UCSF School of Nursing

Doctor of Nursing Practice

N263.16 Organizational Systems & Health Economics

Week 1 Overview & Textbook Summary (Waxman: Ch. 1)

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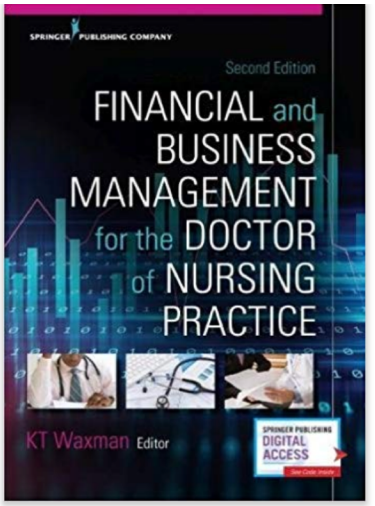
Chapter 1: The Economic Context of Nursing Practice in the United States



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Principles of Economics

- Resources are limited.
  - You must make choices.
- Substitutability
  - Resources can be dedicated to many uses.
  - What is the value of alternate uses of a resource?
- Heterogeneous preferences
  - One person's pleasure is another's poison.

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How Much Will You Consume?

- People compare the *marginal cost* with the *marginal utility.*
  - *Utility is sometimes called "benefit."*
- Marginal cost = change in cost for one-unit increase in quantity
- Marginal utility = change in utility for one-unit increase in quantity

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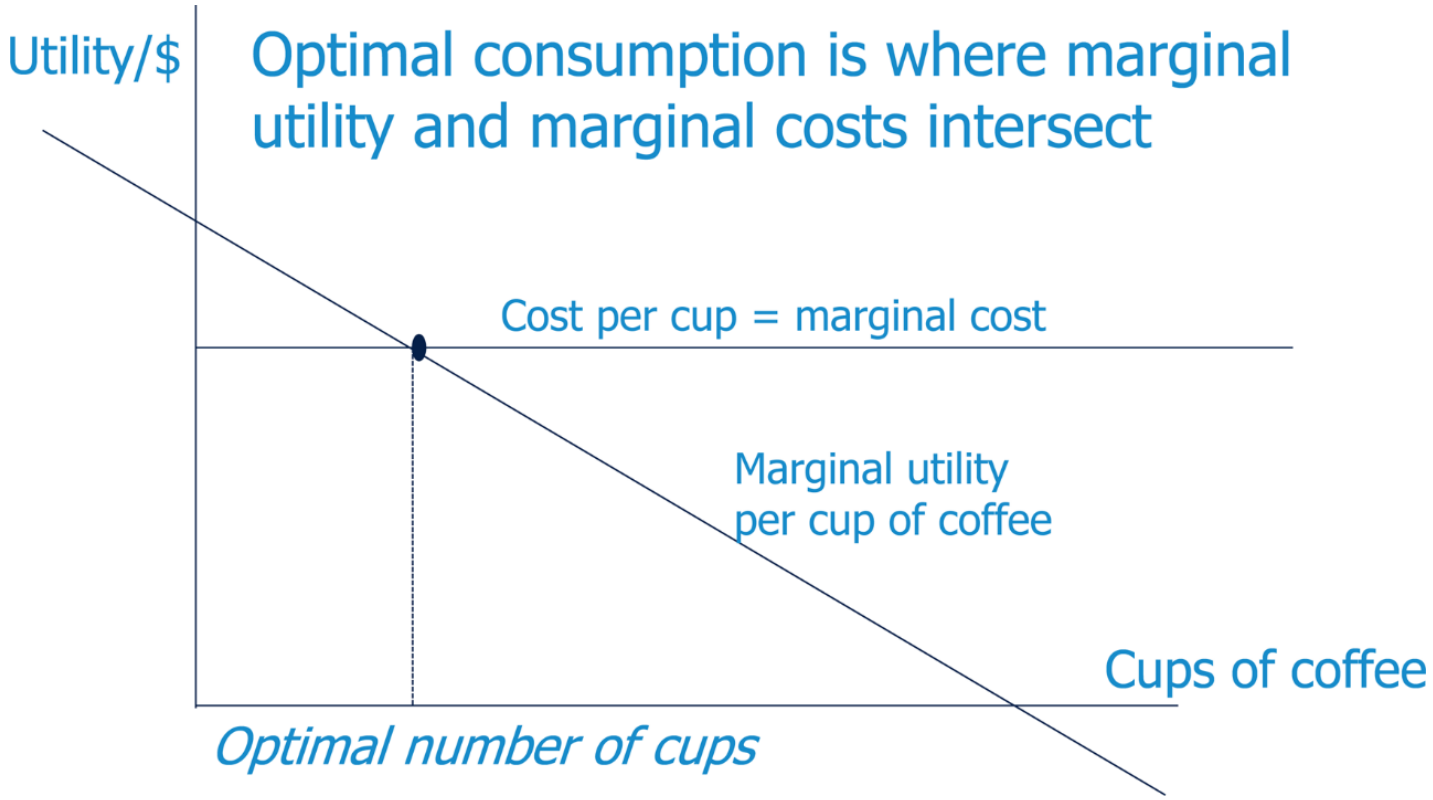
Marginal Utility and Marginal Costs



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The Idea of Marginal Benefit Versus Marginal Cost Applies to Production Decisions as Well

- If you are a producer:
  - The marginal cost of making one more cup of coffee is $0.17.
  - The marginal revenue of that cup is $5.00.
    - you will produce one more cup.
- To sell more cups of coffee, you have to drop the price.
- To increase production, you might have to increase marginal cost of production.
  - Build a new store (or roasting plant) or pay overtime.

