FACTS AND FALLACIES

RETHINKING US HEALTHCARE

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Widely-Touted Facts About US Healthcare

Health Care Spending

1. One-quarter of spending on the elderly occurs in the last year of life

2. Some regions of US have much higher healthcare spending than others, but don't have better health outcomes

Health Insurance

1. Emergency rooms are the main source of healthcare for uninsured

2. Over half of bankruptcies involve people with large medical bills

These Facts Are All True

Common Conclusion: Easy “Fixes”

1. High spending? No problem.

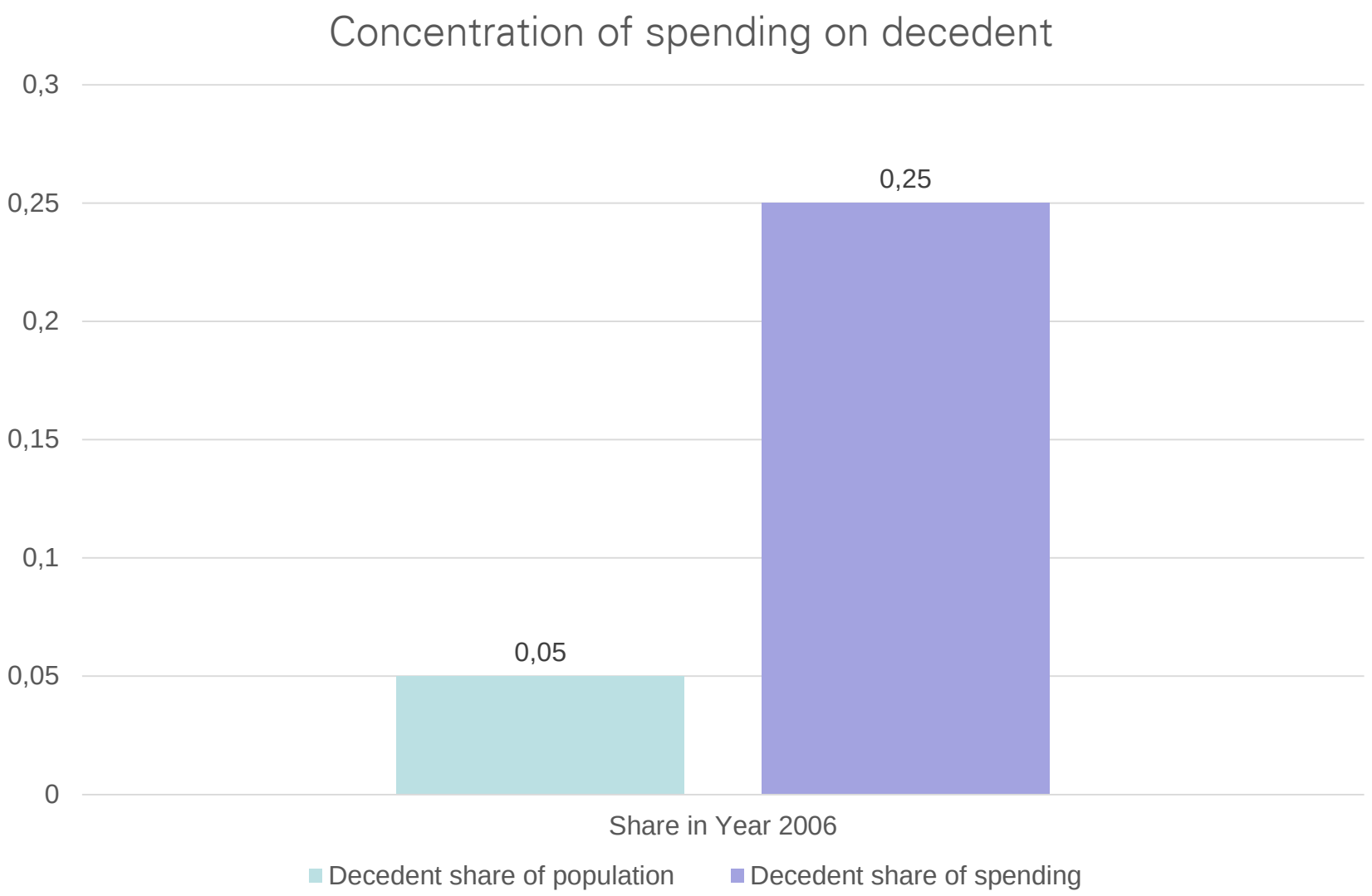
   There is lots of waste that can be easily cut

2. Lack of Universal Coverage? No problem.

   We can expand health insurance and save money at the same time

These Are All Fallacies

#1: End of Life Spending



#1: End of Life Spending

Fact: One-quarter of healthcare spending on the elderly occurs in the last year of life

Conclusion: This spending is wasted. It could be cut without harming patients.

> "For most people, death comes only after a long medical struggle with an incurable condition…"
>
> - Atul Gawande, *New Yorker,* 2010

> "Are there limits to what Medicare should spend on a therapy prolonging someone's life by a month or two?"
>
> - Eduardo Porter, *New York Times,* 2012

Fallacy: Hindsight Bias

Hindsight Bias

Those who end up dying are not the same as those who were sure to die.

Approach: Analyze spending from an *ex-ante* perspective

RESEARCH

HEALTH CARE

JUNE 2018 Science AAAS

Predictive modeling of U.S. health care spending in late life

Liran Einav[1,2], Amy Finkelstein[1,3]*, Sendhil Mullainathan[1,4], Ziad Obermeyer[5]

Findings

- Timing of death is highly unpredictable.
    - Share of spending on individuals with predicted mortality above 50%:

