

The Promise of Progressive Cost Consciousness in Health-care Reform

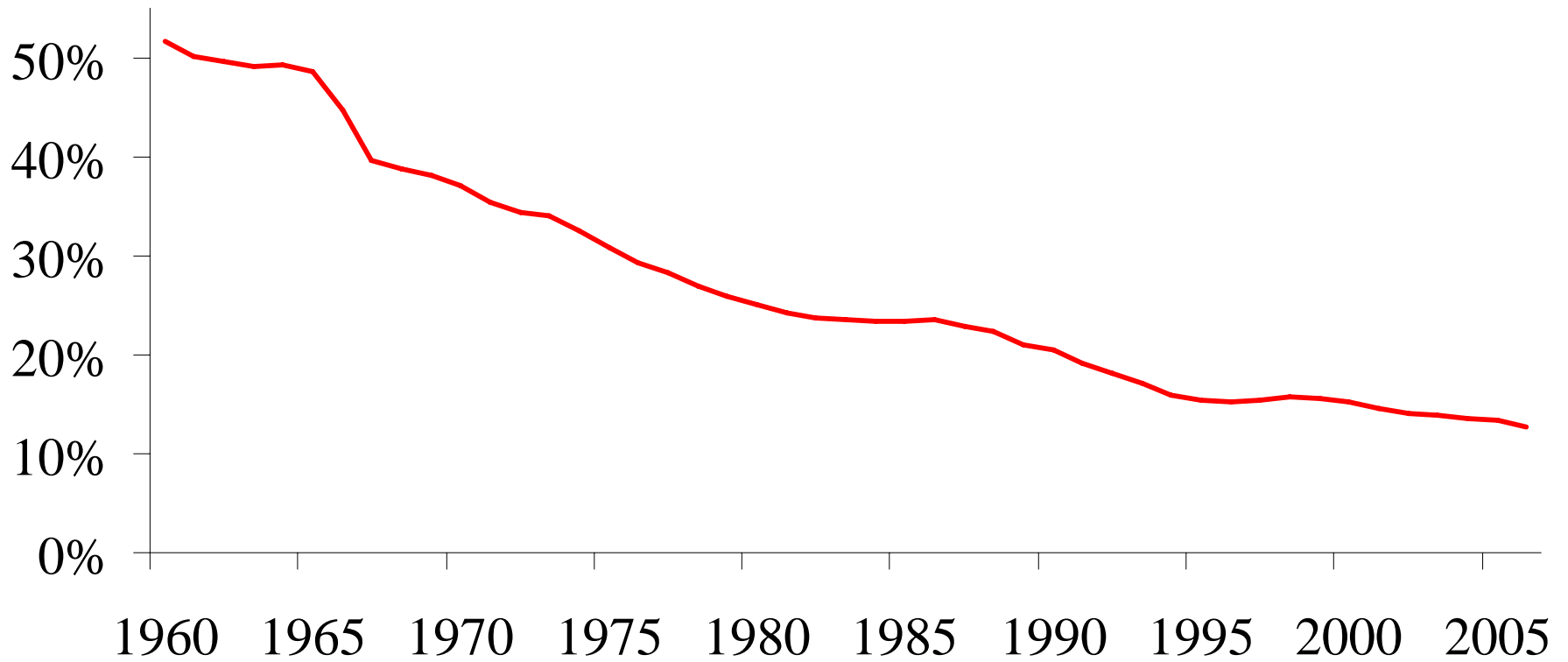
Jason Furman

The Hamilton Project at The
Brookings Institution

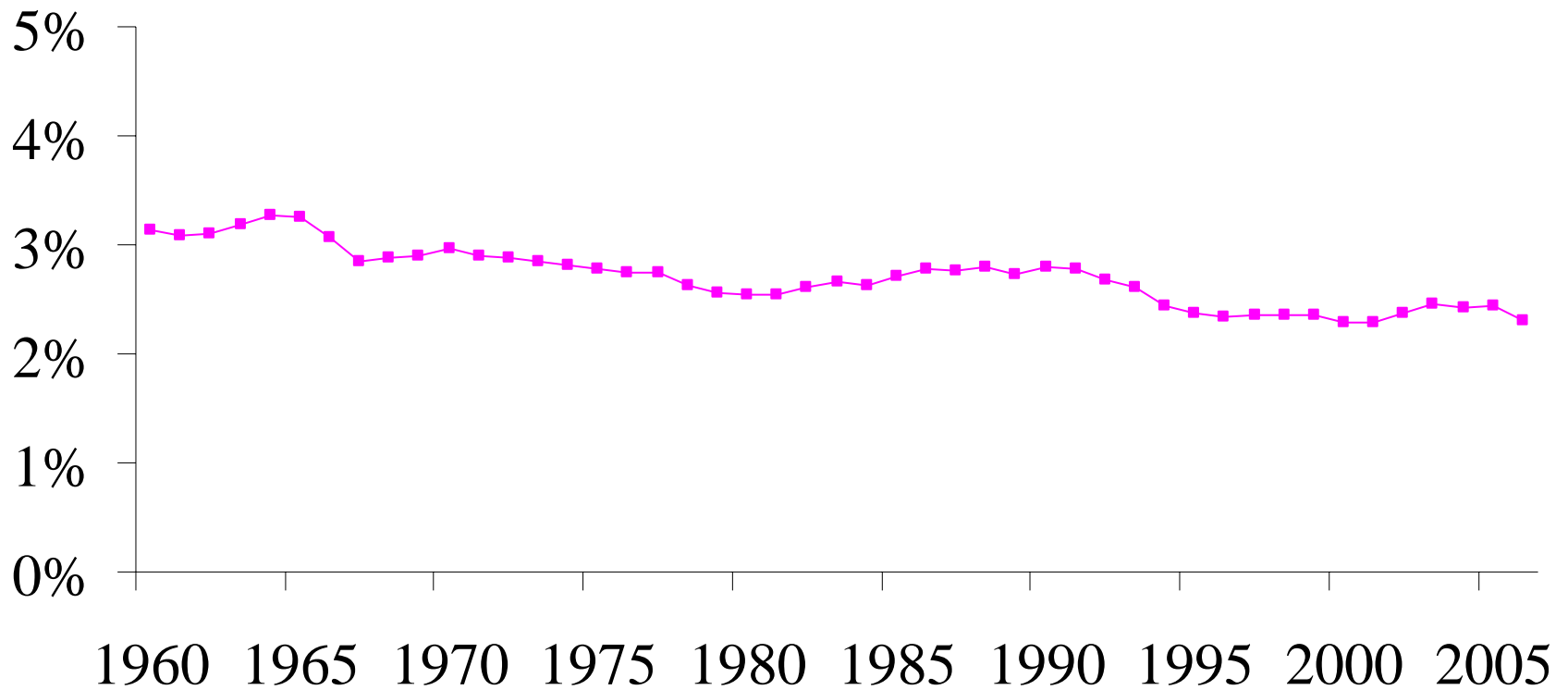
Outline of the Talk

- I. Trends in Cost Sharing
- II. Effects of Cost Sharing
- III. A Model Plan
- IV. Implementation Issues

