Exploring Stakeholder Perspectives on What is Affordable Health Care*

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Purpose

- Provide a summary of different national-level and stakeholder-level definitions of affordability in the actuarial science and health care literature
- Identify what aspects of these definitions are important when defining affordability
Outline

1 Background
   - Introduction
   - NHE and GDP Projections

2 Affordability
   - Affordability: National Level
   - Affordability: Stakeholder Level

3 Summary
   - Dimensions of Affordability
   - Conclusions

4 References
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Financial forecasts have raised concerns as to whether the economy can sustain the projected growth of US health care spending.

Is the projected growth of US health care spending affordable?

Two common measures of affordability:
- Level of US health care spending: National Health Expenditure (NHE)
- Percentage of US gross domestic product (GDP) devoted to NHE
## Historical and Projected NHE and GDP

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<tbody>
<tr>
<td>NHE (billions $)</td>
<td>75</td>
<td>253</td>
<td>714</td>
<td>1,353</td>
<td>2,113</td>
<td>2,241</td>
<td>4,353</td>
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<tr>
<td>NHE ($ (per-capita)</td>
<td>356</td>
<td>1,100</td>
<td>2,814</td>
<td>4,789</td>
<td>7,062</td>
<td>7,421</td>
<td>13,100.3</td>
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<tr>
<td>GDP (billions $)</td>
<td>1,039</td>
<td>2,790</td>
<td>5,803</td>
<td>12,422</td>
<td>13,178</td>
<td>13,808</td>
<td>21,480</td>
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<tr>
<td>NHE as % of GDP</td>
<td>7.2</td>
<td>9.1</td>
<td>12.3</td>
<td>13.8</td>
<td>16.0</td>
<td>16.2</td>
<td>20.3</td>
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2. All dollar amounts are in current US dollars.
Affordability Definitions at the National Level

Def. 1: NHE are affordable if the difference between national income and the desired amount of non-health spending is positive (Chernew et al. 2003)

Def. 2: NHE are affordable if there is never a downward trend in non-health spending (Chernew et al., 2003)

Using Def. 2, Chernew et al. found that NHE would be affordable until:
- 2075, if real annual NHE grew at a rate of 1% higher than real annual GDP
- 2039, if a 2% growth rate was assumed
Motivation: Stakeholder Affordability Definitions

- No mechanism or methodology currently exists to guide decision-makers in affordability analyses.
- Projections of NHE are useful for designing national health care policies.
- Projections of NHE are inadequate for considering healthcare affordability for groups of stakeholders, which have different reasons, incentives, and desired levels of health spending.
Stakeholders in the US health care system include:
- Consumers (including employees)
- Providers (including the US government and employers)
- Payers (such as public and private insurers)
- Other (uninsured and underinsured)

We will discuss stakeholder affordability definitions in the context of consumers and the US government.

Considering different affordability definitions will help identify dimensions of affordability that should be considered in any definition.

Note: Different stakeholders will have their own health care affordability definitions, with different measures of affordability.
Affordability is associated with an individual’s “ability to pay,” i.e., an income-based definition.

- **Def:** Health care is affordable if a stakeholder can purchase a good or service without “unacceptable or unreasonable sacrifices” (Axene, 2004)
  - Important issue: economic concept of value

- **Def:** Affordability is the absence of economic barriers to a good or service, such as the ability to pay for and/or physical access to health care (Lee & McKercher, 2002)

- **Def:** Household Budget Approach (Blumberg et al., 2007)
Consumers Continued

- Ability to pay is further associated with the availability or cost of health insurance and out-of-pocket costs
- Def: Normative and Behavioral Affordability definitions (Burndorf & Pauly, 2006)
- Def: Benchmark standard for an individual or family, based on income level and family size (Blumberg et al., 2007)
  - Defined affordability of health insurance in Massachusetts
- Unaffordability of health insurance is a significant issue
  - In 2003, 48.8 million individuals in families were spending more than 10% of their family income on health care (Banthin & Bernard, 2006)
Now consider affordability of a health care system

Def: Health care system is affordable if the cost of providing health care did not create a budget deficit

- Three Part Frameworks: affordability, access, and quality (Bolnick, 2003)

More practically, an affordability crisis emerges when the growth in health care spending outpaces the growth of the sources of finance

- Medicare
- Medicaid
- Social Security
- Obama-Biden Health Care Reform
Other Issues: Differences between Stakeholders

- Consumers versus US Government
  - Government possesses legislative authority and market power; consumer does not
  - Government has a greater ability to finance health care purchases than the consumer by requesting additional funding and/or raising payroll taxes
  - For the government, purchase of health care is largely a financial decision; it is a more personal decision for the consumer
- Differences such as these mandate affordability be analyzed separately for each stakeholder group
Other Issues: Interaction Effects

- Classic example: cost shifting (Dranove, 1988)
- Decrease in the amount hospitals are reimbursed for treating Medicare beneficiaries -> hospitals increase the rates charged to private payers
- As a consequence of interaction effects, total health care affordability does not equal the sum of each stakeholder’s health care affordability
Dimensions of Affordability

- Ability to pay for health care (either national or stakeholder level)
- Impact of health insurance
- Economic concept of value of health care
- Time horizon for paying for health care
- Potential interaction effects among stakeholders
Health care is affordable for a particular stakeholder if the stakeholder is not adversely affected by a marginal change in health care spending requiring an non-acceptable tradeoff in the consumption of non health goods and services.

Each stakeholder requires a different affordability definition, based on the various dimensions of affordability.

Actuaries can apply their experience in analyzing selection risk to forecasting health spending at the stakeholder-level.
Thank You!

- Questions?


