



The Health Care Economy: An Evolving Landscape

Senate Legislative Day
September 27, 2023



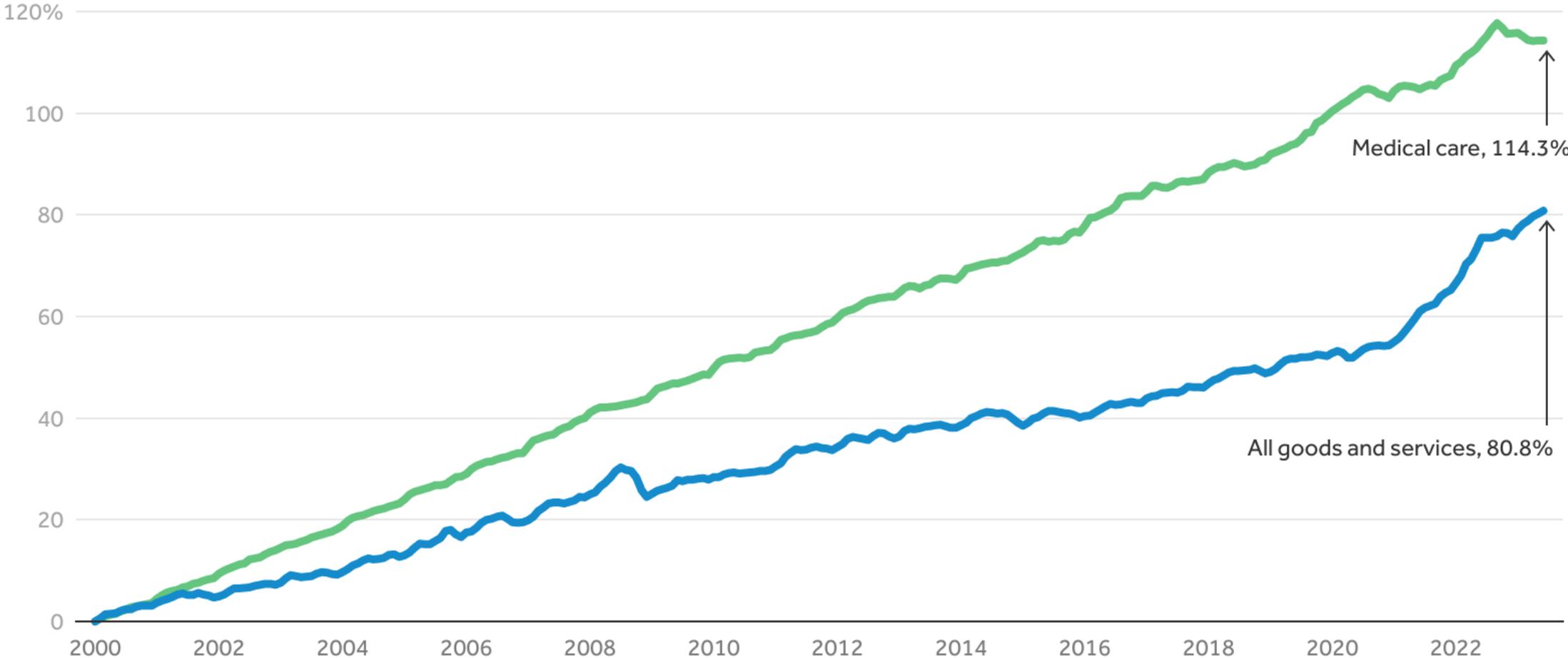
Zirui Song, MD, PhD
Harvard Medical School
Massachusetts General Hospital



1. Prices and Spending



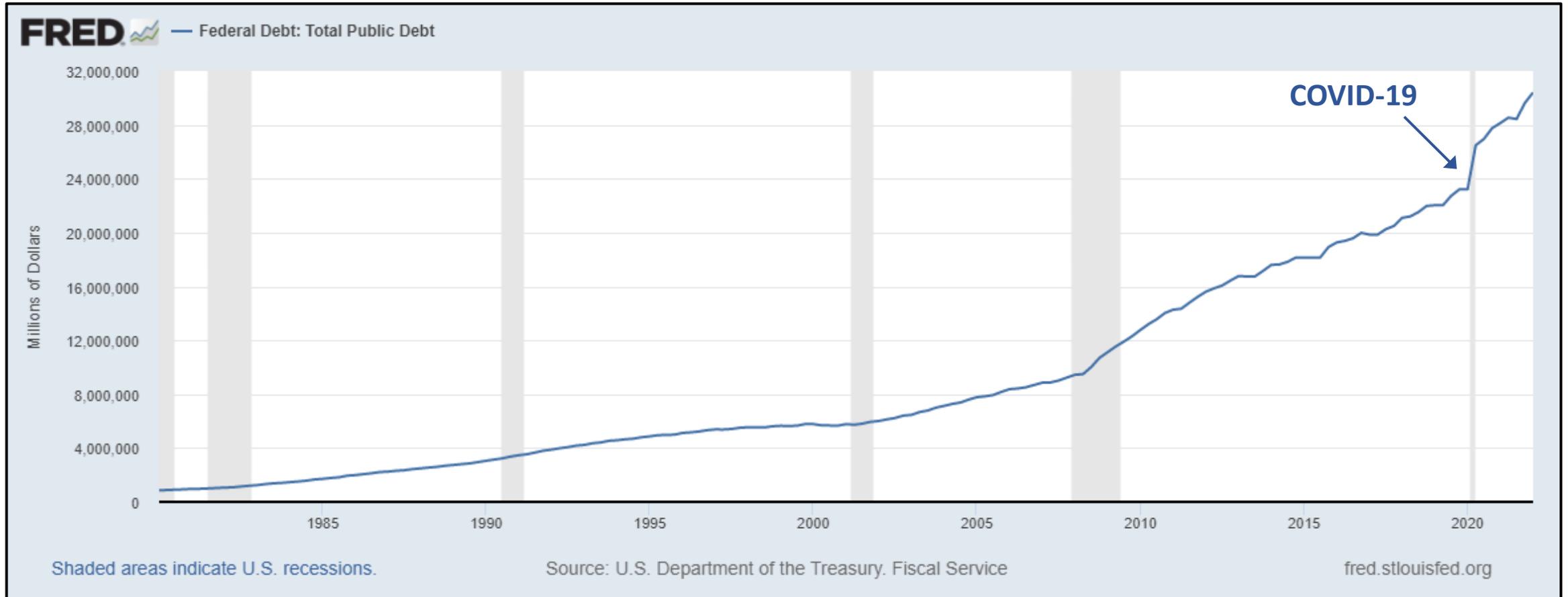
Price of Medical Care vs. All Else – Last 23 Years



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

The Nation's Fiscal Reality – Health Care A Key Contributor



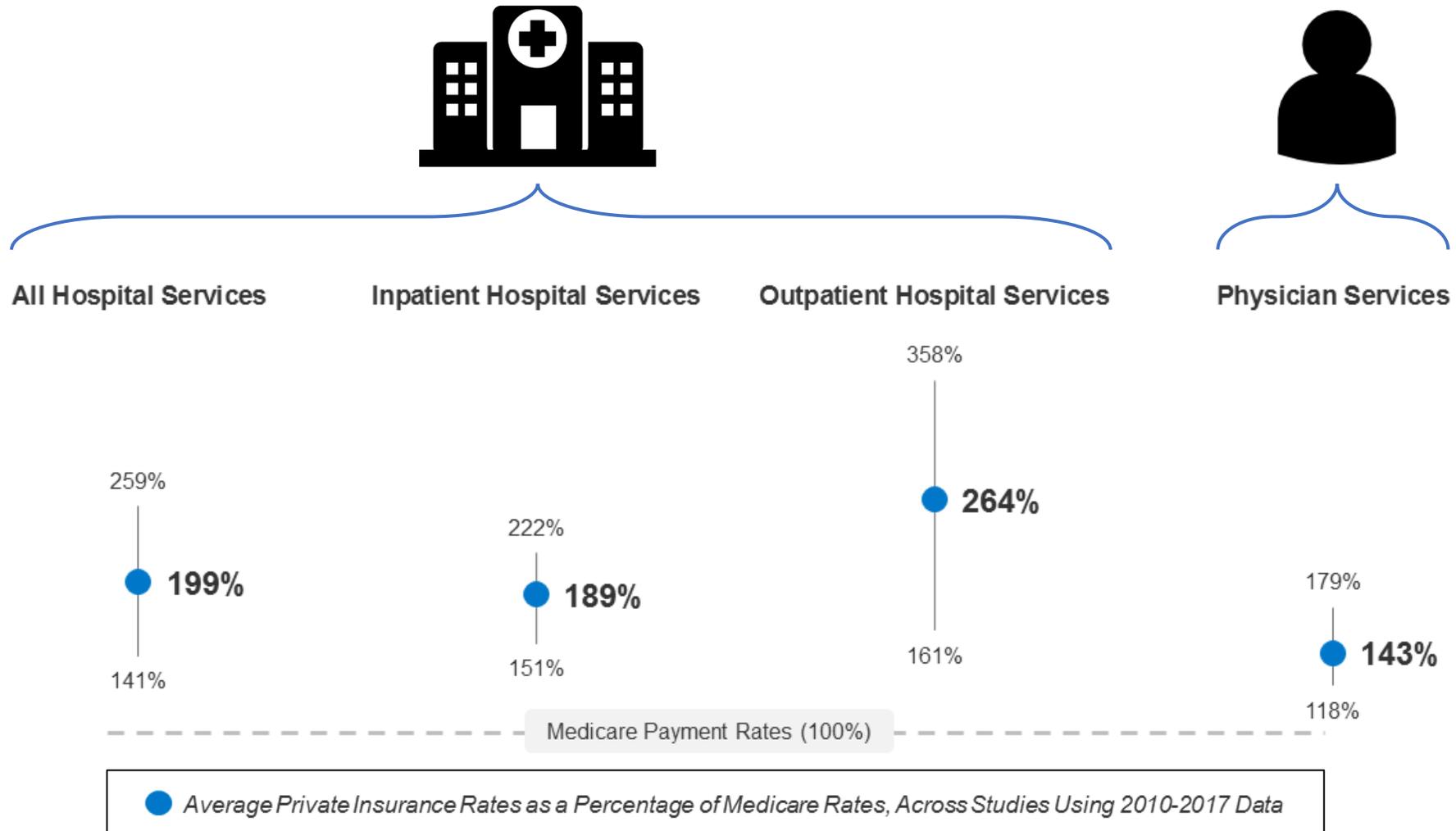
National Debt – September 27, 2022: \$33.1 Trillion (\$255K/taxpayer)

Major Contributors: Health Care, Social Security, Defense

Framework for Health Care Spending (1)



Prices: Commercial vs. Medicare



SOURCE: KFF analysis of 19 published studies comparing private insurance and Medicare payments to providers. Because some studies analyze payments to providers in multiple service categories, the number of studies across all categories is greater than 19.