Aggregate Cost-sharing Rate, 1960-2006



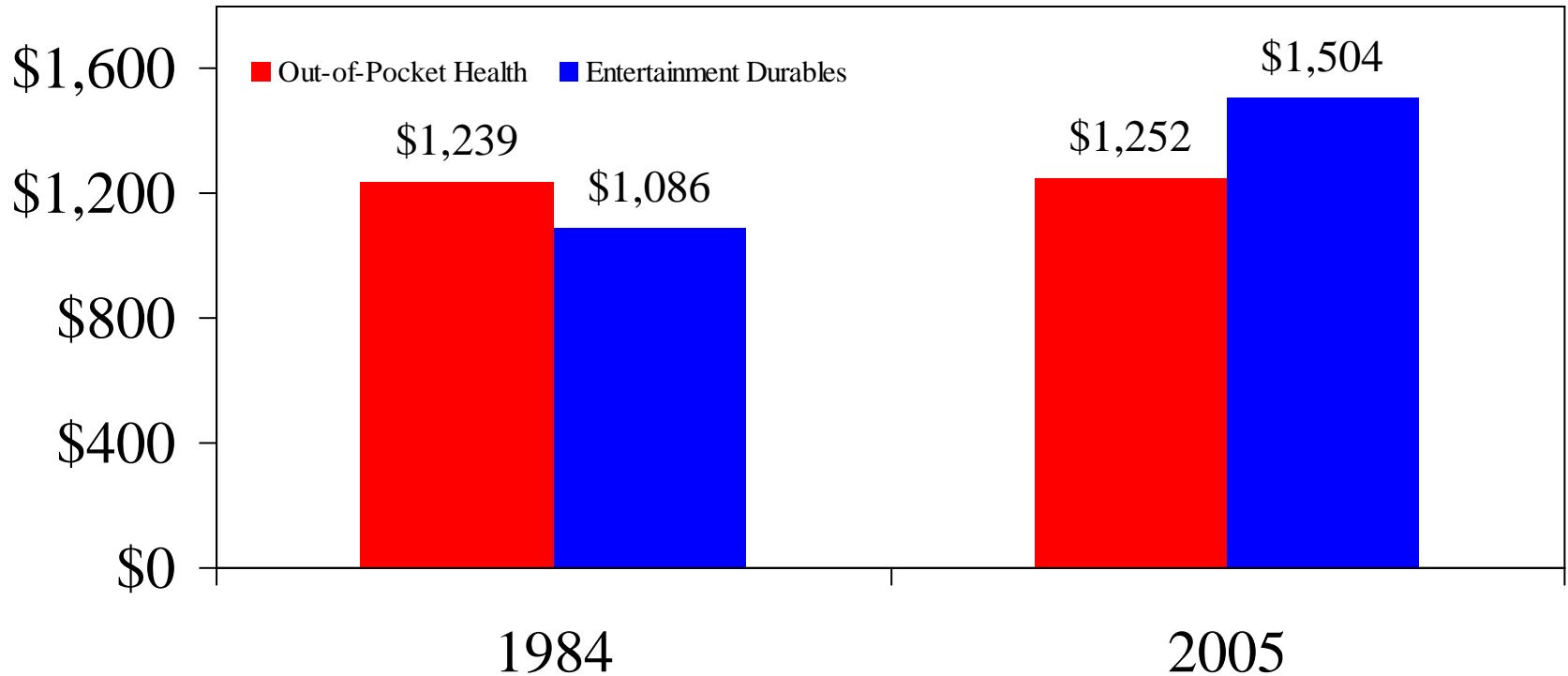
Out-of-pocket Health Spending as Percent of Personal Income, 1960-2005



