HEALTH CARE PRICE RELIEF ACT

Reams of Research Back AB 3087's (Kalra) Plan to

MAKE HEALTH CARE PRICES FAIR

The Problem: Spending

Health care spending in the U.S. far outpaces the rest of the developed world, but we are not getting better care.

According to the Centers for Medicare and Medicaid Services (CMS), health care spending in the United States was about 18% of Gross Domestic Product (GDP) in 2016,[1] twice the average of the 35 largest high-income countries belonging to the Organisation for Economic Cooperation and Development (OECD).[2 3]

However, we see the doctor and go to the hospital less often than people in other OECD countries,[4] while the quality of our health care services – as well as life expectancy itself[5] – are lower than the OECD average in the United States. **We pay more for less.**

The Reason: Prices

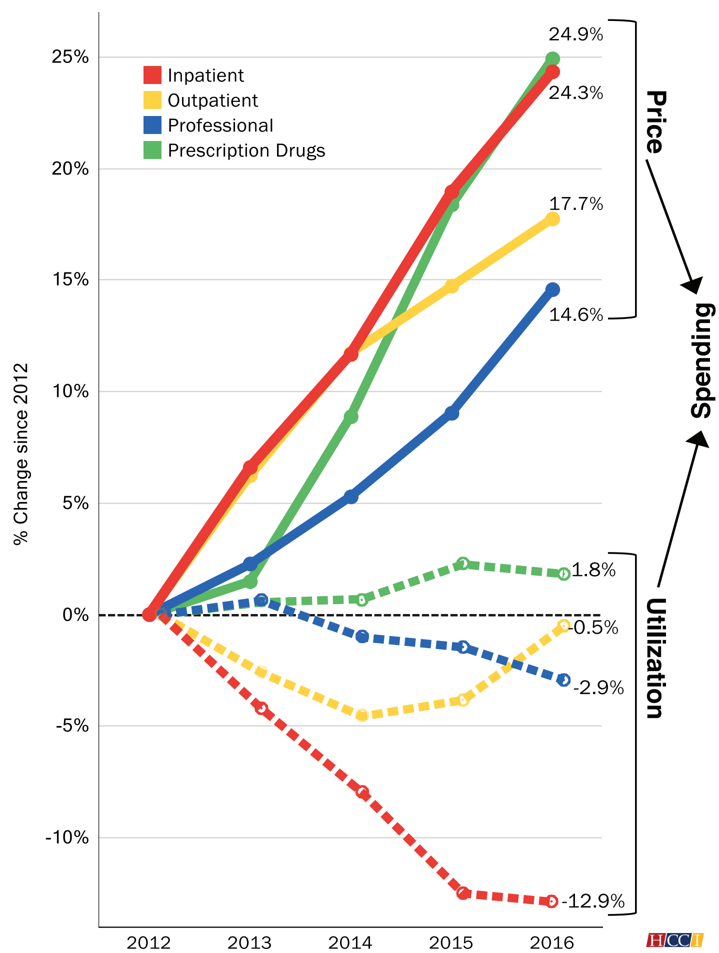
Recent analysis of billions of private sector health care bills confirms more than 15 years of research showing that the reason Americans are paying more and getting less is that our prices are too high.

The Health Care Cost Institute's (HCCI) analysis of more than 4 billion healthcare claims decisively confirms that the extreme level of U.S. private sector **health care costs is driven by high prices, not overutilization.** Based on data from 39 million American patients, HCCI's *2016 Health Care Cost and Utilization Report* shows that utilization of health care services has actually remained the same or declined since 2012, while prices for all services grew.

The most recent analysis of this huge data source, drawn from four top private insurers (UnitedHealthcare, Kaiser, Aetna and Humana) confirms findings from top researchers who have compared U.S. spending with other countries over the past 15 years, most recently in the *Journal of the American Medical Association*.[6]

California-specific data disclosed by health insurance companies to state regulators reveals that premiums for employer-sponsored insurance increased 234% from 2002-2016. Last year, health insurance premiums for the 8.6 million Californians who receive employer coverage,increased at 166% of the state's cost of living. The data show that 83% of this growth was due to increases in the price of hospital and physician care and other goods and services.[7]

Cumulative Change in Price, Utilization and Spending, 2012 - 2018



The Driver: Market Power

Health care prices are so high in the U.S. because insurance companies, hospitals and physicians often wield *undue market power*. Employers and workers feel the impact of monopoly prices in their pocketbooks.

