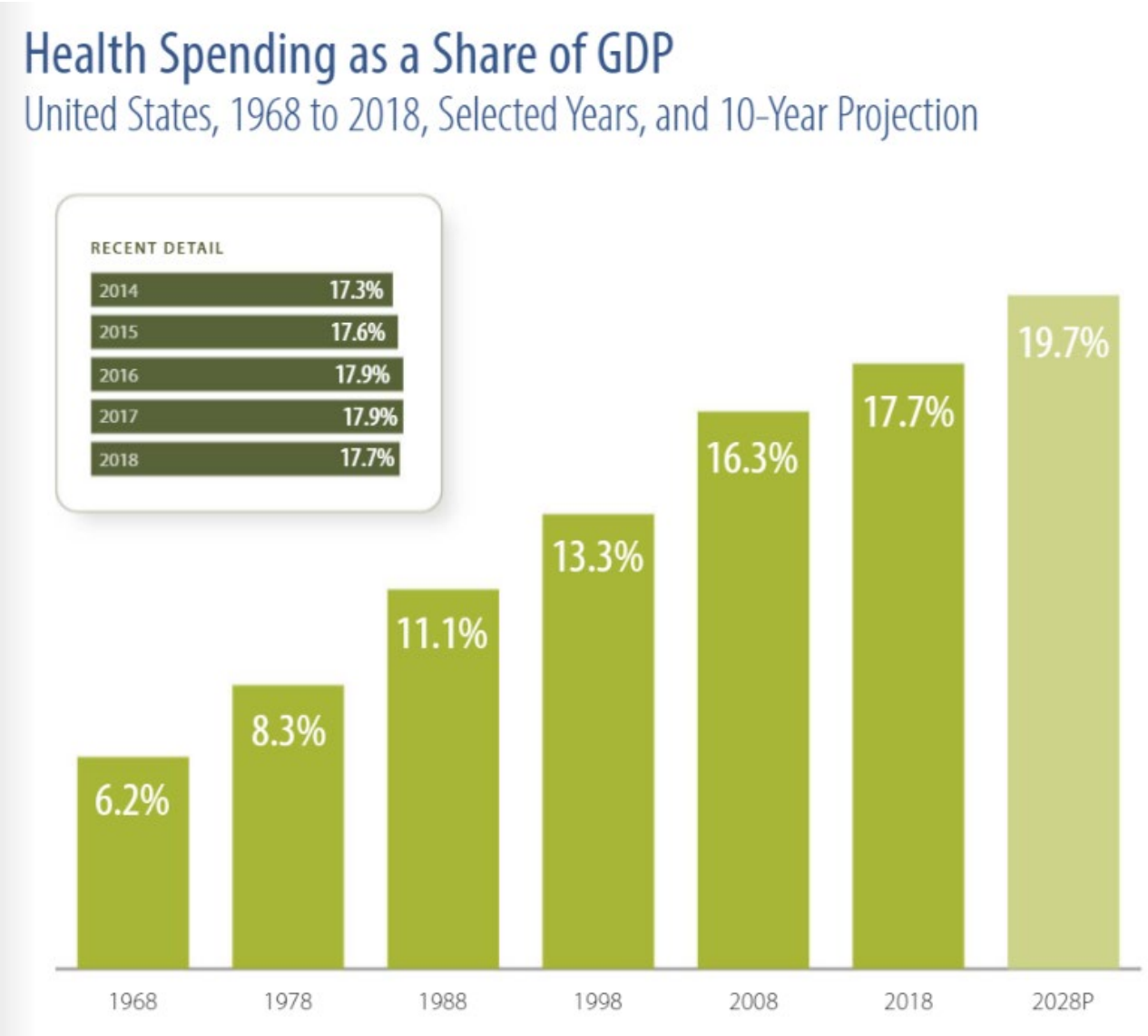
California Health Care: Landscape and Levers for Change

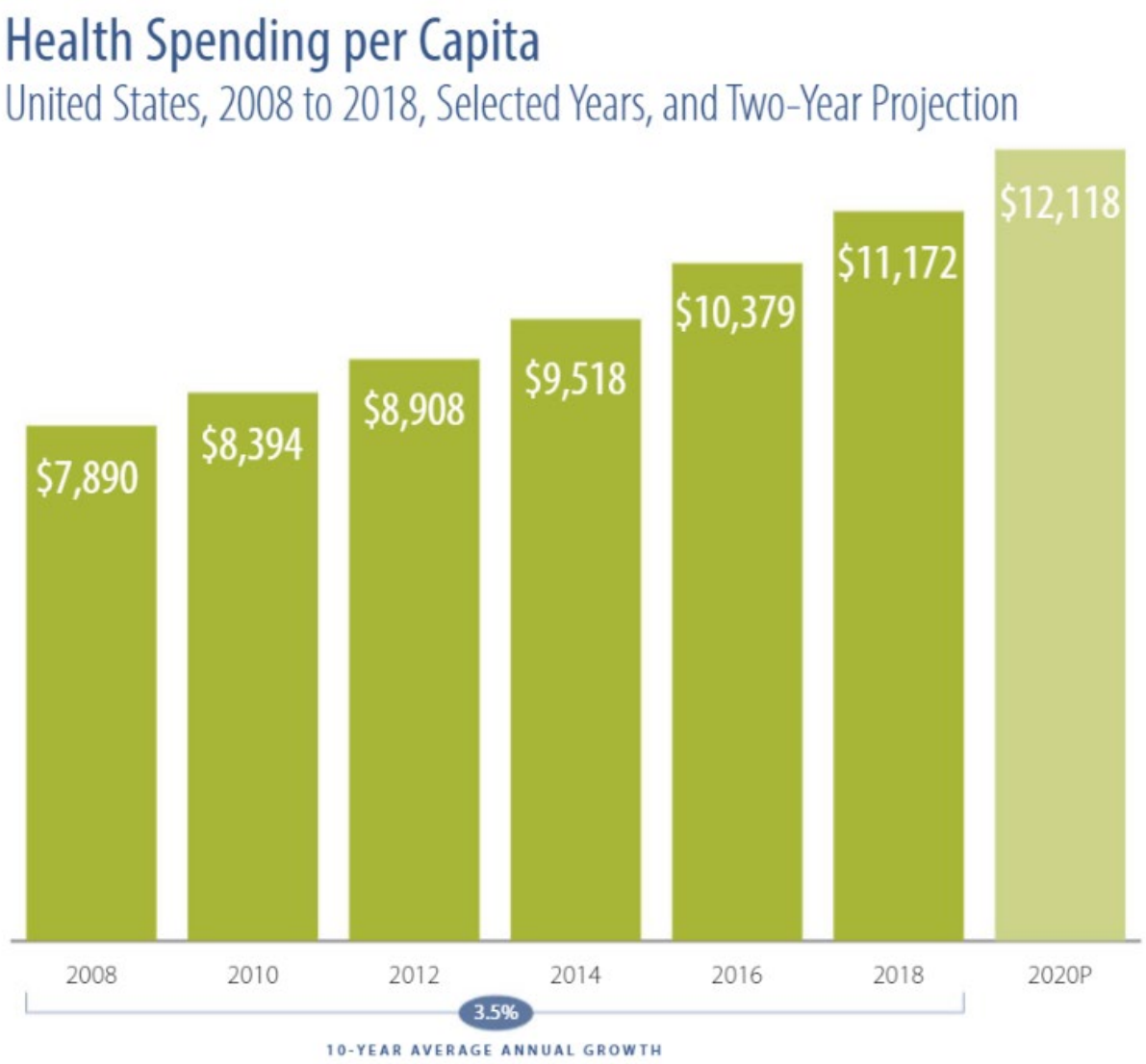
Marian Mulkey, MPP, MPH
Principal, Mulkey Consulting, LLC

Outline


The Basics
Change Levers and Influencers
Big Picture Challenges
Areas for CalPERS Focus