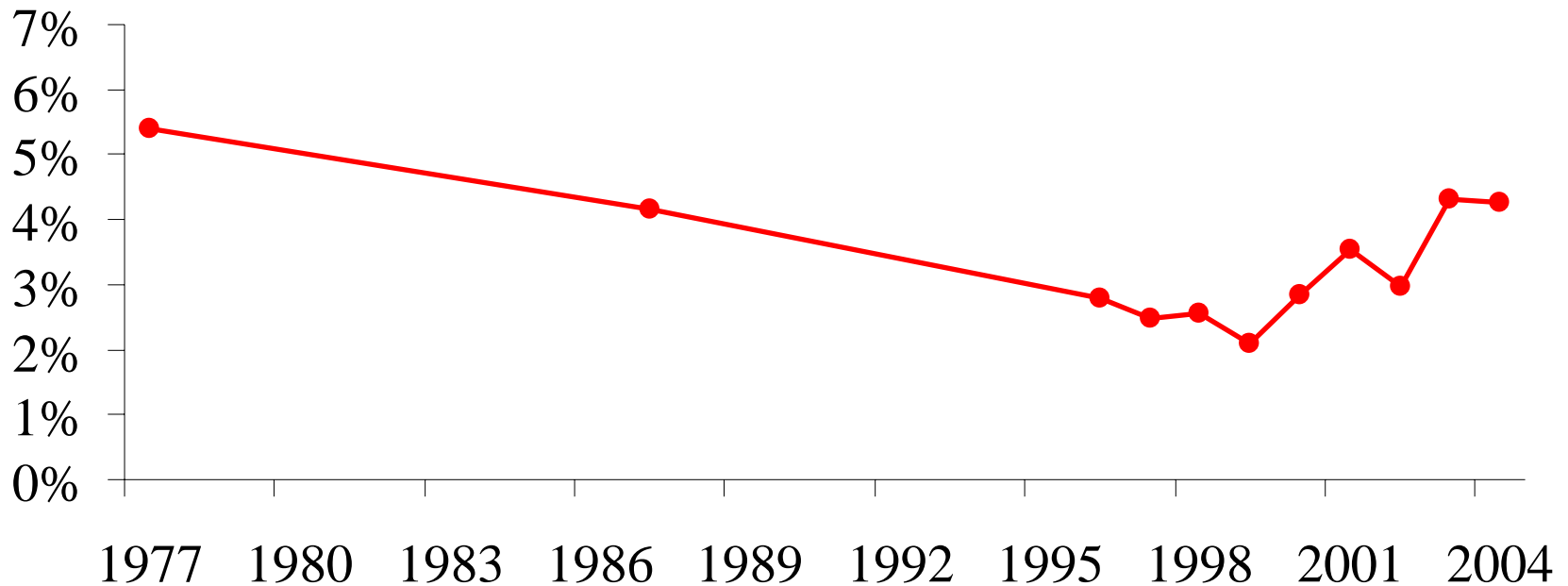
Measures of Coinsurance For Nonelderly Households with Private Insurance (in 2006 Dollars)

	1977	1987	1996	2004
Aggregate cost-sharing rate	35%	27%	20%	19%
Median household cost-sharing rate	59%	41%	29%	25%
85th percentile household cost-sharing rate	100%	90%	67%	56%
Median out-of-pocket spending / income	1.3%	1.2%	0.9%	1.3%
85th percentile out-of-pocket spending / income	5.0%	4.5%	3.5%	4.3%
Mean out-of-pocket spending	\$1,183	\$1,323	\$1,046	\$1,451
Median out-of-pocket spending	\$674	\$699	\$571	\$828
Standard deviation of out-of-pocket spending	\$1,718	\$2,870	\$1,568	\$2,038