Fact 1: Two Types of Commercial Prices – Out-of-Network is Higher

	Medicare Price	Commercial Insurer Price			
		In-Network		Out-of-Network	
		Price	Ratio	Price	Ratio
Office Visit	\$73	\$80	1.1	\$100	1.4
Hernia Repair	\$540	\$771	1.4	\$1523	2.8
ECG	\$9	\$17	1.9	\$28	3.3

No differences
in vs. out of network



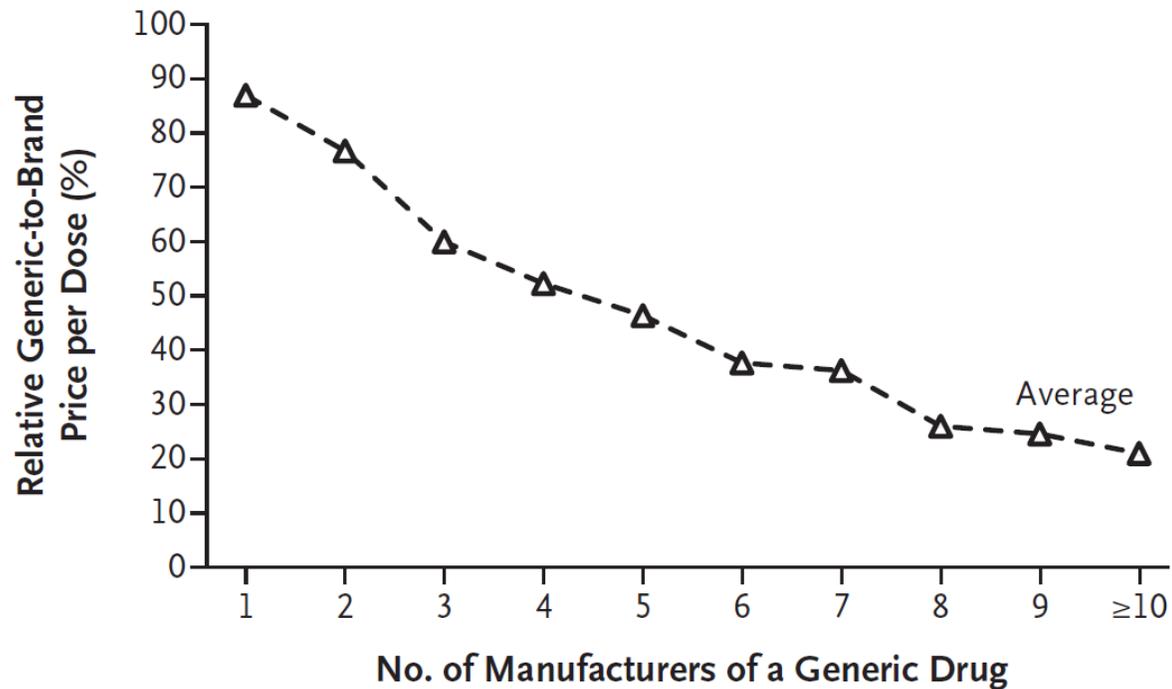
Fact 2: Geography Matters – Rural Commercial Prices Are Higher

Selected Commercial Prices as a Percentage of Traditional Medicare Fee-for-Service Prices, 2015.*					
Service Code	Metropolitan Statistical Areas in the United States by Quartile of Population Size (Average Population in 2015)				Medicare Fee-for-Service Price
	Smallest Quartile (112,452)	Second Quartile (188,239)	Third Quartile (408,414)	Largest Quartile (2,022,512)	
	Rural	<i>percent</i>		Urban	\$
Hospitalizations (DRG code)					
Major hip replacement (470)	228	180	159	132	21,977
Sepsis (871)	218	210	213	157	19,515
Digestive disorder (392)	242	183	154	140	8,297



Fact 3: Drug Prices Have a Similar Story – It's About Competition

More Competitors → Lower Prices



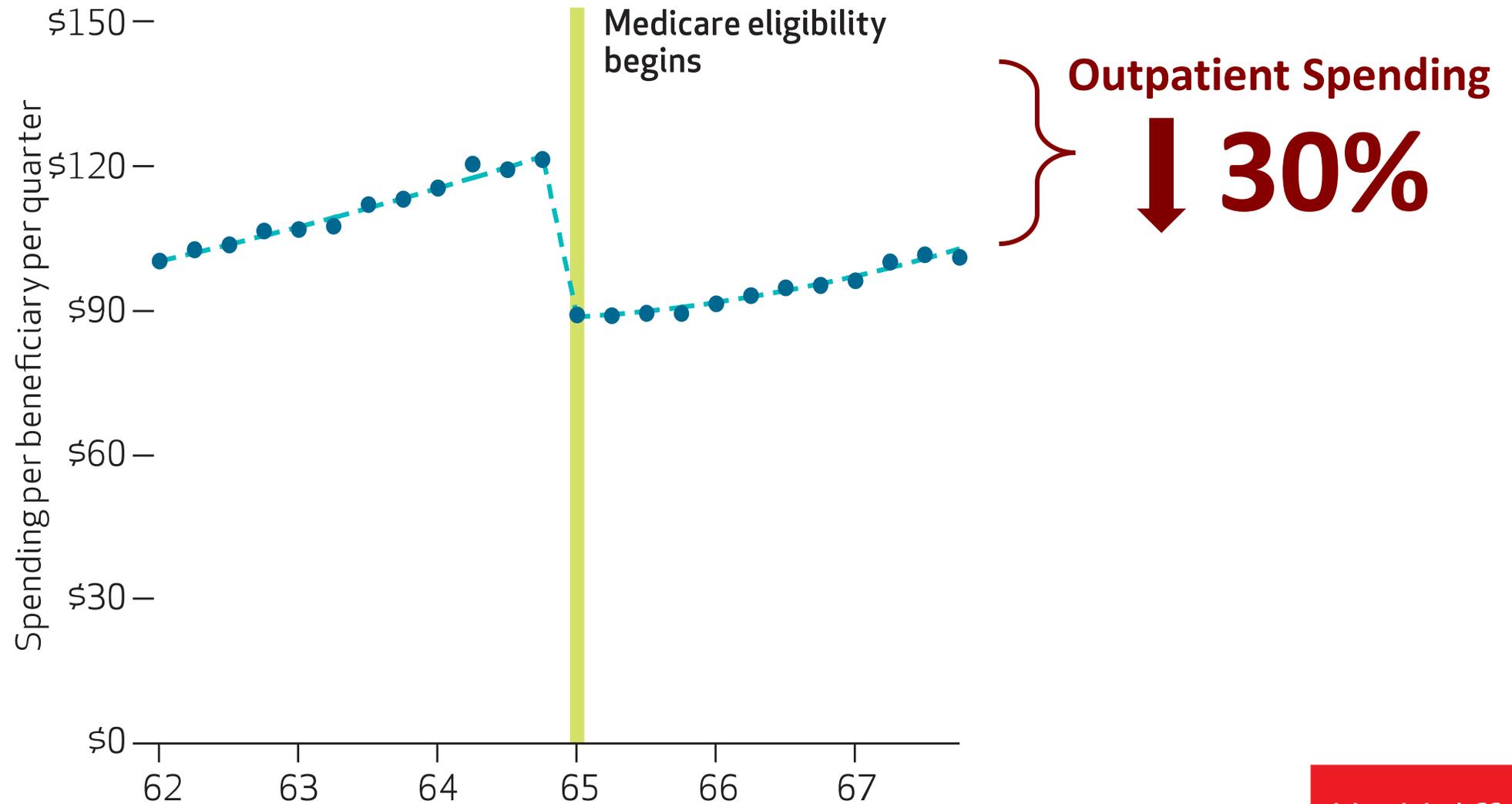
Dave CV, Hartzema A, Kesselheim AS. N Engl J Med (2017)

