

Mind Your Ps and Qs

Drivers of Price, Quantity and Costs of Health Care

**Presentation to the Colorado
Commission on Affordable
Health Care**

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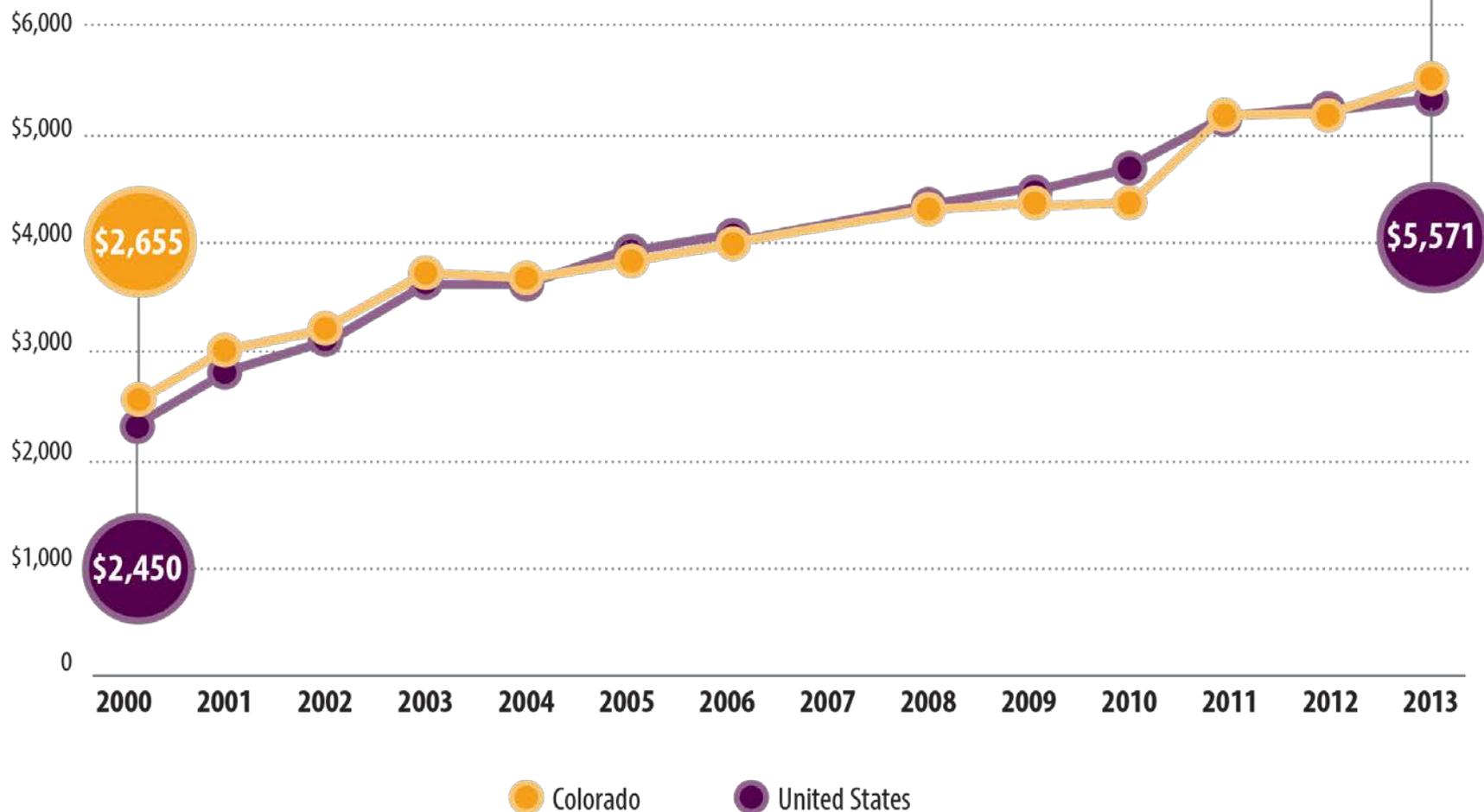
Three Takeaways

- After a lull, health care spending growth is increasing again.
- Health care markets don't operate like typical markets.
- A number of initiatives in Colorado exist to reduce spending.