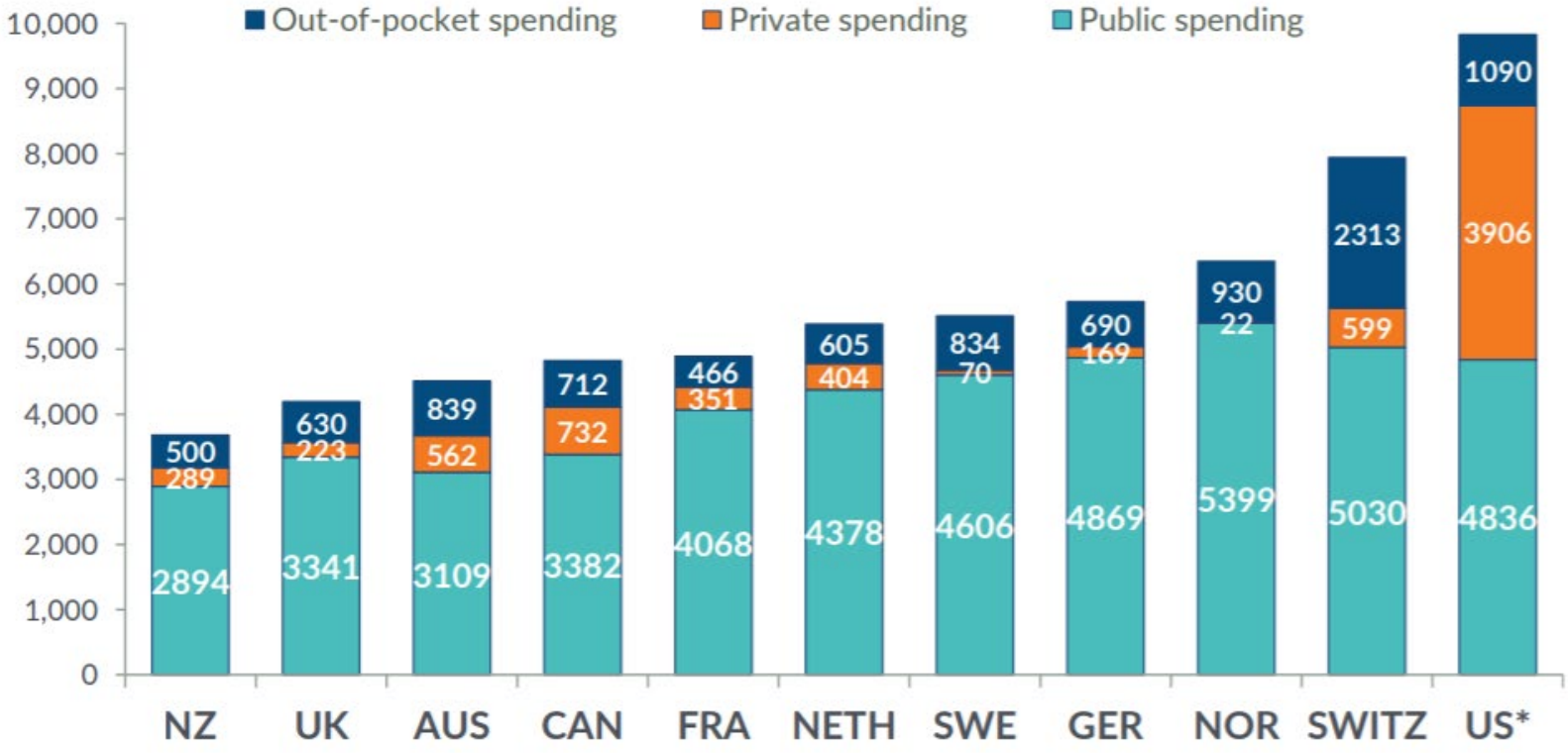
Part 1
The Basics

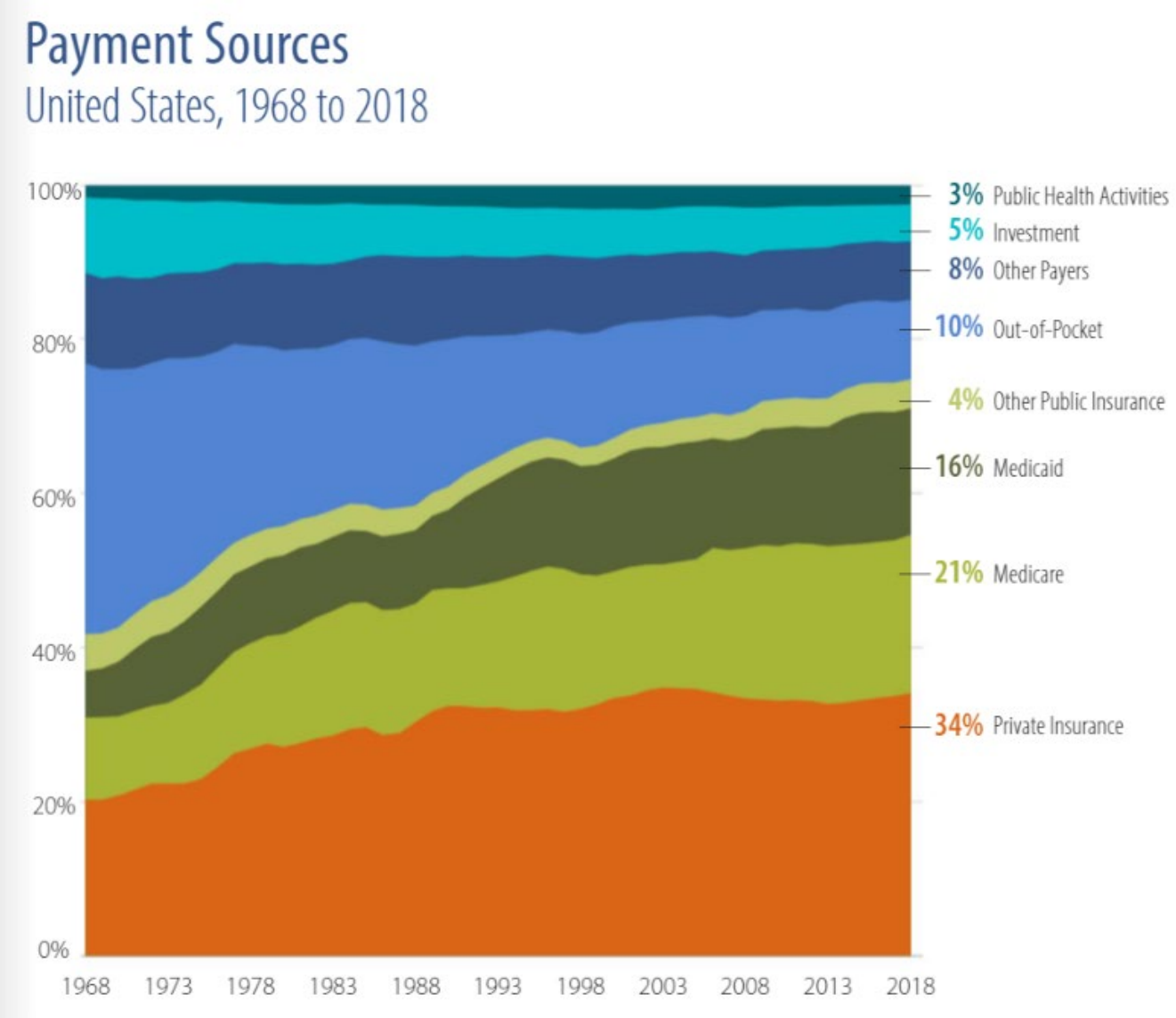

Health Spending as a Share of GDP
United States, 1968 to 2018, Selected Years, and 10-Year Projection
RECENT DETAIL
2014 17.3%
2015 17.6%
2016 17.9%
2017 17.9%
2018 17.7%
6.2%
8.3%
11.1%
13.3%
16.3%
17.7%
19.7%
1968
1978
1988
1998
2008
2018
2028P


Health Spending per Capita
United States, 2008 to 2018, Selected Years, and Two-Year Projection
$7,890
$8,394
$8,908
$9,518
$10,379
$11,172
$12,118
2008
2010
2012
2014
2016
2018
2020P
3.5%
10-YEAR AVERAGE ANNUAL GROWTH

Health Care Spending per Capita by Source of Funding, 2017

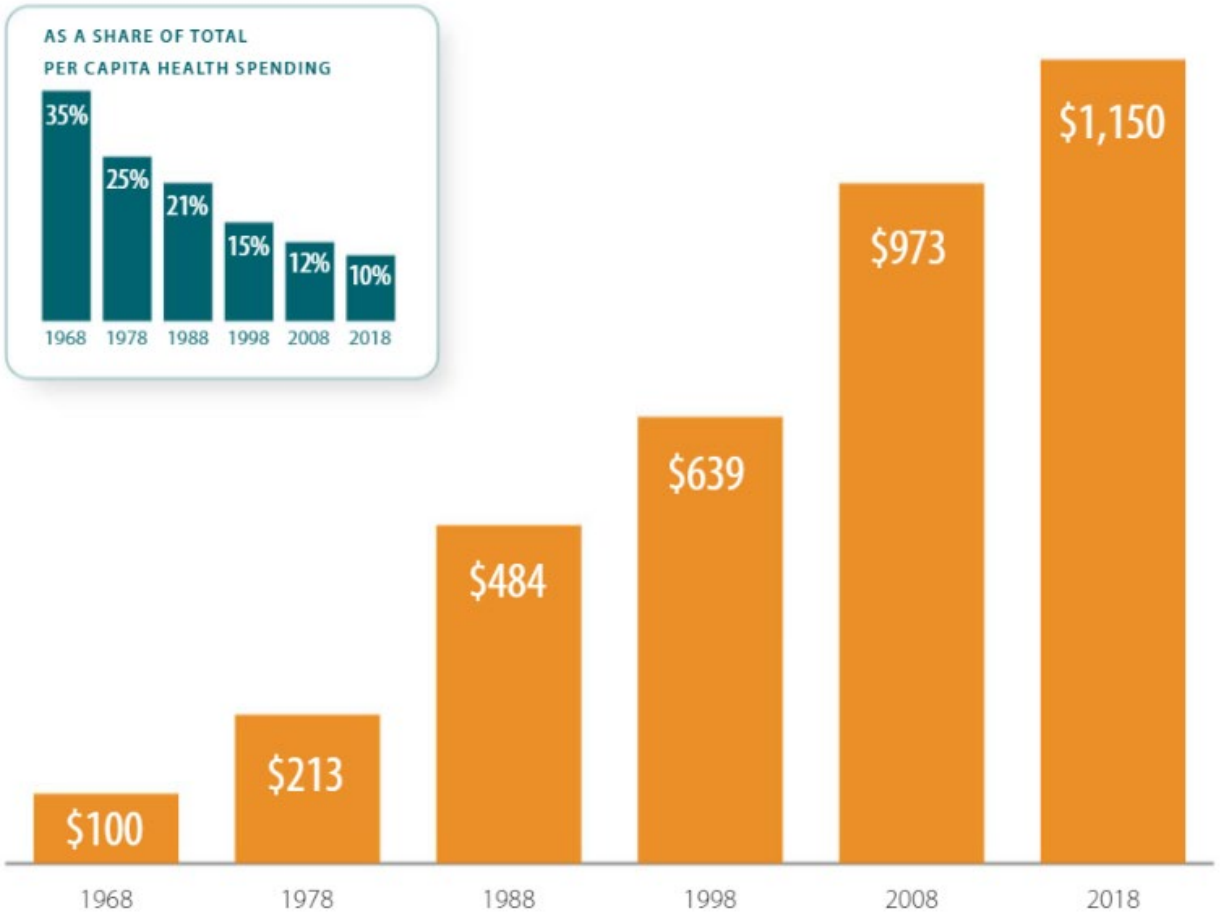
Adjusted for Differences in Cost of Living

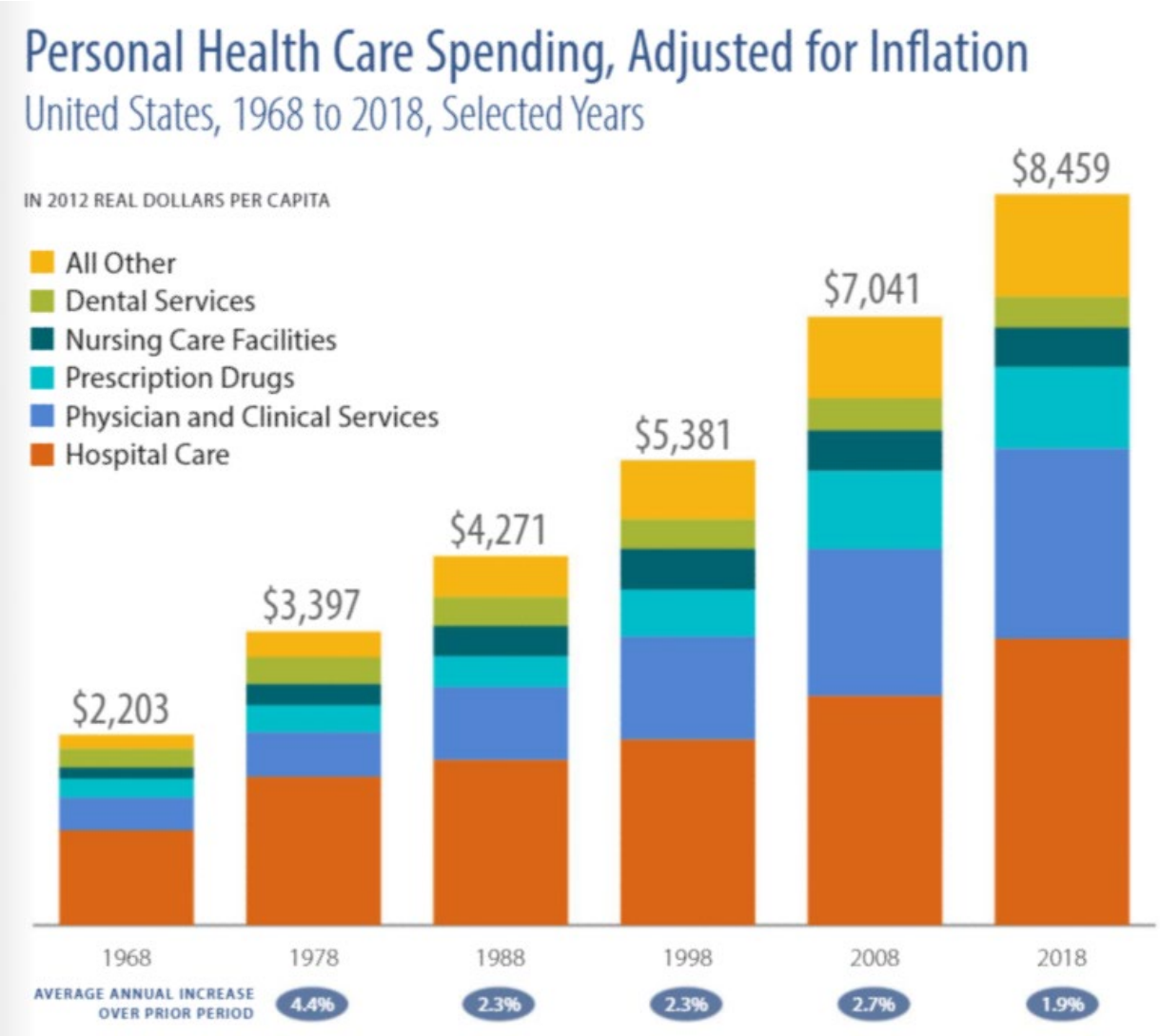



Payment Sources
United States, 1968 to 2018
100%
80%
60%
40%
20%
0%
1968
1973
1978
1983
1988
1993
1998
2003
2008
2013
2018
3% Public Health Activities
5% Investment
8% Other Payers
10% Out-of-Pocket
4% Other Public Insurance
16% Medicaid
21% Medicare
34% Private Insurance