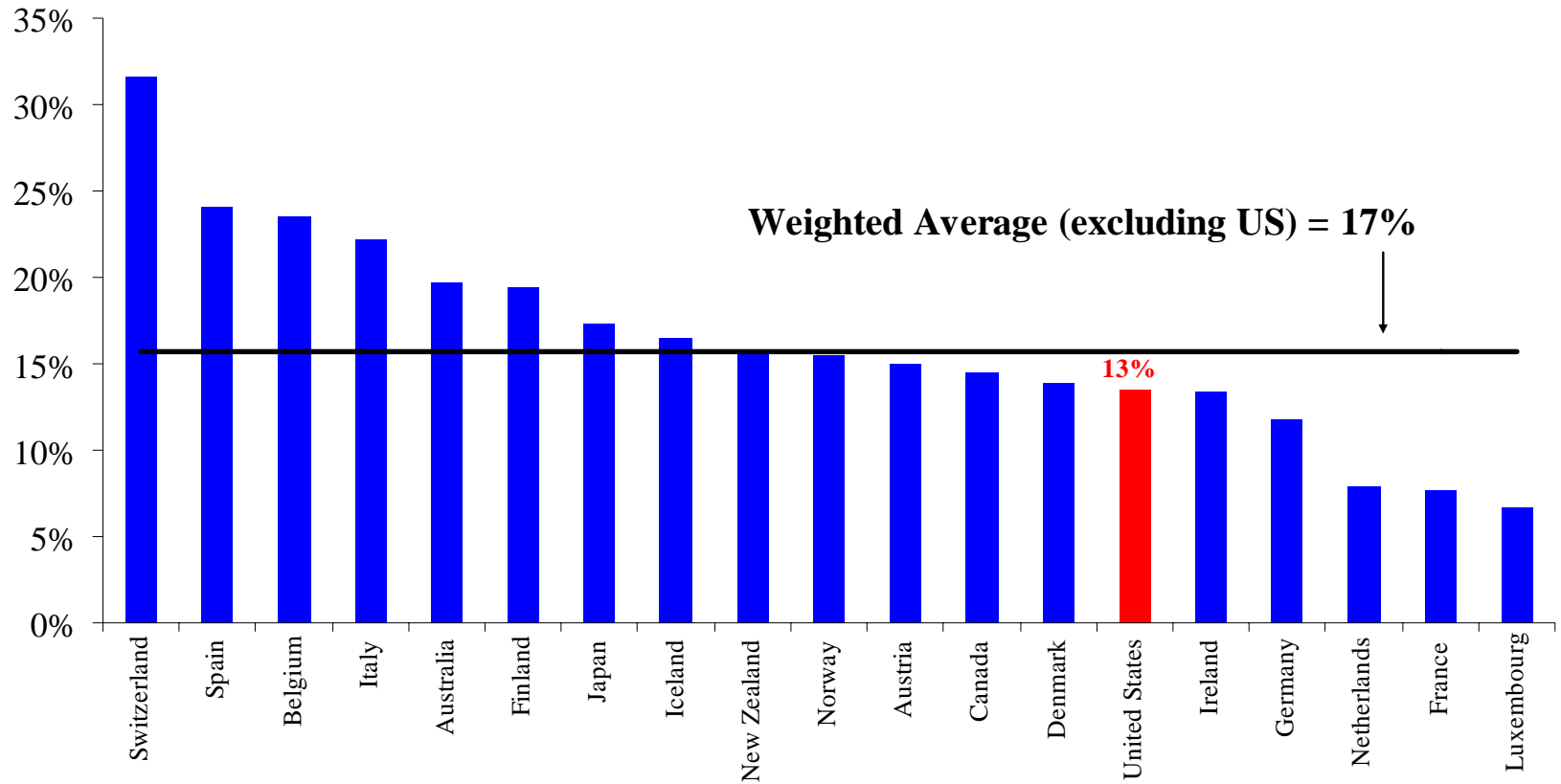
Selected Consumer Expenditures, 1984 and 2005 (in 2006 dollars)



