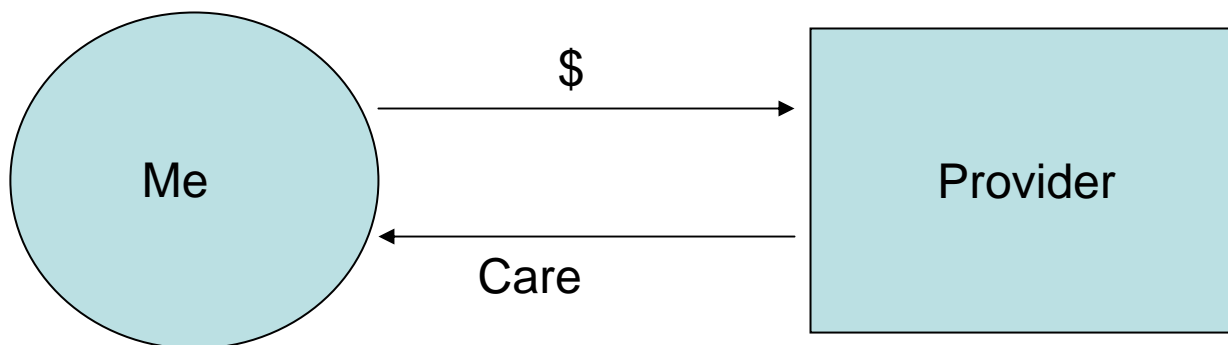


# Introduction to Health Care

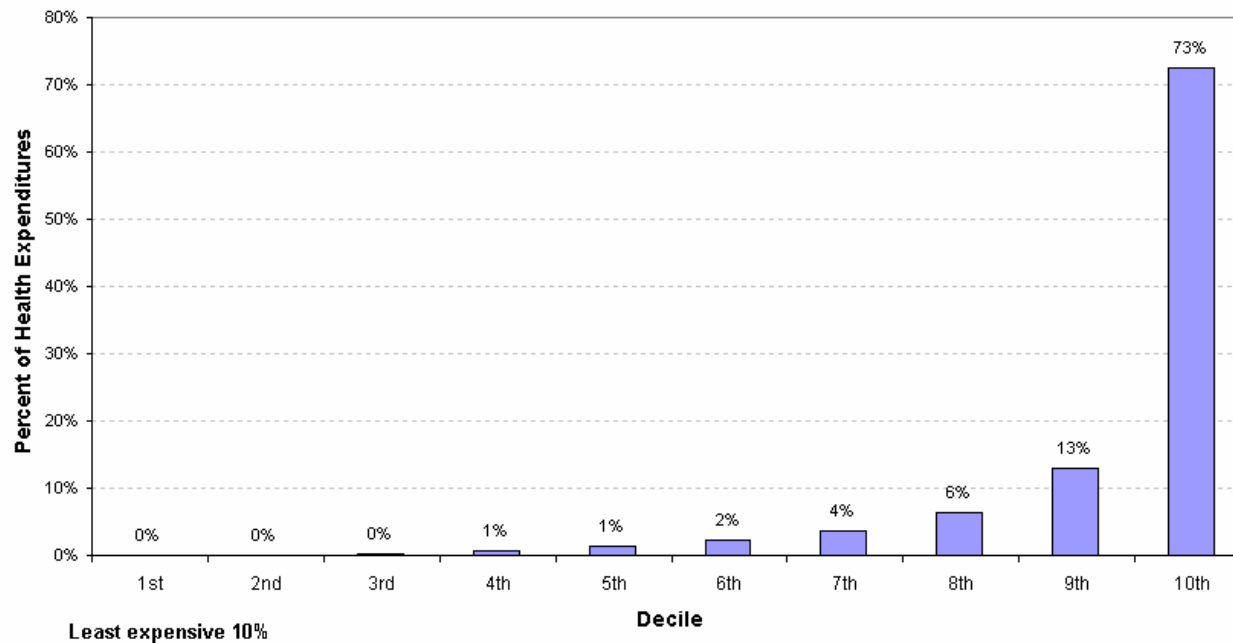
Steve Kappel  
Joint Fiscal Office

# Health Care Systems



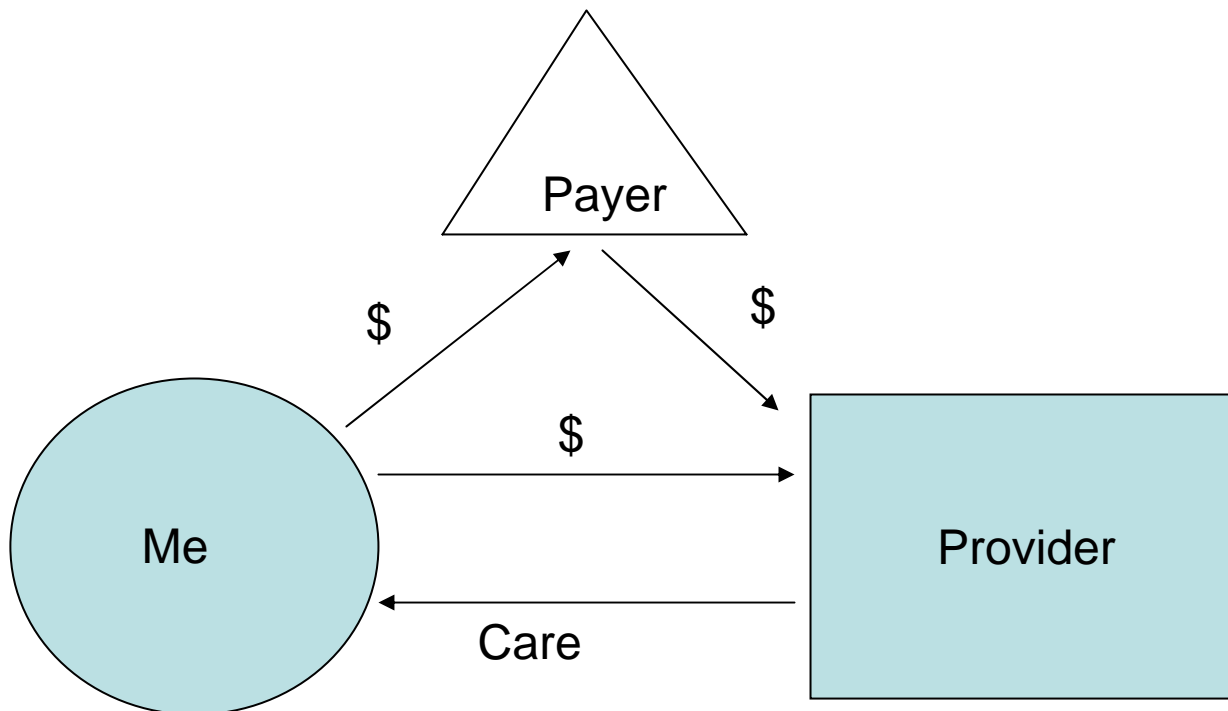
# Why do we need payers?

Distribution of Health Expenditures in the U.S. Population



Source: Agency for Healthcare  
Research and Quality / MEPS, 1999

# Health Care Systems



# Other System Models

- Complex provider organizations
- Integrate payer and provider (HMO)
- Regulatory models
  - Function-specific
    - Licensure, budget review
  - Overarching

# Key Financing Functions

- Raise funds
- Allocate resources
- Create budgets
  - Revenue-based
  - Expenditure-based

# Key Financing Functions

## Another View

- Insurance function – catastrophic costs
  - Payment
  - Asset protection
- Prepayment function
  - Predictable care
- Public benefits function
  - Things which carry benefits beyond the individual

# Major Payers

- Public
  - Medicare
  - Medicaid
- Private
  - Insurance
  - Self-insured employers
- Out-of-pocket

# Medicare

- Created in 1965
- Entirely federal
- Covers most people over 65, those with severe disabilities, and those with kidney disease
- Funded by payroll tax, premium, and general federal dollars
- Covers hospital, physician, pharmacy (January 1, 2006)

