Worthy

Making Healthcare Affordable for Everyone

PART EIGHT A

Introduction

American healthcare costs too much and no one in the country – not the federal or state governments, employers, or consumers – can afford to pay the projected increases in the future. We literally did the math to prove this point in one of our first Worthy Segments but for those of you that could use a few proof points before taking this on faith consider the following:

- The average family health insurance policy purchased through an employer is now nearly $27,000 per year (KFF)
- The average American cannot afford the average health insurance premium without a substantial subsidy
- The largest subsidies come from the federal and state governments and from employers and they cannot afford to increase those subsidies at the pace of projected increases in healthcare costs (see charts below)
- As the increases in subsidies stop keeping pace with increases in healthcare costs, more Americans are going uninsured and "underinsured" meaning that even if they have health insurance, they would struggle paying their out-of-pocket expenses if they had a health condition. In fact, a recent Gallup poll indicates that just over half of Americans cannot afford healthcare (Fierce Healthcare)
- This is having a serious impact on the lives of Americans as it causes financial stress and influences decisions about work. Another Gallup Poll indicated that 1 in 4 Americans are staying in their job mainly to preserve their health insurance coverage (Gallup Poll Insurance and Jobs)
- These financial barriers are also the biggest barrier to improving the health of Americans as being uninsured and underinsured results in people having poorer health outcomes and life expectancy (Sicker and Poorer, NCBI, Excess Deaths Among Uninsured, JAMA) as well as financial pressure (medical costs continue to be the leading cause of personal bankruptcies)

While it would be nice to simply have "someone else" pay these bills, the reality is that "someone else" doesn't have a bank account. At today's spending levels, the U.S. Government is spending more than 60% of its budget on healthcare and social security/income programs and is running such a large budget deficit that even if it eliminated all non-defense "discretionary" spending it would still have a deficit. This financial problem just keeps getting worse as every year healthcare cost increases outstrip the increase in incomes.

More than 60% of federal spending goes to healthcare, social security and other income support programs

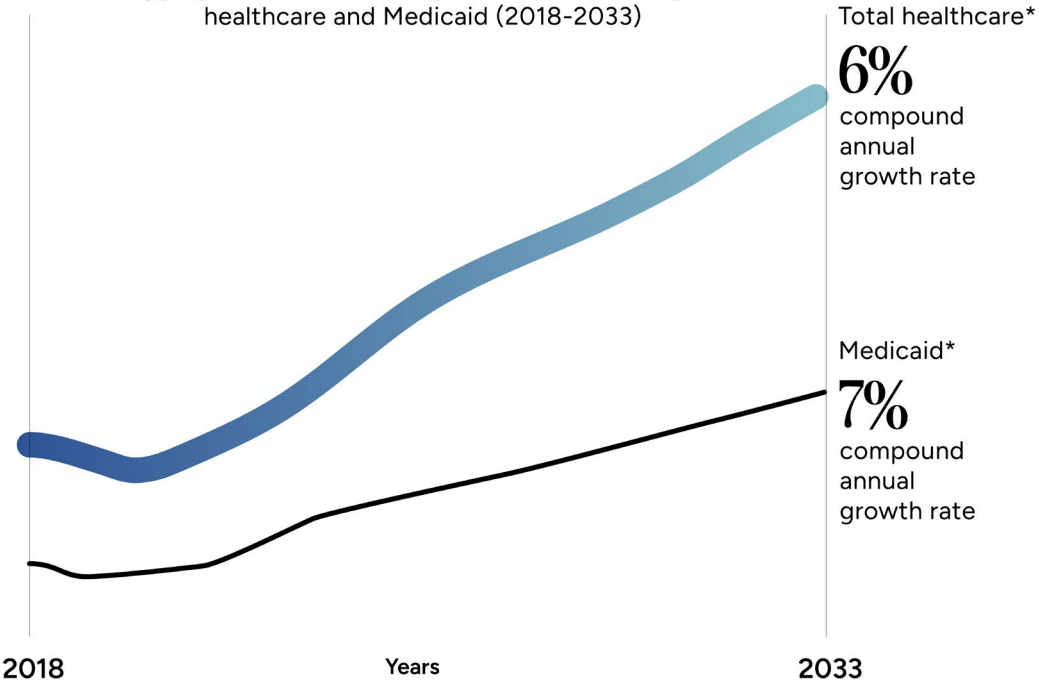
US federal outlays by category (2024)

Source: Congressional Budget Office

State governments face the same problem – healthcare costs keep squeezing out spending for everything else.