A Long Way to Go

Average Total Single Premium (In Dollars), Private-Sector Establishments, United States And Colorado, 2000-2012



What Drives Costs, Quantity and Prices?

Where To Start?



Breaking Down Health Care Spending: A Simple Formula

$$\text{Spending} = \text{Price} \times \text{Quantity}$$

Defining Terms: Price, Cost and Spending

Suppliers' costs:

- + Labor
- + Equipment
- + Facilities
- + Administration

Total Suppliers' Costs

+/- Suppliers' profit/loss

Price Received by Suppliers

Price

Price is covered by premiums and public sector and consumer payments.

Consumers

- + Transportation
- + Lost wages
- + Opportunity costs
- + Others

Payers/
Employers

- + Administration
- + Others

Cost to Consumers/Payers/
Employers

Price

x Quantity of goods
and services

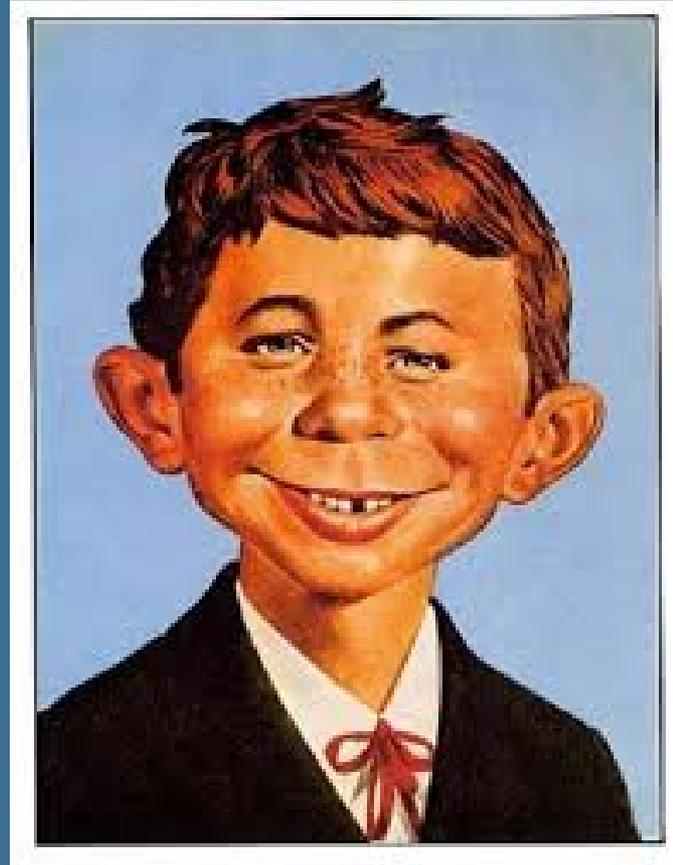
Spending

Notes: This graphic is an example of the variables that affect cost and not an exhaustive list. There are underlying variables that affect price, cost and spending such as, but not limited to, the regulatory environment and market characteristics.



Informing Policy. Advancing Health.

Alfred E. Neuman's Cosmic Health Care Law



Levers that Keep Spending in Check

In Traditional Markets . . .