# Medicaid

- State-federal partnership
- Originally for low-income families and people with disabilities
- Mandatory and optional eligibility and benefits
- Matching funds
- Covers nearly all health care services
  - Long term care

# Insurance

- Two main types
  - Individual
  - Employer-sponsored
- Basic concept: estimate costs across a pool and charge sufficient premium to cover those costs, plus administration and reserves

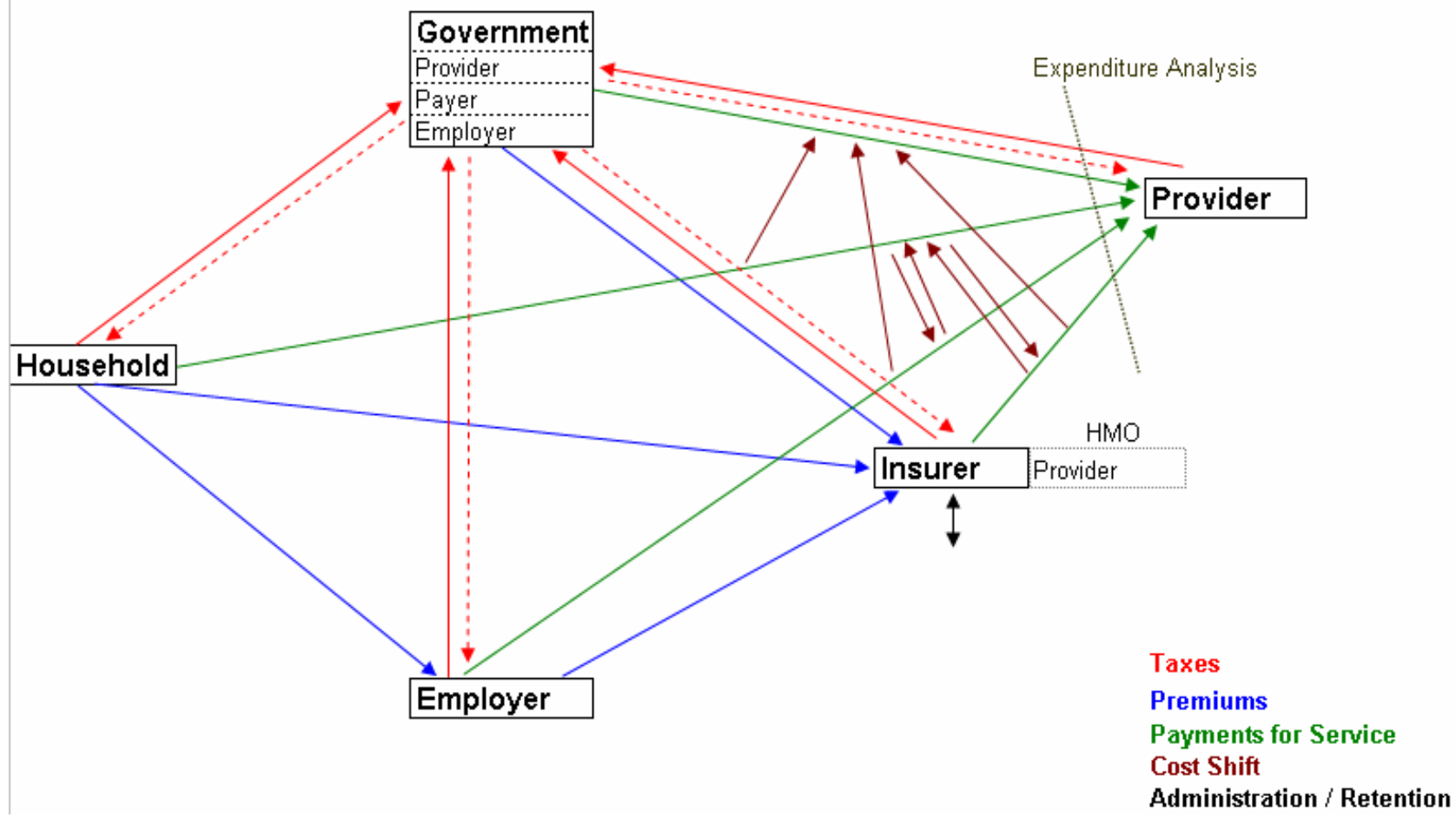
# Self-Insured Employers

- Large employers, able to absorb substantial risk
- Employer pays bills, rather than premiums
- Not subject to state oversight
- Usually work with a third-party administrator (TPA) to pay claims

