



Financing the United States Health Service System

Chapter 7



Objectives

- Describe the United States health services financing system
- Explore the expenditure trends in health services
- Outline recent efforts to contain health service expenditures
- Discuss provider payment mechanisms and their influence on expenditures
- Discuss the policy implications of growing health services expenditures



Introduction

- The financing of health services in the United States is unique among industrialized countries.
 - Both public and private sources finance care
 - U.S. employers and insurers, frequently called third party payers are more involved in the U.S.



How Health Service Are Financed?

- Health services were available to some segment of the U.S as early as 1798 through the Marine Hospital System.
- A system of health services to cover more of the population did not really begin to develop until after World War II.
- For those in the workforce at home, health services benefit was introduced as a way to compensate for wages and salaries that had been frozen to control the war time economy.
- Between 1945 and 1960, the number of people with hospital insurance jumped from 32 million and to 122 million.



How Health Service Are Financed?

- Today, the *private sector* has a strong influence on how the system is financed.
- Private insurance is estimated to cover about **71 percent** of the non-elderly population.
- The *federal government*- Medicare, the Department of Veterans Affairs health system, Military health services, the Indian Health Service, and other health programs, is the funding source of **31 percent**
- *Medicaid*, jointly funded by Federal and state governments, accounts for **15 percent** of health expenditures.



Revenue Sources for U.S. Health Services

- The *private sector* still accounts for **55 percent** of the revenues source, including private health insurance premium, out-of-pocket payments, and charitable donations, and other funding sources.



Expenditures for U.S. Health Services

- ***Cost*** is the amount spent to produce a good or service.
- ***Cost containment strategies*** are regulatory or other interventions, usually made by employers or payers, to control health care cost.
- ***Price*** is the amount charged for a health service good or service.



Growth in Health Expenditures

- *In 2000*, the United States spend **1.3 trillion** on *health services*, an average of **\$4,094 per person**.
- Payment for *hospital care* constitutes the largest category of *personal services* expenditures (**33.3 percent**), followed by payment *physicians' services* at **22 percent**.



Sources of Funds for Select Personal Health Expenditures

- In 2000, the government was payer:
 - ***46.8 percent*** of all *health care*
 - ***22.7 percent*** of *physician services*
 - ***38.9 percent*** of *home care*
 - ***12.5 percent*** of *drugs* and *nondurable medical equipment*
 - ***43 percent*** of *nursing home care*



Sources of Funds for Select Personal Health Expenditures

- **Out-of-Pocket fund**
- Almost ***12 percent*** of expenditures for ***physicians***
- ***19.8 percent*** of ***home health care***
- Nearly ***32 percent of drugs*** and ***nondurable medical equipment***
- ***28 percent*** of ***nursing home*** care



Expenditure BY User Groups

- 1987 spenders
- ***48 percent*** were ***elderly***
- **16 percent** were ***blacks***
- Indicating disproportionately poorer health status for these groups than for their younger counterparts from other racial and ethnic groups.



Reasons for Growth in Health Expenditures

- General inflation
- Medical price inflation
- The availability of health insurance and the resulting loss of individual accountability
- Population growth
 - Increase in the number of elderly people in the population who require more health services



Reasons for Growth in Health Expenditures

- Technology and the increased intensity of services provided per capita
- Growth in national and personal incomes that permits individuals to spend more more on health services
- The increase complexity of administering a multipayer system; fraud and abuse
- Defensive medicine (which may include futile care); malpractice



Reasons for Growth in Health Expenditures

- The growth of government health programs
- The system's emphasis on curative rather than preventive health services
- Fee-for-service payment systems
- Market failure



Efforts to Contain Health Services Costs and Expenditures

- Containing provider payment
- Health facility capital development
- Costs supplies and services
- Changing the delivery system
- Increasing patient's share of costs
- Utilization control
- Reducing cost
- Reducing cost of health insurance



Containing Cost



Efforts to Contain Health Services Costs and Expenditures

- The growing consensus is that the increase costs of expenditures for health care in the United States must be at least contained, if not reduced.
- Efforts to contain health services costs and expenditures have been initiated since at least the early 1970s.
- Initiatives aimed at providers
 - in 1972- Economic Stabilization Program; ***froze hospital charges***
 - Medicare Prospective Payment System-DRGs for hospital inpatient- and periodic ***freezes on physician payment by Medicare and Medicaid.***



Implications In Increasing Health Services Expenditures

- **Tax Expenditures**
- Employer health premiums are not taxed and other health related expenses are tax deductible, federal and state government loses billion in tax revenue each year.



Health Expenditure Effects on Business and Industry-Cont:

- Implications of health services expenditure on employers and business are increasingly evident in business financial report.
- U.S. spend a significant amount of employee health services.



Effects on Retiree Health Benefit Programs

- An additional effect of increasing health services expenditures on business is their ability to adequately fund retiree health programs that current and former employees believed was a benefit of their employment.



Effects on Employee Cost Sharing

- Allocation of resources to maintain a healthy workforce is generally considered a good business investment, but when the proportion of each resources precludes other potential investments without proportionately improving employee health, businesses may begin to reassess these commitments.



References

- Barton, P.L. (2007). *Understanding the U. S. Health Service Systems*, 3rd edition, Health Administration Press.