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Insight Driven Health

Is the healthcare cost curve permanently bent?

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“If something cannot go on forever, it will stop.”

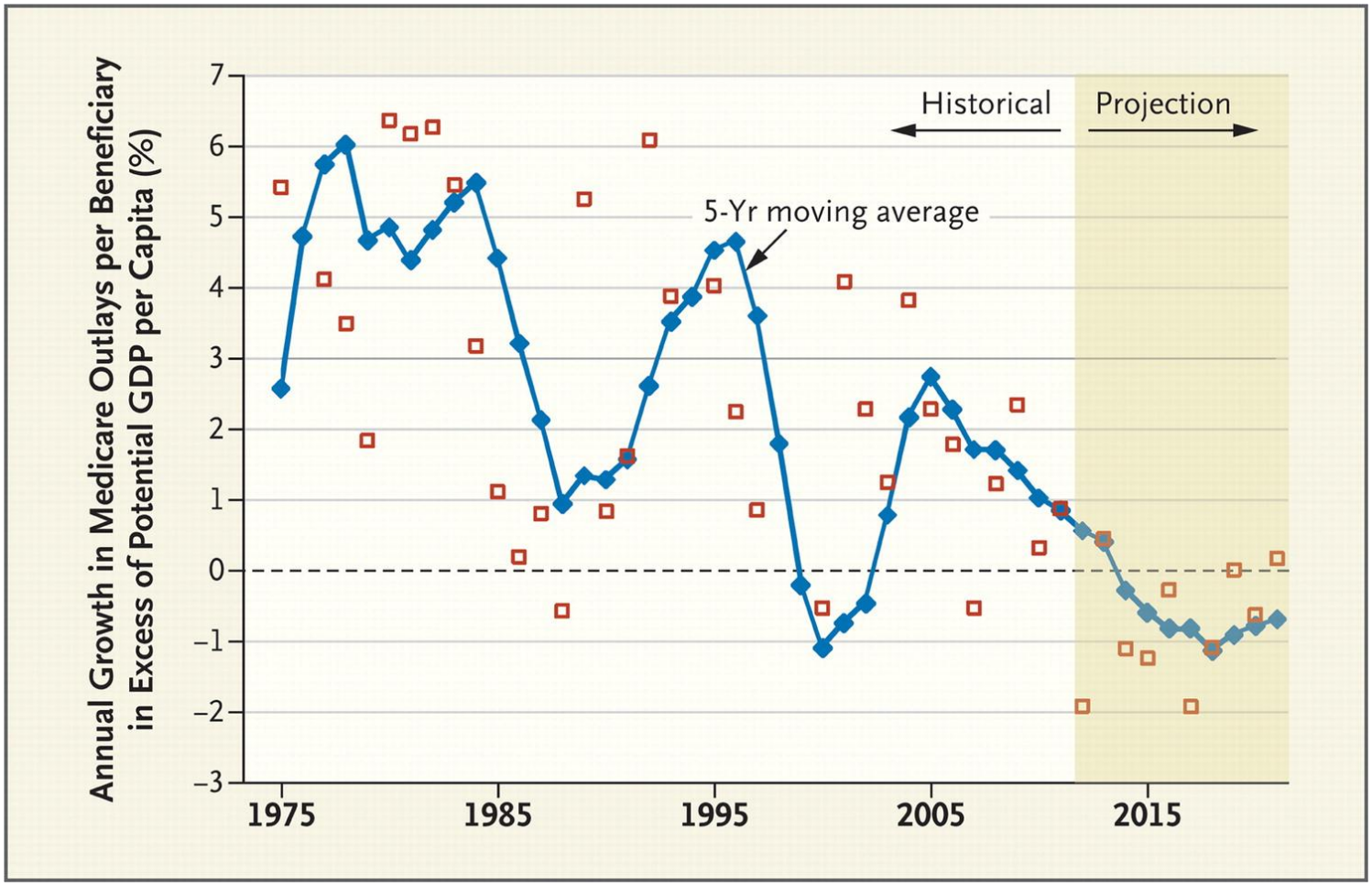
- Herbert Stein

Former chairman of the Presidents Nixon and Ford’s Council of Economic Advisers

Four questions to ponder

1. Is the trend real or just an artifact of the recession?
2. Will the curve remain bent for the long term?
3. What role does technology play in the short and long run?
4. What are the policy implications for long term curve bending?