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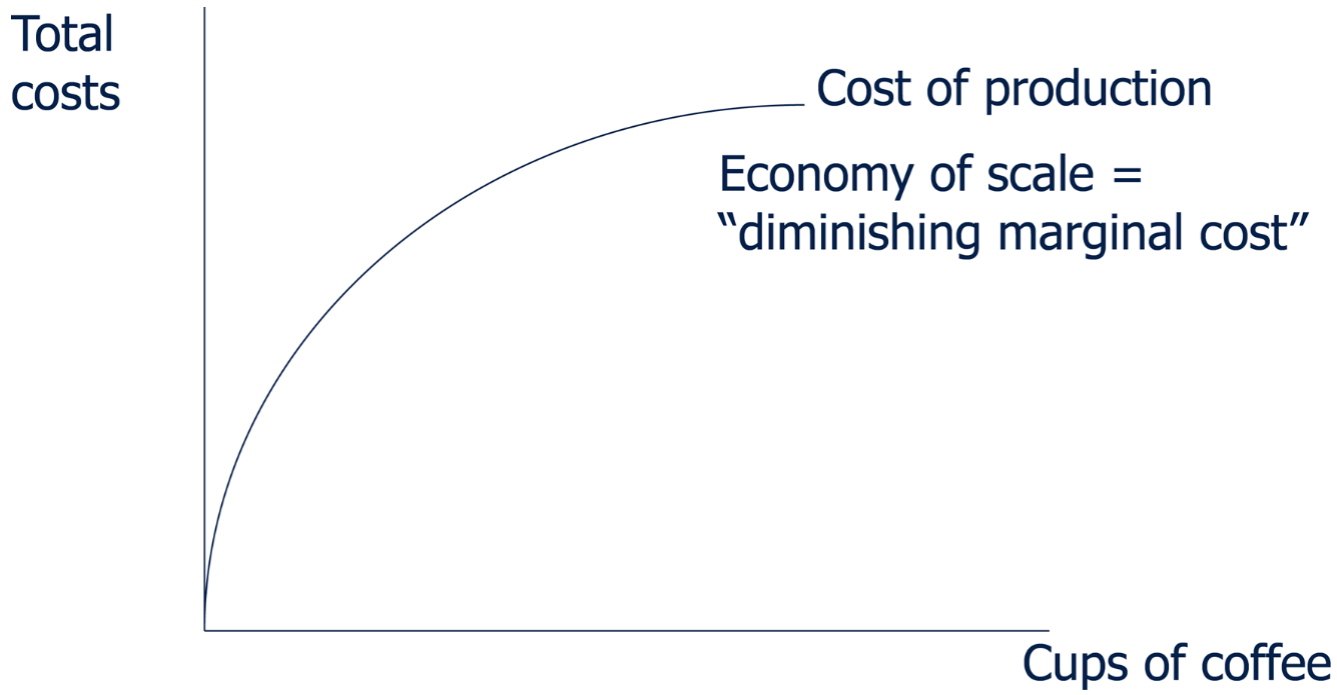
This Applies to Producers, Too…