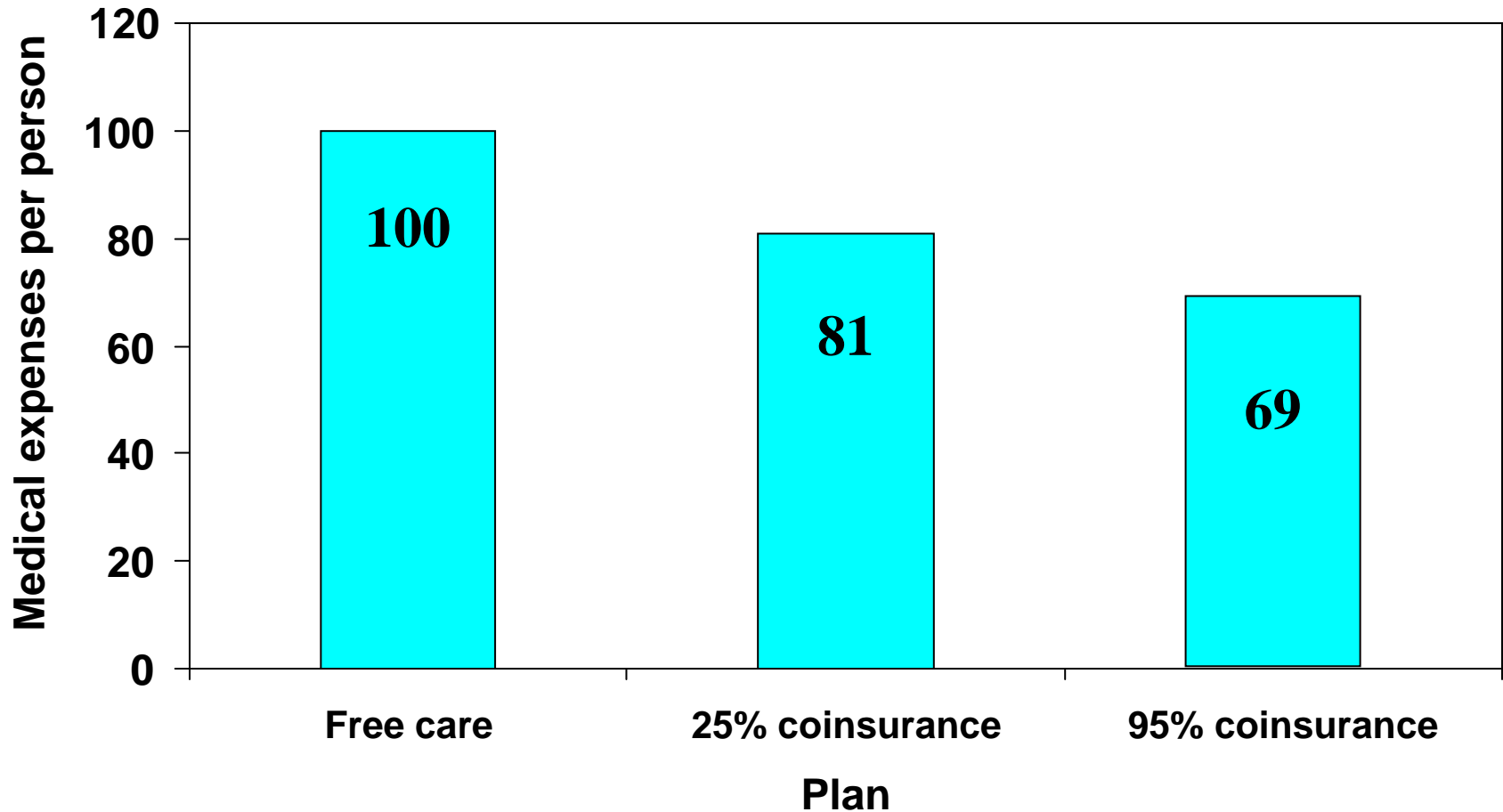
Percentage of Families with Out-of-pocket Payments above 10% of Income, Middle-income