



THE CAPITOL FORUMS ON HEALTH AND MEDICAL CARE

Health Care Purchasing Power in New Jersey

Prepared by

Joanne Fuccello, MSW
Health Care Policy Consultant

and

Katharine S. Pinneo
Associate Director / Capitol Forum Project Director

CAPITOL FORUM

TUESDAY, April 20, 1993

Sponsored by

The League of Women Voters of New Jersey Education Fund

with a grant from

THE ROBERT WOOD JOHNSON FOUNDATION

Issue Brief #3

April 1993

HEALTH CARE PURCHASING POWER IN NEW JERSEY

By Joanne Fuccello and Katharine S. Pinneo

The subject of the Third Capitol Forum on health care purchasing power is a result of discussion at previous Forums identifying *insurance reform* and *access to insurance* as issues for further discussion. To that end this paper provides an overview of health care financing, the services it purchases and the factors impacting the two.

HIGHLIGHTS

A recent "Health Care Financing Review" analysis (Fall 1991/Volume 13, Number 1) includes the following highlights of the national health care expenditures and services purchased. In consultation with experts, it was agreed that for the purposes of this paper, a fair comparison could be drawn between the national and New Jersey picture.

1990 REVENUE - \$666.2 Billion US and \$19 Billion NJ (Estimate)

- * Payment for the health care system comes from four funding sponsors: government (Federal, state and local), business (including corporations, partnerships, and small groups), households/individuals, and non-patient revenues (fund raising, for example).
- * In 1965 households/individuals paid for 61% of all health services and supplies, business 17%, and government programs paid for 21%.
- * By comparison, in 1990 government programs were the source of 42.2% of the funding of health care.

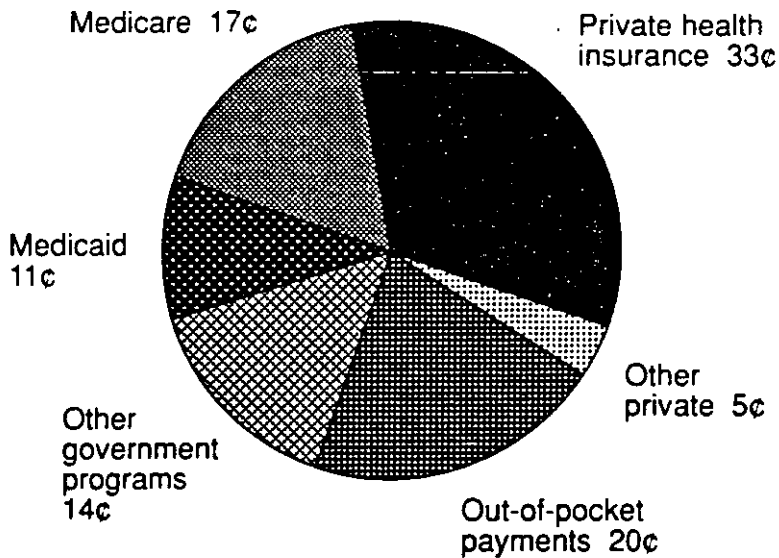
- * The largest government programs, Medicaid and Medicare, paid for 28.0% of national health expenditures.
- * Other government programs accounted for another 14%.
- * In 1990 business, households/individuals, and out-of-pocket payments funded the other 57.6% of national health care expenditures.

1990 EXPENDITURES - \$666.2 Billion US and \$19 Billion NJ (Estimate)

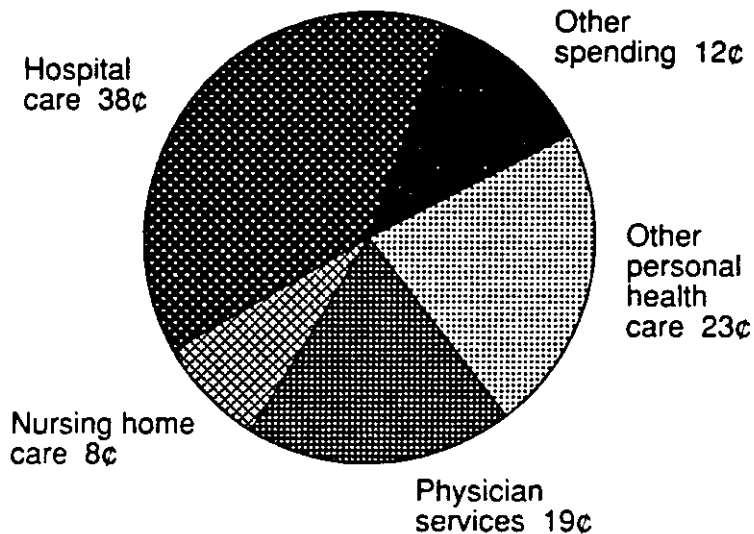
- * In 1990 the total national health expenditures reached \$666.2 billion or 12.2% of the Gross National Product. Health care expenditures for the last three decades grew at a faster pace than the economy and are taking up an ever increasing percentage of the the Gross National Product.
- * In 1990 the national expenditure for health services and supplies (which excludes research and construction) was \$643.4 billion.
- * The 1990 per capita expenditure for health care was \$2,566. This total includes a \$2,255 per capita expenditure for personal health care plus capital expenses.
- * Spending for hospital services was the largest category in national health expenditures representing 38.4% of the total.
- * Spending for professional services (physician services, dental services, and other professionals) represented 28.7% of the total.
- * According to a study of Medicaid conducted by the Council on New Jersey Affairs at Princeton University (Beer and Lago, 1986) both nationally and in New Jersey Medicaid expenditures are heavily skewed toward nursing homes and general hospital care - in 1984 these two categories formed 75% of New Jersey's Medicaid expenditures and most of the program's growth.