1. Consumers bear costs of purchases.

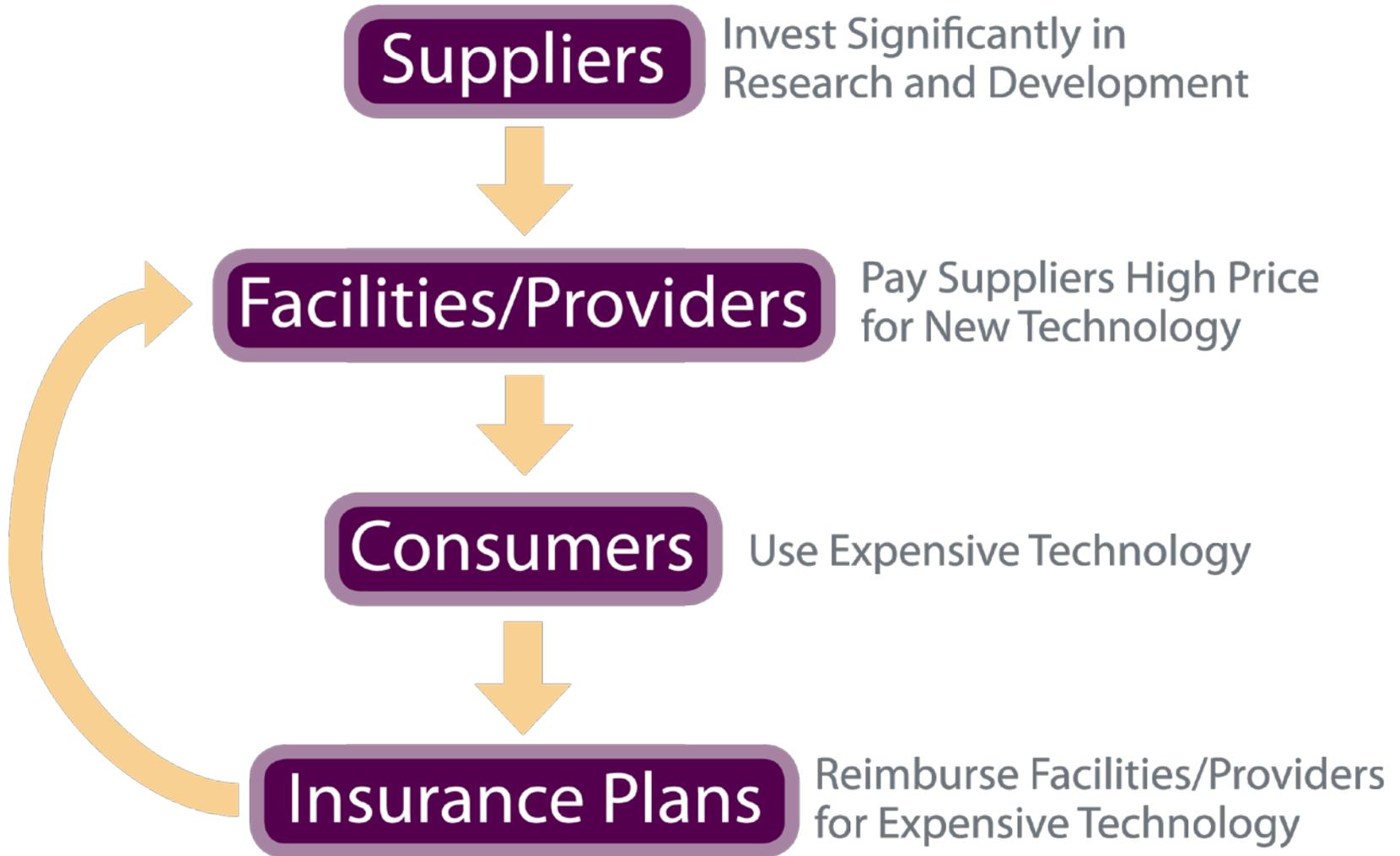


2. Buyers make choices based on transparent information.



3. Competition exists among suppliers to add value to services and products.

The Technology Conundrum



Traditional Insurance: Buffet-Style Demand



SOURCE: Health Care Costs: Key Information on Health Care Costs and their Impact, Kaiser Family Foundation, 2009

Initiatives in Colorado

Colorado Initiatives

- Accountable Care Collaborative
- Medicaid PRIME
- Colorado Multi-Payer Patient Centered Medical Home Pilot
- Comprehensive Primary Care Initiative
- 21st Century Care

Colorado Initiatives

- Bridges to Care
- State Innovation Model
- Colorado Beacon Consortium
- Engaged Benefit Design
- Prometheus

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