Story of Colcrys: FDA approval and removal of all competitors from the market

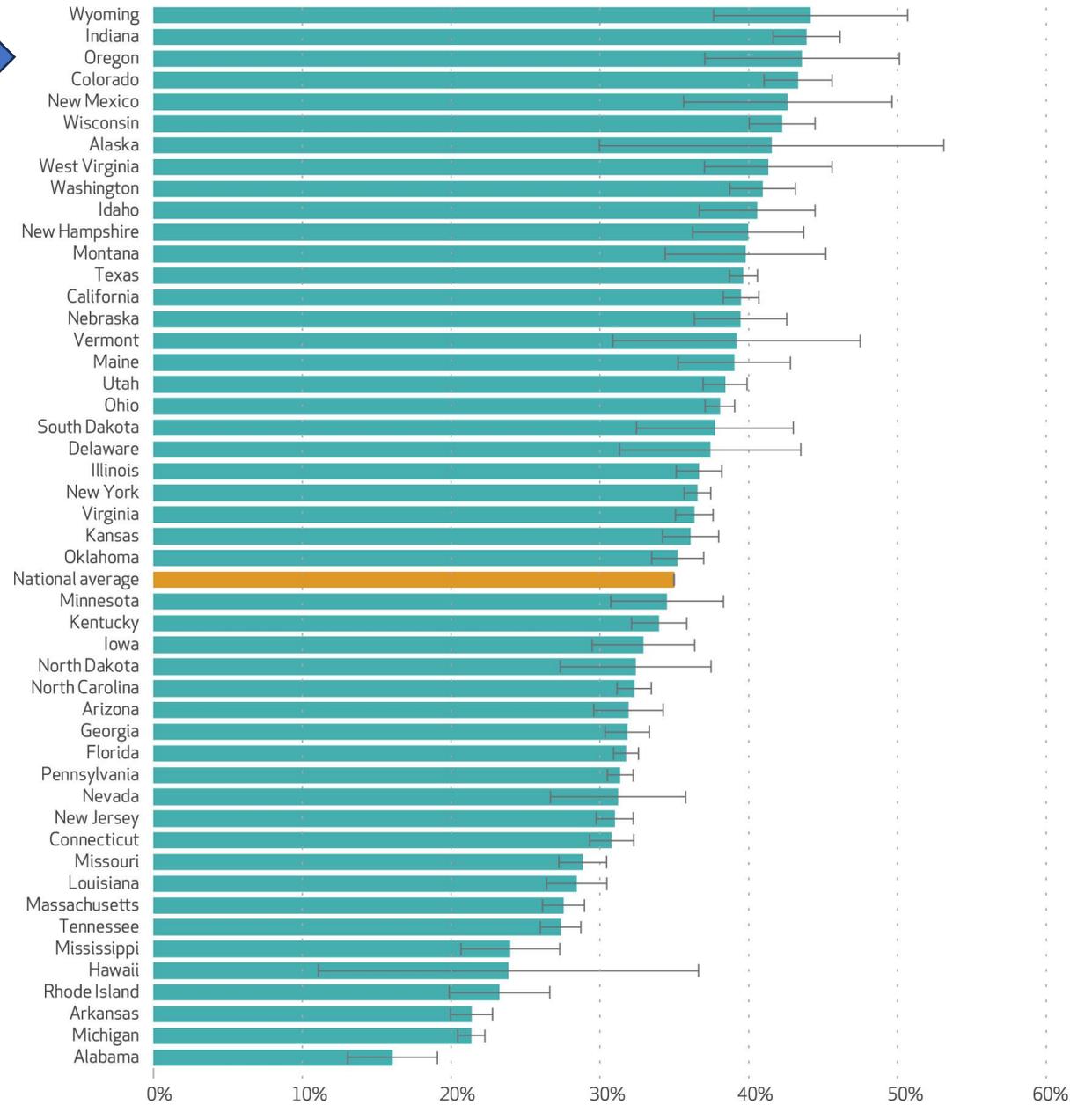


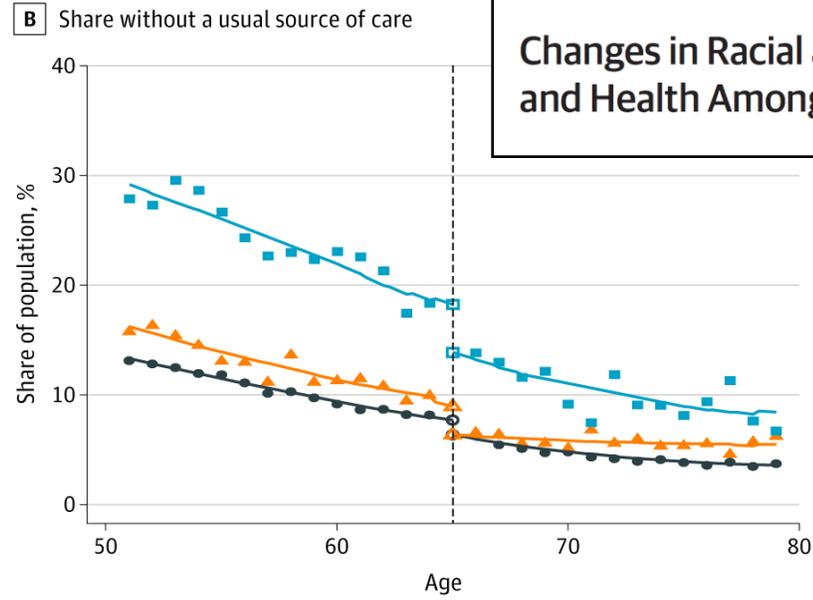
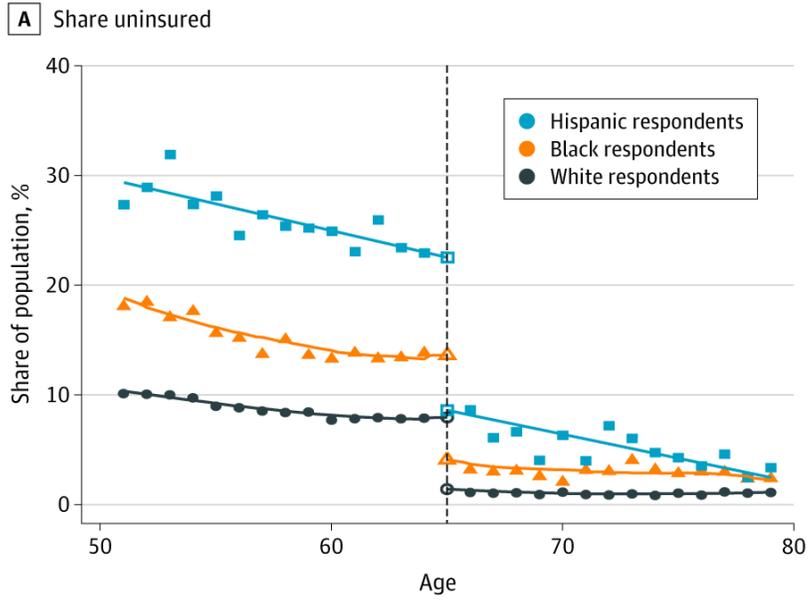
Ly DP, Giuriato MA, Song Z. JAMA Intern Med (2023)

Walking From Commercial Insurance Into Medicare @ Age 65



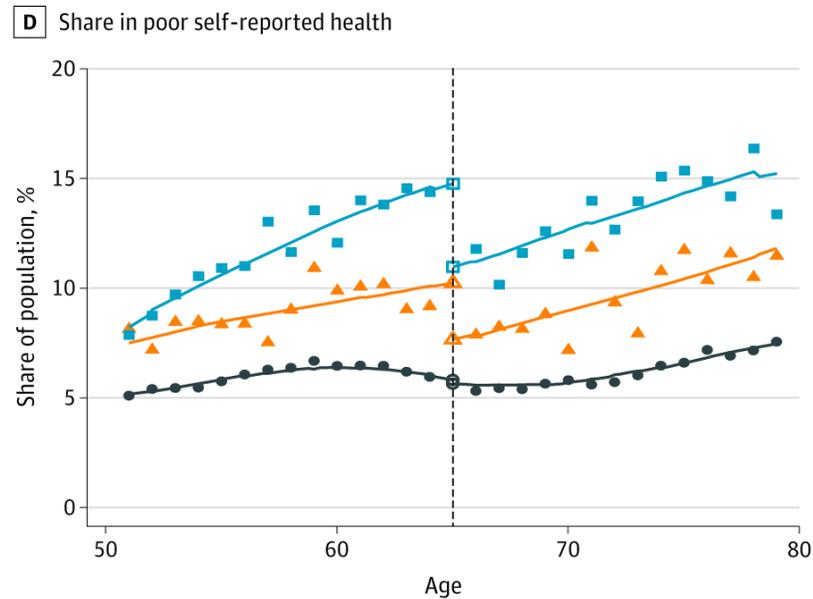
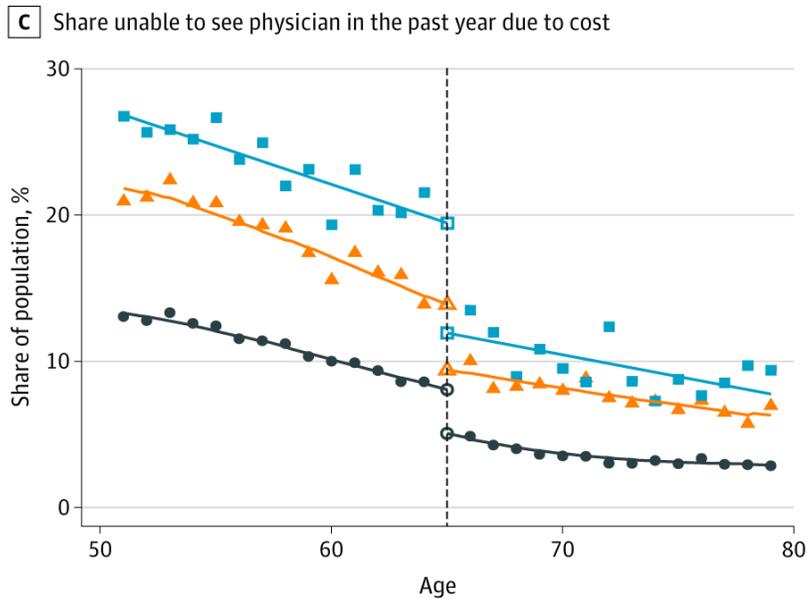
Estimated % of Hospital Revenue Lost if Commercial Prices were Lowered to Medicare Levels





Changes in Racial and Ethnic Disparities in Access to Care and Health Among US Adults at Age 65 Years

Q: Impact of entering Medicare @ age 65?