      Under five percent

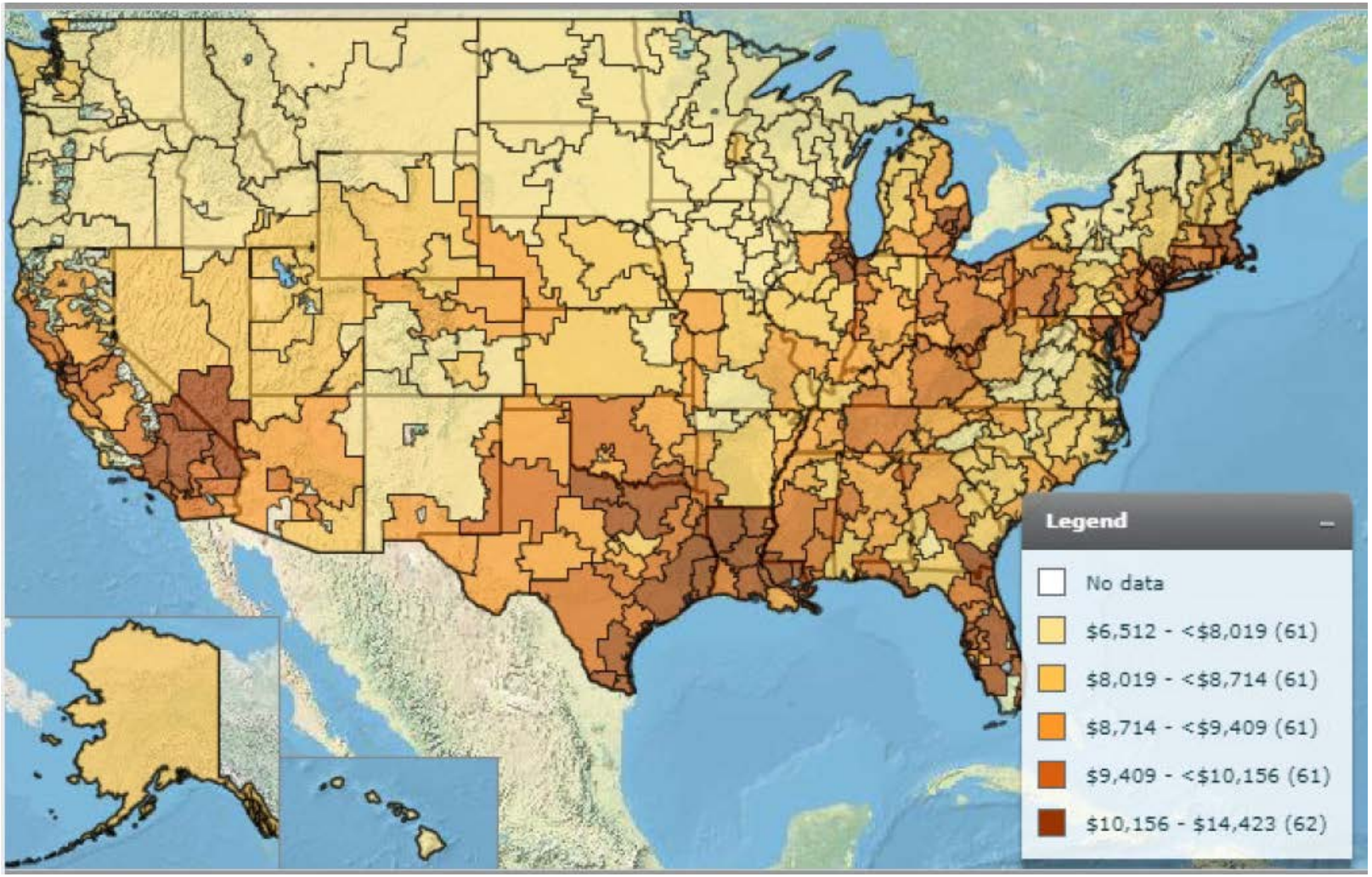
    - Share of elderly who enter the hospital with metastatic cancer who have predicted annual mortality above 90%:

      One percent

- We spend on the ex-post dead
    - But not necessarily the ex-ante “hopeless”

#2 Higher spending without better health

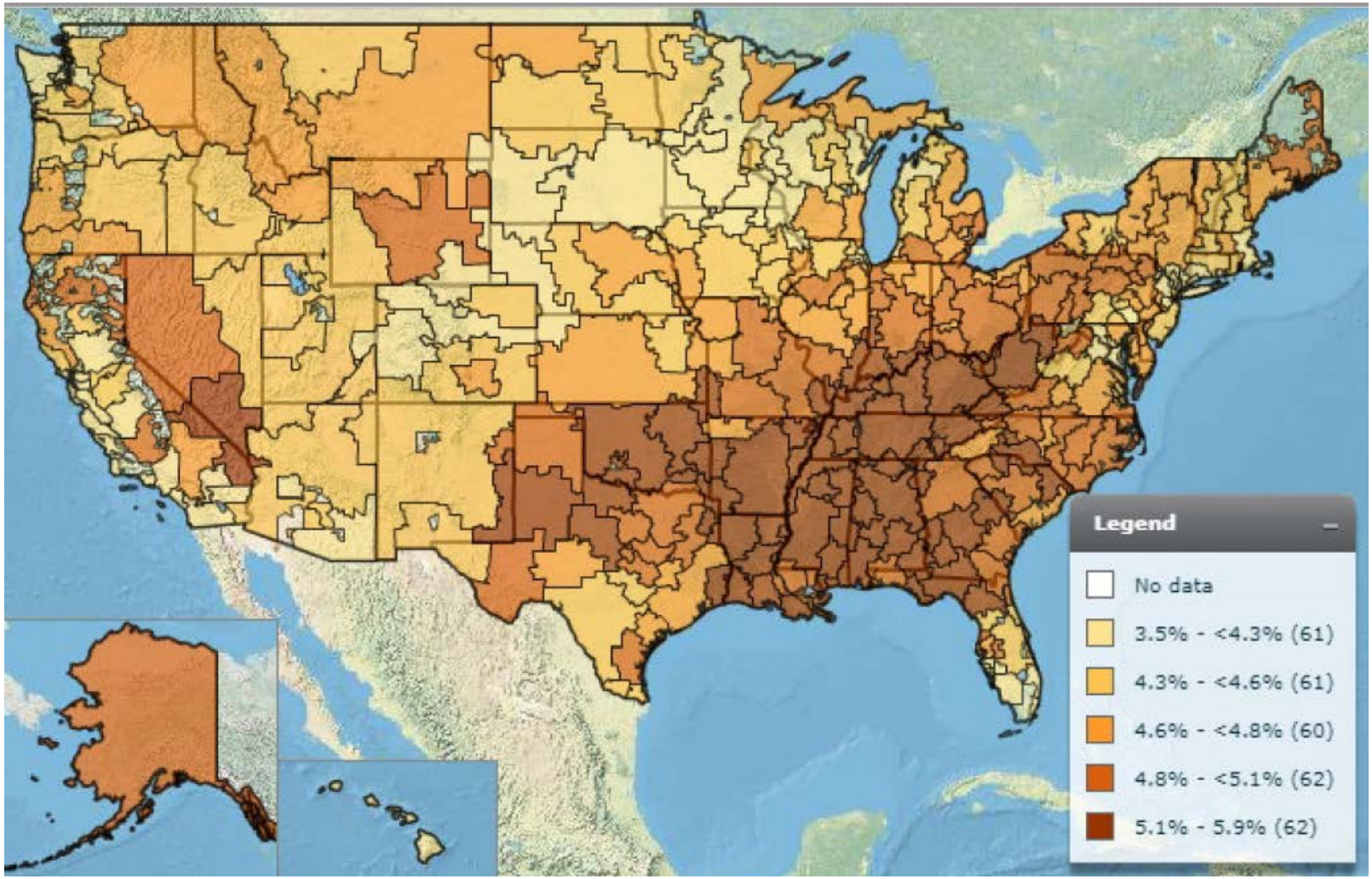
Large Geographic Variation in Health Care Spending