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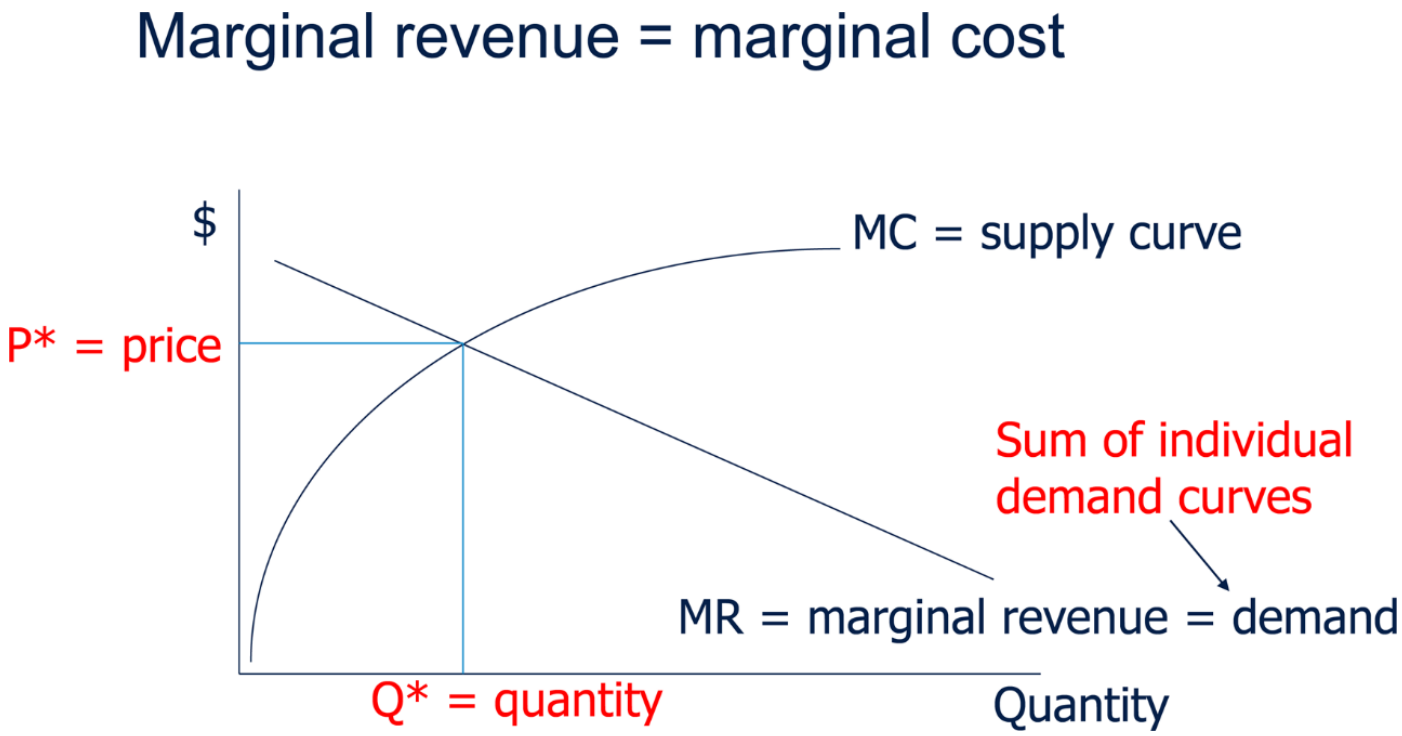
How Much Do You Choose to Produce?



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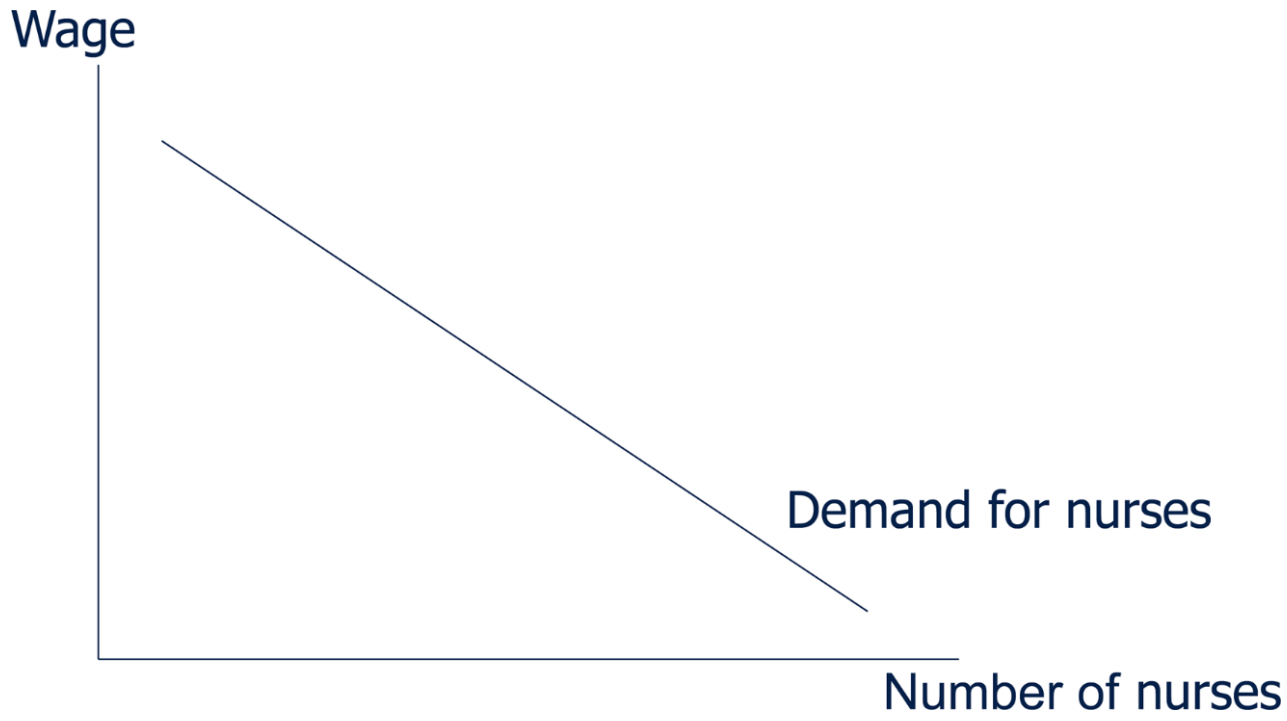
Demand for Nurses: As Wage Rises, Demand Is Lower



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Demand Curve

- The quantity demanded at alternative prices.
- If price changes, you move along the curve.
- The entire curve will shift if there are changes in:
  - Income (insurance reimbursement increase)
  - Price of related goods (licensed practical nurse [LPN]/ licensed vocational nurse [LVN] wages)
  - Preferences (chief nursing officer [CNO] prefers RNs)
- In fact, the demand curve measures your marginal benefit—which is what you would be willing to pay for something.