THE NATION'S HEALTH DOLLAR: 1990

Where it came from



Where it went



NOTES: Other private includes industrial inplant health services, non-patient revenues, and privately financed construction. Other personal health care includes dental, other professional services, home health care, drugs and other non-durable medical products, and vision products and other durable medical products. Other spending covers program administration and the net cost of private health insurance, government public health, and research and construction.

SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Cost Estimates.

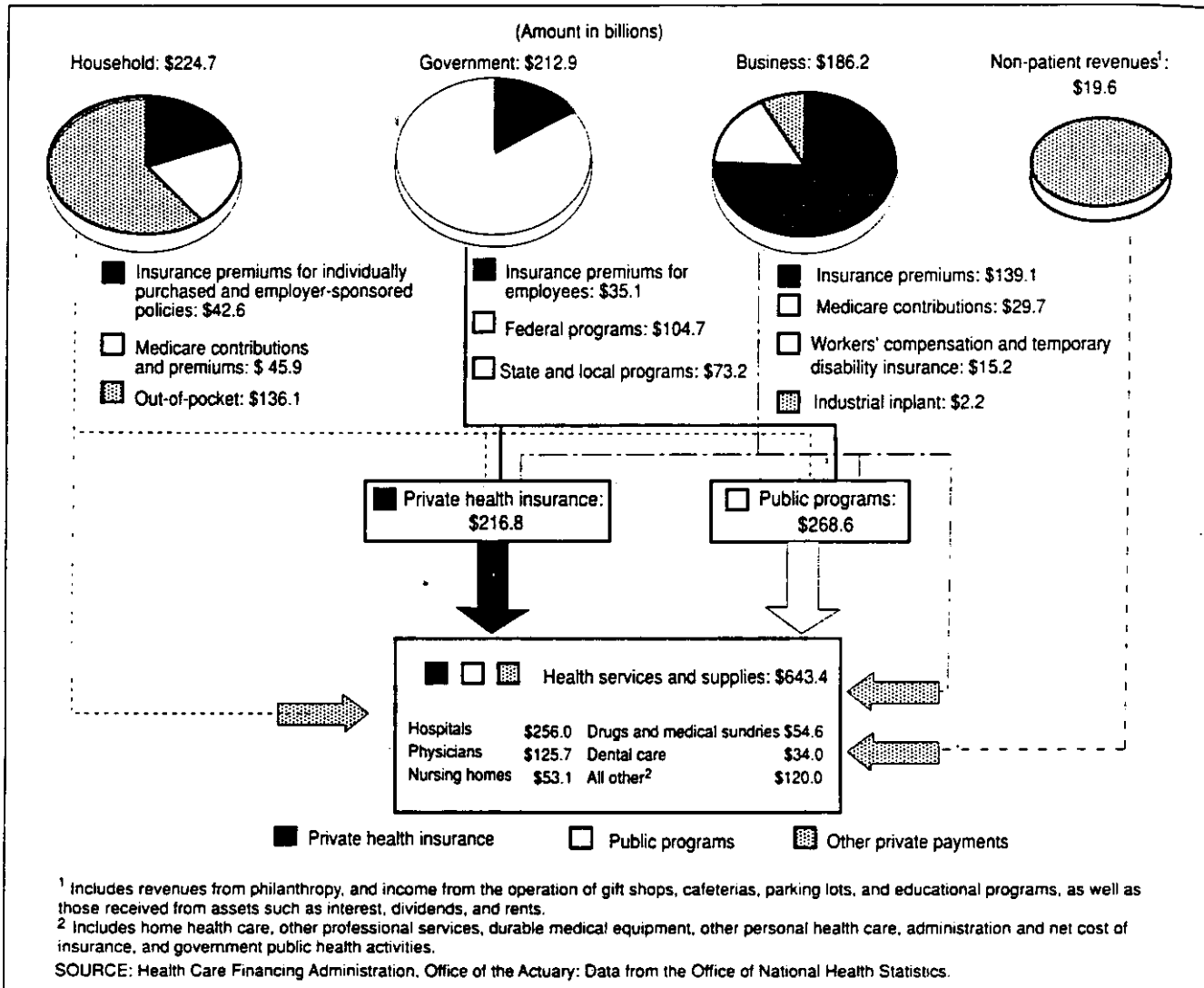
HEALTH CARE FUNDING SPONSORS

In 1990 the funding sponsors of health care - business, households/individuals, and government - spent \$643.4 billion for health services and supplies (not including research and construction). Some of the monies for health services and supplies "pass through" health care bill payers for example, insurance companies and government. Other parts of the monies, for example, household/individual out-of-pocket expenses, go directly into the health care system.