State government spending on healthcare continues to rise at a rapid rate

Aggregate state and local government spending on healthcare and Medicaid (2018-2033)

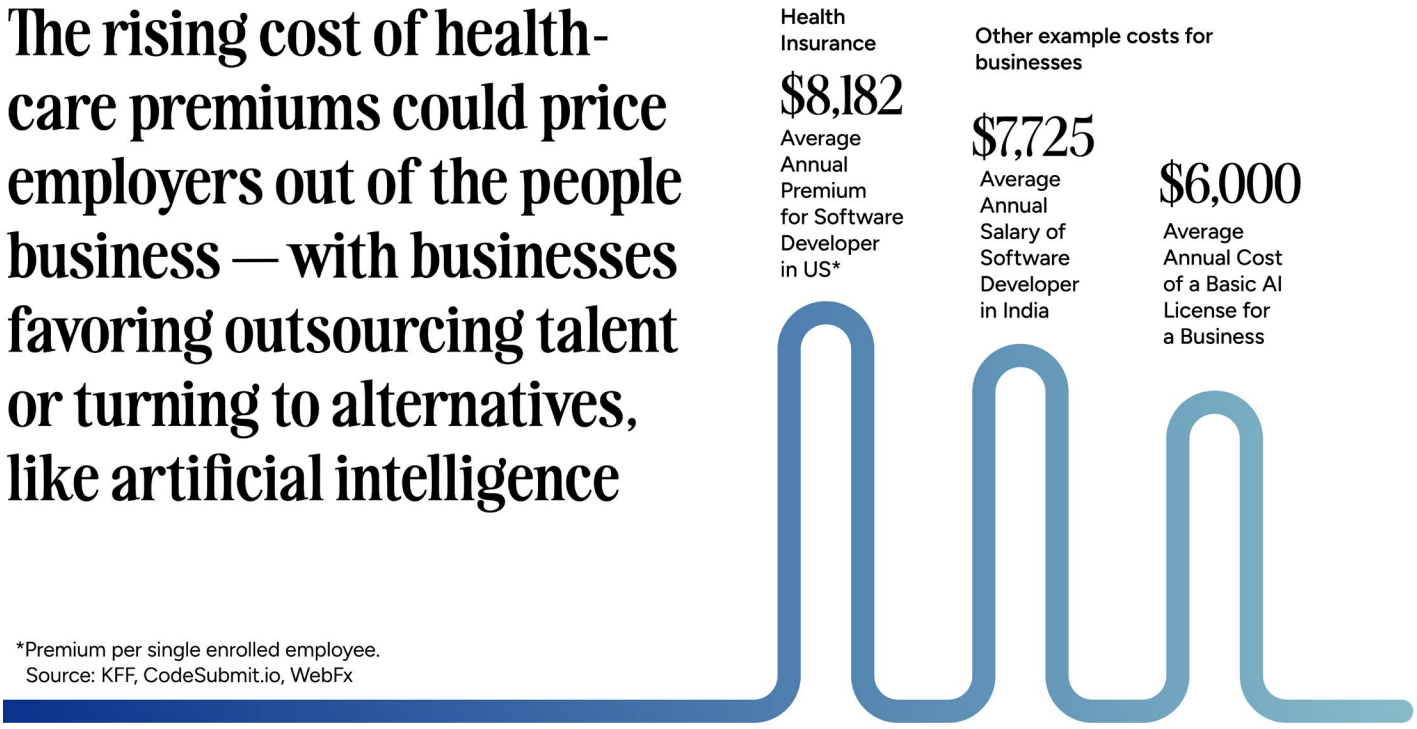


*Total healthcare includes state and local government spend on Medicaid in addition to employer contributions to private health insurance, payroll taxes paid to Medicare trust fund, and other programs such as CHIP, public health activities, research, and CapEx. Medicaid line refers to state and local spend on program excluding federal match. Source: CMS NHE, Federal Reserve Bank of St. Louis

Employers are spending so much on healthcare costs per employee that they are facing some hard economic choices.