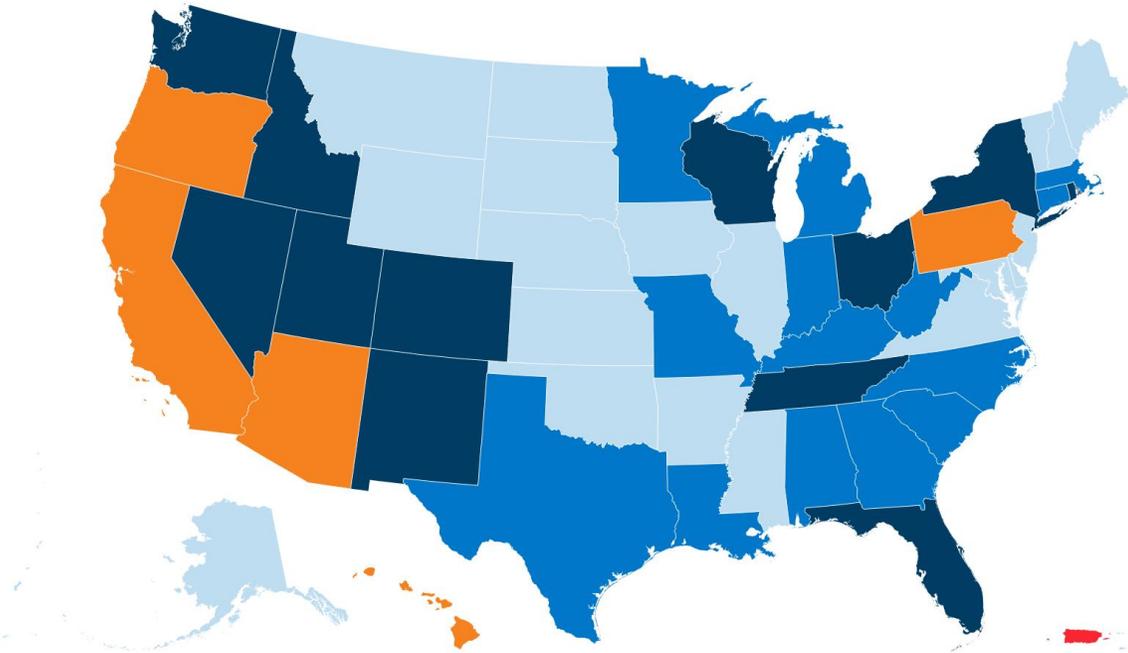


A: Narrowed disparities in coverage, access, & self-reported health

But Medicare is Changing... Medicare Advantage in 10 Short Years

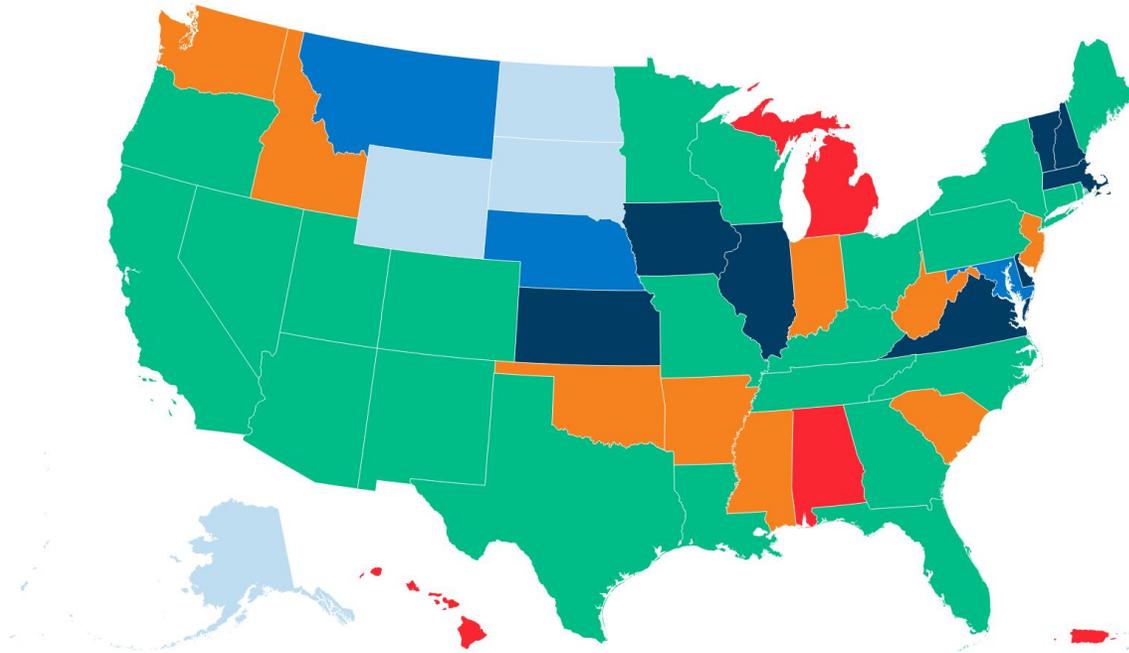
2013 → **% of Beneficiaries in MA** → **2023**

< 20% 20%–30% 30%–40% 40%–50% 50%–60% ≥ 60%



NOTE: Includes only Medicare beneficiaries with Part A and B coverage.
SOURCE: KFF analysis of CMS Medicare Advantage Enrollment Files and March Medicare Enrollment Dashboard, 2013 and 2023.

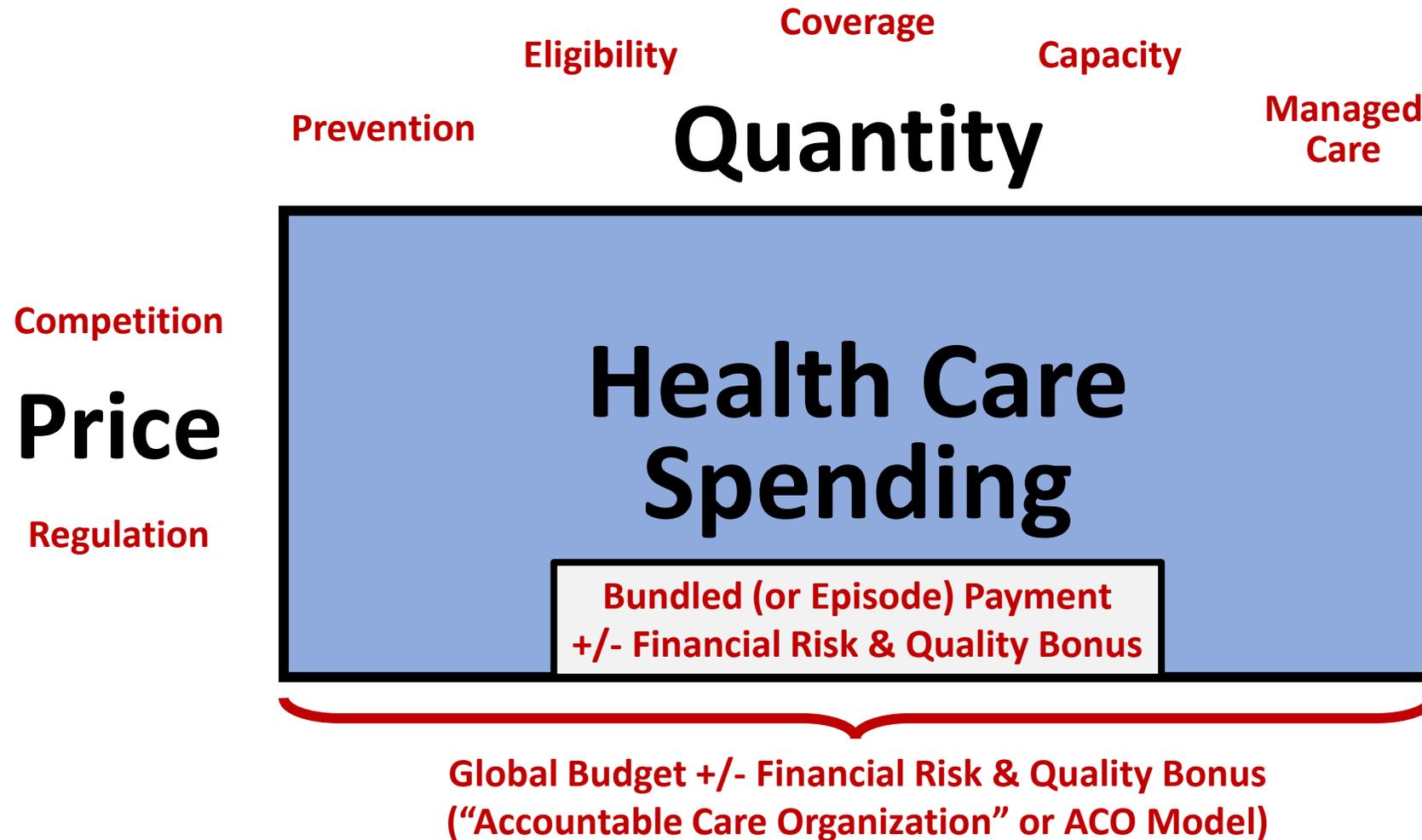
KFF



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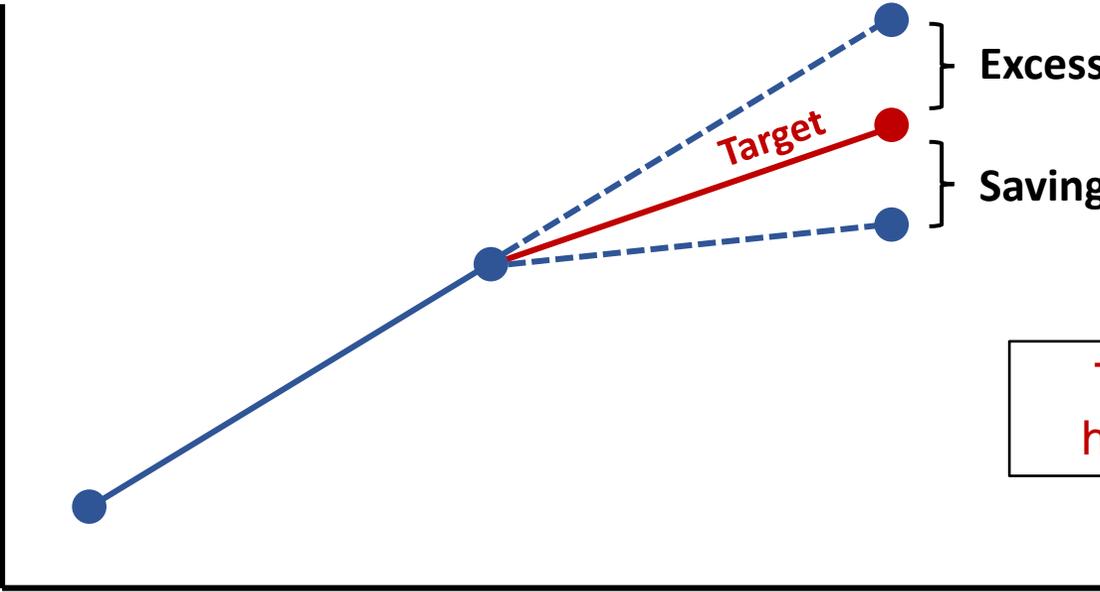
KFF