Out-of-Pocket Spending per Capita

United States, 1968 to 2018, Selected Years

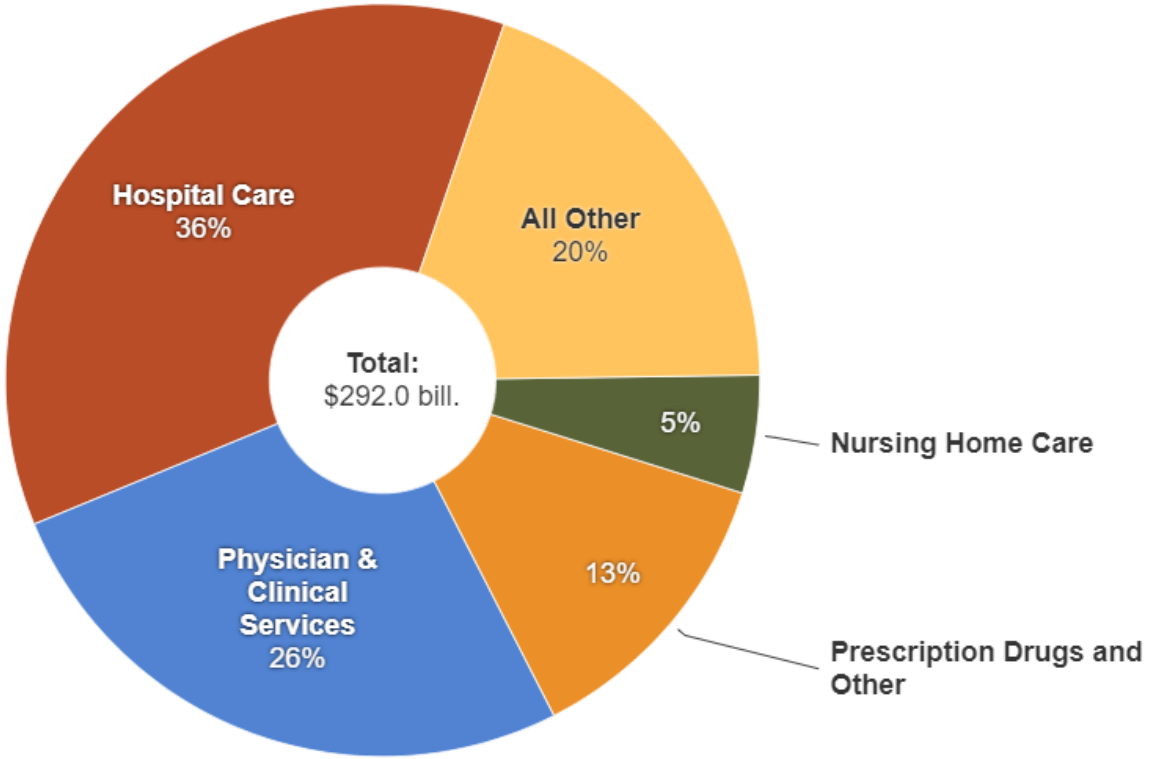



Personal Health Care Spending, Adjusted for Inflation
United States, 1968 to 2018, Selected Years
IN 2012 REAL DOLLARS PER CAPITA
All Other
Dental Services
Nursing Care Facilities
Prescription Drugs
Physician and Clinical Services
Hospital Care
$2,203
$3,397
$4,271
$5,381
$7,041
$8,459
1968
1978
1988
1998
2008
2018
AVERAGE ANNUAL INCREASE OVER PRIOR PERIOD
4.4%
2.3%
2.3%
2.7%
1.9%

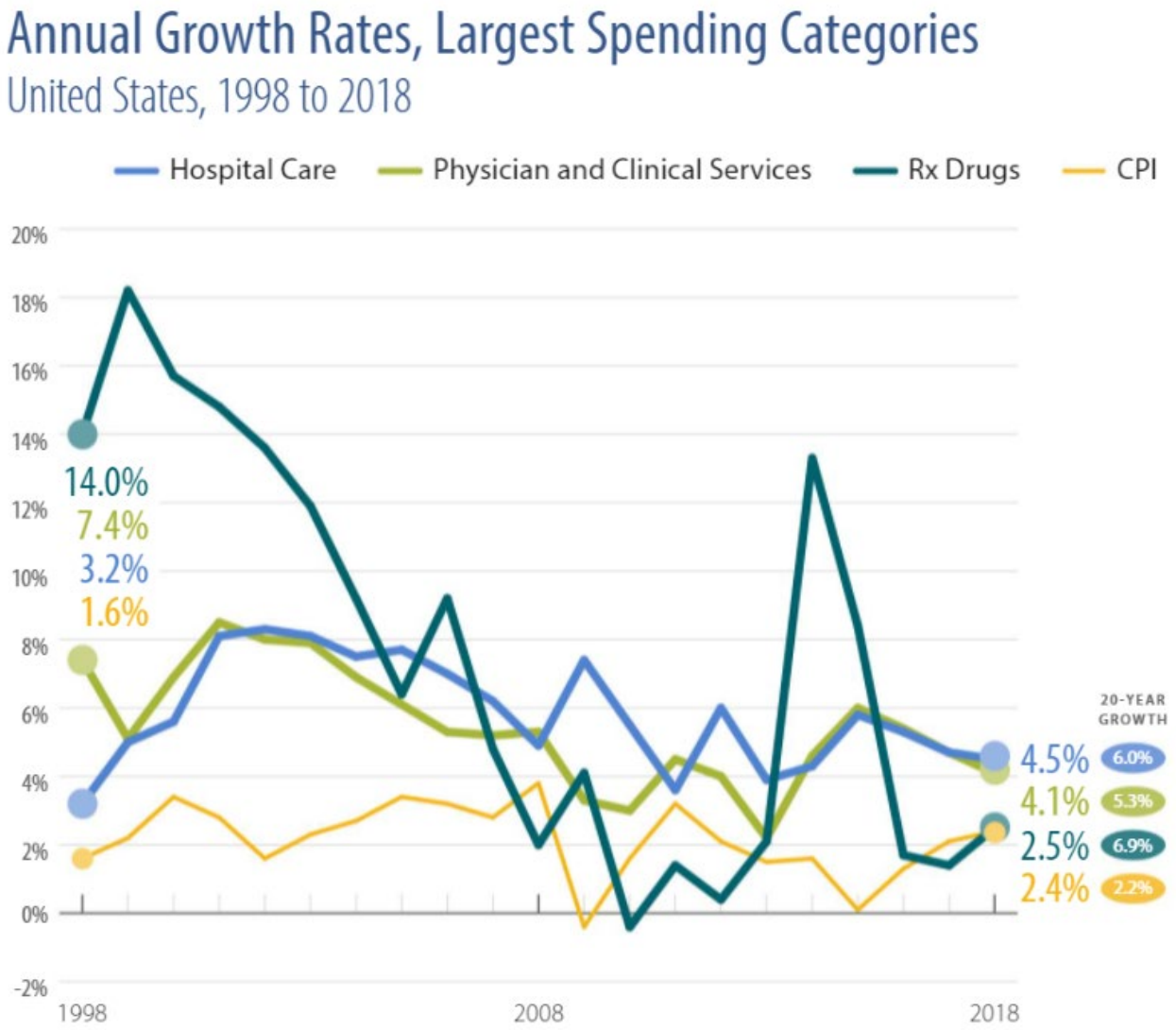
California Health Care: Landscape and Levers for Change

Health Spending*, California, 2014

All Spending | Medicaid | Medicare

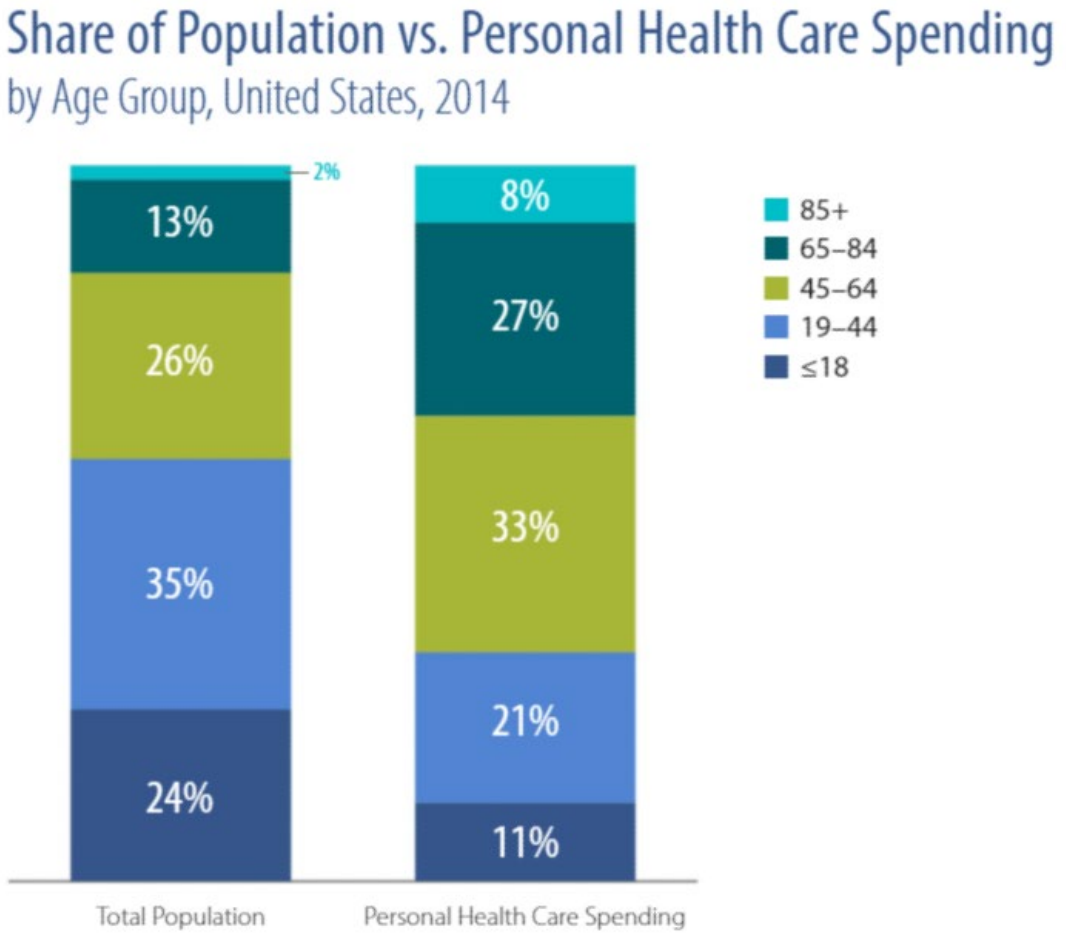


** Personal health care, which excludes public health activities, administration, and investment.*


Annual Growth Rates, Largest Spending Categories
United States, 1998 to 2018
Hospital Care
Physician and Clinical Services
Rx Drugs
CPI
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
-2%
14.0%
7.4%
3.2%
1.6%
1998
2008
2018
20-YEAR GROWTH
4.5% 6.0%
4.1% 5.3%
2.5% 6.9%
2.4% 2.2%