Quintile, Nonelderly, 1977-2004



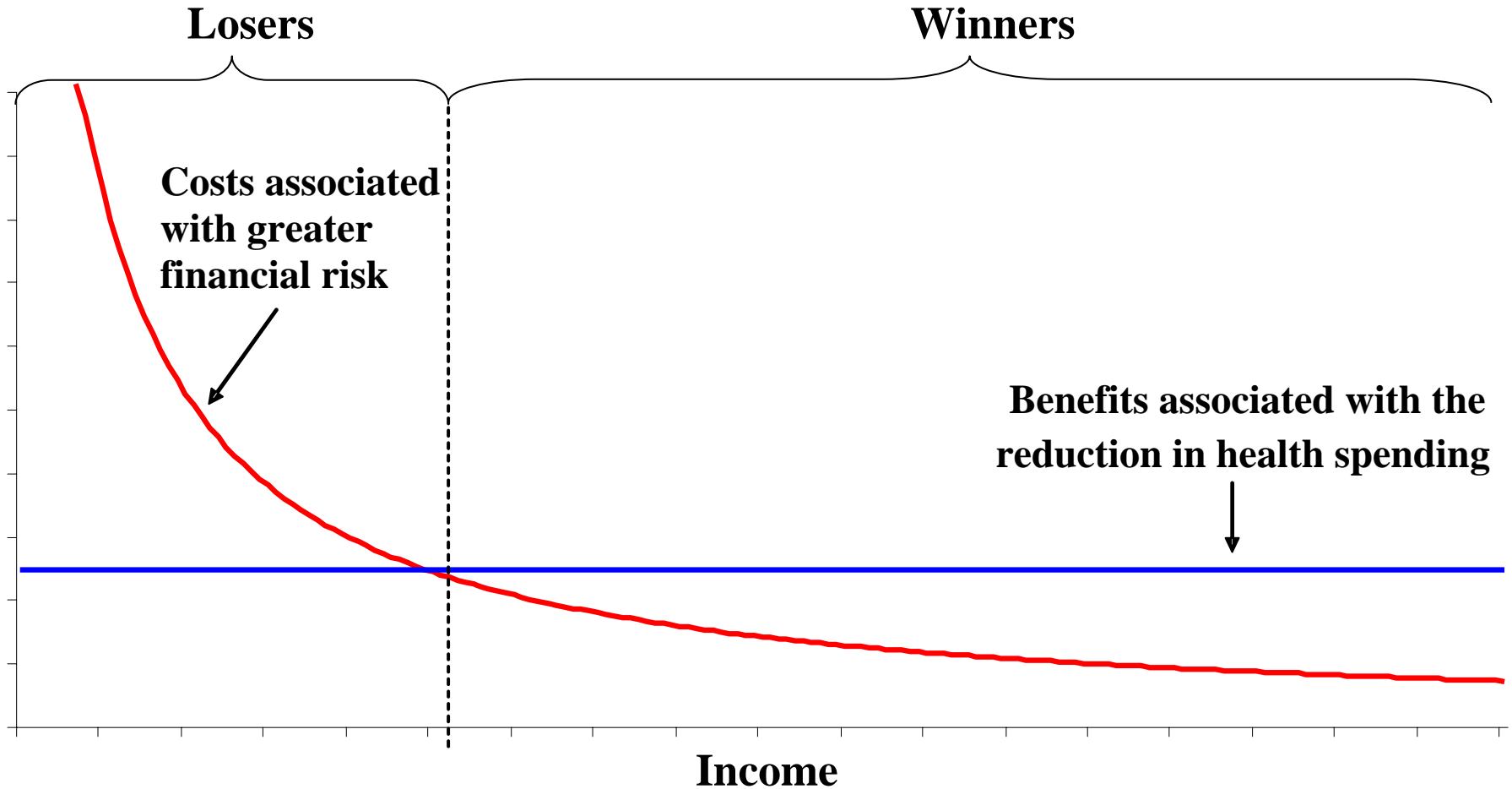
Coinsurance Rates in High-income OECD Countries, 2003