Comparison of healthcare costs to other business costs

The rising cost of health-care premiums could price employers out of the people business — with businesses favoring outsourcing talent or turning to alternatives, like artificial intelligence



*Premium per single enrolled employee.
Source: KFF, CodeSubmit.io, WebFx

Creating a healthcare system that is Worthy of us all starts with everyone having healthcare coverage. However, we seem to be caught in a loop. In order to provide care Worthy of us all, we need to provide universal health insurance coverage, however, many people remain uninsured and underinsured because they cannot afford it, and employers and state and federal governments do not have the money to expand subsidies to make it more affordable. How do we get out of this loop?

The only way to solve this dilemma is to make the cost of healthcare coverage sustainably affordable with a high degree of certainty and consistency for the foreseeable future, e.g., for decades. That means keeping health care cost increases at or below general price and wage increases every year. Only then can governments and employers responsibly commit to expanding their financial support to ensure universal coverage.

In this segment, we will focus on how to make healthcare affordable with a high degree of certainty and consistency for the entire country. Fortunately, previous Worthy segments have set the stage to accomplish this important and challenging goal.

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How to make healthcare affordable

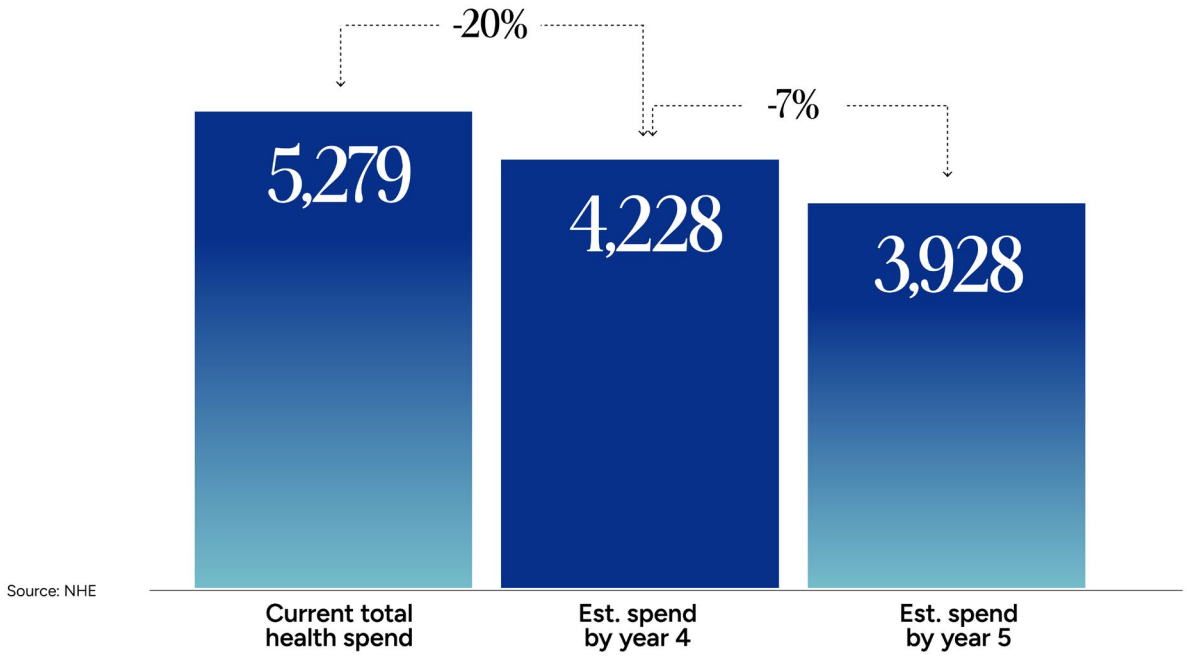
In previous Worthy segments (depicted in the visual illustration below), we've demonstrated how it is possible to save > $1 trillion in healthcare costs while delivering care and service that is Worthy of our family and friends and sustainably affordable for everyone.