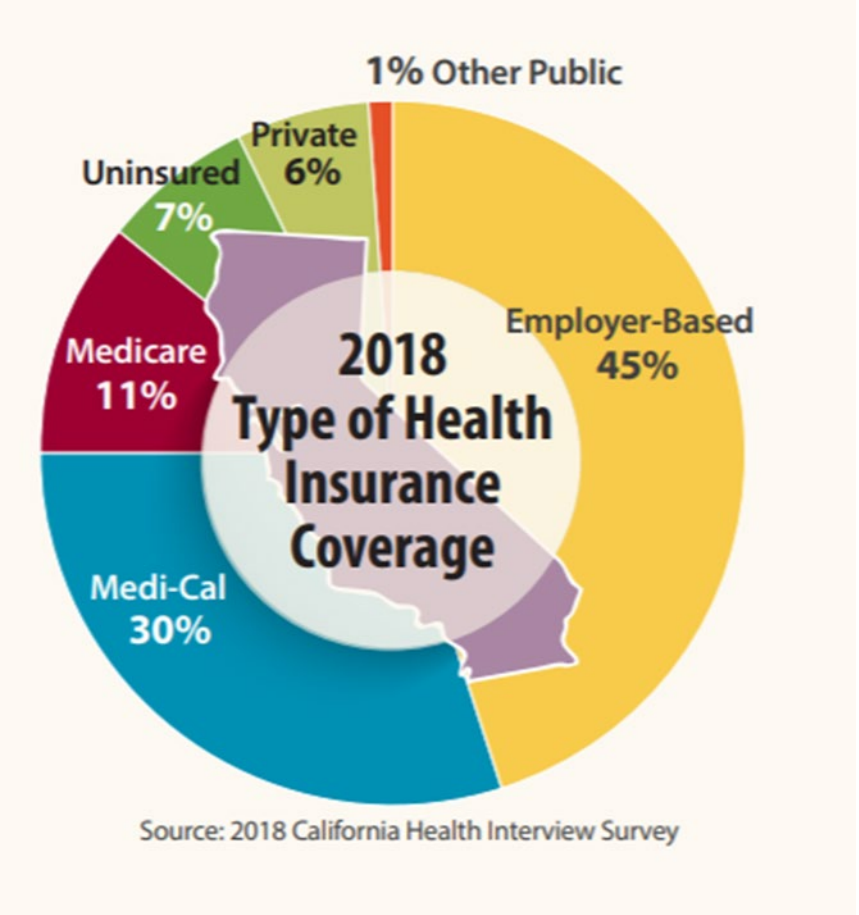
How is Health Insurance Different?

Average Health Care Spending Varies by Age



Health Coverage Differs by Payer/ Program

- Employer-Sponsored Insurance
- Medi-Cal (California's Medicaid program)
- Medicare
- Private/ Individual



Covered Benefits, Cost-Sharing, Actuarial Value

- Employer-Sponsored Insurance
- Medi-Cal
- Medicare
- Private/ Individual

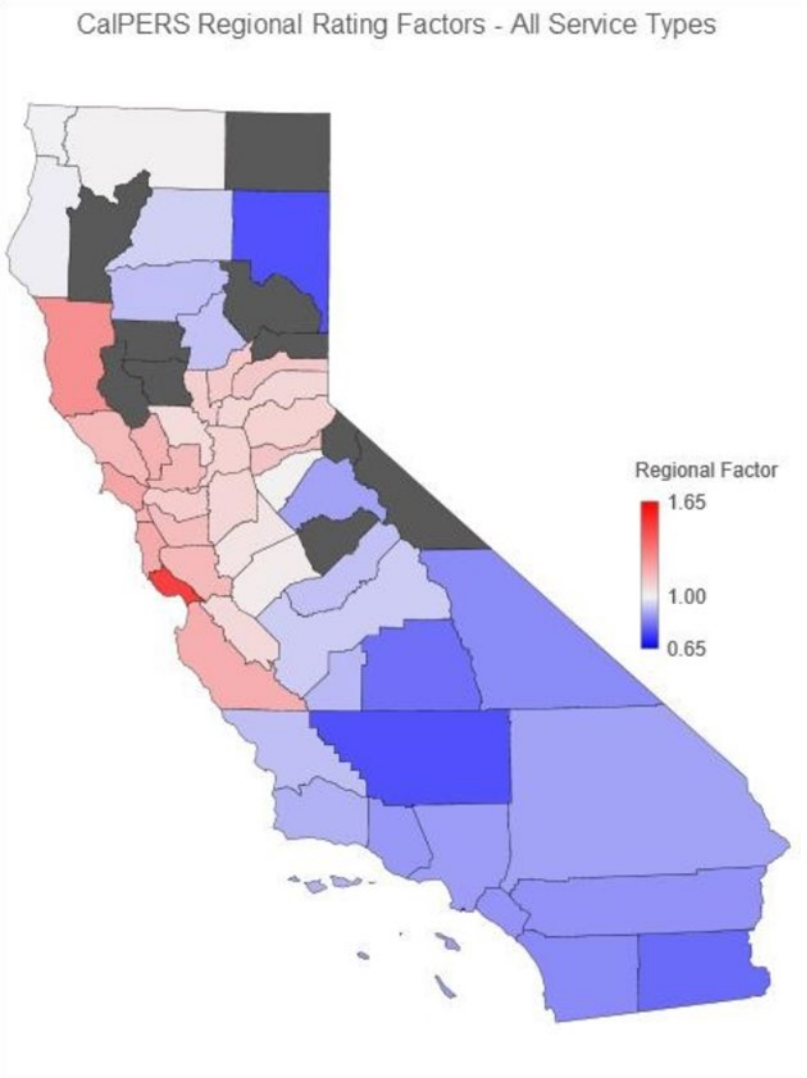
The Affordable Care Act

- New rules and subsidies improved access to individual market; individual mandate encouraged broad participation
- Medi-Cal expanded to include low-income childless adults
- Some new requirements on employers and employer-sponsored products, but…
- Few direct effects on CalPERS and its members

California Health Care Delivery Arrangements

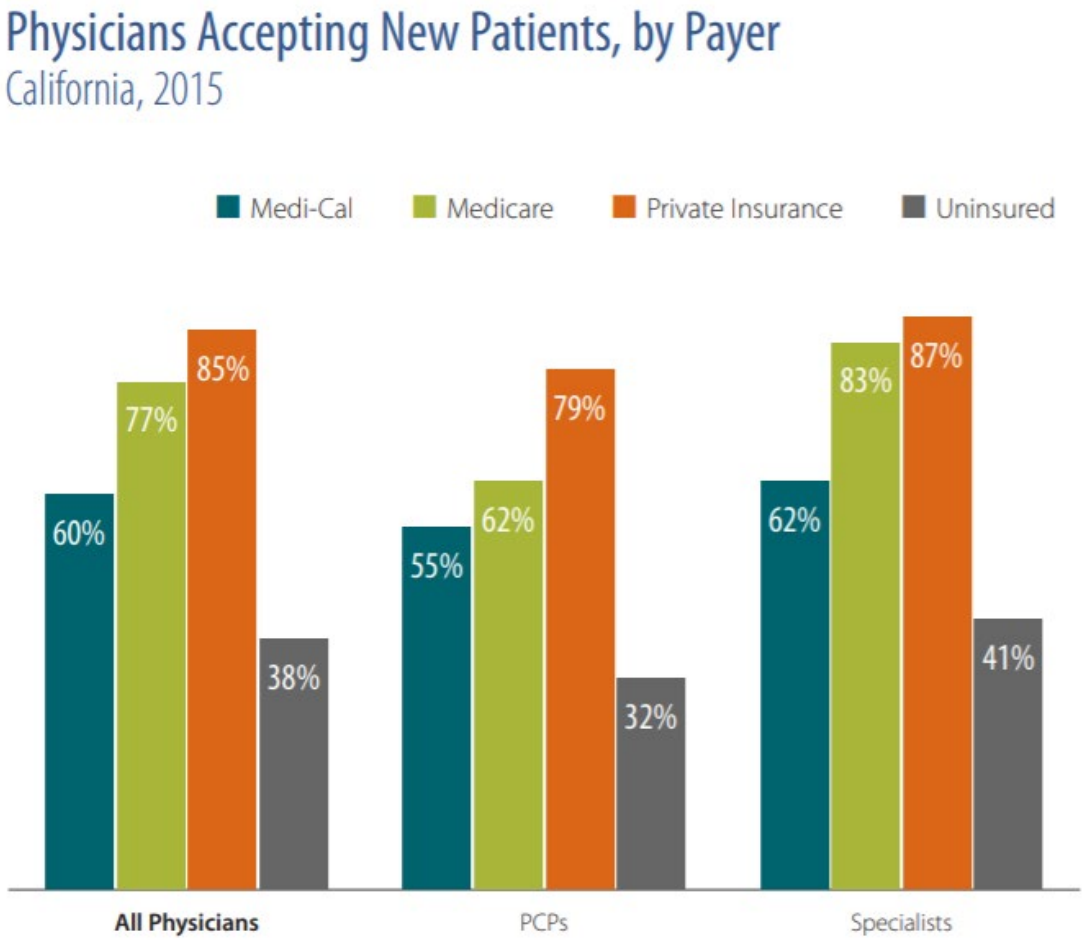
- Usual source of care varies by type of coverage
- The health care workforce faces looming challenges
  - Uneven geographic distribution
  - Overreliance on specialty rather than primary care
  - The state's racial and ethnic diversity is not well-represented among physicians and some other care providers
- High penetration of managed care and integrated care delivery arrangements

California Health Care Costs Vary by Region



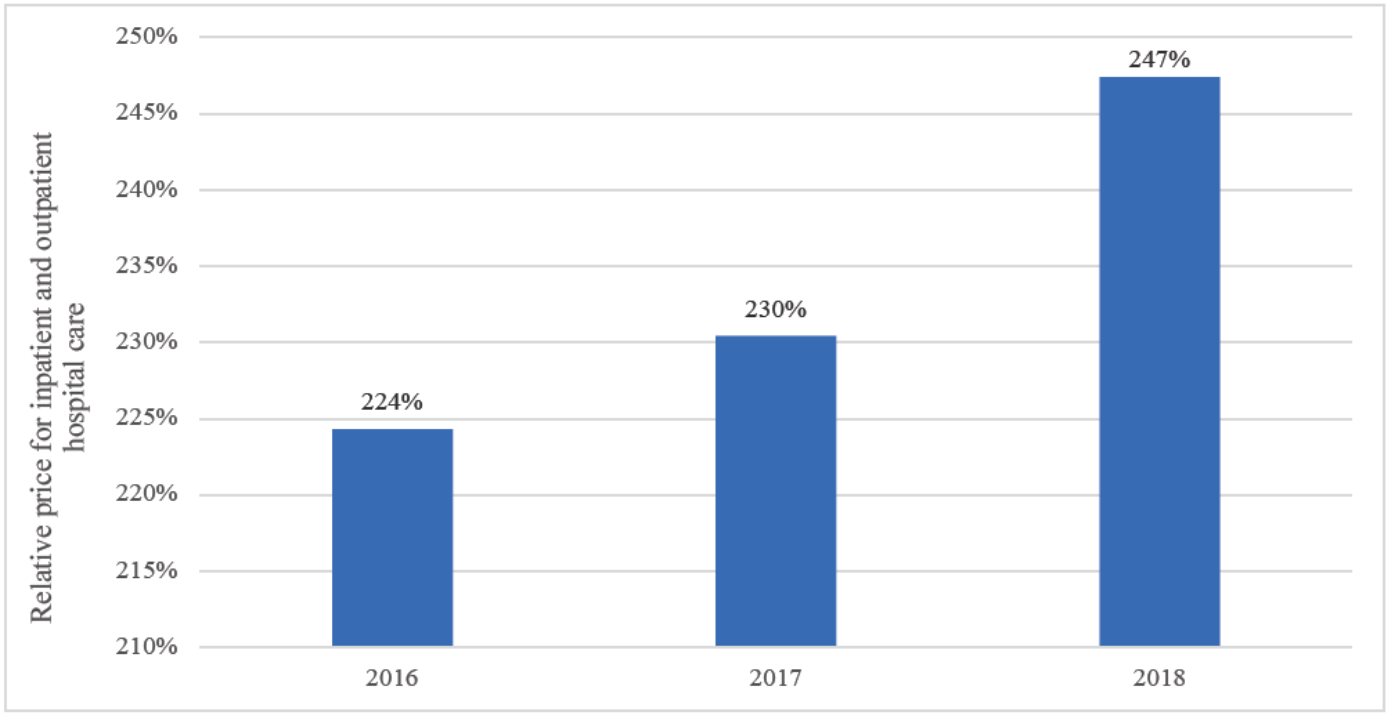
Payer, Population, Source of Care

- Physicians' willingness to accept new patients varies depending on their source of coverage
- Payer mix (Medicare, Medi-Cal, ESI/ Private) varies substantially among hospitals, as well