# Out-Of-Pocket

- Costs paid directly by individuals
- Includes
  - Deductibles, copayments, coinsurance
  - Non-covered services
  - All costs for those without insurance

### Funds Flows in the U.S. Health Care System

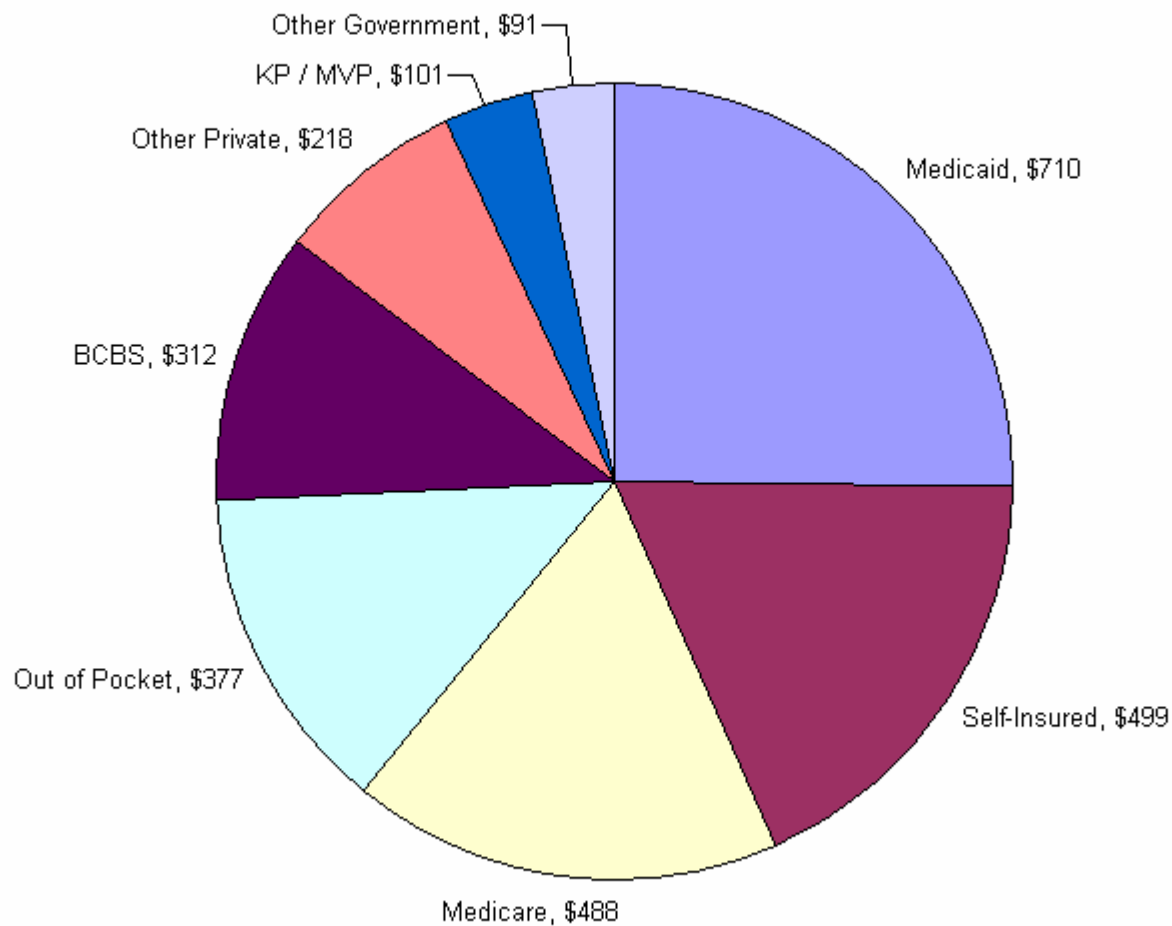


# Expenditure Analysis

- Done annually by the Department of Banking, Insurance, Securities and Health Care Administration (BISHCA)
- Estimates spending by source (payer) and sector (type of provider)
- Two frames:
  - Resident
  - Provider