In the table below, we recap the math on how to save > $1 trillion. Click the links to read more.

Segment	Projected Savings
Pharmacy distribution reform	$95B
Digitize, simplify, automate	$306B
Tie pay to outcomes	$600B (year 4) $900B (year 5)
Pharmacy pricing	$50B
Total	**$1,051B (year 4)** **$1,351B (year 5)**

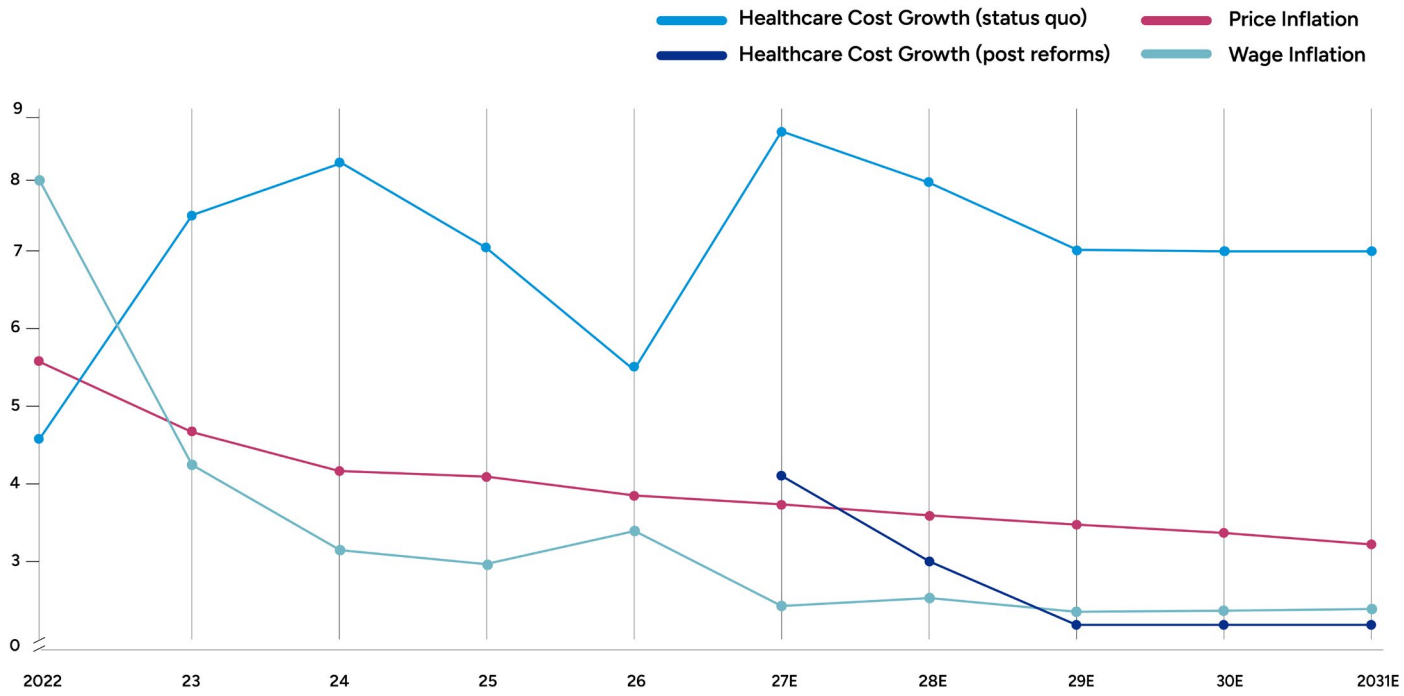
As you can see from the chart below, reducing costs by this amount would represent a >20% reduction in total healthcare spending nationally.