A seminal 2015 Yale study compared 2.9 billion private insurance claims and found that higher hospital prices are positively associated with market power. Hospital prices in monopoly markets are 15.3% higher than those in markets with four or more hospitals.[8]

Recent large studies of physician pricing also suggest that prices increase when physicians gain market power. A 2014 University of Chicago study found that physicians in the most highly concentrated markets charge 14-30% more than those in the least concentrated markets.[9]

Both trends are accelerating rapidly as hospitals take over physician practices, creating powerful systems with the ability to drive up prices for both hospital and physician care. *Modern Healthcare* recently reported "forty[-]two percent of physicians were employed by hospitals in July 2016, compared to just 1 in 4 physicians in July 2012."[10] A 2014 UC Berkeley study in the *Journal of the American Medical Association* reported that expenditures per patient were 10% higher in physician organizations owned by a local hospital, and about 20% higher in organizations owned by a multihospital system, compared to organizations owned by participating physicians.[11] This pattern mirrors the national trends reported in *Health Affairs* in 2014.[12]

A significant body of literature also suggests that health insurance market concentration results in higher premium prices for consumers.[13] In 2016, 21 of California's 28 metropolitan areas (MSA)[14] were what the Department of Justice and the Federal Trade Commission consider to be "highly concentrated markets" for purposes of health insurance; the other seven MSAs were "moderately concentrated."[15]

AB 3087 (Kalra)

By establishing an independent commission with the authority to make prices fair, AB 3087 delivers price relief to consumers and employers who are paying the price when providers use undue market power to escalate prices.

AB 3087 uses the effective pricing model created by the U.S Medicare system as a benchmark to establish fair prices that are affordable to consumers and that allow providers a reasonable profit. Medicare has been setting fair prices for insurers, hospitals, doctors and other providers for decades through a transparent public formula. California needs a body with the power to follow Medicare's example and set fair prices for the health care that all Californians need.

1) "National Health Expenditure Data: Historical," Centers for Medicare and Medicaid Services, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html.

2) "Health at a Glance 2017: OECD Indicators," Organisation for Economic Cooperation and Development, page 134, http://www.oecd-ilibrary.org/docserver/download/8117301e.pdf?expires=1519693529&id=id&accname=guest&checksum=2159E99B7FCCCE6D72B4D27ACEF1A5BE.

3) "Health at a Glance 2017: OECD Indicators," Organisation for Economic Cooperation and Development, page 133, http://www.oecd-ilibrary.org/docserver/download/8117301e.pdf?expires=1519693529&id=id&accname=guest&checksum=2159E99B7FCCCE6D72B4D27ACEF1A5BE.

4) Health at a Glance 2017: OECD Indicators, http://www.oecd-ilibrary.org/docserver/download/8117301e.pdf?expires=1519693529&id=id&accname=guest&checksum=2159E99B7FCCCE6D72B4D27ACEF1A5BE, at "9.1. Number of doctor consultations per person, 2000 and 2015 (or nearest year)" (page 169), "9.10. Hospital discharges, 2015 (or nearest year)," (page 175), "9.13. Average length of stay in hospital, 2000 and 2015 (or nearest year)," (page 177) – all 3 of which feature the U.S. below the OECD average, Health at a Glance 2017: OECD Indicators, http://www.oecd-ilibrary.org/docserver/download/8117301e.pdf?expires=1519693529&id=id&accname=guest&checksum=2159E99B7FCCCE6D72B4D27ACEF1A5BE.

5) See Health at a Glance 2017: OECD Indicators, http://www.oecd-ilibrary.org/docserver/download/8117301e.pdf?expires=1519693529&id=id&accname=guest&checksum=2159E99B7FCCCE6D72B4D27ACEF1A5BE, "3.1. Life expectancy at birth, 1970 and 2015 (or nearest year)," (page 49), for which the U.S. is below the OECD average.