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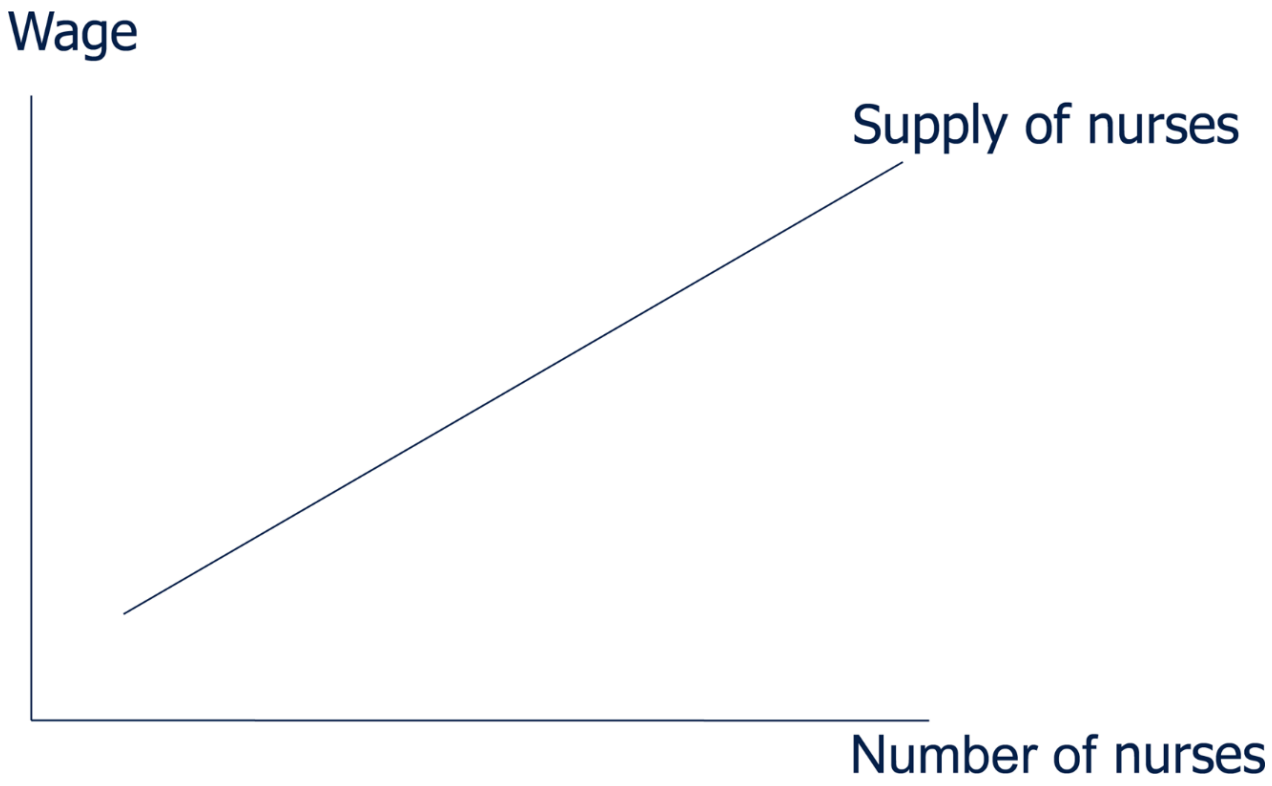
Supply of Nursing Personnel: As Wage Rises, Supply Increases



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Supply Curve

- The quantity supplied at alternative prices.
- If price changes, you move along the curve.
- The entire curve will shift if there are changes in:
  - Size of the workforce (more RN graduates)
  - Input prices
- The supply curve measures the marginal cost for workers: how much it "costs them" to supply an additional hour of work.
  - You also can think of this as the amount you have to pay to ensure that the worker gets enough "utility" from work to supply the extra hour.