Source: *Dartmouth Atlas*; Medicare spending per enrollee (2010; adjusted for age, sex, and race)

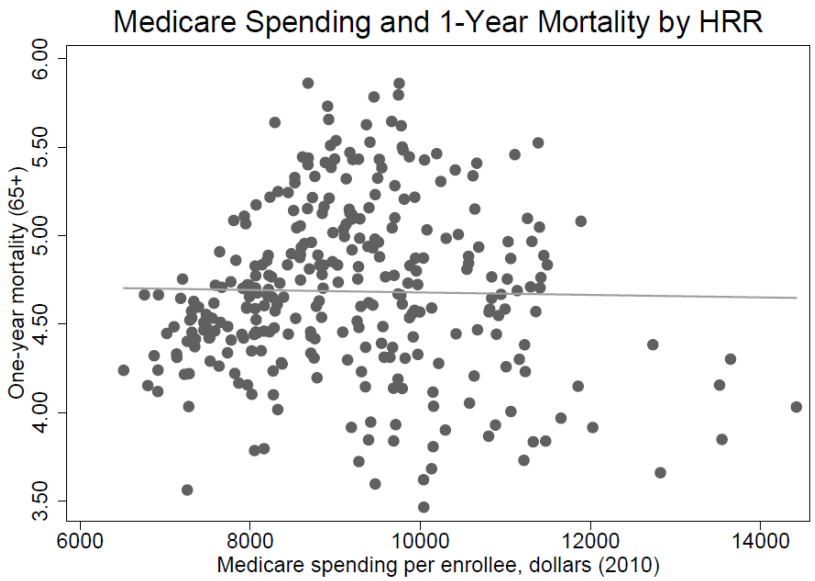
#2 Higher spending without better health

Large Geographic Variation in Mortality



Source: *Dartmouth Atlas*; 1-year mortality of 65+ (2010; adjusted for age, sex, and race)

#2 Higher spending without better health



Higher Spending Doesn't Correlate with Better Health

#2: Higher spending without better health

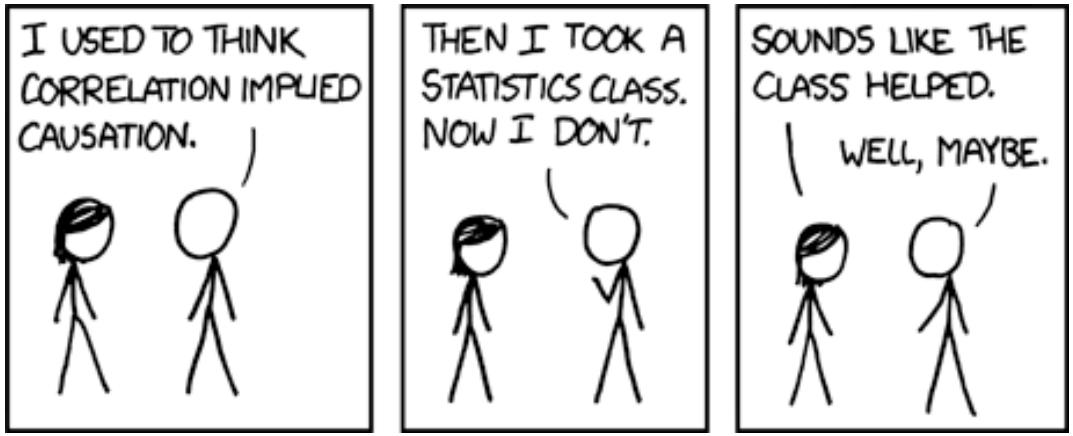
Facts: Use of healthcare varies widely across US, but areas with higher use don't have better health outcomes

Conclusion: Can make large cuts to Medicare spending without harming patients

- Visible role in public debate over Affordable Care Act
- Large differences in spending across areas with no outcome gradient suggests 30% of spending could be cut without harm

  - 2009 *Economic Report of the President*

Fallacy: Correlation is not causation



Correlation vs. Causation

- Differences in healthcare use driven by…
  - Differences in supply?
  - Differences in demand?

- Narrative of "waste" assumes it's all supply

Approach:

Look at What Happens When People Move Across Areas

THE QUARTERLY JOURNAL OF ECONOMICS

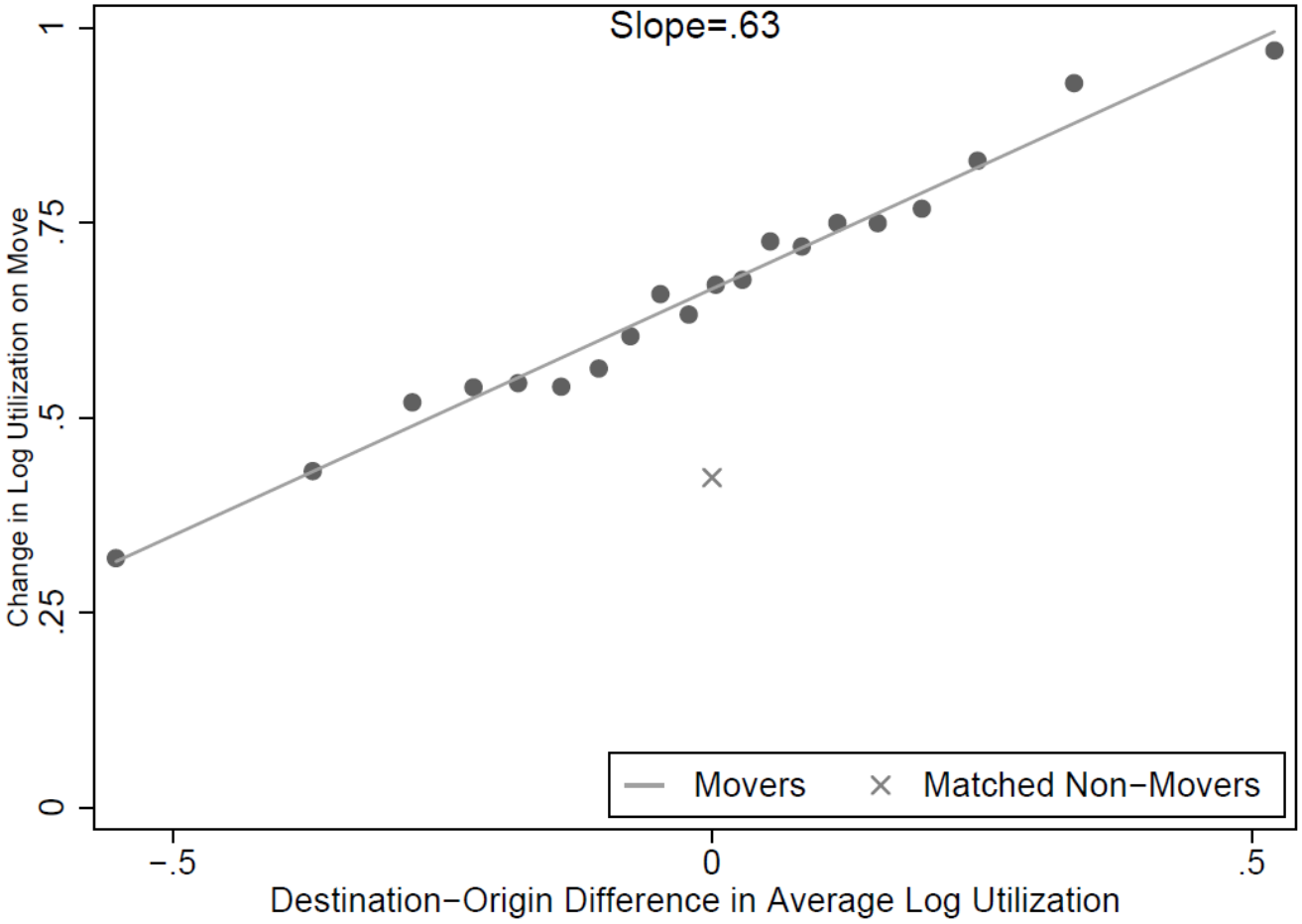
SOURCES OF GEOGRAPHIC VARIATION IN HEALTH CARE: EVIDENCE FROM PATIENT MIGRATION

Amy Finkelstein
Matthew Gentzkow
Heidi Williams

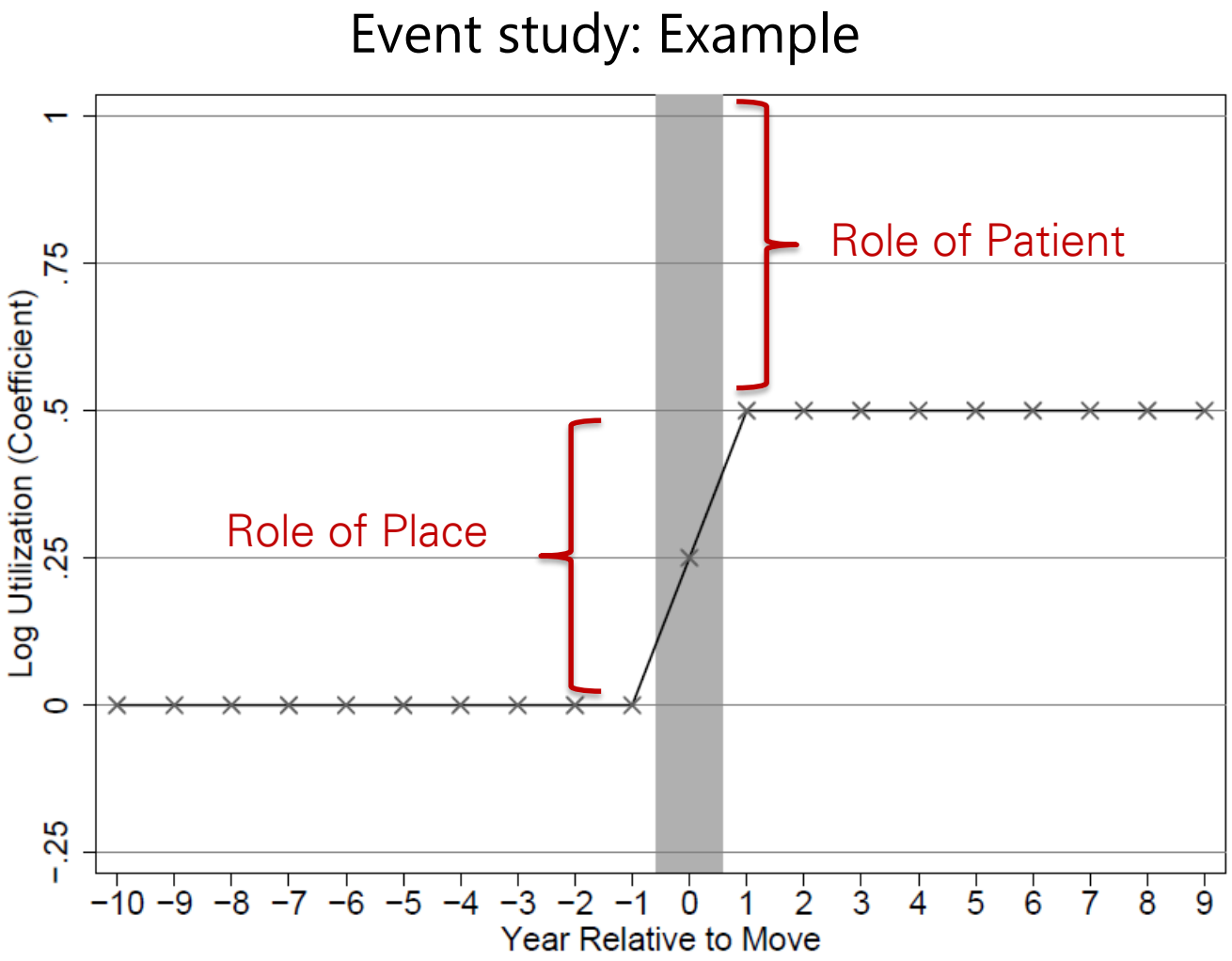
July 2016

Migration of Medicare Enrollees

- Thought Experiment: Miami to Minneapolis
- Change in Log Utilization with Size of Move