6) Irene Papanicolas, Liana R. Woskie, Ashish K. Jha, "Health Care Spending in the United States and Other High-Income Countries," Journal of the American Medical Association, 2018;319(10):1024–1039. doi:10.1001/jama.2018.1150, https://jamanetwork.com/journals/jama/fullarticle/2674671 (finding prices of labor and goods, including pharmaceuticals and devices, and administrative costs, appeared to be the main drivers of the differences in spending, not utilization).

7) "It's Still the Prices: Second Year Data from California's Rate Filing Law Reveals Prices, not Utilization, Continue to Drive Premium Costs in the Fully-Insured Large Group Market," original report by UNITE HERE, CA Labor Federation et al, March 2018.

8) Zach Cooper et al., "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured," December 2015 Abstract, p. 1 and 7, http://www.healthcarepricingproject.org/sites/default/files/pricing_variation_manuscript_0.pdf.

9) Abe Dun, Adam Hale Shapiro, "Do Physicians Possess Market Power?" Journal of Law and Economics, 57:1 February 2014. https://www.journals.uchicago.edu/doi/full/10.1086/674407

10)Alex Kacik, "Rapid rise in hospital-employed physicians increases costs," Modern Healthcare, March 16, 2018, http://www.modernhealthcare.com/article/20180316/TRANSFORMATION02/180319913.

11) James C. Robinson, Kelly Miller, "Total Expenditures per Patient in Hospital-Owned and Physician-Owned Physician Organizations in California," Journal of the American Medical Association, 2014;312(16):1663–1669. doi:10.1001/jama.2014.14072, https://jamanetwork.com/journals/jama/fullarticle/1917439.

12) Laurence C. Baker, M. Kate Bundorf, Daniel P. Kessler, "Vertical Integration: Hospital Ownership Of Physician Practices Is Associated With Higher Prices And Spending," 10.1377/hlthaff.2013.1279 Health Affairs 33, NO. 5 (2014): 756–763, https://www.healthaffairs.org/doi/pdf/10.1377/hlthaff.2013.1279.

13) Leemore S. Dafny, "Are Health Insurance Markets Competitive?," American Economic Review 100 (September 2010): 1399–1431

http://www.aeaweb.org/articles.php?doi=10.1257/aer.100.4.1399; Leemore S. Dafny. "Health insurance industry consolidation: what do we know from the past, is it relevant in light of

the ACA, and what should we ask?" Senate Committee on the Judiciary, Subcommittee on Antitrust, Competition Policy, and Consumer Rights; September 22, 2015, http://www.hbs.edu/faculty/Profile%20Files/Testimony%20to%20Senate%20in%20re%20Insurance%20Industry%20Mergers%20-%209.2015_050cdb4e-db12-4a9d-9d50-48d917d39e2a.pdf; Leemore Dafny, Mark Duggan, and Subramaniam Ramanarayanan, "Paying a Premium on Your Premium? Consolidation in the US Health Insurance Industry," American Economic Review 2012, 102(2): 1161–1185, http://dx.doi.org/10.1257/aer.102.2.1161; Erin Trish, Bradley Herring, "How do health insurer market concentration and bargaining power with hospitals affect health insurance premiums?," Journal of Healthcare Economics, 2015 Jul;42:104-14. doi: 10.1016/j.jhealeco.2015.03.009. Epub 2015 Apr 8, https://www.ncbi.nlm.nih.gov/pubmed/25910690.

14) "Competition in Health Insurance: A Comprehensive study of U.S. Markets (2017 Update)," American Medical Association, 2017, at pp. 9-10.

15) The DOJ and FTC use the Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration, which they use to classify markets into three types: unconcentrated markets (with HHI below 1,500); moderately concentrated markets (with HHI between 1,500 and 2,500) and "highly concentrated markets" (with HHI above 2,500). See Horizontal Merger Guidelines, issued August 19, 2010, https://www.justice.gov/atr/horizontal-merger-guidelines-08192010.

HEALTH CARE PRICES ARE OUT OF CONTROL

We have an emergency in the health care system: Spiraling hospital, drug and insurance prices are pushing the cost of health care beyond the reach of employers and families.