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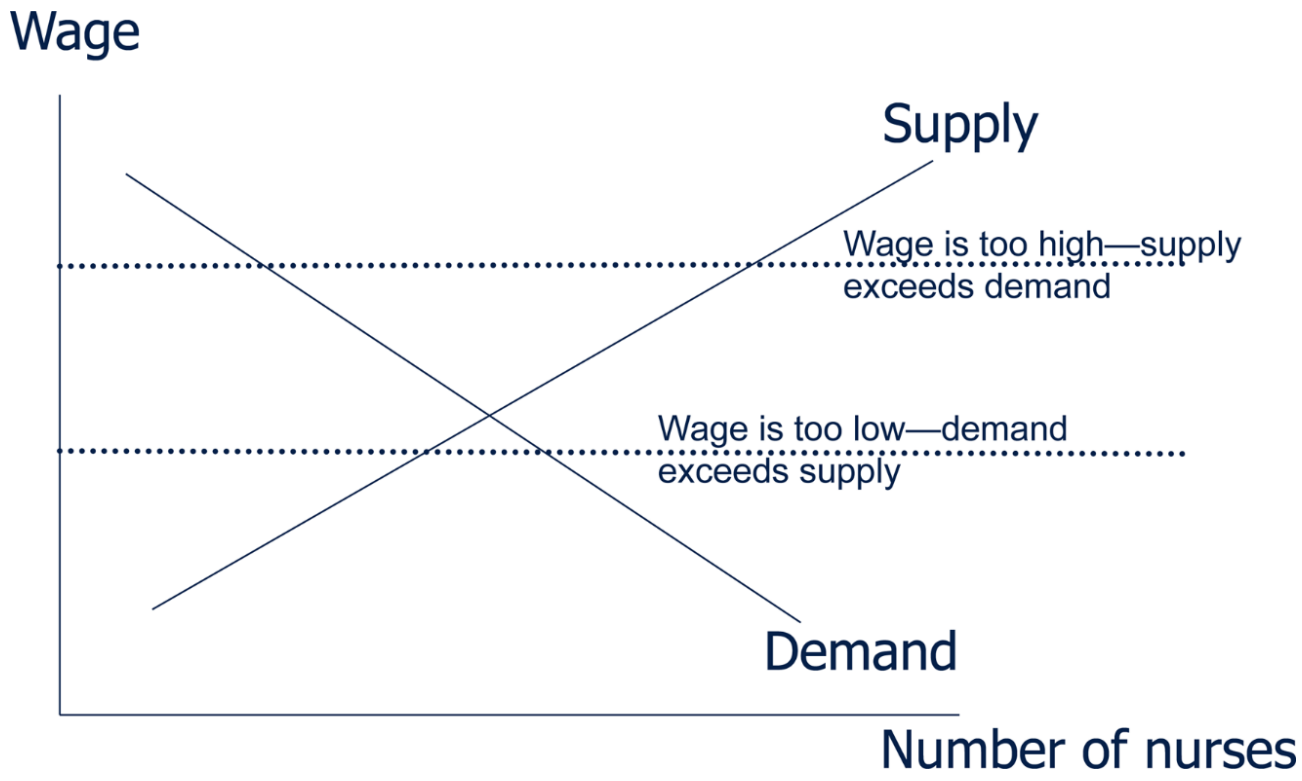
Demand and Supply for Nursing Personnel in a Typical Market



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Normally, There Is a Point Where the Margins Balance

- To recruit more RNs, you have to raise the wage.
- If there are too many RNs compared to jobs, then the wage will drop.

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If Wages Adjust to Make a Market Balance, Why Do We See Shortages?

- Limited number of employers
- Delays in wage increases
- Delays in producing new nurses
- Licensing regulations
- Minimum staffing requirements
- Minimum wages

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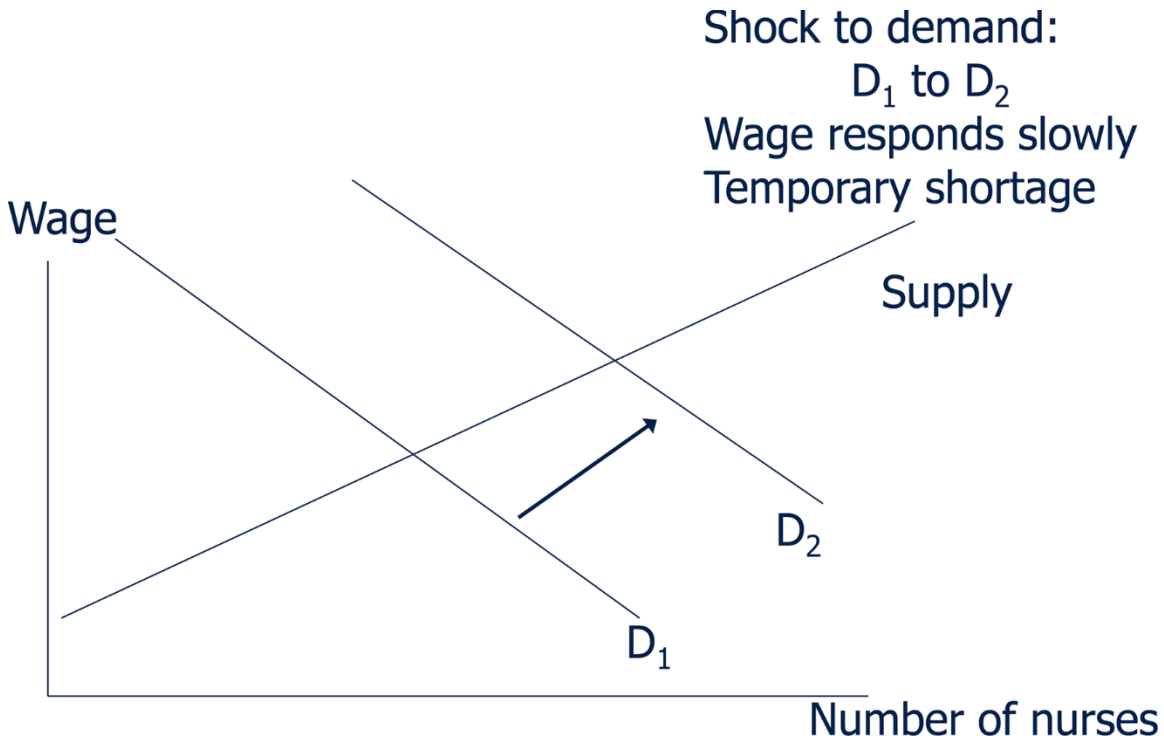
Slow Wage Response, Limited Employers