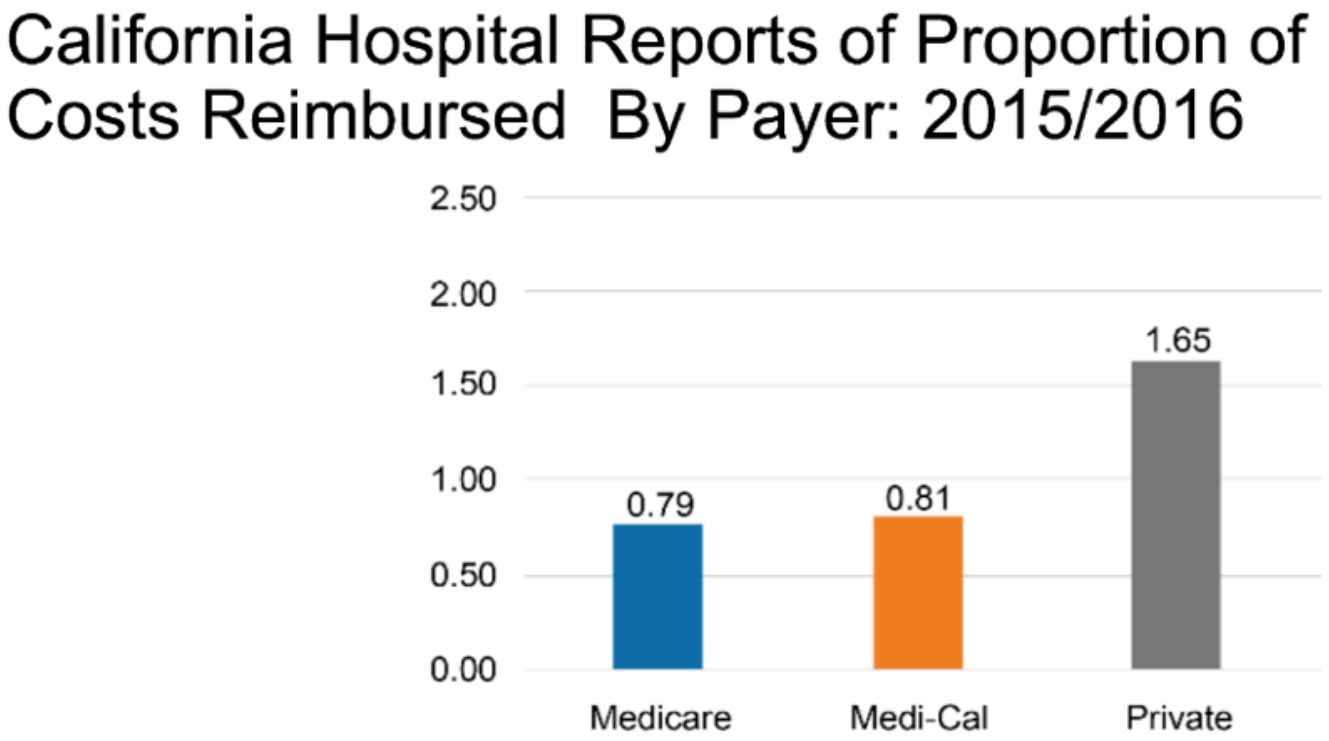
Payment Rates Vary by Payer Nationally

Figure 4.1. All-State Trends in Relative Prices



NOTE: Relative prices equal the ratio of the amounts actually paid divided by the amounts that would have been paid—for the same services provided by the same hospitals—using Medicare's price-setting formulas. Prices include prices for inpatient and outpatient services and group facility and professional fees.

Payment Rates Also Vary by Payer in California



Kronick and Neyaz: https://s8637.pcdn.co/wp-content/uploads/2019/05/West-Health-Policy-Center-Hospital-Pricing-Analysis-May-2019.pdf

Summary: Part 1

- Health care payment and delivery arrangements are connected in a complex web
- Complexity offers some benefits in terms of choice (for some people) and competition (in some places)
- Complexity poses challenges for overall accountability and system-wide improvement

Questions & Discussion

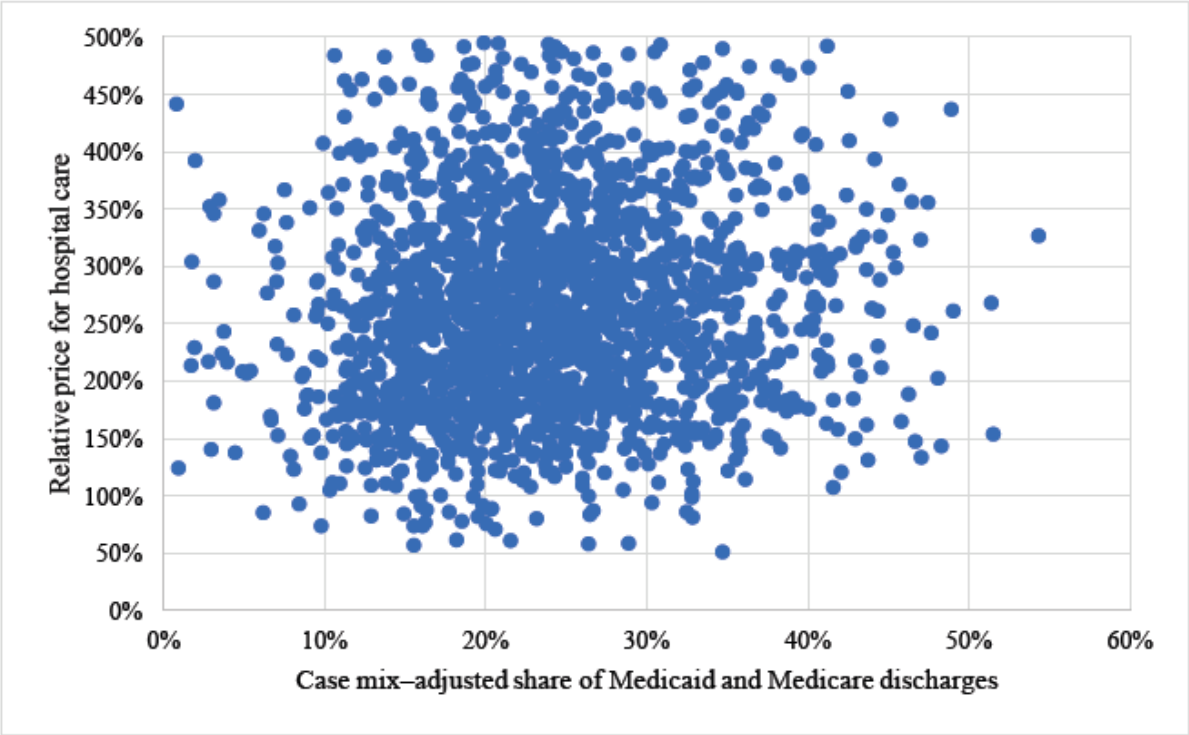
Part 2
Big Picture Challenges

- **High and rising costs**
- **Uneven quality**
- **Uneven access to health care services**
- **Health care disparities and inequity**
- **Lack of investment in social determinants of health**

High and Rising Costs

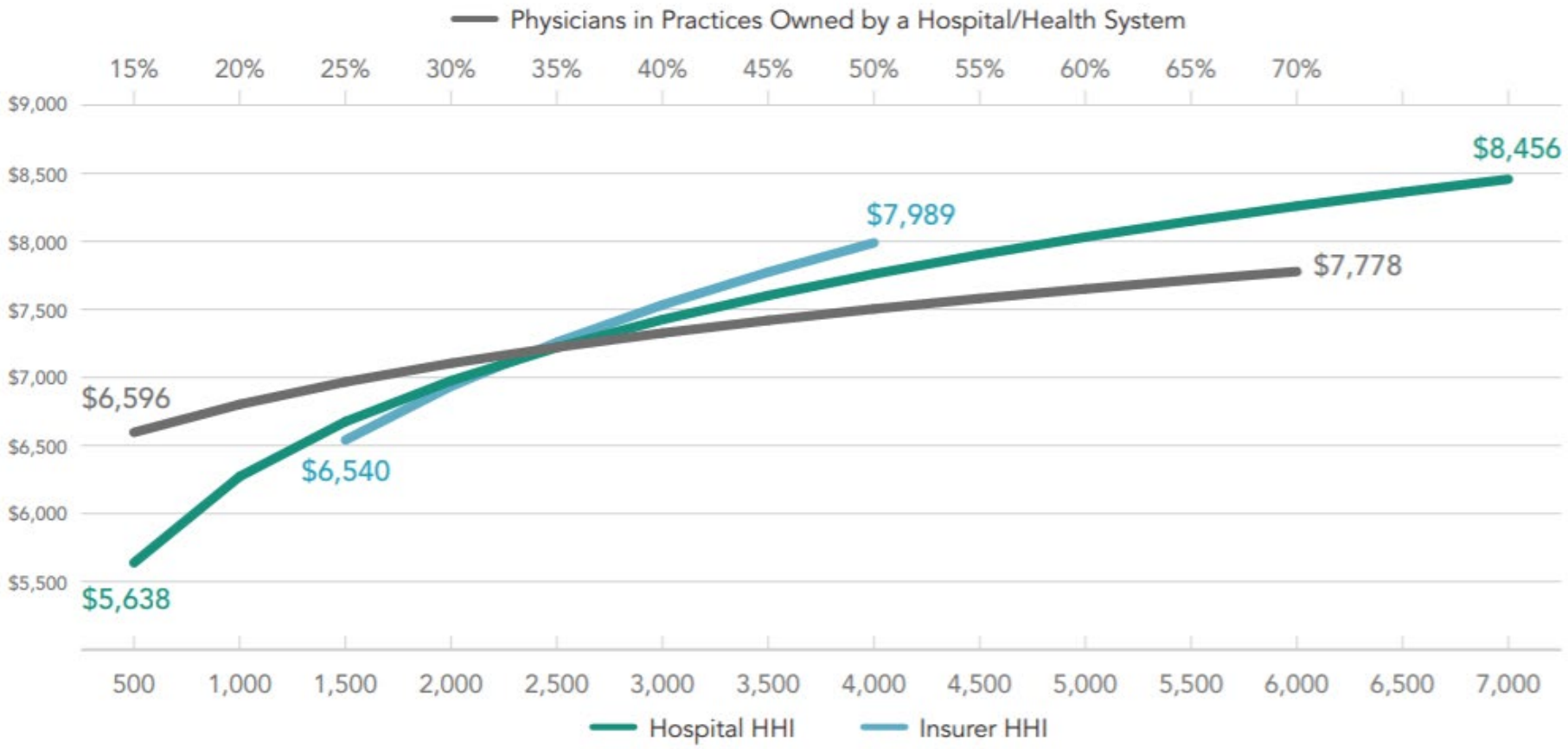
Hospital payments do not seem to reflect payer “cost shift”

Figure 4.8. Hospital Relative Prices and Case-Mix-Adjusted Share of Discharges Attributed to Medicaid and Medicare Patients



Premiums Are Linked to Market Concentration

Figure 23. Estimated Annual ACA Benchmark Premiums by Horizontal Concentration and Vertical Integration, 2019



