Realigning Incentives to Promote Affordable Quality Care

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Health programs drive the federal deficit

Federal spending as a percentage of GDP

Crowding out other priorities

Medicare + Federal Medicaid Outlays

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<thead>
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<th>2008</th>
<th>2030</th>
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<tbody>
<tr>
<td>% of fed spending</td>
<td>23%</td>
<td>31%</td>
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<tr>
<td>% of avg fed rev</td>
<td>25%</td>
<td>31%</td>
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Average federal revenue = 18.6% of GDP
The third health “entitlement”

Tax Expenditure for Health, 2007

$251.3 B
$51.1 B

Source: JCT, Tax Expenditures for Health Care, July 30, 2008

Tax breaks for private insurance

AEI
Policy leverage

Medicare can’t do it all

Demand and supply sides matter

Who decides what is quality/value?

You can’t regulate enough
Incentives matter

**We get what we pay for**
- DRGs promote shorter stays and post-acute care
- P4P, other pricing schemes will produce more units bundled differently
- Is there enough money on the table to change the way care is delivered?
- Would competitive markets price this way?
Consumers and value

Even health care markets respond to consumers
- Tax incentives promote cost and coverage
- Will subsidy for COBRA make matters worse?
- Shift to Medicare managed care in the 90s
- The case of Children’s Hospital

Value is not absolute
- Benefit design
- Conundrum of catastrophic coverage

Can we use regulation to require sellers to do things that consumers do not want?