Total healthcare spending after implementing proposed reforms, $B



Because it will take time to implement these approaches nationwide and experience the benefits of doing so, we will not instantaneously reduce health insurance premiums by this full amount immediately. However, even if we assume that these benefits are spread evenly over a 4-5 year period, it would reduce healthcare cost trends by approximately 5% per year, which provides a clear path to bringing healthcare costs down to or below general price and wage inflation (see chart on the next page).

Healthcare cost increases by year v. inflation, %[1]



[1] For healthcare cost increases under status quo data through 2026 based on CMS NHE dataset and years after 2026 based on projects from Tying Pay to Outcomes analysis. For healthcare costs increases after savings projections of cost increases after proposed savings measures implemented. Price inflation based on estimates from Statista and wage inflation based on estimates using data from BLS and the Economic Policy Institute.

Source: NHE, Statista, EPI, BLS

So, we can make healthcare sustainably affordable. But if we are going to bet our economic and fiscal future on expanded subsidies to ensure universal healthcare coverage we have to know with a high degree of confidence that this will actually happen and that it will be sustained for not just years but decades. Given the healthcare industry's poor track record on affordability, we cannot assume that these cost-saving initiatives will actually translate into reduced prices nor that this performance will be maintained in later years. How can we be sure?

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It is time to put healthcare on a budget

We are all familiar with budgets. Nearly every American family has to figure out how to live within their financial means and many of us work in organizations where we have to go through an annual budgeting exercise and/or deal with keeping costs within a specific amount. Determining and managing a budget can be frustrating and challenging but it is also common and intuitive. We typically learn from an early age that there are limits. We cannot pay for everything that we want and need to make choices.

While individual companies that operate in the healthcare industry have their own budgets, there is no meaningful or effective mechanism to keep the total costs of the entire industry within a reasonable budget. One could argue that there is no budget for any other commercial industry. That is true, however, for nearly every other industry there are effective market checks on how much their products and services cost that simply do not exist in healthcare. The transportation industry doesn't have a budget but if the price of airplane flights increases dramatically, people and companies travel less and/or find alternative ways to travel, e.g., by car. The same holds true for nearly every other industry. In short, because the purchaser of a product/service is also the user of it and the purchaser generally has the option of consuming less (or shifting to alternatives), most industries cannot just keep raising their prices dramatically without experiencing a negative financial consequence.

But these things are not true with healthcare. For example, while people do choose to go uninsured as a result of high prices, we've seen from the research cited earlier that this choice can literally bankrupt them and even shorten their lives. Put another way, healthcare is a need, not a luxury. Therefore, there is no effective mechanism to force the healthcare industry as a whole to figure out how to be more efficient and keep prices down.

As a result, the healthcare industry has been remarkable in its ability to not deliver savings. Even when laws are passed and initiatives undertaken with the aim of reducing costs, somehow, healthcare costs continue to inexorably rise much faster than wages or prices for everything else.

A great example of this was the expansion of healthcare coverage under the Affordable Care Act. One of the arguments hospitals made before this law was passed was that they had to keep increasing prices in order to subsidize their losses that stemmed from such a high uninsured population. People would go to the emergency room, get treatment, not have insurance coverage, be unable to pay for the bill, and hospitals had to write off these losses.

The Affordable Care Act introduced subsidies for individual insurance coverage which ultimately led to the number of people uninsured to be roughly cut in half from ~15% prior to the law passing to approximately 8% today (SHADAC, KFF).

This was a dramatic expansion of coverage that similarly reduced the financial losses experienced by hospitals and one of the key drivers hospitals pointed to for their annual increases. But after a couple of years of slightly lower healthcare cost trends, the annual increases in healthcare costs and in hospital rate increases returned to their norm and more recently are higher than they were prior to the passing of the law. Specifically, according to the CMS NHE dataset, prior to implementing the ACA total healthcare and hospital costs increased by approximately 7% per year on average. In years following the law's implementation in 2013 and 2014 this slowed to around 5% per year. However, in more recent years up to 2024 the rate of growth has reverted back to approximately 7% annually (NHE).