Framework for Health Care Spending (2)



Bundled Payment and Global Budget (“ACO”) Models

Spending = Prices x Quantities



Last year

This year

Next year

1-sided
Contract

2-sided
Contract

	--	Penalty
	Reward	Reward

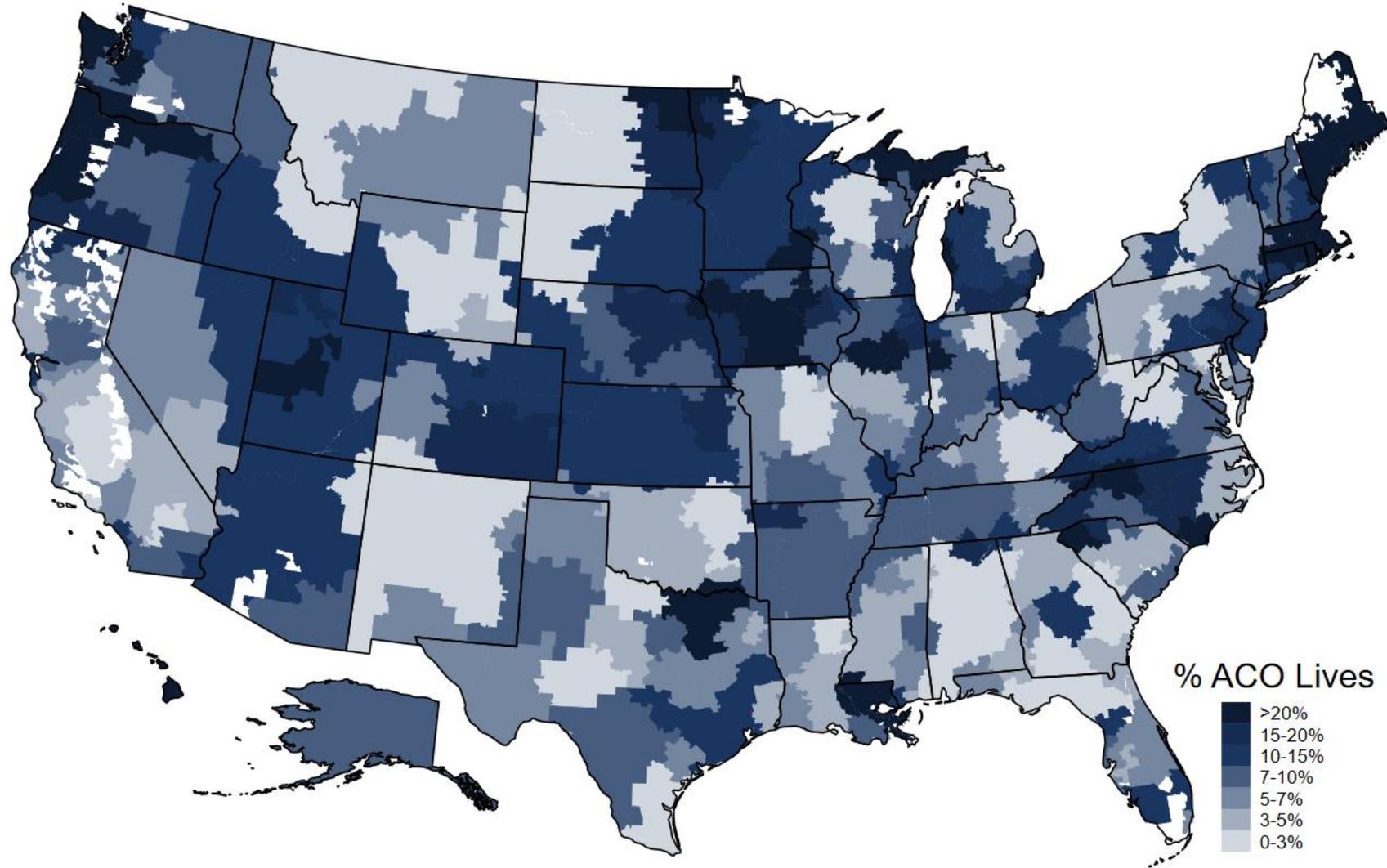
Excess

Savings

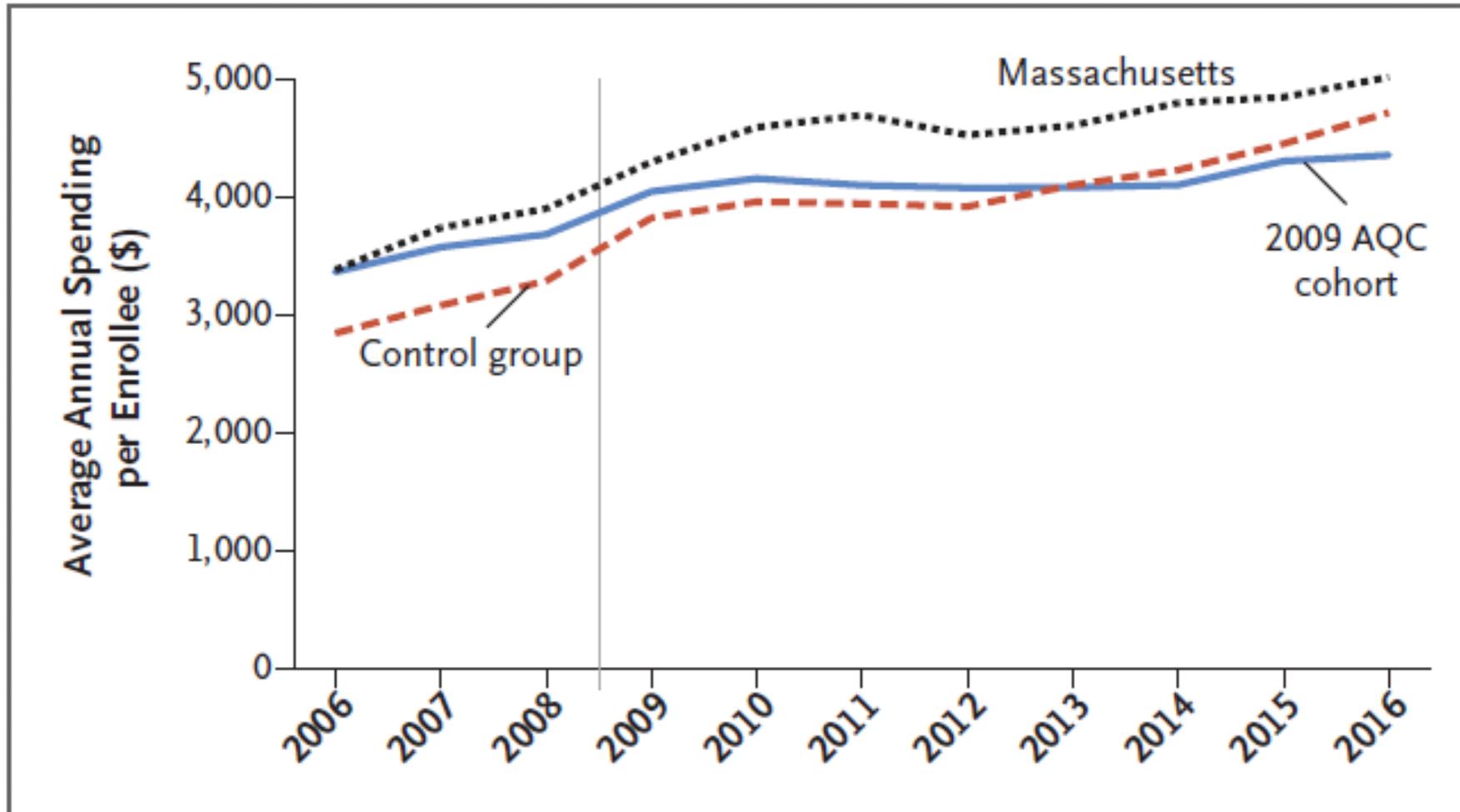
Target spending adjusted for the health of the attributed population

+ Bonuses for performance on quality measures

Share of Population in Global Budget (“ACO”) Models



Evidence on Commercial Global Budget (“ACO”) Models



Savings on Claims:

Year 1 → 1.9%
Year 2 → 2.8%
Year 4 → 6.8%
Year 8 → 11.7%

Net Savings after Provider Rewards:

Year 1 → No
Year 2 → No
Year 4 → Yes
Year 8 → Yes

- 1. Prices and Spending**
- 2. Clinician Workforce**



MEDICAL DISPATCH

AMERICA'S LOOMING PRIMARY-CARE CRISIS

By Clifford Marks

July 25, 2020

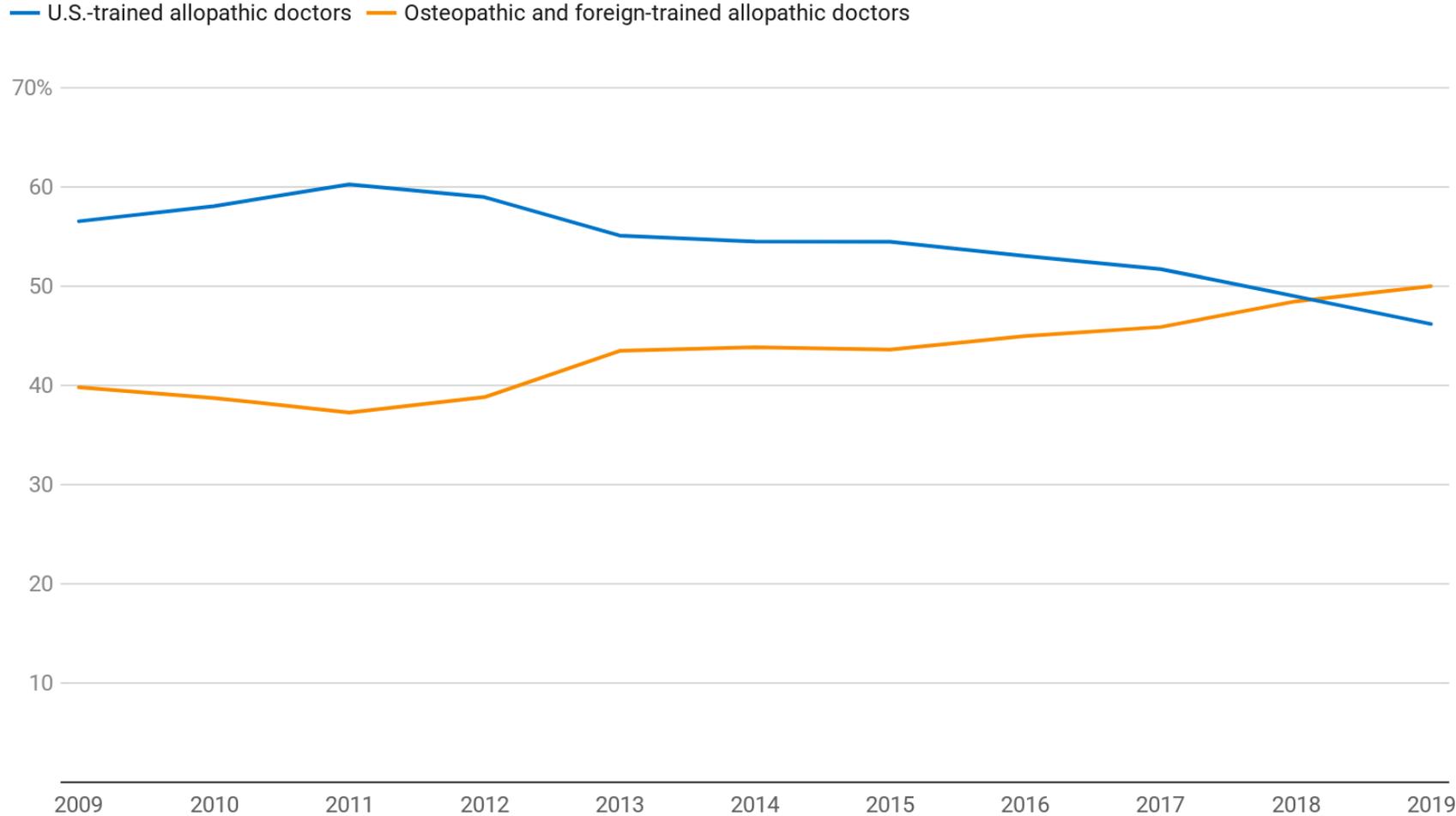
STAT

We were inspired to become primary care physicians. Now we're reconsidering a field in crisis

By Richard Joseph and Sohan Japa June 20, 2019

Newly Minted M.D.s Less Likely to Seek Careers As Primary Care Physicians

Although the percentage of U.S.-trained M.D.s who seek further training in one of the three primary care residency categories – internal medicine, family medicine and pediatrics – is declining, the percentage of U.S.-trained osteopathic doctors and foreign-trained allopathic doctors desiring jobs in those fields is on the rise.



PCP shortage: 21K to 55K by 2032

Less than 40% of primary care residents stay in primary care by the end of residency training

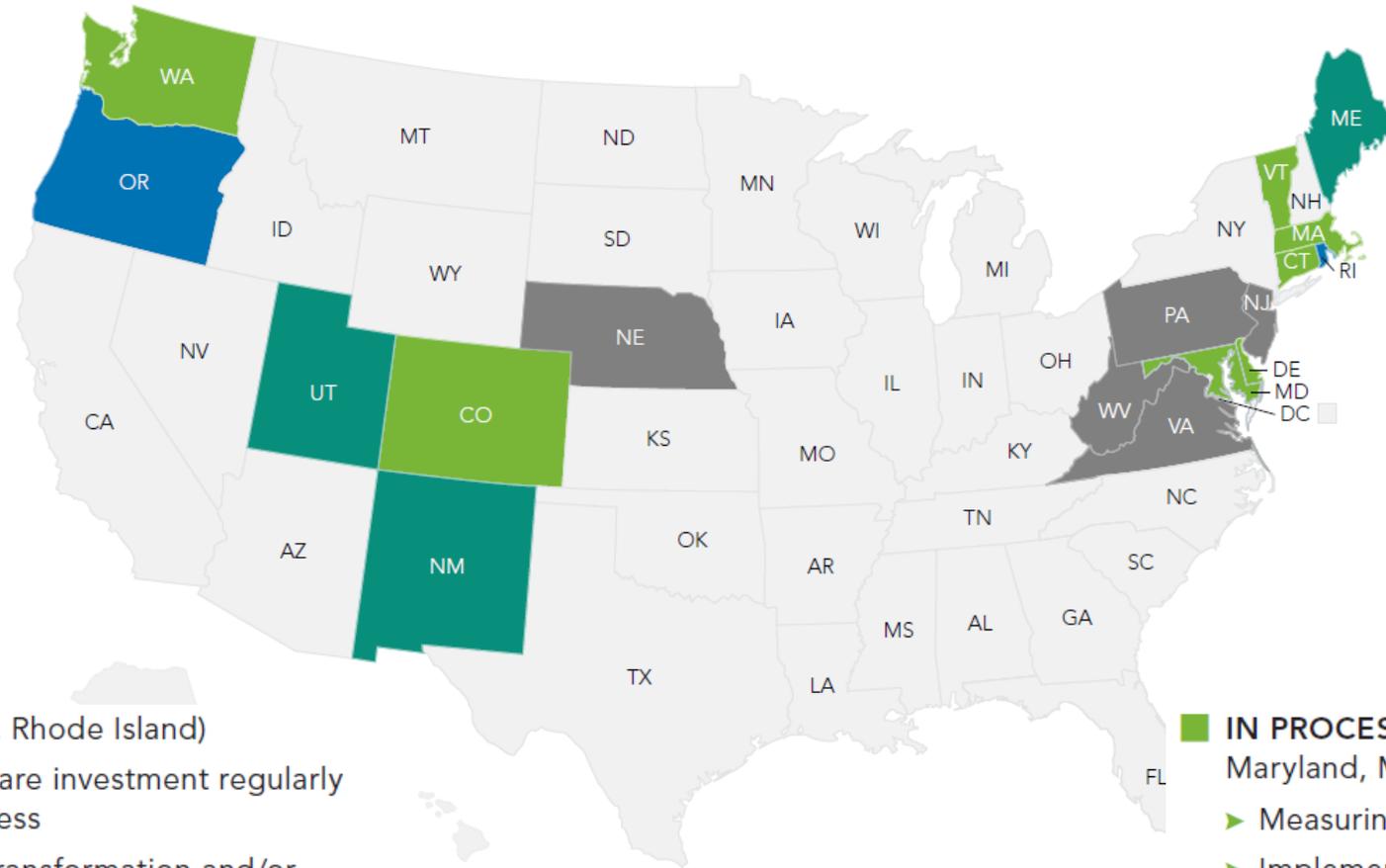
Note: The category for U.S.-trained allopathic doctors, or M.D.s, includes both fourth-year medical students and graduates of U.S. medical schools.

Credit: Victoria Knight/Kaiser Health News

Source: [National Resident Matching Program](#)

Association of American Medical Colleges (2022);
West and Dupras (JAMA 2012)

Figure 1. States with Interest in Increasing Primary Care Investment



PRACTICING (Oregon, Rhode Island)

- ▶ Measuring primary care investment regularly to understand progress
- ▶ Implementing care transformation and/or payment innovation vision
- ▶ Engaging multiple stakeholders
- ▶ Benefiting from meaningful, tested investment requirements/expectations for at least one payer (e.g., contract requirements, regulation, or via care delivery requirements and goals of Medicare demonstration)

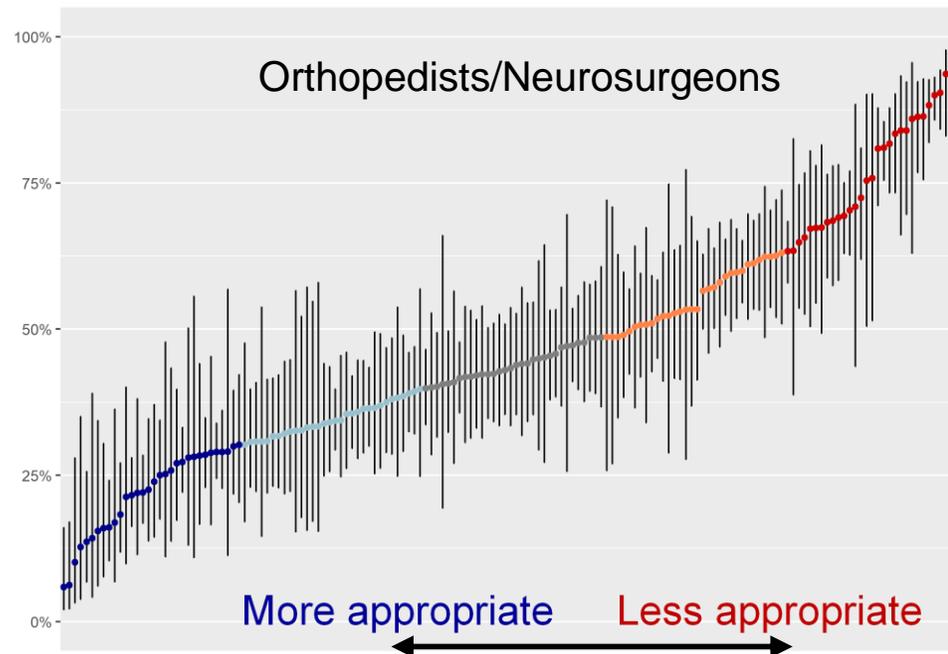
IN PROCESS (Colorado, Connecticut, Delaware, Maryland, Massachusetts, Vermont, Washington)

- ▶ Measuring primary care investment
- ▶ Implementing or beginning to implement care transformation and/or payment innovation vision
- ▶ Engaging multiple stakeholders
- ▶ Implementing targets/requirements for at least one payer (e.g., legislation/regulation, executive order, payer memorandum of understanding, or MOU/commitment to commit); however, targets/requirements have not yet been tested