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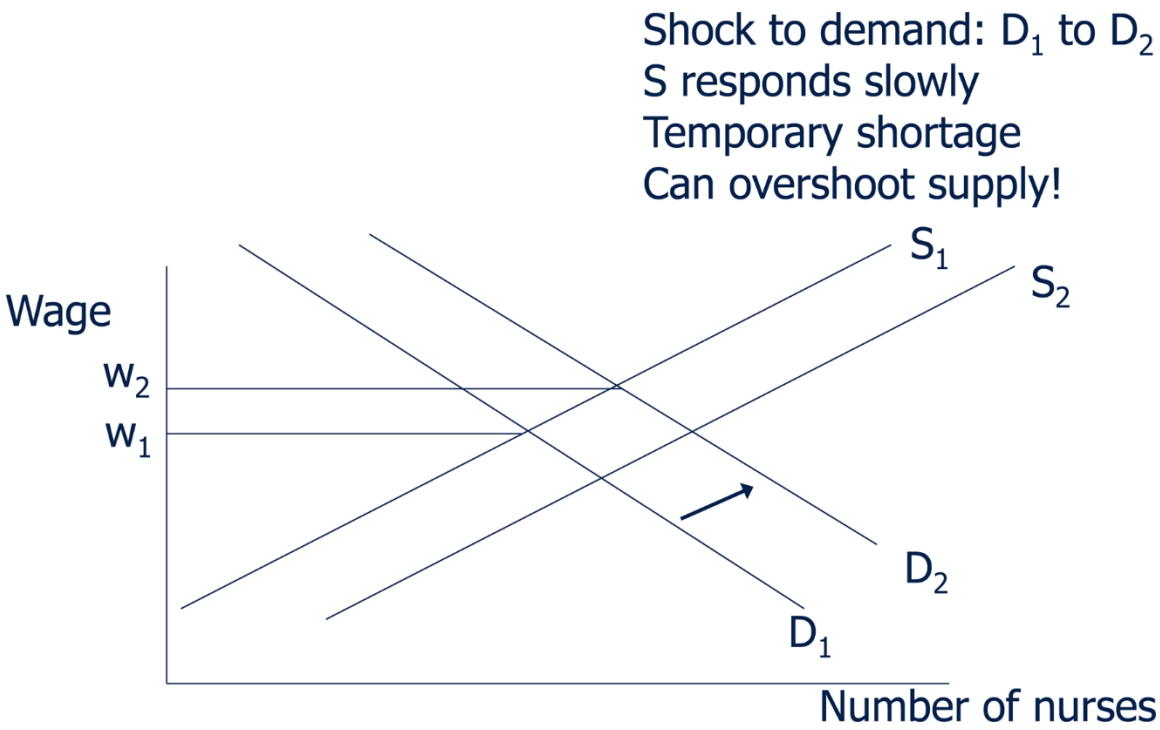
Slow Production of New RNs



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Are There Many Buyers in the Health Care Sector?

- Who are the buyers here?
- If you are selling your labor as a nurse, who are the buyers?
- Do they have any control over price (i.e., negotiating power)?
- How do we ensure that they will not abuse this power?
  - Regulation

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Are There Many Buyers in the Health Care Sector? (cont'd)

- Department of insurance
- Federal regulations—Medicare (we do not let them negotiate for the lowest drug prices!), Medicaid

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Are There Many Sellers in the Health Care Sector?

- Who are the sellers?
  - Hospitals
  - Nursing homes
  - Health care professionals, clinics
- Typically limited, especially in a geographical area
- Sometimes, there is only one!

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Is There Perfect Information in the Health Care Sector?

- You are all future and very likely current health care professionals.
- Do you know everything about any illness that you might contract?
- Do you know all the treatment options, risks, benefits, so forth?
- Or do you rely on others to advise you?

