



Health Care Reform - Selected Observations

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November 4, 2009

Presentation Objectives

- Highlight what's been overlooked in current health care reform discussions
- Acknowledge that the debate about health care delivery reform is really about the cost of care, and that with health care insurance, the problem is the premise

Our Current Health Care “System”?

- Our health care infrastructure has:
 - Misaligned financial incentives:
 - Fee for service payment leads to increased utilization
 - More utilization does not lead to higher quality or better outcomes, but does lead to greater costs
 - Underpayment by government payers that leads to cost shifting to private payers
 - Maldistribution of providers and facilities; inexplicable variation in diagnoses and procedures by state of residence
 - Entrepreneurial growth in use of diagnostic tests, procedures, pharmaceuticals and devices that accelerates the rate of growth in expenditures
 - Poorly managed end of life care and uncoordinated management of the chronically ill, disabled, and infirm
 - Tremendously expensive administrative and regulatory infrastructure

What Do We Need from a Health Care System?

- A national system of health care should have:
 - Affordability
 - Convenient, timely access to care providers
 - Safe, effective and efficient care
 - Strong focus on wellness services
 - Population management rather than one patient at a time management
 - Consequences that incentivize patient and provider compliance with guidelines and outcomes of care
 - A realistic expenditure curve in the face of the “aging of America” – the Medicare population is projected to grow from 40 to 70 million in the next 20 years
 - Efficient administration and regulation
 - No need for the practice of defensive medicine

Health Care Reform

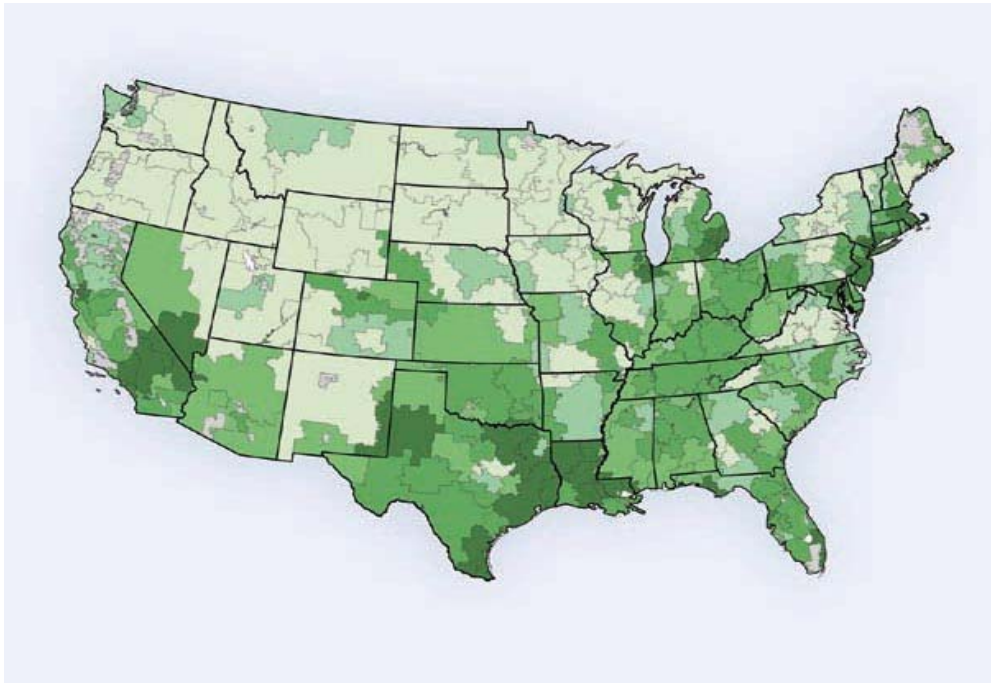
- What should be included in any meaningful health care reform legislation? (In order of increasing difficulty)
 - Health Care “Insurance” Reform
 - Health Care Payment Reform
 - Health Care Medical Liability Reform
 - Health Care Utilization Reform
 - Health Care Regulatory and Legal Reform
 - Health Care Access Reform
 - Health Care Delivery Reform
 - Health Care Expenditure Reform
- What’s been proposed?

Health Care Reform

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Health Care Expenditure Reform

- Per Capita Medicare Cost by Region, 2006
 - Dark Green – \$9,000 to \$16,352
 - Light Green - \$5,310 to <\$7,000



Wasted Health Care Dollars

- You've probably heard a lot about "wasted dollars" in the health care delivery system, inefficient and unnecessary care, over utilization, high cost procedures and services, etc.
- So – how big a problem is this, and what categories of waste are we talking about?

