

Part Two - Addressing Overall Expenditures in the U.S. Health Care



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The factors that may influence the shift of the supply are the change in costs for suppliers, change in medical technology and change in many physicians in the healthcare industry. On the other hand, the factors that may influence the shift of the demand are the change in population or market size, change in patient preferences, change in the price of substitutes or complements and even change in patient disposable income. This shift can be brought about, for instance, in preventative services; some Medicaid programs are experimenting with contracts with beneficiaries, under which full benefits are contingent on the recipients' compliance with specified utilization rules. An employer might also require employees to obtain some preventive services as part of a behaviour based premium scheme.

Benefits of Reducing the Need for Physician Services

The benefits of reducing the need for medical services would encompass under the preventive services, health promotion and coverage policies. Under the preventative services, providers could be given incentives to promote the use of preventive services through a pay-for-performance system. Another benefit is through the health promotion activities, for instance, smoking cessation or weight reduction condition as one of the measures as an incentive for efficiency without placing the providers at excessive risks. A third benefit is that under any of the coverage models, payers would continue to make decisions about what services are covered or not only under specified circumstances or with the prior authorization. Therefore, consumers then sort themselves out based on their price-sensitivity and their willingness to accept the plan rather than a physician as the arbiter of their care to prevent adverse selection.

The overall health care costs are driven to a significant extent by the behaviour and lifestyle choices of individuals. Participants' economic incentive to use health care regarding having the typical health insurance model provides an incentive to overuse medical services because there is not a very direct connection between participants' out-of-pocket costs and the actual cost of services. For instance, if participants' only cost is \$30 co-pay, there is no incentive to choose a physician who charges \$100 for an office visit over one who charges \$150. Total overuse of service in the health care system has been estimated at between 30% and 50%. A long-term plan also makes it easier to take smaller steps toward a larger ultimate goal. An incremental approach limits the upfront investment and allows managers to assess the impacts of relatively minor changes, and then make adjustments before proceeding further. The proposed strategy can help reduce costs by approximately 5% to 20%. Furthermore, this provides economies of scale and access to best practices that might not otherwise be available.

Unintended Consequences of the Cost-Containment Effort

There is a possible risk selection problem that would need to be addressed, and it is not clear that this consumer-choice model would take all the politics out of coverage decision-making. Alternatively, consumers who accept a hypothetically limited plan when they are well might not be stoical about the plan's limits once they become sick. Still, plan competition on this basis is not inherently less reasonable than competition assuming the tightness of network restrictions. It seems more likely that such a market would emerge under the non-group and play-or-pay options than under the connector model.

Overall Review

Health care cost containment covering active and, where applicable, retired employees, is a critical component of long-term financial planning and budgeting. Cost containment is necessary to maintain the provision of government service levels, particularly in jurisdictions subject to tax limitations. Therefore, it is vital to reduce the need for physician services as a strategy.

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