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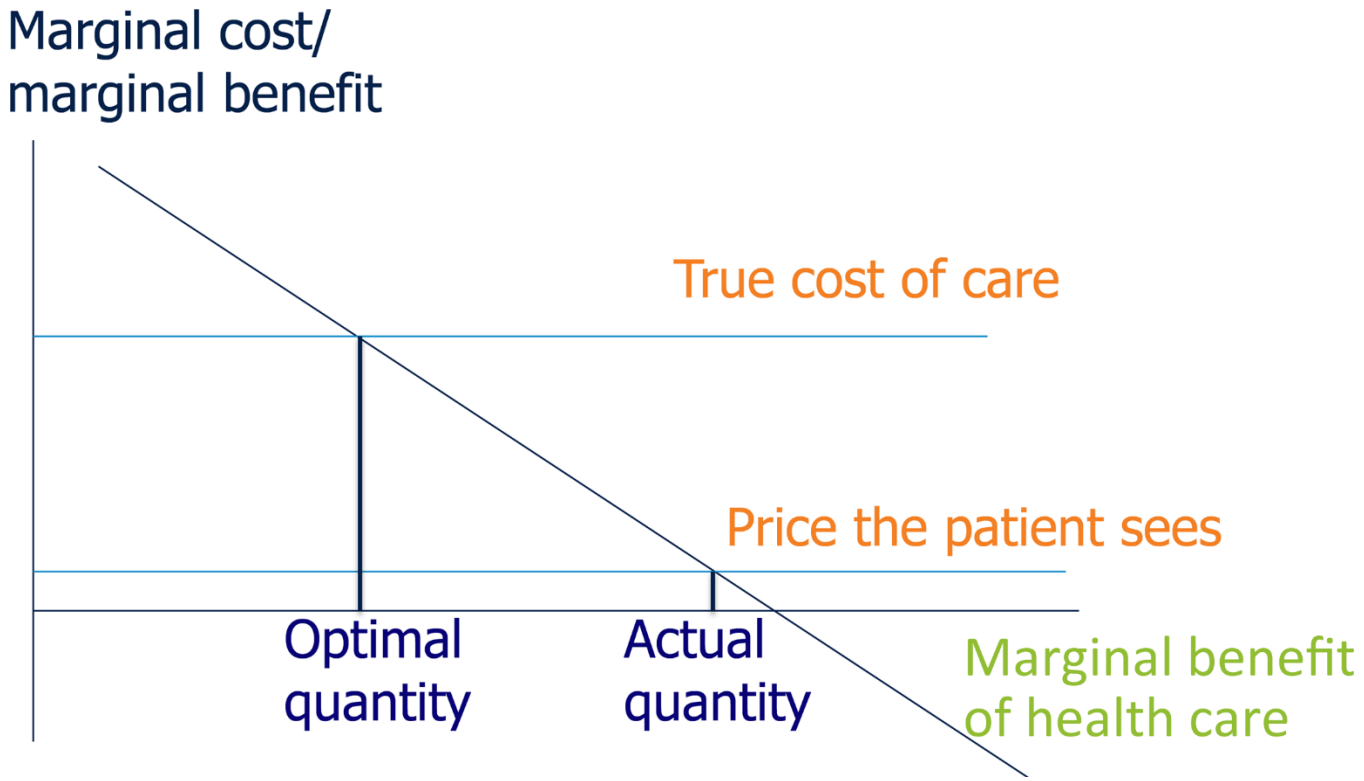
The Fundamental Problem of Health Care Policy



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How Much Do We Spend on Health Care?

- $3,300,000,000,000 in February 2016
- $9,523 for each man, woman, and child in the United States in 2014

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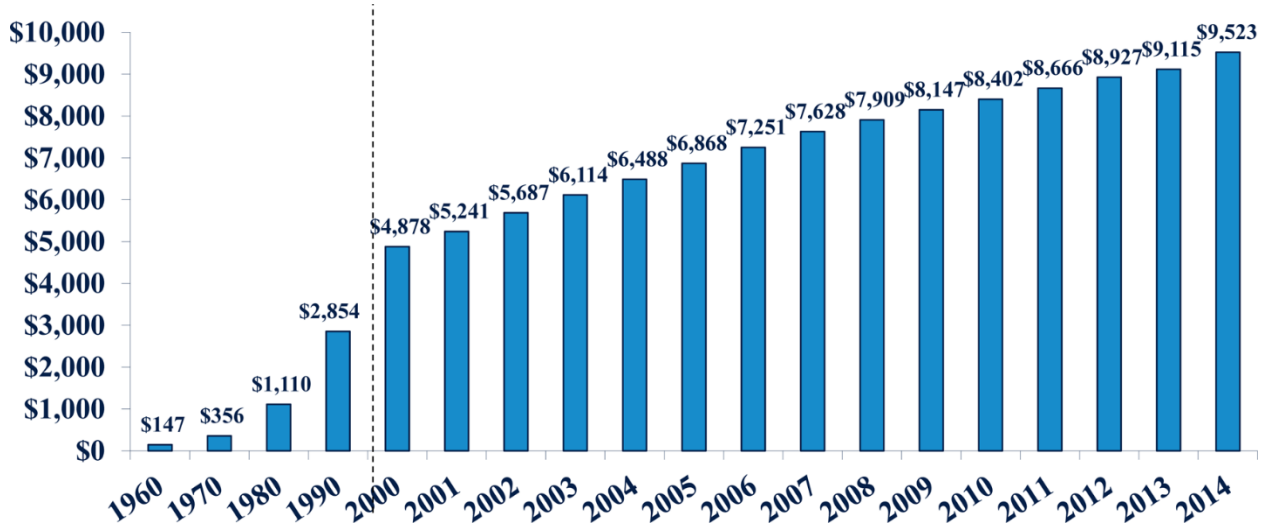
National Health Expenditures Per Capita, 1960–2010



Note: According to Centers for Medicare and Medicaid Services (CMS), population is the U.S. Bureau of the Census resident-based population, less armed forces overseas and population of outlying areas, plus the net undercount.
Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at http://www.cms.hhs.gov/NationalHealthExpendData

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What Does the Affordable Care Act (ACA) Do?