Wasted Health Care Dollars

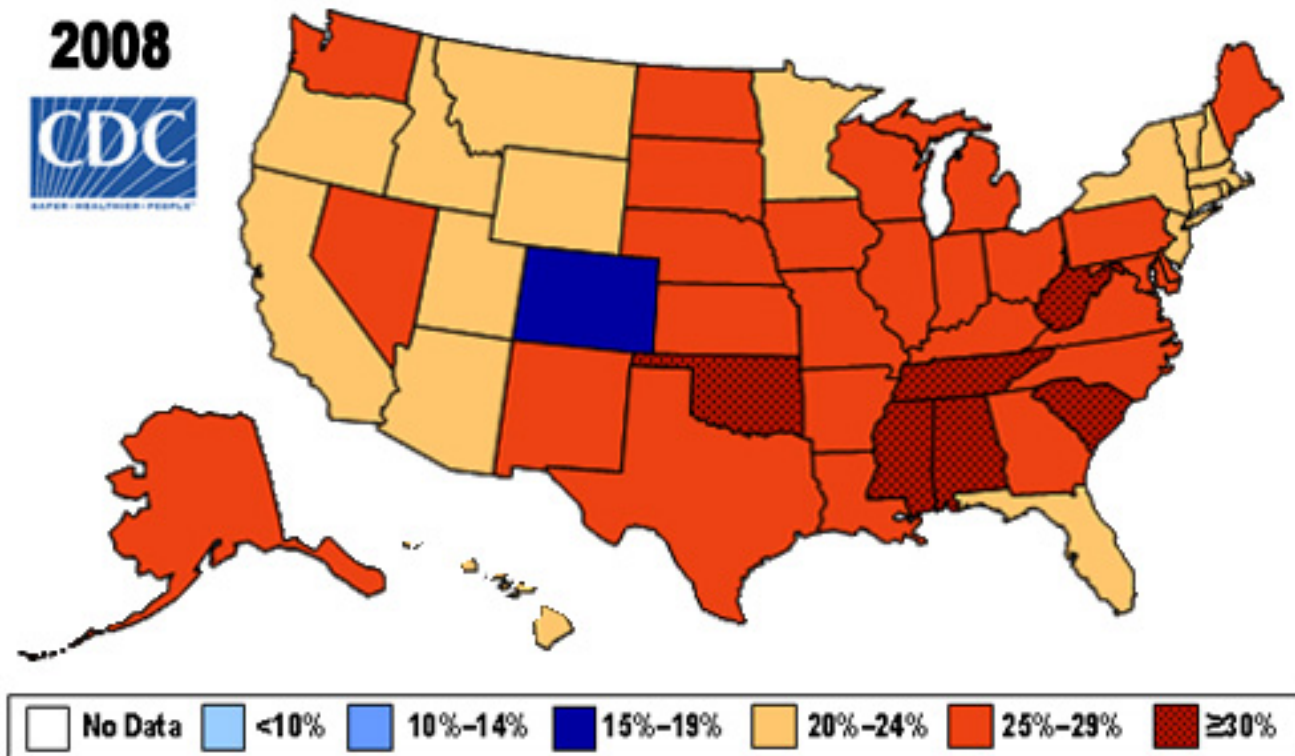
Risky Behaviors	\$493 Billion
Over Testing	\$210 Billion
Processing Claims	\$210 Billion
Ignoring Doctor's Orders	\$100 Billion
Ineffective Use of Technology	\$88 Billion
Readmissions	\$25 Billion
Staffing Turnover	\$21 Billion
Medical Errors	\$17 Billion
Inappropriate use of the ED	\$14 Billion
Paper Prescriptions	\$4 Billion
Hospital Acquired Infections	\$3 Billion
Overprescribing Antibiotics	\$1 Billion
Total	\$1.186 Trillion

Source: PricewaterhouseCoopers Health Research Institute, 2009

An Example of Risky Behaviors

- General Health

- The US is experiencing a dramatic surge in obesity



The Problem is the Premise

- Health Insurance as we know it is NOT insurance
 - Consider the following questions:
 - How many of you expect to use your automobile insurance in the next 12 months?
 - ❖ *What would automobile insurance cost if it covered an annual engine overhaul, oil changes and new tires?*
 - How many of you expect to use your homeowner's insurance in the next 12 months?
 - ❖ *What would homeowner's insurance cost if it covered carpet replacement for wear and tear, and lawn and tree care?*
 - How many of you expect to use your health "insurance" in the next 12 months?
 - Does it help to recast our current health "insurance" paradigm as health care financial planning? Or do we really want insurance against catastrophic or accidental events?

An Aside: Moral Hazard

- In Insurance Markets:
 - Moral hazard occurs when the behavior of the insured party changes in a way that raises costs for the insurer, since the insured party no longer bears the full costs of that behavior.
 - Coinsurance, co-payments, and deductibles reduce the risk of moral hazard by increasing the out-of-pocket spending of consumers, which decreases their incentive to consume.
- Questions:
 - Have you or someone you know sought medical care or service because you have health insurance?
 - How big must the health insurance deductible be to seriously impact the occurrence of moral hazard?

What If?

- Health Insurance Plan for the US

- Each year, everybody in the US (legal residents only) receives \$1,000 for wellness and routine care – would cost \$330,000,000 annually
- Everyone is required to contribute to a health savings account that accumulates and rolls over each year
- From \$1000 to \$X (\$20,000?) each year is out-of pocket for most people (requires support for vulnerable populations)
- For expenses greater than \$X, the health insurance plan applies

- Questions:

- What would this health care insurance cost?
- Would people be more aware of prices and utilization and demand price transparency and value analyses?
- Would providers be more conservative when ordering expensive tests, drugs, therapies?
- Which areas of wasted health care dollars would be impacted?

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Who Is (Are) Responsible for the Mess We're In?

- Payers (private and public)?
- Federal, state and private regulators?
- Durable medical equipment providers?
- Technology companies (hardware and software)?
- Device and implant manufacturers?
- Pharmaceutical manufacturers?
- The research establishment?
- Professional education programs?
- Physicians, hospitals, nursing homes and home care companies?
- Consumers? Advocacy groups?
- All of the above?

Conclusion

- Jack Kent Cooke famously said of George Allen, his then coach of the Washington Redskins:

“I gave him an unlimited budget and he exceeded it.”
- Is this where we are when it comes to health care delivery and expenses?
- It seems to me there are only two rational approaches:
 - High deductible health insurance plans with an HSA as I’ve discussed, or
 - A public health care delivery system paid for by increased taxes and which would require rationing of access, services, and supplies.



Thank you.