For common procedures and medication, we pay prices **two to twenty** times as high as people in other countries (New York Times, 2013)[1]:

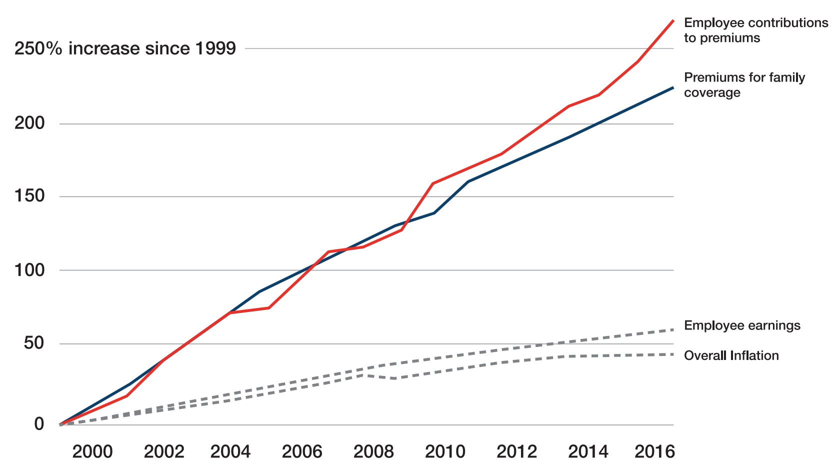
	Angiogram	Colonoscopy	Hip replacement	M.R.I. scan
Avg. U.S. price	$914	$1,185	$40,364	$1,121
	Canada	Switzerland	Spain	Netherlands
	$35	$655	$7,731	$319

How do they get away with it?

California gives hospitals and health facilities, drug companies, and doctors free rein to charge limitless prices. **That's why health care in the U.S. costs more and delivers less than any other advanced nation.**

What's the real cost of high health care prices?

- **Soaring Premiums, Frustrated Employers:** Since 2010, healthcare prices have forced employers to pay premiums that are growing three times faster than inflation[2].
- **Exploding Out of Pocket Costs:** Out of pocket costs are crushing workers and their families – Deductibles are up six times faster than wages since 2010.
- **Desperate Families Skipping Health Care:** A Commonwealth Fund study shows that a quarter of all people covered by job-based insurance are underinsured. In a national University of Chicago survey, found 44 percent of Americans reported they they didn't go to a doctor when they were sick or injured in the last year because of cost.



Percent increases in employee earnings are of seasonally adjusted hourly earnings recorded in April of each year.

Sources: Denise Lu; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017; Bureau of Labor Statistics

- **Growing Inequality:** Skyrocketing employer healthcare costs exacerbate income inequality, taking the biggest bite out of low-and middle-income workers' paychecks[3].
- **Health Care Corporations Prosper While Patients Get Less Care:** California allows doctors, and hospitals to charge outrageous prices for every procedure and every office visit. Health care CEOs rake in millions in compensation, while patients delay treatment until they have no choice but to go to the emergency room, or go without care altogether.

HEALTH CARE PRICES ARE OUT OF CONTROL

AB 3087 (Kalra) Delivers Price Relief for California Families and Employers

AB 3087 (Kalra) uses the established Medicare model to bring down costs for California workers and employers. The bill creates an independent commission with the authority and expertise to make prices fair. It also provides a fair process for doctors and hospitals to adjust prices when necessary.

Medicare has been setting health care rates for decades and has a transparent, public formula for setting reimbursement rates for doctors, hospitals and other health care settings.

If California doesn't get healthcare prices under control, medical monopolies will bankrupt more families and employers. If we're ever to achieve a sustainable, affordable quality health care for all system in California, it's crucial to address out of control prices now.

SEIU California Stronger Together
California Teamsters Public Affairs Council
California LABOR Federation
UNITE HERE!
HEALTH ACCESS

1) http://www.nytimes.com/2013/06/02/health/colonoscopies-explain-why-us-leads-the-world-in-health-expenditures.html
2) https://www.bloomberg.com/news/articles/2017-09-19/rising-health-insurance-costs-blunt-employees-paycheck-gains
3) http://progressivepolicy.org/wp-content/uploads/2012/03/03.2012-Nyce_Schiber_How-Rising-Health-Cost-Slow-Wage-Growth1.pdf