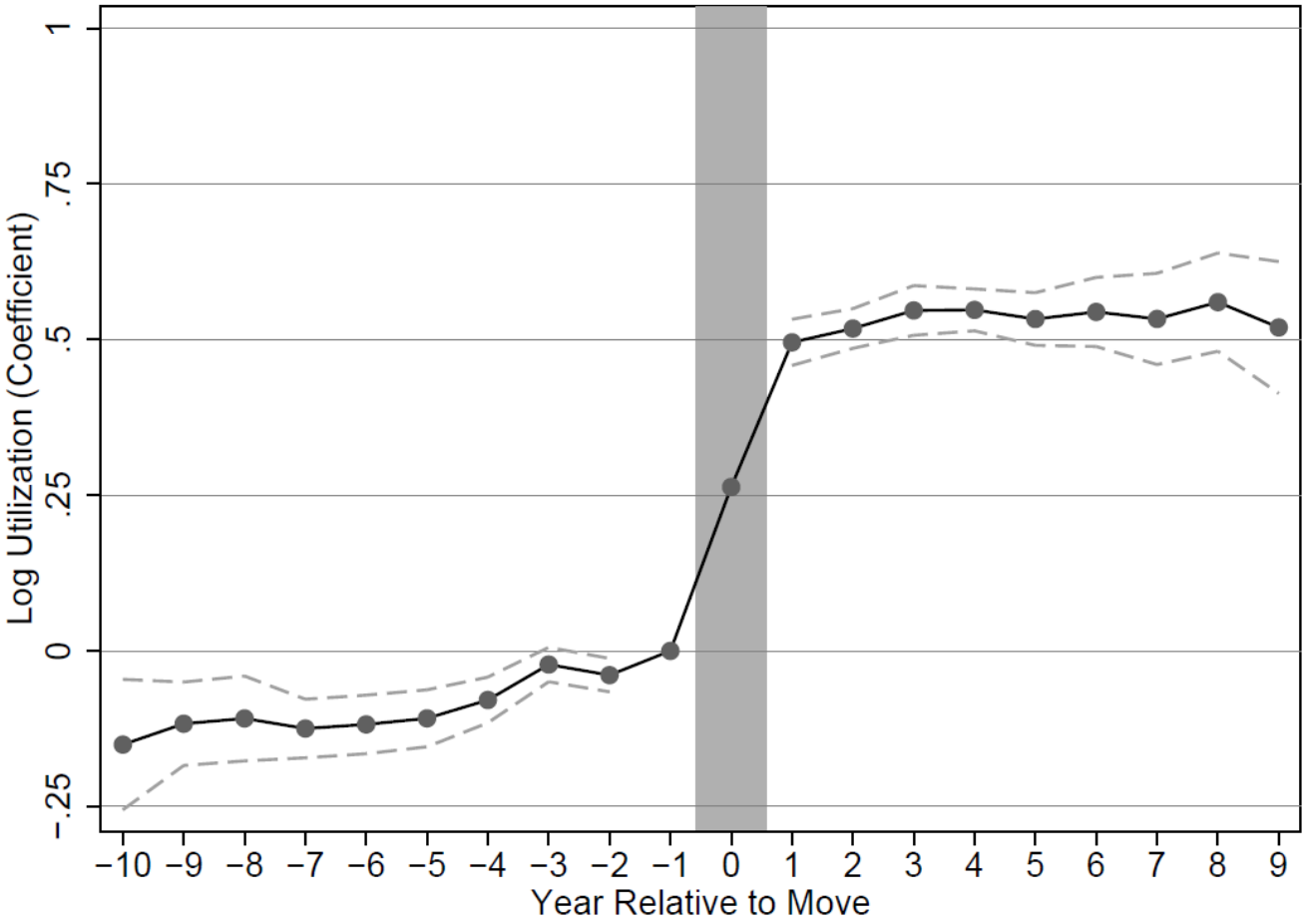


Migration of Medicare Enrollees



Migration of Medicare Enrollees

Event study: Log Utilization



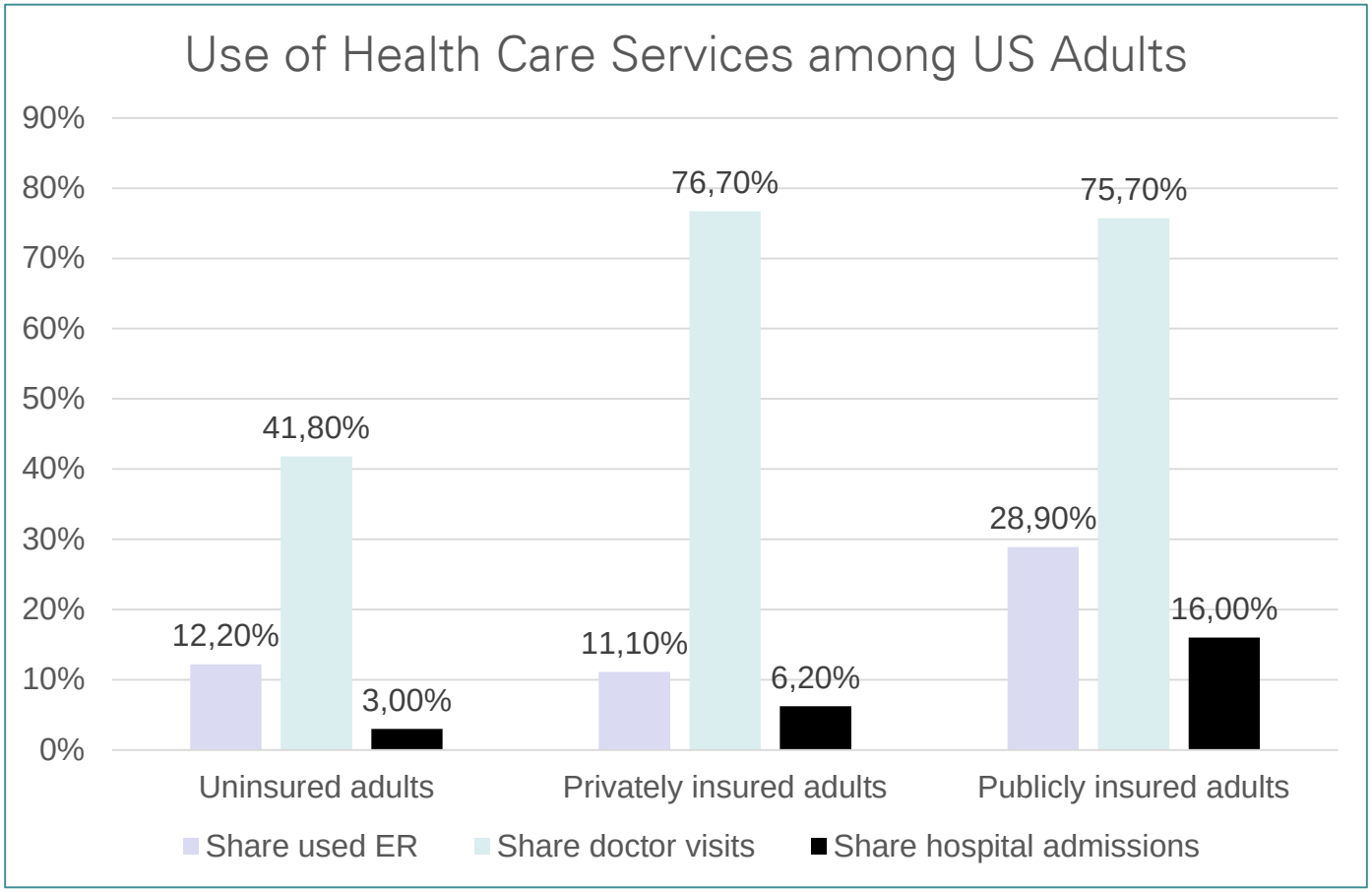
Findings

- About half of geographic variation is due to demand (patients)
- About half to supply (place)

- What drives patient demand?
  - Small role for demographics, persistence of past treatments, habit formation
  - Measured patient health care explain a substantial portion (50-80%)

- Areas with high place-effects on spending tend to have:
  - Larger share of for profit hospitals
  - Larger share of doctors who report preference for aggressive care

#3 The Uninsured and the ER



Source: Ruohua Annetta Zhou, Katherine Baicker, Sarah Taubman, and Amy N. Finkelstein. *Health Affairs* (2017).

Compared to the insured, the uninsured use the emergency room much more than other types of care

#3: The Uninsured and the ER

Fact: Compared to the insured, the uninsured use the emergency room much more than other types of care

Conclusion: Expanding health insurance will get uninsured out of ER and into cheaper primary care

> Lack of insurance has "forced too many uninsured Americans to depend on the emergency room for care they need"
>
> – Kathleen Sebelius, *Secretary of Health and Human Services*, 2009

> "By expanding Medicaid… Not only are we saving money, but we're helping to improve the health of all Michiganders."
>
> – Rick Snyder, *Governor of Michigan*, 2013

Fallacy: Correlation is not causation

Correlation vs. Causation

Looking for low-cost or free health coverage?

HOW IT WORKS

OHP Standard provides free or low-cost health insurance to Oregon residents who:

- Do not have health care insurance*
- Are 19 years old or older*
- Are not pregnant*
- Have limited income*