- Quality and value improvement
  - Center for Medicare and Medicaid Innovation
    - Integrated health systems (accountable care organizations)
  - Value-based purchasing (VBP) program
  - Bundled payment program for Medicare
  - Review of insurance plan rate increases
  - Independent Payment Advisory Board aimed to extend life of Medicare Trust Fund
  - 85% of insurance premiums must be used for care

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What Changes Are on the Table?

- Insurance tax credits
  - ACA has tax credits for people with incomes 100% to 400% of poverty level who purchase through state marketplaces, plus cost-sharing subsidies to lower deductibles and co-payments for 100% to 250% of poverty level.
    - Credits also vary by location.
  - House “A Better Way” and price proposals offer tax credits that vary with age (but not income or location).
    - Trump supports this.

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What Changes Are on the Table? (cont'd)

- Medicaid
  - ACA expanded Medicaid (at the option of states) to childless adults, higher income levels.
  - House Better Way proposal (and others) would shift to block grants to states.
    - States might have more flexibility.
    - In long term, states would have more financial responsibility.
  - Alternative: give Medicaid-eligible people "premium support" to buy private insurance.
  - Trump has only said that states should have more flexibility in Medicaid.

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Not Likely to Change (Much)…

- VBP for **all** hospitals
- Reporting is now **mandatory**
- Percentage of Medicare reimbursement tied directly to quality
- Incentive payments to meet or exceed performance benchmarks.
- Merit-based incentive payments for physicians
- This program was codified in the Medicare Access and CHIP Reauthorization Act (MACRA) of 2015
  - Bipartisan legislation
  - Unlikely to be reversed

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Future Policy Issues

- Access to health care services and insurance coverage
  - The ACA will not cover everybody.
  - Will the United States move toward universal coverage or away?
- Cost control
  - Will new payment strategies lead to true cost control?
- Nursing leaders can play important roles in how policy moves forward.
- Nursing leadership is necessary for organizations to respond to an uncertain policy environment.

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Competencies to consider

- Created for Medical Education
- Unlikely most BSN programs have the "Beginner" Competencies YET!!
- Proficient = MSN
- Expert = DNP

Defining Competencies for Education in Health Care Value: Recommendations From the University of California, San Francisco Center for Healthcare Value Training Initiative

Moriates, Christopher; Dohan, Daniel; Spetz, Joanne; Sawaya, George F. Academic Medicine90(4):421-424, April 2015. doi: 10.1097/ACM.0000000000000545

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Level of trainee	Proposed competency
Beginner	• Describe basic principles of health care delivery, organization, and financing • Describe how the organizing and financing of health care, including the health insurance system, affect the quantity and quality of health care received by patients from diverse backgrounds • Describe strategies for controlling costs within various health care delivery systems • Describe basic health policy concepts of access, cost, and resource allocation, including their relationship to one another and their effect on patient care • Describe eligibility and services covered by key government programs such as Medicare, Medicaid, and the Department of Veterans Affairs • Explain the effect of insurance on demand for health care and costs • Describe the basic principles of cost-benefit, cost-utility, and cost-effectiveness analysis • Discuss cost-conscious care with patients, other providers, administrators, and leaders
Proficient	• Explain different approaches to analyzing the cost and cost-effectiveness of health care interventions and procedures • Demonstrate understanding of the need for changes in clinical approaches based on evidence, clinical outcomes, and cost-effectiveness to improve outcomes for patients • Demonstrate understanding of how various health care system incentives and restrictions affect care plans for patients • Describe how economic mechanisms (e.g., health care insurance markets, cost sharing, and health financing policy) can affect costs, charges, and patient behavior • Identify system changes that promote safe, quality, and cost-effective care • Advocate for improved access, quality, and cost-effective health care
Expert	• Design, advocate for, and implement systems and policies for clinical care, research, education, and reimbursement that maximize value and reduce costs • Train staff to develop and implement cost-effective clinical programs • Demonstrate a capacity to analyze the clinical, human resource, and fiscal implications of implementing new therapeutic interventions and devices • Demonstrate a capacity to employ political economy theory in analyzing the current politics of the health care system and health reform • Summarize the cost and delivery effects of integration of health care organizations • Demonstrate a capacity to apply system-level approaches (e.g., root cause analysis) to determine the cause of excessive health spending • Develop methods to measure and evaluate the success of health care value training programs

ACADEMIC MEDICINE

Table 1

Defining Competencies for Education in Health Care Value: Recommendations From the University of California, San Francisco Center for Healthcare Value Training Initiative

Moriates, Christopher; Dohan, Daniel; Spetz, Joanne; Sawaya, George F.

Academic Medicine90(4):421-424, April 2015.

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Proposed Competencies in Health Care Value in the Training of Health Professionals

More to Follow!

- We will delve more deeply into economics starting with Week 3…for week 1 focus on pages 1-11 of Waxman Chapter 1. We'll return to the rest of this chapter in a couple weeks!