Some Health Care Spending is Wasteful

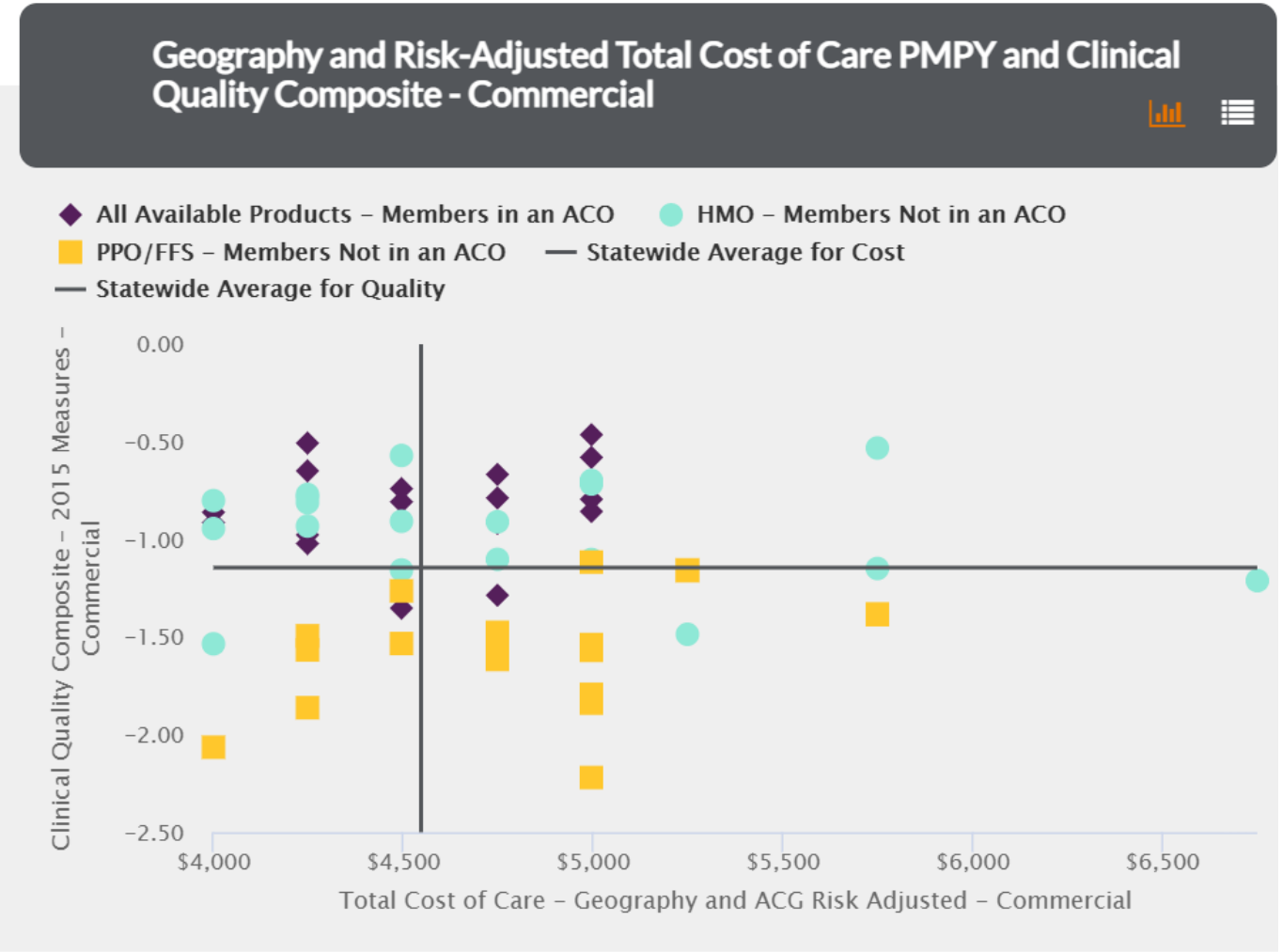
- Overtreatment
- Failures of care delivery and inadequate prevention
- Failures of care coordination
- Administrative complexity
- Pricing and market consolidation
- Fraud and abuse

Derived from "Getting to Affordability: Spending Trends and Waste in California's Health Care System (RAND/CHCF, 2020).

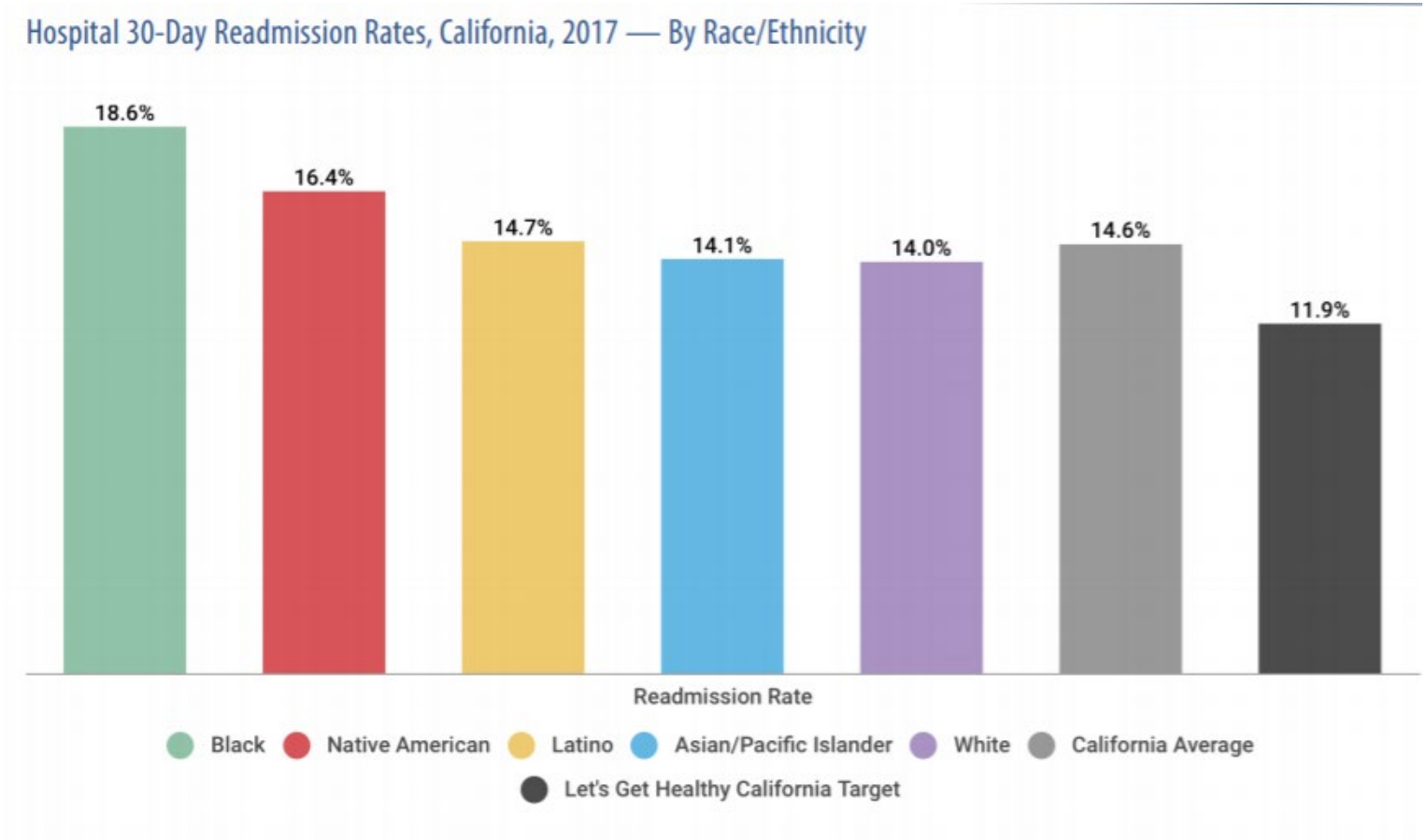
Additional Cost Drivers

- Aging and other demographic factors
- New modes of therapy, diagnostic tools, pharmaceuticals