Because there are not enough openings to meet everyone's needs, DHS is creating a list of people who would like to apply for OHP Standard. You must place your name on the reservation list during January 28 - February 29, 2008.

DHS will randomly select names monthly from the list starting in March. If your name is selected, DHS will mail you an OHP Standard application form. If you apply and qualify, you will be enrolled in OHP Standard.

DHS wants you to be independent, healthy and safe. The Oregon Health Plan can help make that possible.

GET STARTED

There are three ways to get on the reservation list:

FILL OUT A REQUEST ONLINE.
Visit the OHP Standard reservation list Web site at www.oregon.gov/DHS/open and enter your information electronically.

MAIL A REQUEST.
Complete the OHP Standard reservation request form. Forms are available at any DHS or AAA office, county health department and most hospitals and clinics.

SIGN UP BY PHONE.
Call [illegible] 699-9075 or 503-378-7800 (TTY) Monday through Friday, 7:00 a.m. to 7:00 p.m. If you cannot call during the hours listed, you can have anyone call for you. They just need your name, date of birth and mailing address.

IT'S EASY, IT'S FAIR, GET ON THE LIST!
The reservation list is only open from January 28 - February 29, 2008.

DHS Oregon Department of Human Services

Oregon Health Plan

* The information above applies only to OHP Standard. Other benefit packages, such as those that cover pregnant women or people who are under 19 years of age, have different eligibility requirements and are always open. To find out if you are eligible for one of these benefit packages, complete an OHP application. OHP applications are available by calling 800-359-9517 or at any DHS branch office.

JANUARY 2014

Science

AAAS

Medicaid Increases Emergency-Department Use: Evidence from Oregon's Health Insurance Experiment

Sarah L. Taubman,[1*] Heidi L. Allen,[2] Bill J. Wright,[3] Katherine Baicker,[1,4] Amy N. Finkelstein[1,5]