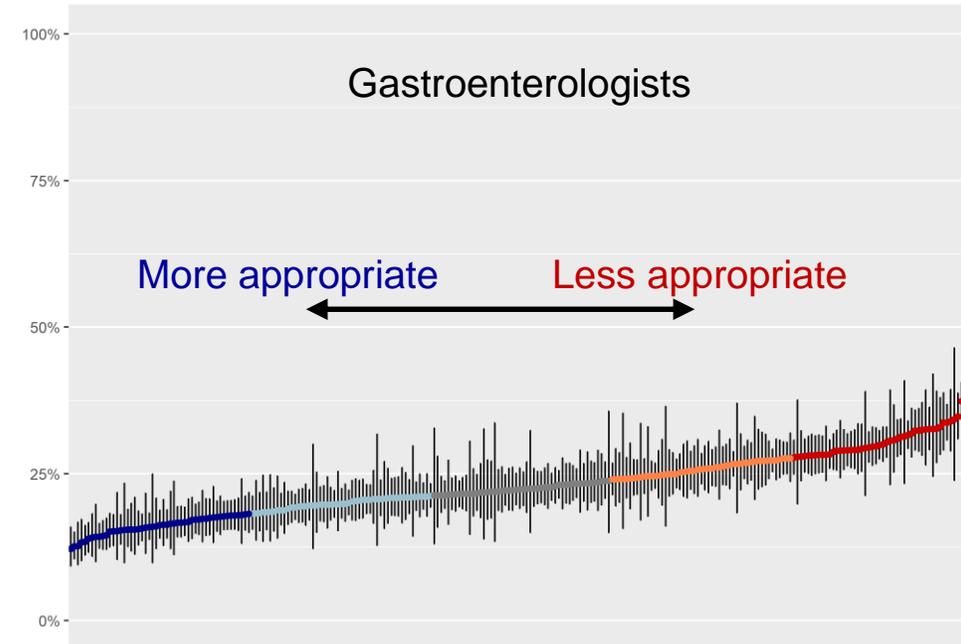
“Value-Based Care” in a System with >100 Specialties of Medicine

$$\text{Value of Care} = \text{Appropriateness} \times \frac{\text{Quality of Service}}{\text{Price of Service}}$$

Spinal Fusion for Low Back Pain (%)

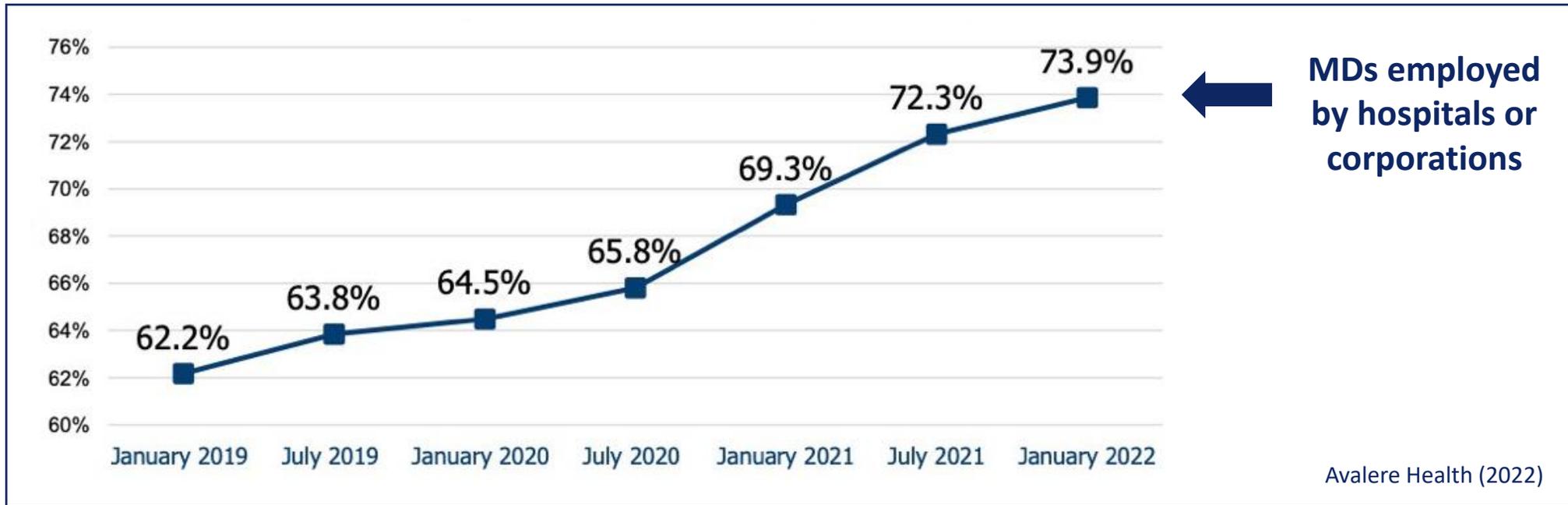


Endoscopy for GERD with no alarm symptoms (%)