Hospitals are not alone by any means. There are plenty of other examples where savings are expected and projected but never realized in the actual price of health insurance, e.g., savings from the use of new drugs or surgeries/ treatments. Many of these steps may actually create some financial benefit, but the benefit somehow never seems to reach the purchaser.

Which is why we need to put the healthcare industry on a strict, enforceable budget.

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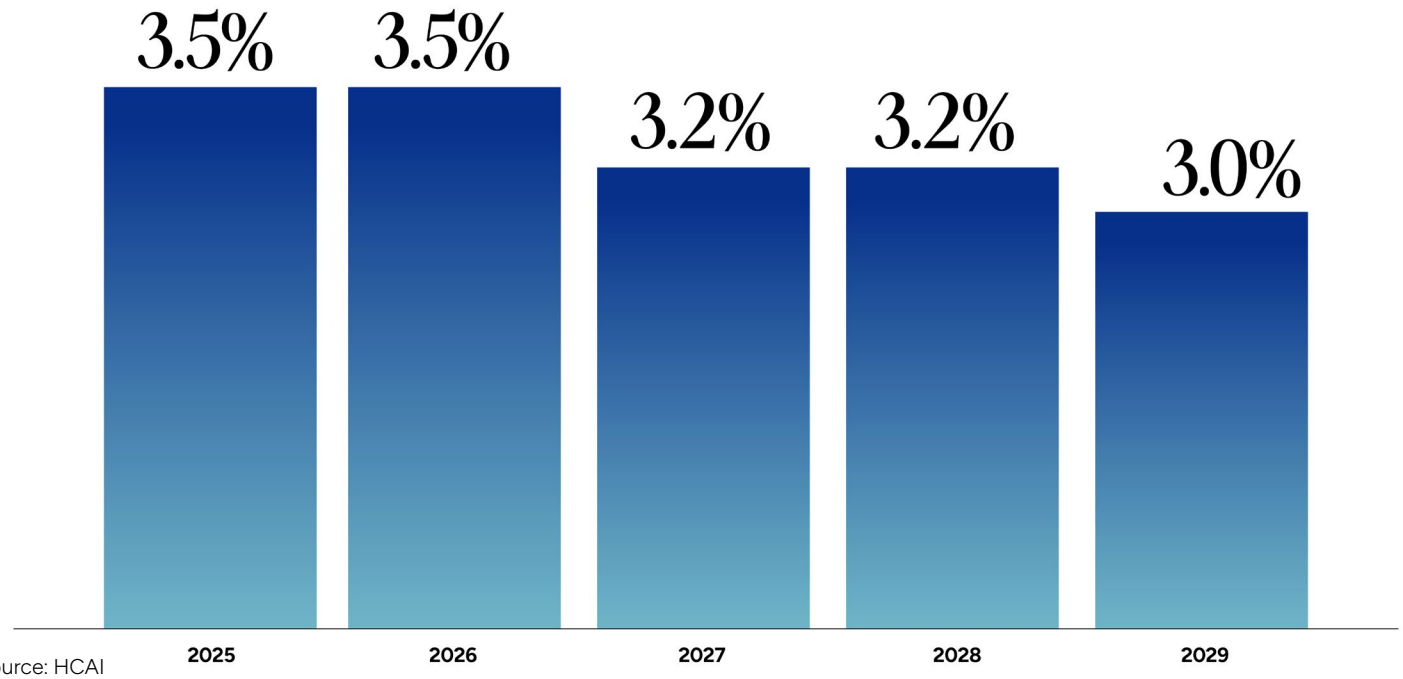
California shows the way

Multiple states have set budget targets for healthcare costs (e.g., Massachusetts), but California is unique in that it actually made its budget targets enforceable with potential fines. This is a crucial feature that is absolutely necessary for success at the federal level and so I'm going to focus on the California approach as a model for the country.