Quality is Uneven and Not Correlated with Cost

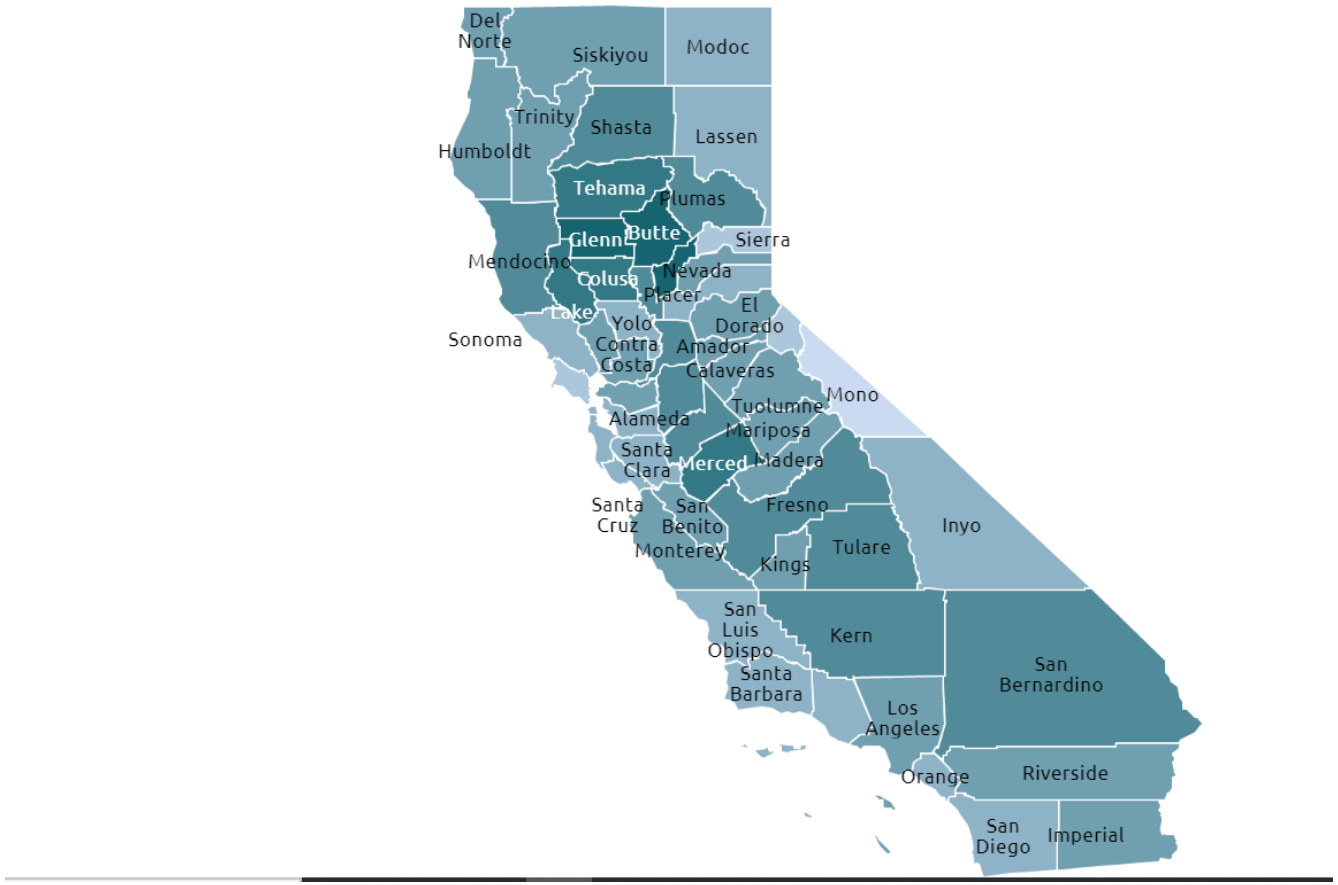


Readmission Rates Show Uneven Quality by Race



Preventable Hospitalizations Vary Across Counties

Preventable Chronic Care Hospitalizations, by County, California, 2018



Quality Challenges

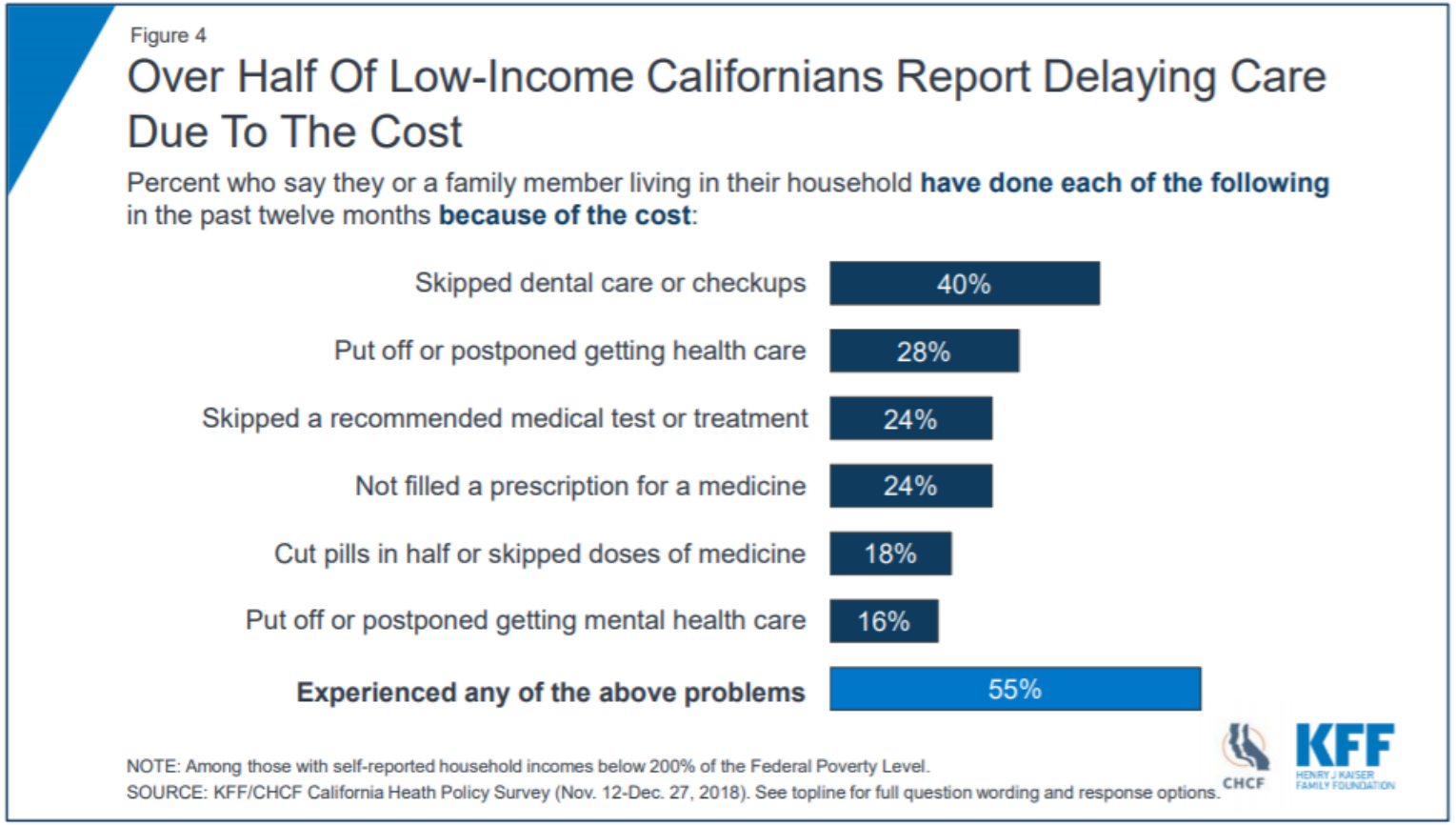
- Defining and measuring quality
  - Patient or customer experience vs clinical outcomes
  - Individual vs population needs and preferences
  - Data collection and reporting capabilities
- Rewarding quality
  - Who should be held accountable, rewarded, or penalized?
- Improving quality
  - Roles and relationships among health plans, medical group, care team

Access Challenges Related to Health Workforce

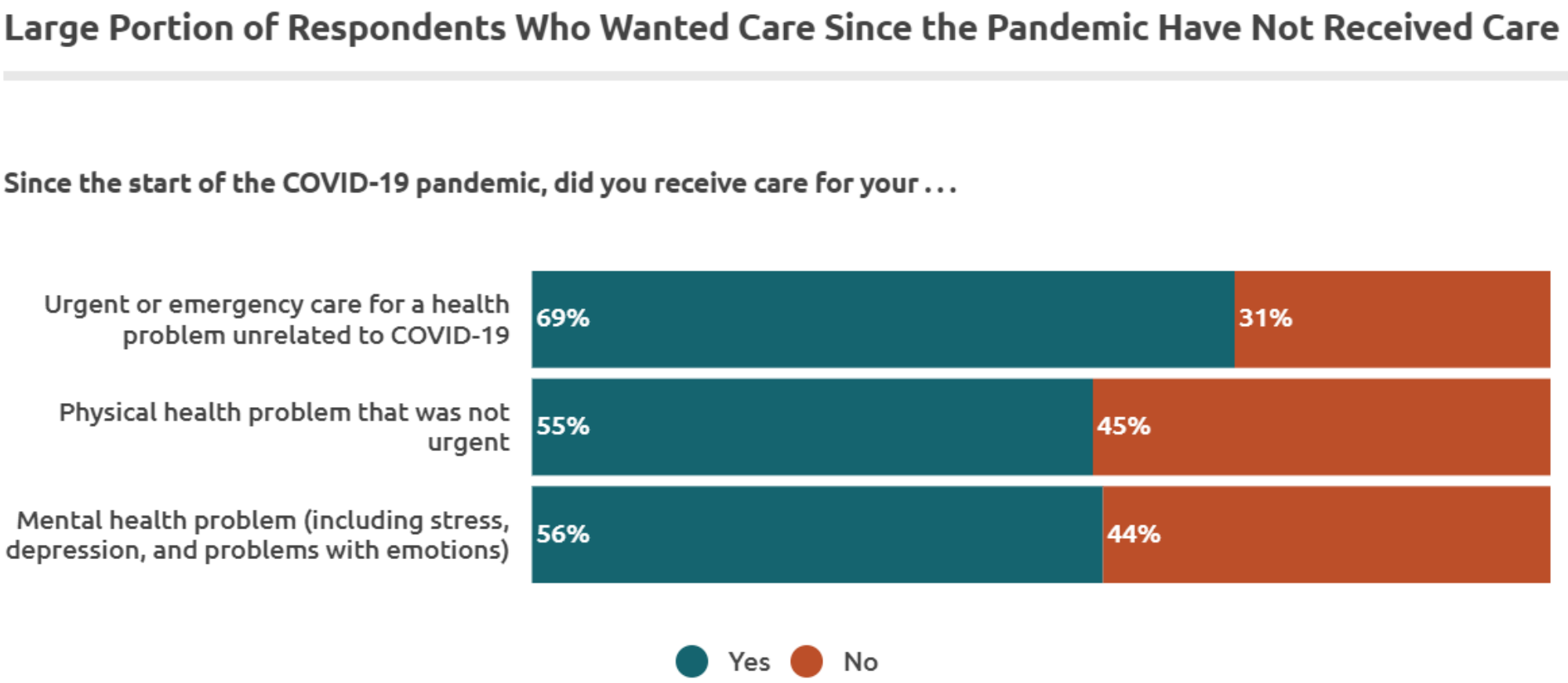
- Geographic distribution
- Language and cultural competence
- Specialty services (especially behavioral health, especially for some payers)

Access Challenges Related to Cost

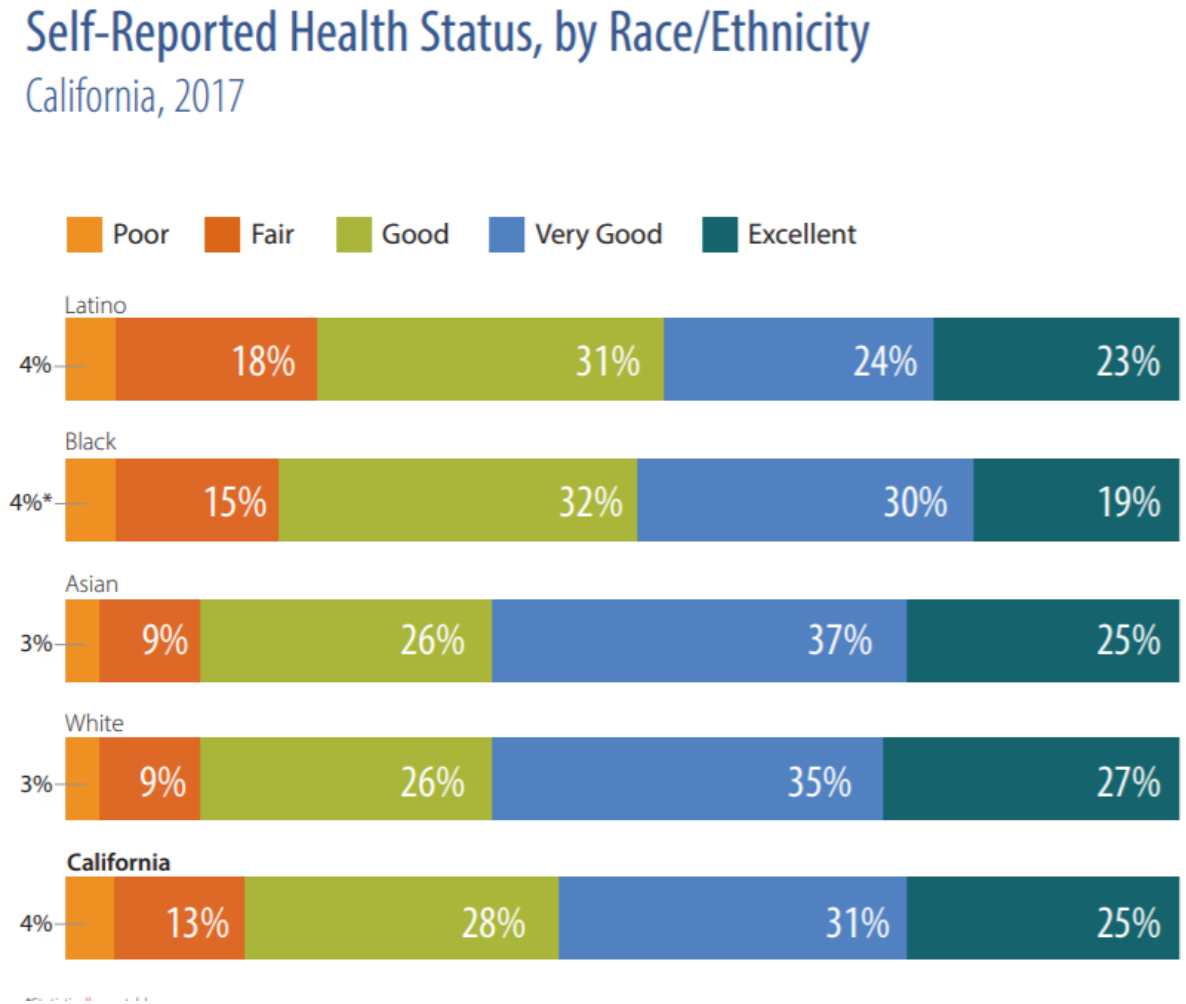
A challenge for many Californians, though less for CalPERS members



COVID-19 Has Exacerbated Access Concerns



Disparities are Widespread



COVID-19 Has Had Disparate Impact

All Cases and Deaths associated with COVID-19 by Race and Ethnicity

Race/Ethnicity	No. Cases	Percent Cases	No. Deaths	Percent Deaths	Percent CA population
Latino	762,170	56.2	10,680	47.6	38.9
White	270,068	19.9	7,001	31.2	36.6
Asian	83,319	6.1	2,597	11.6	15.4
African American	54,750	4.0	1,584	7.1	6.0
Multi-Race	17,562	1.3	209	0.9	2.2
American Indian or Alaska Native	4,253	0.3	74	0.3	0.5
Native Hawaiian and other Pacific Islander	7,466	0.6	115	0.5	0.3
Other	155,927	11.5	171	0.8	0.0
Total with data	1,355,515	100.0	22,431	100.0	100.0