The following are some summary statements about each of the sponsors:

- * **In 1990 business paid \$186.2 billion for health services and supplies which was 29% of the total expenditure for that year.** The largest part of that expense, \$139.1 billion, was for the employer contribution to employee health insurance premiums. The next largest part, or \$29.7 billion, was for the employer contribution to the Medicare hospital insurance trust fund. Workers' compensation, temporary disability insurance, and in-company health services constituted the remaining \$17.4 billion.
- * **In 1990 households/individuals spent \$224.7 billion for health care services and supplies. The amount represents 35% of the total health care expenditures.** Households/individuals as a source of health care payments has changed the most. In 1965 households/individuals represented 61% of the total expenditures.
- * **In 1990 the government expenditures from general revenue for health services was \$212.9 billion or 33% of the total health care expenditure.** This amount represents some of the spending for Medicare (other parts coming from households and business) and all of the Federal match for Medicaid, insurance premiums for employees of government agencies (\$9.2 billion for Federal employees and \$25.9 billion for state and local government employees).

FLOW OF FUNDS FROM SPONSORS OF HEALTH CARE INTO THE HEALTH CARE SYSTEM: UNITED STATES, 1990



Source: Health Care Financing Review/Winter 1991/Volume 13, Number 2, page 84

HEALTH CARE PROVIDERS AND SERVICES

The health care delivery system in the United States is comprised of institutional care (hospital, long-term care facilities, and special hospitals) and non-institutional care networks - formal and informal - which include physicians, home care and out-patient clinics.

Hospital care is the largest category of health care spending with a total of \$256.0 billion in 1990 which is 43.7% of the total 1990 bill.

Physicians services totaled \$125.7 billion and accounts for 21.5% of the total expenditure.

Other professional services (including services of licensed practitioners) in 1990 totaled \$31.6 billion.

Retail sales of prescription drugs amounted to \$32.3 billion in 1990.

Home health care amounted to \$6.9 billion in 1990.

Nursing home care reached \$53.1 billion which represented 9.1% of the personal health care expenditure.

Other personal health care which includes public programs and industrial in-plant programs was \$11.3 billion.

Finally, the administrative costs and the net cost of private health insurance in 1990 came to \$38.7 billion.

SOME OF THE ISSUES

It is valuable to look briefly at the historical elements that have shaped the current US health care system. The US system grew out of the need to protect the health care provider - first, the hospitals and then the doctors. The system was tied to the employer. Later, in an effort to work toward the "public good" and move toward universal access, Medicare and Medicaid were enacted. Ironically, this move is now pushing the system toward bankruptcy.

* Chapters 160, 161 and 162 of the NJ laws enacted on November 30, 1992 dealt with the requirements for small business health insurance reform and individual health insurance reform plus the mandate to develop the Jersey Shield Program. According to 1989 estimates 782,000 New Jerseyans under 65 years of age, 10.2% of the state's population, are uninsured. (Medicaid covers approximately 47% of those in poverty.) **ISSUE: How can the reform package make sure that all New Jerseyans will have access to health insurance?**

* In 1990 approximately \$19 billion was spent in New Jersey by all sponsors - business, households/individuals, and government - on health care services and supplies. **ISSUE: How should that money (purchasing power) and the services purchased be allocated to provide for all New Jerseyans? What is the role of health care planning?**

* New Jersey has the second largest public employee benefits program in the country. Approximately one of every eight NJ residents (over 900,000 persons) participants in the State Health Benefits Program with an annual cost of over one billion dollars. **ISSUE: Should programs such as the NJ State Health Benefits Program try to impact through purchasing effectiveness access to health insurance and cost of services?**

* The data compiled in this Issue Brief is based on national statistics which provided a more readily accessible picture of the New Jersey health care financing system. In consultation with experts in this field it was agreed that generalizations could be made about New Jersey based on percentages derived from analysis of the national system. **ISSUE: While there was extensive data available from a variety of state agencies on specific components of the system, there was not a single source for data which could provide an overview of the whole system. What is the best format for an on-going analysis of the relationship between funding sources and health services?**

Sources:

"National Health Expenditures, 1990," Levit, Lazenby, Cowan and Letsch, Health Care Financing Review, Fall 1991, Volume 13, Number 1

"Business, Households, and Governments: Health Care Costs, 1990," Levit and Cowan, Health Care Financing Review, Winter 1991, Volume 13, Number 2

"Special Report - A Layman's Guide to the U.S. Health Care System," De Lew, Greenberg, and Kinchen, Health Care Financing Review, Fall 1992, Volume 14, Number 1

"The New Jersey Health Care Trust Fund - A Report to the Governor and the Legislature," Frances J. Dunston, M.D., M.P.H. State Commissioner of Health, February, 1992

"The Dynamics and Directions of New Jersey Medicaid," Beer and Lago, Council on New Jersey Affairs, Princeton University, 1986