In June 2022, Governor Newsom of California signed into a law a bill creating the "Office of Health Care Affordability". The Office is governed by a 8-person Board with the individual Board members named by government entities. The Board meets regularly and has the authority to establish budget targets overall for the healthcare sector but also for individual entities, e.g., health plans, hospitals. Perhaps most importantly, beginning in 2028 the Board can assess fines up to the difference between an organization's target and their actual performance (HCAI), although it should be noted that fines are expected to be the last step in progressive enforcement.

As you can see from the chart below, the Office of Health Care Affordability has set a long-term goal of getting total healthcare costs to 3% annual trends which is approximately the same long-term level of general price and wage inflation today.

California healthcare cost trend targets by year, %



Source: HCAI

The Office of Health Care Affordability has also done a lot of analysis and set individual targets based on this work, e.g., hospitals with the highest prices relative to a benchmark have the most aggressive cost targets.

The effort certainly has critics, e.g., the California Hospital Association has filed a lawsuit challenging the law and hospitals have been critical of the goals that have been set and the analysis used to set them. The industry is also not on track to hit its near-term cost targets, which some could argue is evidence that it is not working.

My own perspective is that this initiative is working, will ultimately achieve its goals, and the process will both take years and be painful and messy. I am optimistic about the ultimate outcome and realistic about how challenging it will be to get there because:

- In conversations with leaders from different sectors of healthcare, it is clear that these targets are becoming a part of the dialogue in California, i.e., the healthcare industry is becoming more serious about figuring out how to hit the targets
- I believe the Office will ultimately use good judgement in assessing fines by striking the right balance between holding the industry accountable and demonstrating some patience where it is appropriate. For example, in early years, I believe they could choose to focus on how serious each organization's effort is to pursue affordability when determining whether and where to levy fines
- As you have seen earlier in this segment, it is actually possible to achieve the affordability goals that the Office has set and so if the Office can get the industry to focus on aggressively pursuing the efforts we have outlined, success will follow
- "Everyone has to touch the stove," is a favorite saying of a former colleague of mine. What he meant by that is that you can tell people that the stove is hot but some of them just won't believe it until they test it themselves and get burned. That will certainly happen here. The Office is going to have to levy some painful fines at some point to ensure the industry understands that they need to take the goals seriously. Therefore, things will certainly get painful and messy and the process will take time

That is why we need an Office of Health Care Affordability for the United States. There is no other path that I can see that will create the confidence that we will make healthcare affordable and sustain it not just over years but over decades. Without such a mechanism, we could reduce costs but never see those savings show up in the actual price that customers pay. Therefore, we need to pass a law at the federal level that is very similar to what was passed in California. If you are interested in more details on how the California Office of Affordability works, you can read about them in the appendix.

Once we have a national office of affordability in place that has established goals that ensure healthcare costs grow at or below the growth of wages and other prices, we can then be in a position to provide the financial assistance required to ensure everyone has access to

healthcare coverage. This is due to the fact that we will know that healthcare costs will not be growing faster than the rest of the economy and therefore will not proportionately increase the financial burden (tax revenues and total company profits tend to grow overall at a similar rate as the economy grows and both of these will likely be the two main sources of subsidies). Proposing exactly how we will ensure everyone has access to affordable coverage is a topic we will turn to in our next Worthy segment.

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We can make American healthcare affordable if we make it a priority

What I am proposing here absolutely can work. It will also be highly contentious. As the saying goes, "one person's waste is another person's profit." Put another way, making healthcare affordable by hitting a budget requires us to reduce cost trends which means that some companies and individuals who are currently earning revenue, profit, and/or income at a certain level and in a certain way are either going to see their pay reduced or have to dramatically change how they do their work in order maintain that level of pay. They will not want to see changes like this and will vehemently push against them with dramatic arguments that this effort will "ration care," "kill innovation," and possibly even establish "death panels". Of course, we will remind everyone that we are setting limits on ***the rate of increase*** of future healthcare expenses and we are simply asking the healthcare industry to do what every American family has to do every year: figure out how to make ends meet with a modest increase in pay.

