The Daily Dish

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U.S. health care spending grew at the fastest rate since President Obama took office; topping $3 trillion with an average cost of $9,500 a person. According to a new report released by the Department of Health and Human Services, national health expenditures increased by 5.3 percent in 2014, while per capita spending rose 4.5 percent from 2013. The costs were primarily driven by the coverage expansions under the Affordable Care Act.

The solar industry is pushing U.S. lawmakers to extend a 30 percent tax credit for solar installations. The tax credit is currently expected to be set at 10 percent and will be included in the $95 billion tax extenders package that is currently being negotiated by Congress.

Eakinomics: Financial Incentives and Health Care

I once had an academic colleague who wrote a paper on taxes and the timing of births. A baby born on December 31, 2015, for example, entitles the parents to one more dependent exemption in 2015. A baby born one day later on January 1, 2016 does nothing to reduce taxes in 2015 and has the same impact on 2016 and thereafter. The win goes to December 31. To the extent that the date of birth is controllable — e.g., planned c-sections — it would make sense to pick December 31 over January 1. Half of her paper was a theoretical justification for the timing of births being influenced by taxes, while the remainder was an examination of the data. If births simply happened randomly, one would expect an equal distribution across Sunday-Saturday. Sure enough, the birth statistics in the National Vital Statistics System (NVSS) showed a spike up in births on December 30 and 31and a corresponding valley on January 1 and 2. (There is also a relative valley on every Saturday and Sunday; Ob-Gyns like their weekends too.)

The journal editor, Nobel Prize winner Robert Lucas, had no interest in the first half. “Of course taxes affect the timing of births” he wrote (as I recall), “the only issue is how much.” He scrapped the theory and published the results of the data analysis. This episode was brought to mind by the Wall Street Journal’s examination of hospital readmission data in Medicare.

The Affordable Care Act imposed penalties — stiff penalties — on hospitals for overly high rates of readmission after inpatient hospital stays. In effect, the message was “do it right the first time.” However, there is another type of hospital admission — one for observation — that does not count as an inpatient stay. Since the ACA is penalizing readmission, observation stays become important. If the first trip to the hospital is for observation, a second trip would not count as a readmission. If the second trip to the hospital is for observation after an inpatient stay, that second stay would also not count as a readmission.

There is a clear financial incentive to ramp up the use of observation status to generate lower readmissions. Shockingly, this is exactly what the WSJ found. (Notice, there also has to be a rule that distinguishes an admission from an observation stay.)

It is an important lesson. There is a tendency among some policymakers and analysts to put health care in a special, moral category and to argue that financial incentives (profits, premiums, co-pays, deductibles, bundling,

reimbursement rates, and so forth) are inappropriate or irrelevant. Nothing could be further from the truth. Given that national health care spending is accelerating it is all the more imperative that financial incentives not be ignored, but rather be structured to genuinely bend the health care cost curve and make affordable insurance options widely available.

From the Forum

IPAB: Not the Solution to Health Care Spending Growth By Tara O'Neill, AAF Health Care Policy Analyst

Fact of the Day

The recent 1,300-page trucking fuel efficiency rule could bring costs in excess of $30 billion.