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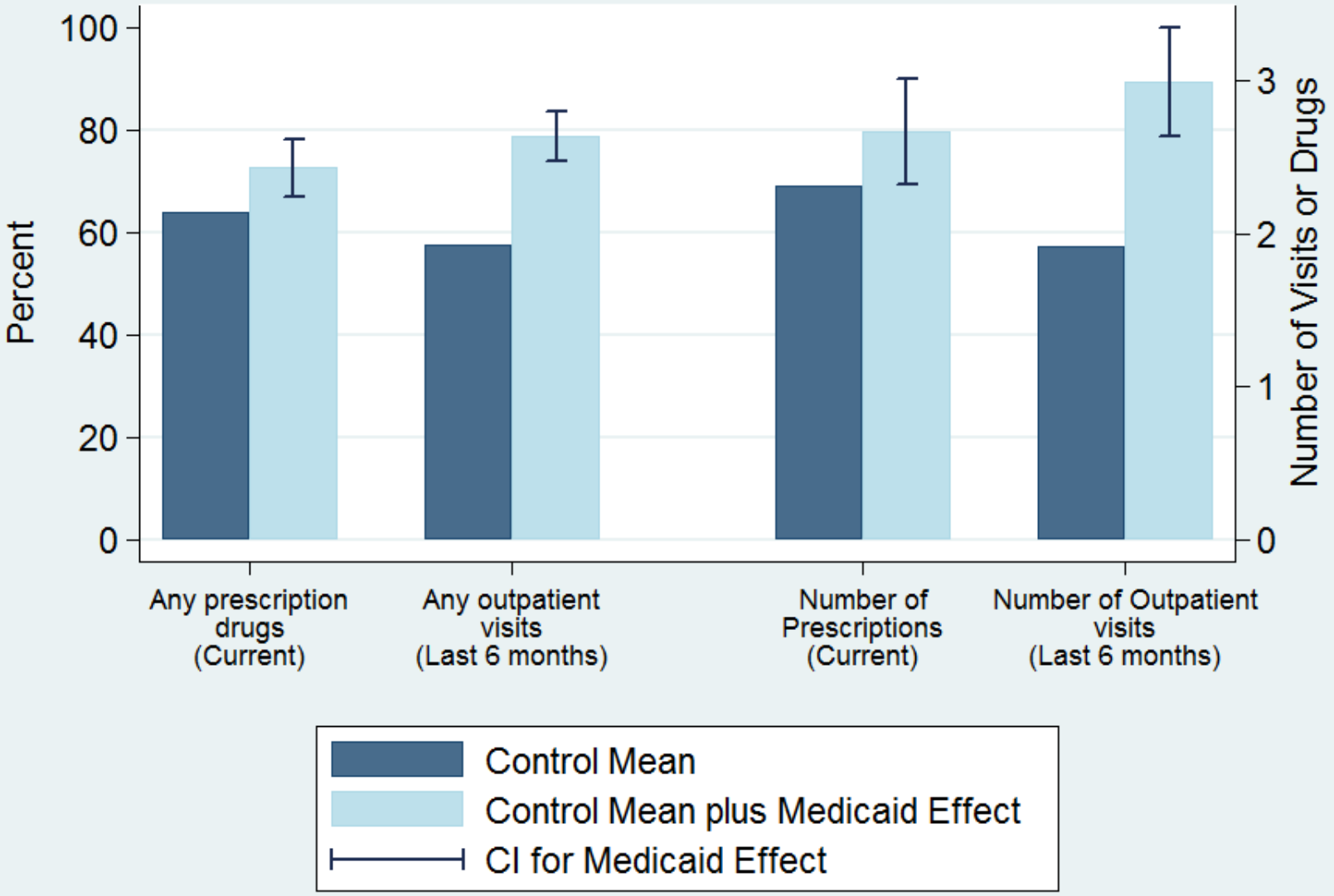
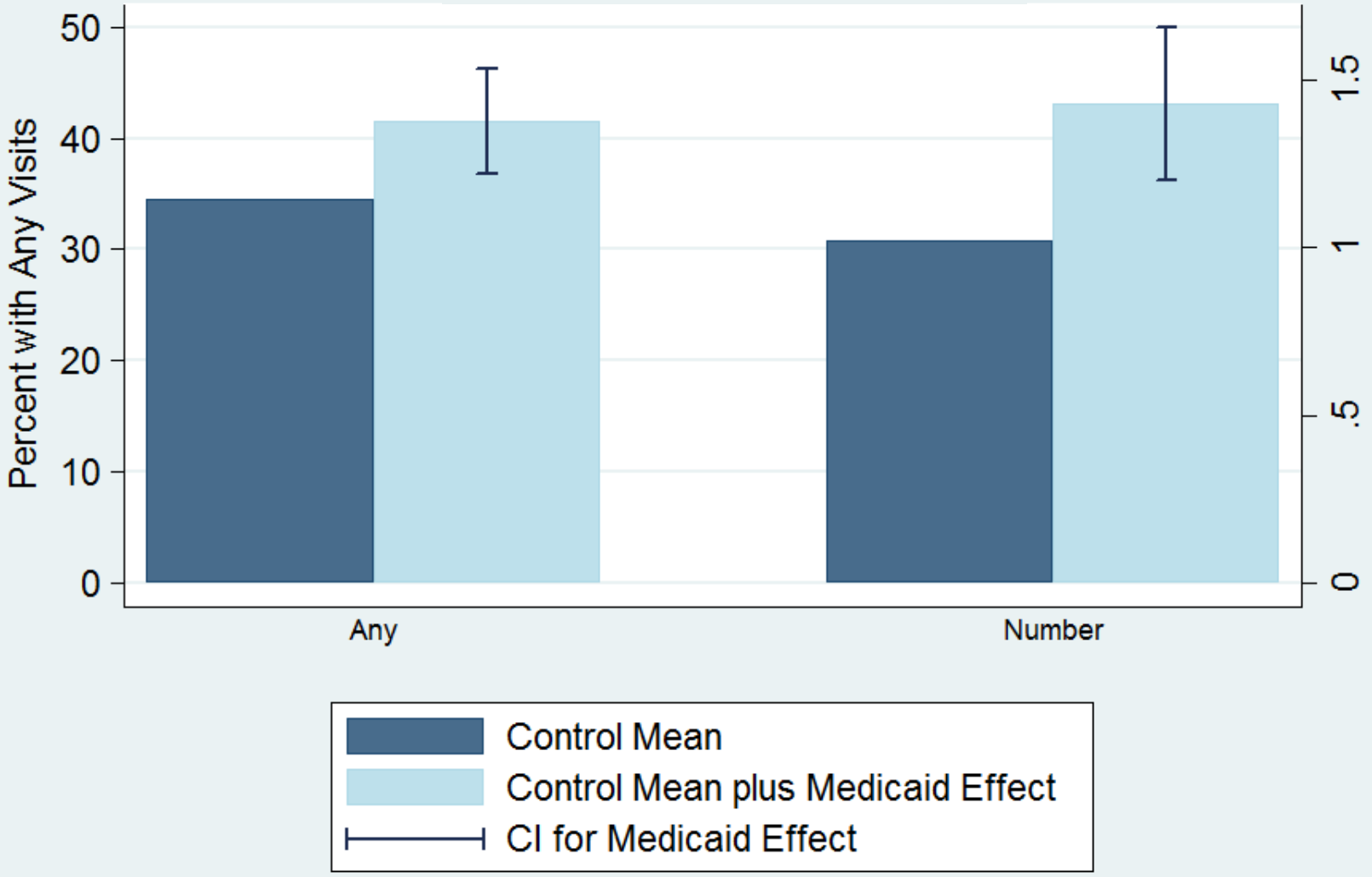
Primary Care and Prescription Drugs



Emergency Room



Outcomes measured over an approximately 18 month period.