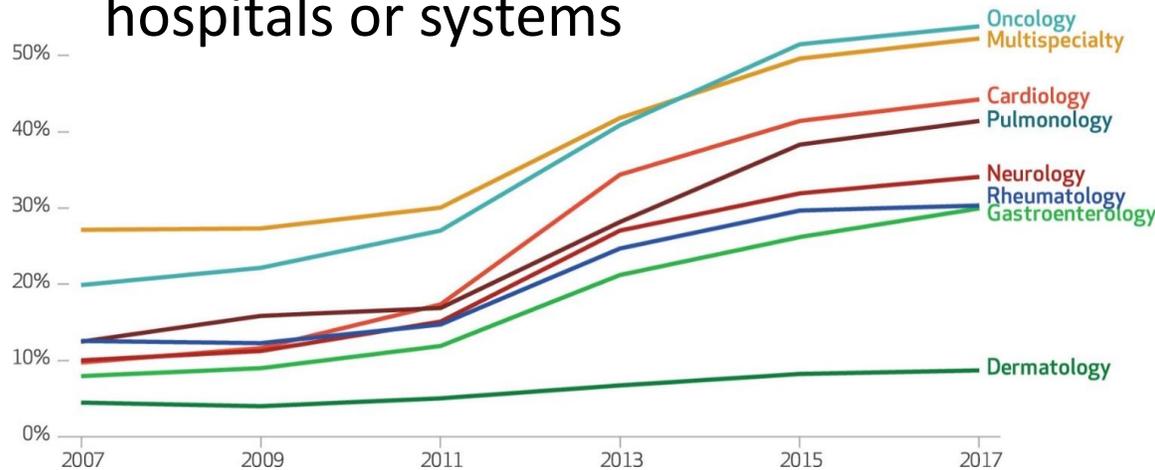


- 1. Prices and Spending**
- 2. Clinician Workforce**
- 3. Provider Ownership**

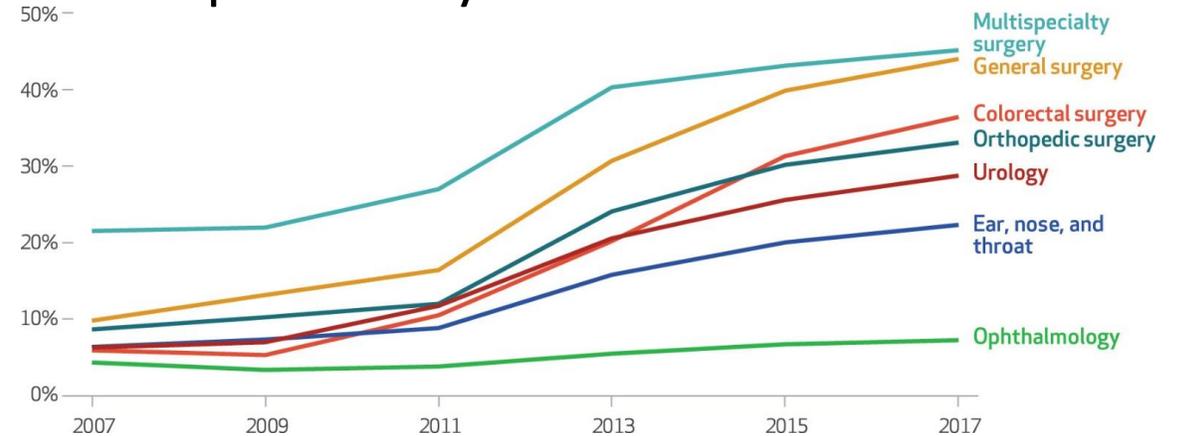


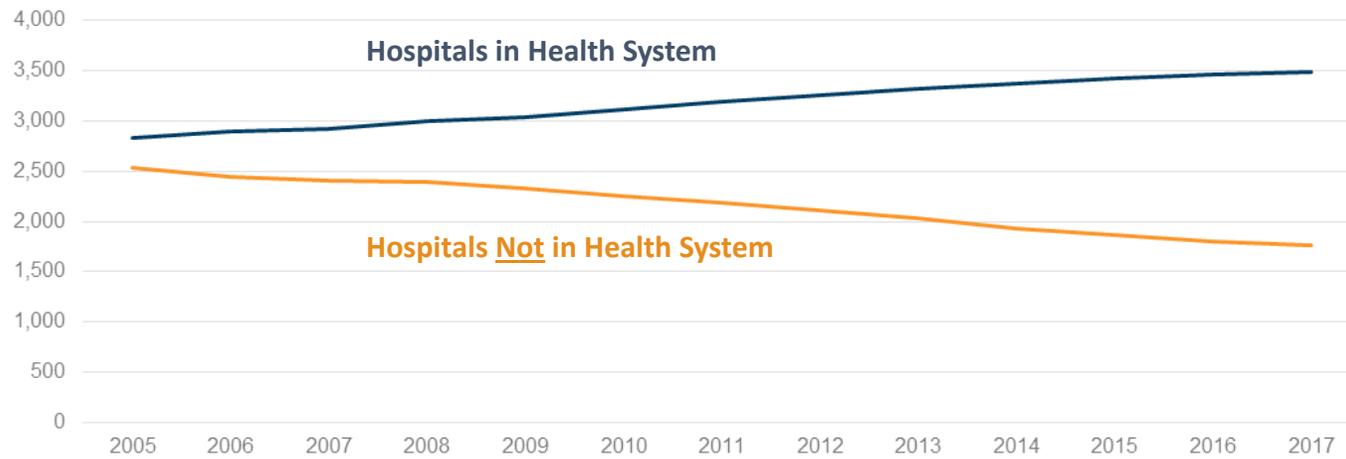
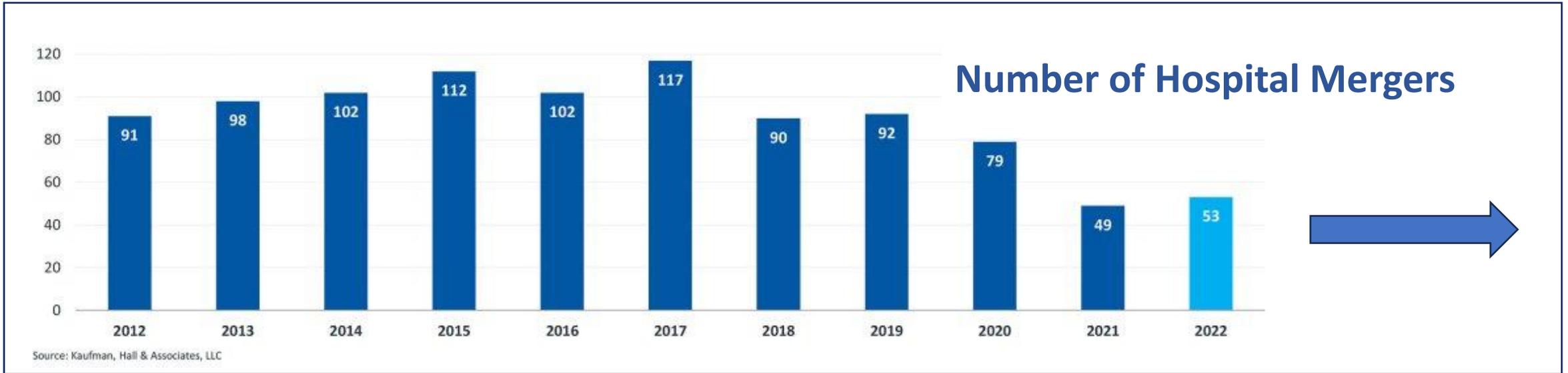


Medical practices owned by hospitals or systems

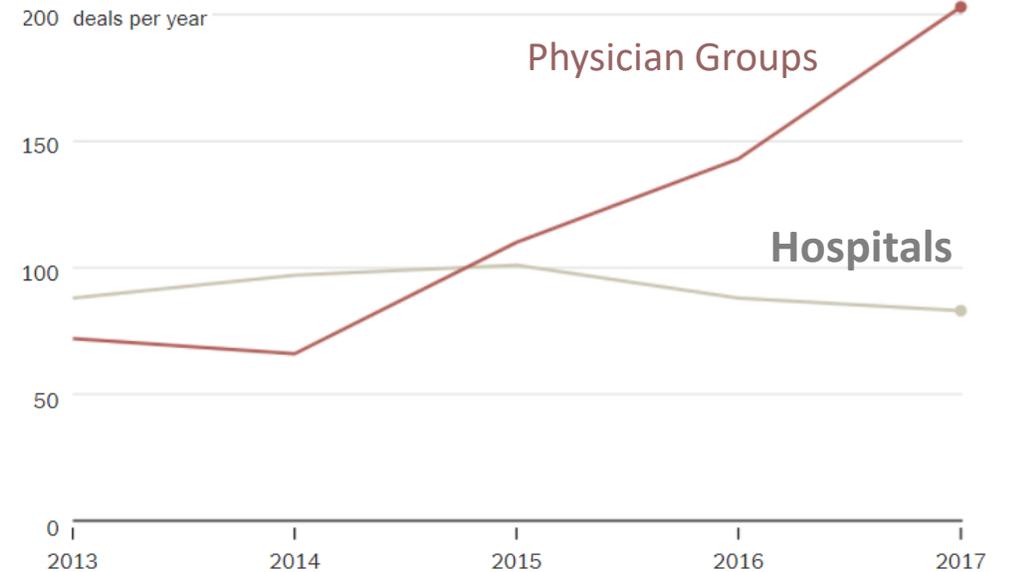


Surgical practices owned by hospitals or systems



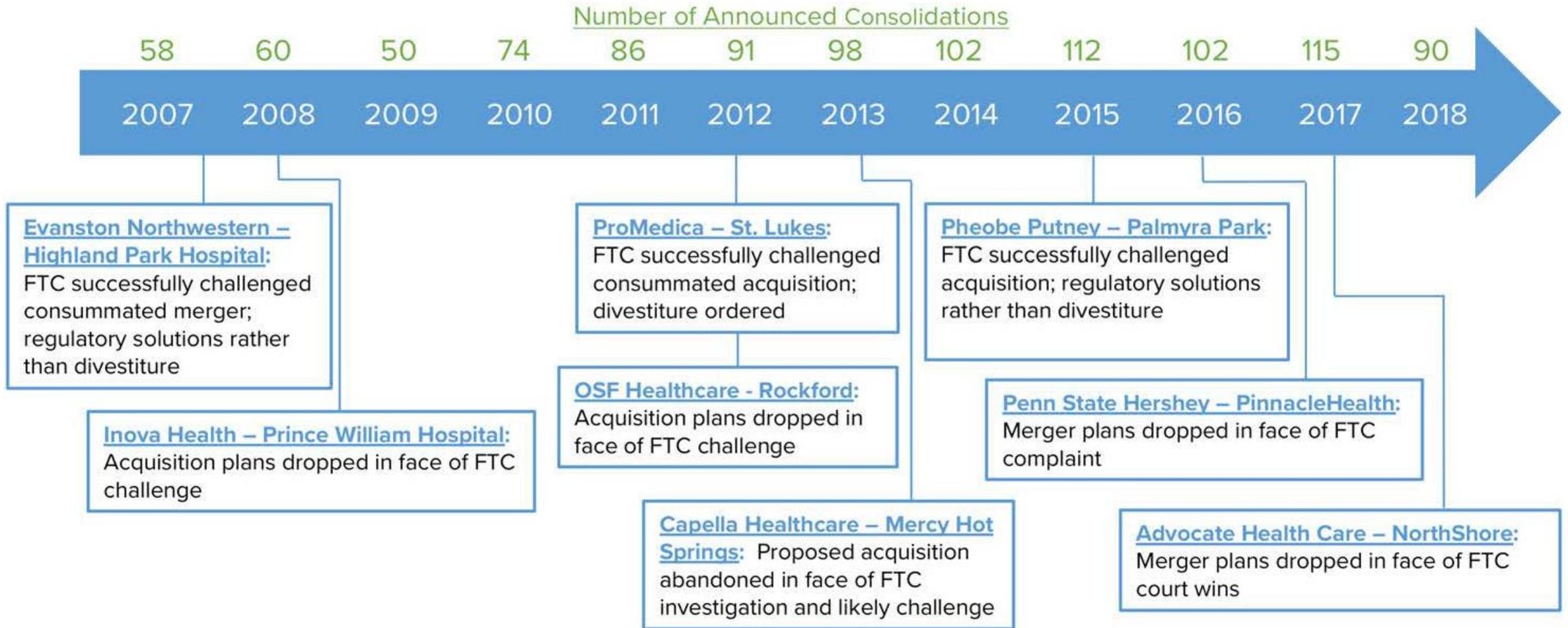


Kaiser Family Foundation



New York Times

A decade of successful within-market hospital merger challenges by the FTC, but very few mergers have been challenged.





\$3.9 Billion

A blue arrow pointing from the Amazon logo towards the One Medical logo.

\$10.6 Billion

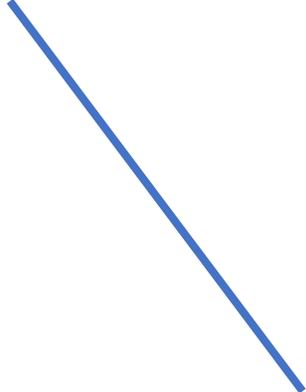
A blue arrow pointing from the CVS logo towards the Oak St. Health logo.

10-year deal

A blue double-headed arrow pointing both left and right, indicating a reciprocal or long-term relationship between Walmart and UnitedHealth Group.

 **PillPack**
by  pharmacy

\$1 Billion
(2018)



\$3.9 Billion
(2022)



 **one medical**

800,000 patients
188 clinics

\$2.1 Billion
(2021)



iorahealth



\$69 Billion
(2018)



Medicare
Advantage



10,000 pharmacies

\$10.6 Billion
(2023)



\$8 Billion
(2022)



Oak St.
Health

600 PCPs
169 clinics



signifyhealth®

10,000 clinicians in
home health; supports
24 of top 50 MA plans



UnitedHealth Group®

10-year deal
(2022)

Many physician
acquisitions

Optum

70,000 Physicians & 2,200 clinics

Example:

Walmart 

5,000 pharmacies

 Atrius Health

Venture Capital vs. Private Equity



	Venture Capital	Traditional Private Equity (Leveraged Buyout)
Stage of investment	Early stage	Mature
Types of companies targeted	Start-ups or early-stage ventures with less of a proven business model, but with high growth potential	Established businesses that are undervalued or underperforming with inefficiencies that could be addressed through changes in operations, financial engineering, or governance
Amount of investment	Minority stake, <50% ownership	Majority stake, >50% ownership
Exit time frame (on average)	5–10 years	3–7 years
U.S. deal value total in 2019*	\$136.5 billion	\$627.3 billion
Number of U.S. deals in 2019*	10,777	5,133
Estimated average investment size	\$12.7 million	\$122.2 million
Expectations for returns	At least 10x; ideally, 50–100x returns for the most successful companies	At least 2–4x returns per deal

Classic Model of a Private Equity (PE) Acquisition