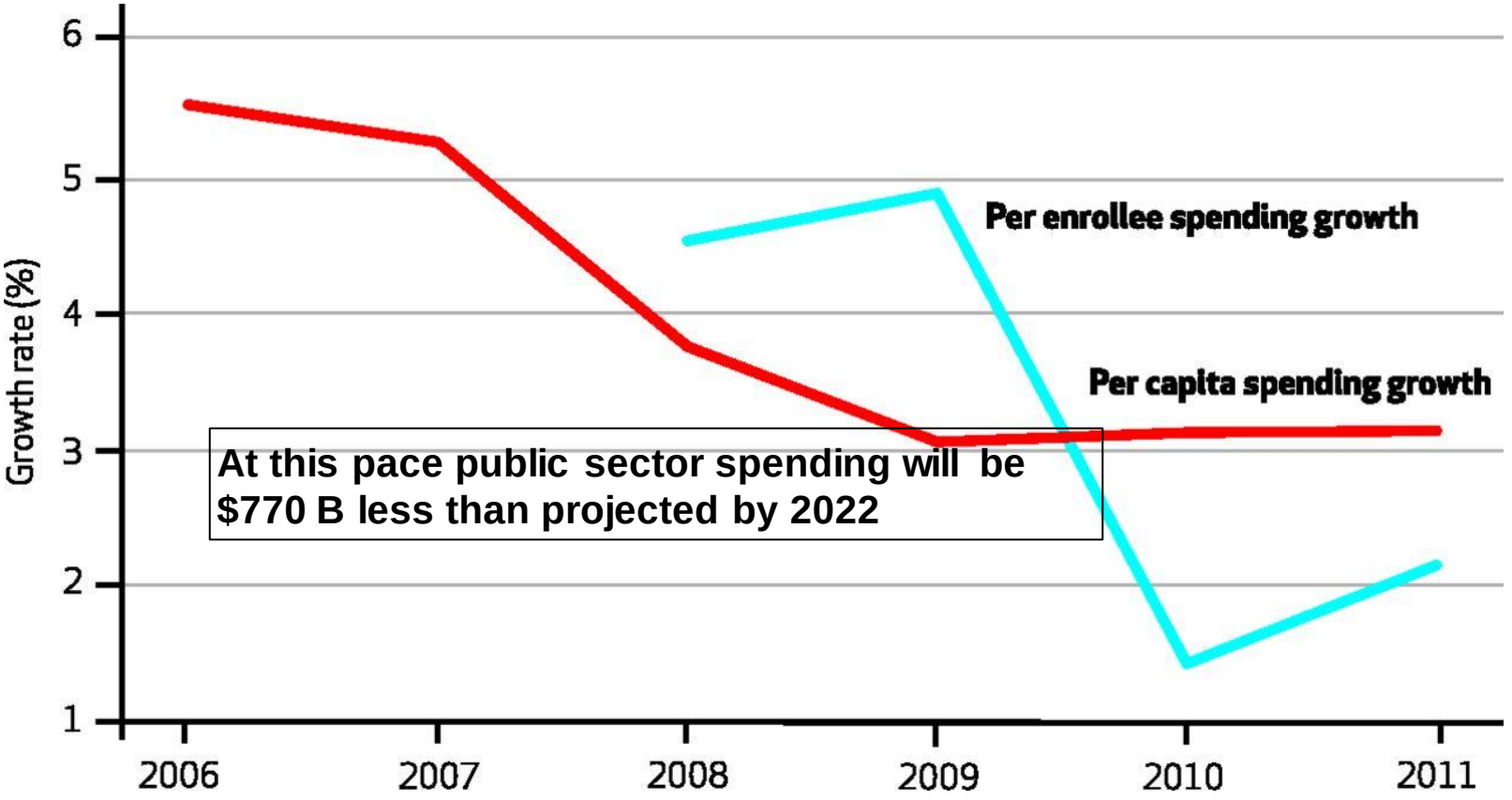
Medicare Spending will grow slower than GDP