Findings

Insurance increases healthcare use across the board:

- Primary care
- Prescription drugs
- Hospital use
- Emergency room

Is the Increase in Emergency Room Use a Puzzle?

#4: Medical Bankruptcies

Fact: Over half of people who go bankrupt have had large medical bills

- Documented in academic research by now-Senator Elizabeth Warren

Conclusion: Expanding health insurance will get rid of most bankruptcies

- Advocating for the Affordable Care Act

  High cost of health care "causes a bankruptcy in America every 30 seconds."
  - President Obama, 2009

- Introducing the 2014 Medical Bankruptcy Fairness Act

  Medical bills are "the leading cause of personal bankruptcy"
  - Elizabedth Warren (D-MA) & Sheldon Whitehouse (D-RI)

Fallacy: Outcome selection

Outcome Selection

Example: What makes someone a successful technology entrepreneur

Many successful tech giants dropped out of college

- Bill Gates, Steve Jobs, Mark Zuckerberg
- Dropping out of Harvard seems particularly lucrative…

Approach

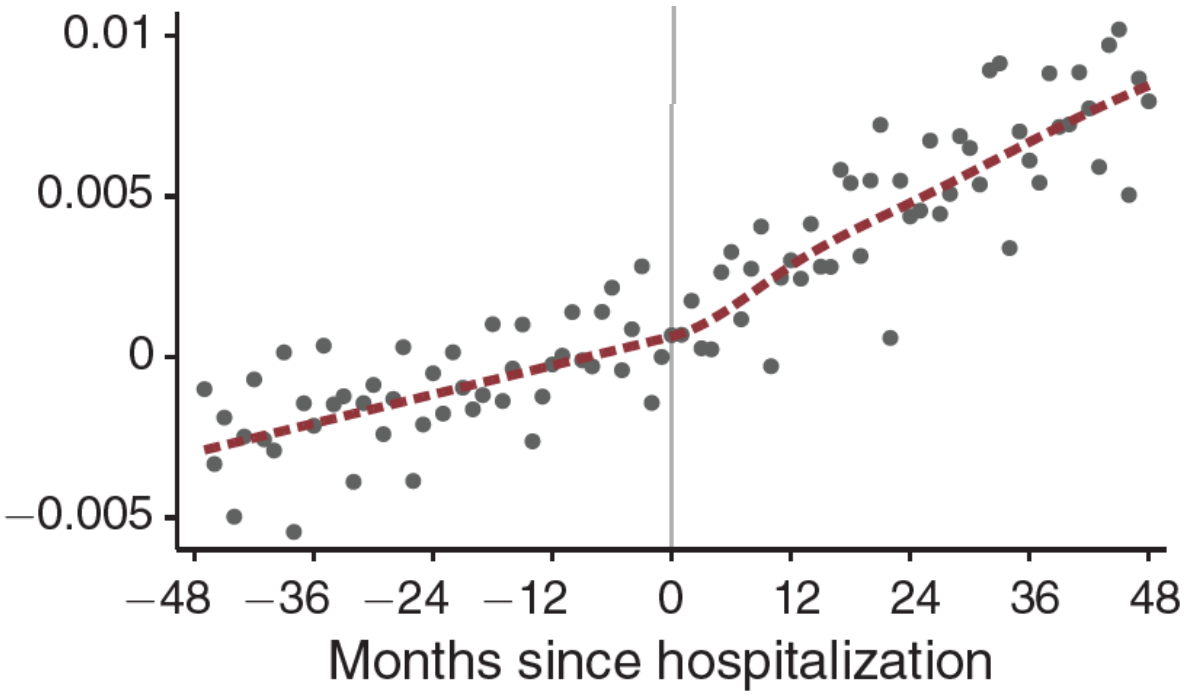
The American Economic Review

February 2018

The Economic Consequences of Hospital Admissions†

By Carlos Dobkin, Amy Finkelstein, Raymond Kluender, and Matthew J. Notowidigdo*

Panel A. Any bankruptcy to date insured [baseline]



Findings

- Clear effect of hospital admission on bankruptcies
  - But magnitude is small: account for only 4% of personal bankruptcies
- Hospital admissions do cause great financial harm
  - Even among *insured* adults ages 50-59, hospital admission causes a 20 percent decline in earnings and employment

The New York Times

TheUpshot

Elizabeth Warren and a Scholarly Debate Over Medical Bankruptcy That Won't Go Away

A 2005 academic paper fueled much discussion and helped her political career, but remains contested.

By Margot Sanger-Katz

June 6, 2018

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- Misguided focus on "medical bankruptcies"
  - True nature of economic hardship arising from high-cost health problems
  - Wrong policy levers (e.g. bankruptcy reform vs. disability insurance)

No Easy Fixes

Expanding Health Insurance

- Is Not a Free Lunch
- Or a “solution” to bankruptcy

Cutting Healthcare spending without harming patients

- Not Obvious How to Do It

Plumbing: A Path Forward

RICHARD T. ELY LECTURE

The Economist as Plumber†

By ESTHER DUFLO*

"The economist as plumber… she installs the machine in the real world, carefully watches what happens, then tinkers as needed"

- Duflo (2017)

Long-Term Care Hospitals: A Case Study in Waste

Liran Einav, Amy Finkelstein, Neale Mahoney

NBER Working Paper No. 24946
Issued in August 2018
NBER Program(s):Aging, Health Care, Industrial Organization, Public Economics