We started Worthy because the healthcare system is bankrupting and failing us, it requires systemic reform, that reform is unlikely to come from the industry itself, and so we need new federal laws and regulations that require the healthcare industry to change. I have described this as giving the healthcare industry some "tough love." That is, while we love much of what the participants in the system are doing for us, we need them to do it better and more efficiently as soon as possible. This segment is the ultimate culmination of this approach. By setting a budget and holding all the participants in the healthcare system accountable for hitting it, we are administering some "tough love" to the industry. The industry participants won't like it, but they will adapt to it if we all insist that they do. And when we do insist on it, we will create a path for everyone to have access to healthcare that is both affordable and truly Worthy.

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Appendix – California Office of Healthcare Affordability:

The Office of Healthcare Affordability (OHCA) was established by California in 2022 in response to widespread cost-related access challenges affecting California's residents and is part of the California Department of Health Care Access and Information. The Office is based in the state's Department of Health Care Access and Information. It has a broad regulatory scope, overseeing health plans and insurers; hospitals and health systems; physician organizations and medical groups; and pharmacy benefit managers. Specific responsibilities of the Office include:

- **Slow underlying spending growth.** Healthcare has become increasingly unaffordable in California, driven in part by excess spend in the system. Some of this spending can potentially decrease without negatively impacting access or quality. OHCA collects, analyzes, and publicly reports data on sources and drivers of spend across the system. It establishes cost growth targets and holds entities accountable to them.
- **Promote high-value system performance.** OHCA promotes adoption of alternative payment models to compensate providers based on the quality of care they provide. OHCA measures quality, equity, investment in primary care and behavioral health, as well as workforce stability to ensure the state's system is delivering value given the resources invested.
- **Assess market consolidation.** California features a heavily consolidated market, which potentially contributes toward higher costs with few improvements in quality. OHCA conducts cost and market impact reviews on transactions that are likely to significantly impact healthcare market competition, affordability, and cost growth. Based on the review, OHCA coordinates with other state agencies to address consolidation as appropriate.

Since its establishment in 2022, the Office has established a 3% statewide healthcare spending target; proposed new Alternative Payment Model standards, workforce stability standards, and primary care investment benchmarks; and introduced new disclosure rules around mergers and acquisitions. OHCA will continue collecting data; enforcing cost targets; and collaborate with other state agencies to improve California's healthcare system. For more information on OHCA see these resources (CHCF, HCAI, Health-Access.Org).

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Appendix – Pharmacy pricing savings

Our pharmacy pricing reform proposal eliminated several practices that were inflationary and created a technology health assessment that set a threshold price for all new brand drugs above a certain potential cost threshold. I am projecting this will save 5-6% of the annual prescription drug costs of $910 billion (or $45 - $55 billion per year with the mid point of that number being $50 billion).

The rationale for this estimate is that the Congressional Budget Office forecasted a 1-3% savings for expanded authority for the federal government to negotiate more drug prices (Negotiating drug prices lowers costs; Initial Price Negotiations). Given that our proposal would require effective negotiation through the threshold price setting for all drugs not just an expanded subset, it seems fair to assume the highest end of that range of 3% (in reality, it is probably higher but given the uncertainty it is better to assume conservatively).

In addition, the Congressional Budget Office, estimated a 1-3% reduction in drug costs associated with requiring manufacturers to pay increased rebates to off-set list prices that increase faster than inflation (CBO Cost Savings Estimate). Given the expectation that once the threshold price of a drug is set it is expected to track at or below wage inflation over time, it is reasonable to assume that this will also create savings in this range (we are assuming 2-3%). Combining these two forecasts gets us to the 5-6% savings and the $50 billion forecast.

Admittedly, this is a high-level forecast based on analyses of other (albeit similar) proposals. That said, this level of savings forecast seems reasonable given how significant the collective proposed reforms are.

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