## Vermont Resident Spending by Source, 2002

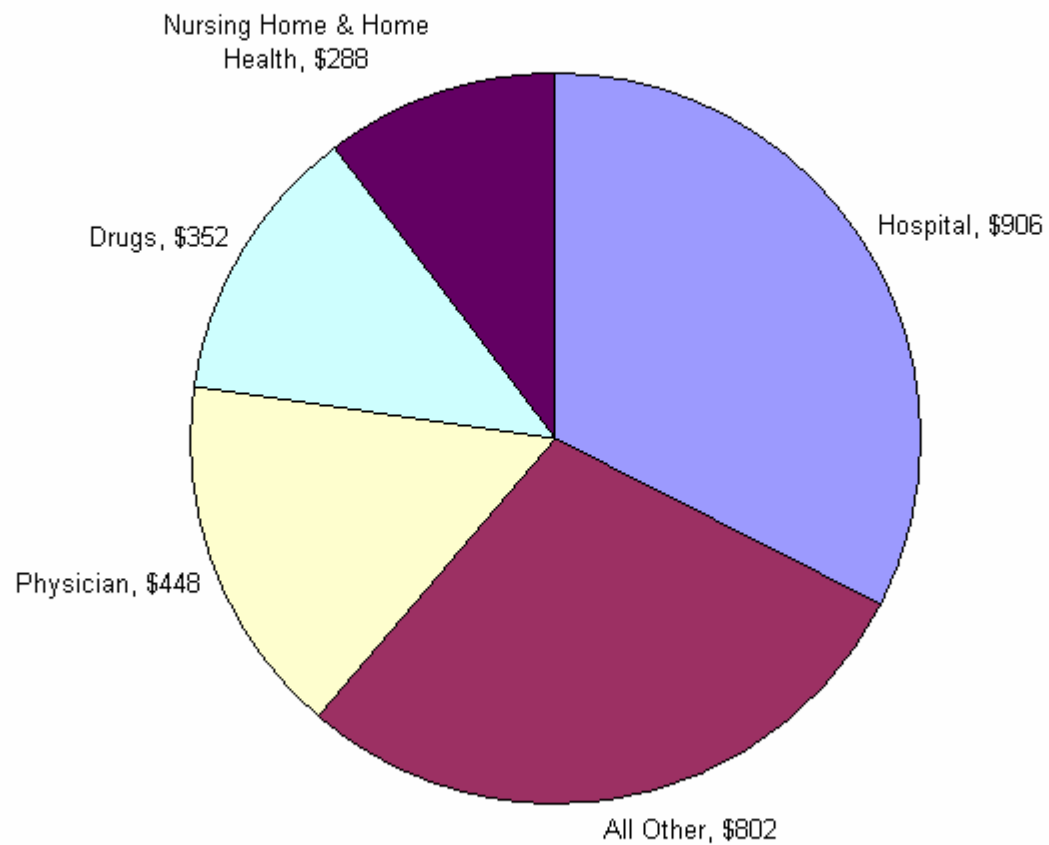
Millions of Dollars



Source: BISHCA 2002 Expenditure Analysis, Initial Release

## Vermont Resident Health Care Spending by Sector, 2002

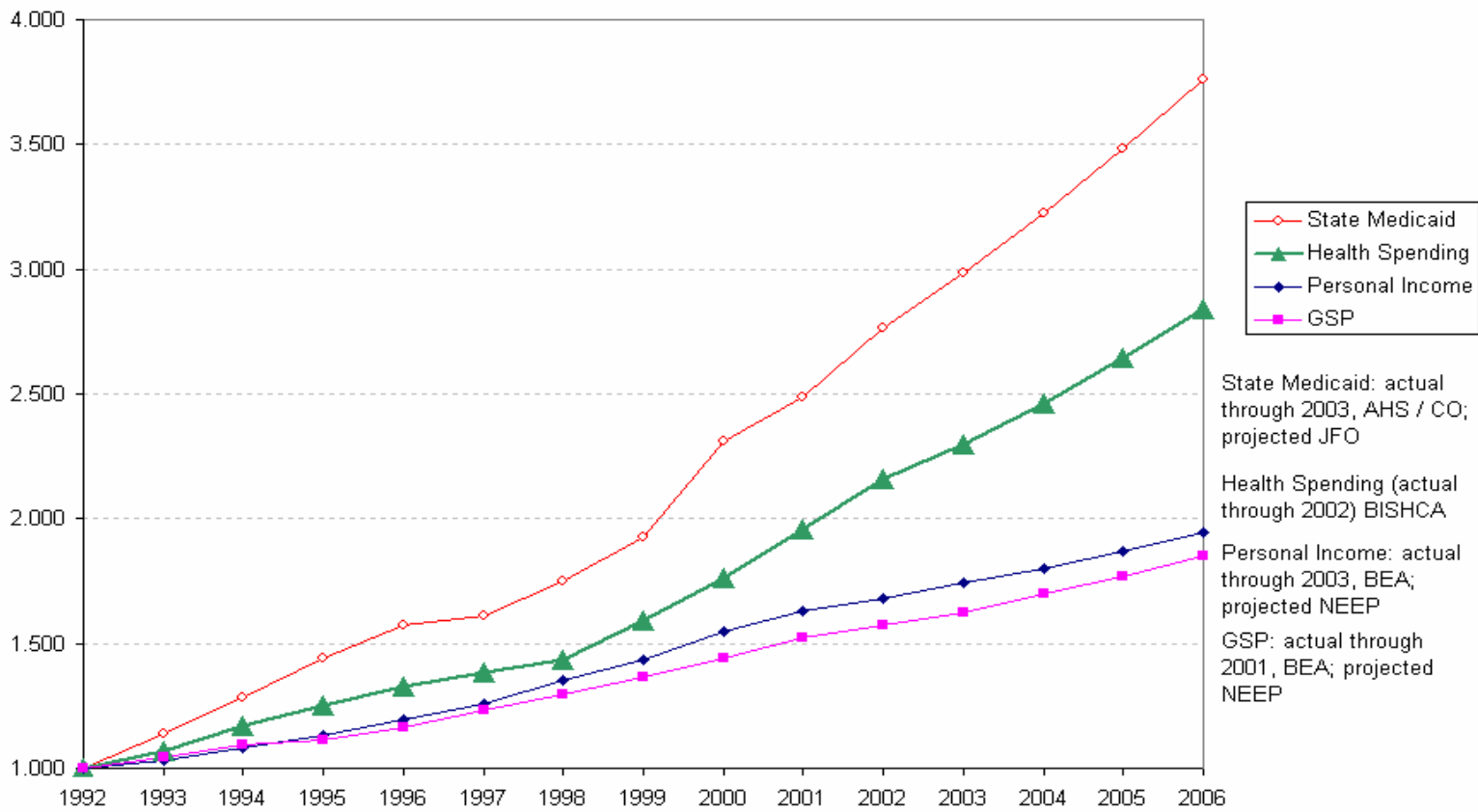
Millions of Dollars



Source: BISHCA 2002 Expenditure Analysis, Initial Release

# The Key Financing Issue

Health Spending, Personal Income, and Gross State Product  
Relative Growth, Vermont, 1992-2006



# What Drives Spending Increases?

- Technology and Innovation
- Demographics
- Demand

# Why is Reform so Difficult?

## Competing Goals

- Equity
  - Access to care
    - Financial
    - Geographic
  - Contribution to costs
- Efficiency
- Autonomy
- Choice
- Quality
- Rule of Rescue
  - (save any life that can be saved)
- Role of government
- Maximization of health
- All other public policy issues

# Why is Reform so Difficult?

## Limits on Policy Options

- ERISA – federal law preempting state regulation of employee benefit plans
- Medicare – no state control
- Medicaid – limited state control
- Border-crossing issues
  - Residents, employees, providers



Questions?