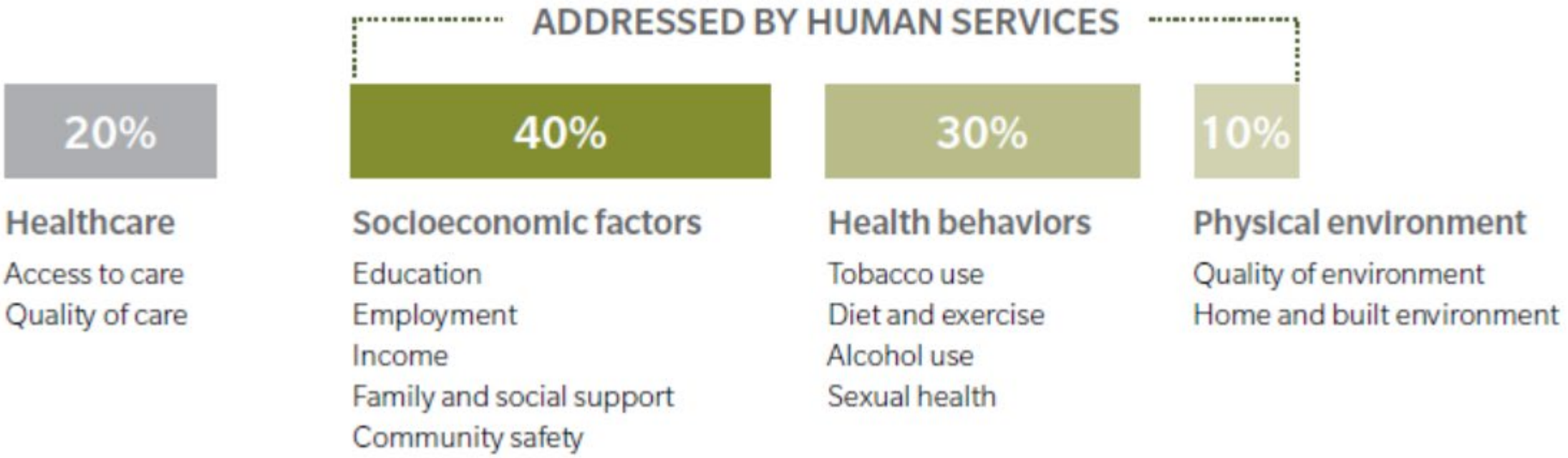
Cases: 1,892,348 total; 536,833 (28%) missing race/ethnicity

System Factors Lead to Inequitable Outcomes

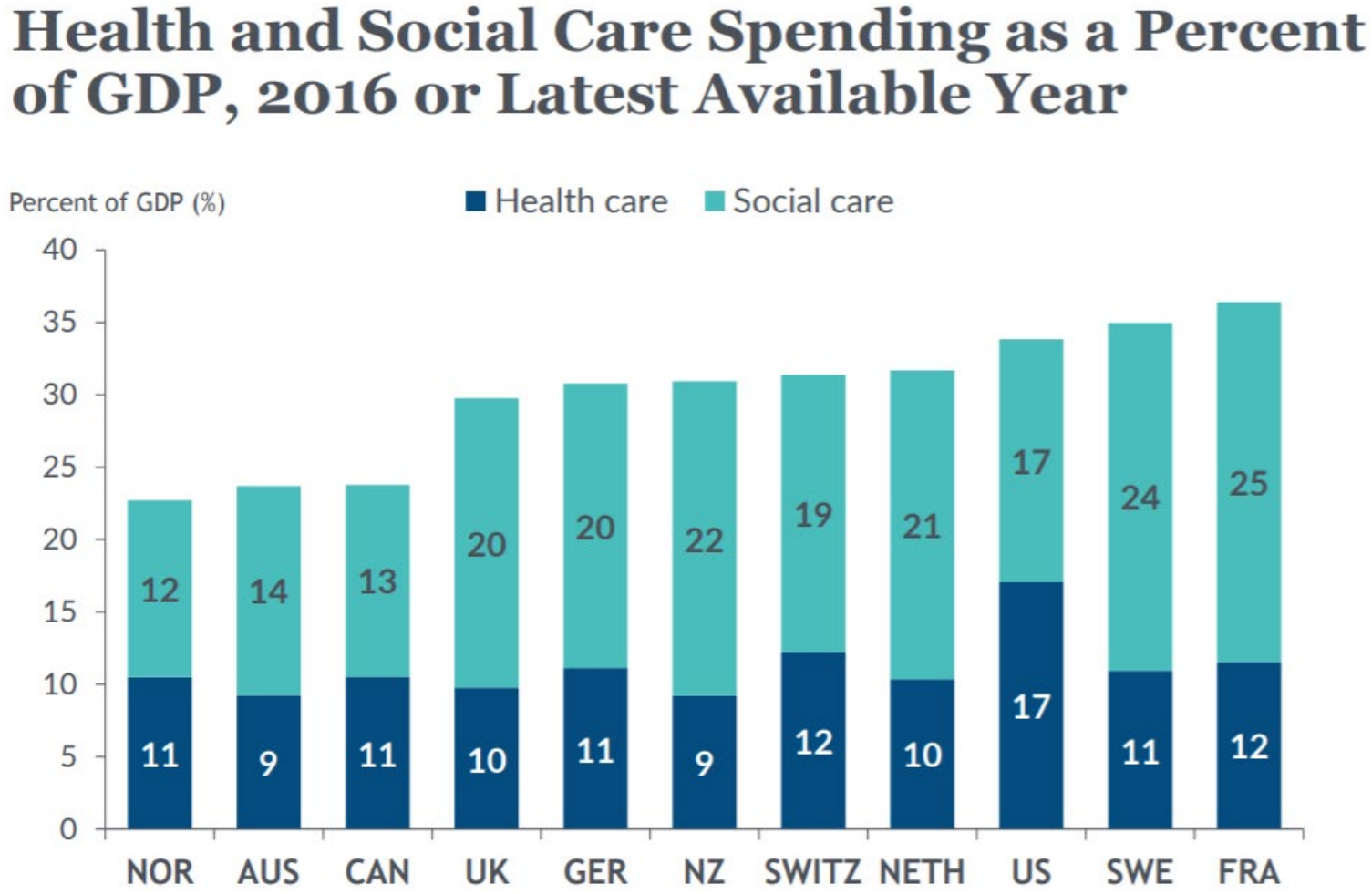
- Barriers to access, including language barriers, wait times, transportation and cost obstacles
- Difficulty navigating a complex health system
- Stigmatizing or disrespectful treatment by health care providers
- Poor patient engagement

Derived from California Pan-Ethnic Health Network summary of July 2019 focus groups with diverse California communities.

Health Outcomes are Influenced by Many Factors Other Than Health Care



Lack of Investment in Social Determinants of Health



Summary: Part 2

- Fragmented delivery and financing of health care make it easy for inequities to arise and persist and difficult to reallocate resources to achieve broad social goals

- Thus, it's important to look at different actors and explore the aspects of health care where each has influence

Questions & Discussion

Part 3
Change Levers and Influencers

- **Market (Health care providers, plans, purchasers, consumers)**
- **Policy and regulatory**
- **Public sector budgets/ society as a whole**

Provider Areas of Influence

- Who, among market segments, the provider or provider group chooses to serve
- Within what organizational home to work, with whom to partner and under what payment arrangements
- Where to live and work

Health Plan Areas of Influence

- With which health care providers to contract and how much to pay (within constraints of market)
- Which market segments to serve
- How to design health insurance products and benefits (within policy/regulatory constraints)
- In which regions of the state to offer coverage

Purchaser Areas of Influence

- What benefits and enrollee cost-sharing levels to offer
- How much choice to offer among plans and product designs
- What contractual incentives or requirements (related to quality or customer service) to impose
- When and how to encourage new or customized network design

Consumer Areas of Influence

- Among available offerings -- that depend on employment, income, other qualifying factors -- which health plan and product to choose
- Which providers to see (within constraints of health plan network)
- Which treatments and health care interventions to choose (within constraints of diagnoses, medical guidelines, health care provider recommendations)
- Behaviors that influence health over short- and long-term

Policy/ Regulatory Areas of Influence

- Minimum standards required of health insurance arrangements
- Limits, if any, on the prices that providers or health plans can charge
- Requirements on providers or plans to accept patients or customers under specified circumstances
- Data reporting or other compliance requirements

Public Sector/ Societal Areas of Influence

- Share of public sector spending to invest in health care services
- Share of public sector spending to invest in social determinants of health
- How to address structural racism and inequality
- Cultural norms regarding individual vs collective responsibility

Unclear Whose Role it is to Influence…

- The ways costs are spread and risks are pooled
- How resources are allocated and distributed system-wide

Summary: Part 3

- Various actors play different roles and exert different types of leverage on the health care system
- Decision-makers have greater impact when they focus on the areas in which they have the most leverage yet understand how other actors exert their influence

Questions & Discussion

Part 4
Areas for CalPERS Focus

Areas for CalPERS Focus

Areas for CalPERS Focus

Concluding Summary

- CalPERS exists in a complex health care ecosystem
- With a big picture view and a focus on actions it is well-positioned to take, CalPERS can continue to advance excellent member outcomes and exert positive influence on the health care system

Discussion

Sources

- Health Care Costs 101: US Spending Growth Relatively Steady in 2018 (California Health Care Foundation, May 2020) [Slides 4,5,7,8,9,11,13]
- Multinational Comparisons of Health Systems Data (Roosa Tikkanen, The Commonwealth Fund, 2018) [Slides 6, 40]
- California Health Care Spending, (Katherine B. Wilson for California Health Care Foundation, September 8, 2017) [Slide 10]
- Health Insurance Basics (Insure the Uninsured Project, July 2020) [Slide 14]
- CalPERS Regional Rating Factors Heat Map (Data Source: CalPERS HCDSS) [Slide 18]
- California's Physicians: Who They Are, How They Practice (California Health Care Foundation, August 2017) [Slide 19]
- Nationwide Evaluation of Health Care Prices Paid by Private Health Plans (RAND, 2020) [Slides 20, 25]
- Private Insurance Payments to California Hospitals Average More Than Double Medicare Payments (Richard Kronick and Sara Hoda Neyaz for West Health Policy Center, May 2019) [Slide 21]
- The Sky's the Limit: Health Care Prices and Market Consolidation in California (Richard Scheffler, et al for California Health Care Foundation, October 2019) [Slide 26]

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- Getting to Affordability: Spending Trends and Waste in California's Health Care System (RAND Corporation for the California Health Care Foundation, January 22, 2020) [Slide 27]
- California Regional Health Care Cost & Quality Atlas (Integrated Health Care Association, 2017) [Slide 29]
- Quality of Care: Providers (Jen Joynt for the California Health Care Foundation, February 28, 2020) [Slide 30]
- Quality of Care: Chronic Conditions (Jen Joynt for the California Health Care Foundation, July 22, 2020) [Slide 31]
- Low-Income Californians and Health Care (Kaiser Family Foundation/ California Health Care Foundation, June 2019) [Slide 34]
- Listening to Californians with Low Incomes (California Health Care Foundation: Health Care Access, Experiences, and Concerns Since the COVID-19 Pandemic (California Health Care Foundation, October 8, 2020) [Slide 35]
- Health Care Disparities by Race and Ethnicity (California Health Care Foundation, October 2019) [Slide 36]
- COVID-19 Race and Ethnicity Data (California Department of Public Health, case data through 12/20/20, downloaded 12/22/20) [Slide 37]
- What Do Diverse Communities Think About Their Health Care? (California Pan-Ethnic Health Network, October 23, 2019) [Slide 38]
- Social Determinants of Health (Alliance for Strong Families and Communities, accessed online 12/22/20) [Slide 39]