Utilization of Health Care in the RAND Health Insurance Experiment



Illustrative Costs and Benefits of a High Deductible Plan



Predicted Annual Use of Medical Services by Income Group

	Bottom third of income group	Top third of income group
Probability of any use		
Free care	83%	90%
25% coinsurance	72%	85%
Average expenses (1991 dollars)		
Free care	\$1,033	\$1,060
25% coinsurance	\$891	\$817

Simulated Health Spending under Alternative Policies

	Out-of pocket	Covered expenses (actuarially fair Premium)	Total	Percent reduction in total premiums	Percent reduction in total spending
Assuming health spending responds moderately to price (elasticity = 0.22)					
Conventional plan	1,555	6,685	7,840		
HSA-type high deductible plan	2,707	4,063	6,770	-34%	14%
50% coinsurance up to 7.5% of income	1,916	4,833	6,748	-24	-14%
Progressive cost-sharing plan	1,842	4,986	6,828	-22%	13%
Assuming health spending responds strongly to price (elasticity = 0.6)					
Conventional plan	1,155	6,685	7,840		
HSA-type high deductible plan	1,978	3,317	5,295	-44%	-32%
50% coinsurance up to 7.5% of income	1,398	3,899	5,296	-36%	-32%
Progressive cost-sharing plan	1,403	4,094	5,948	-34%	-30%

Financial Risks of Alternative Plans for a Family of Four

	Family income			
	\$25,000	\$40,000	\$80,000	\$250,000
Standard deviation of out-of-pocket spending				
Conventional plan	783	783	783	783
HSA-type high deductible plan	1,915	1,915	1,915	1,915
50% coinsurance up to 7.5% of income	637	1,077	2,055	4,087
Progressive cost-sharing plan	0	681	2,052	3,697
Cost of risk (as a percent of health spending)				
Conventional plan	0.7%	0.4%	0.2%	0.1%
HSA-type high deductible plan	3.6%	2.2%	1.1%	0.4%
50% coinsurance up to 7.5% of income	0.4%	0.7%	1.3%	1.8%
Progressive cost-sharing plan	0.0%	0.3%	1.3%	1.4%