Source: White, C. Ginsburg, P. New England J. Med. March 22, 2012

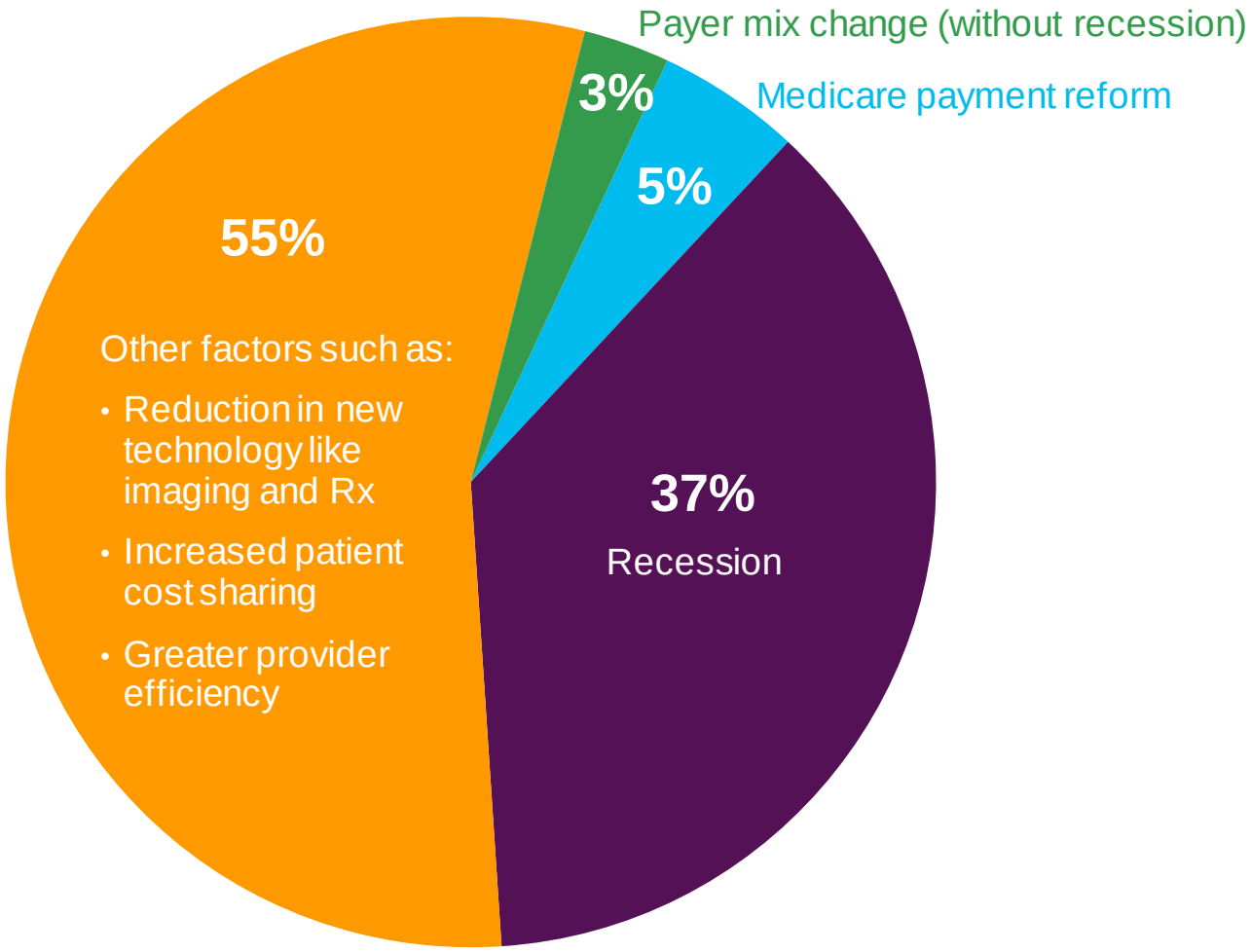
Health Spending for the insured declined more than average

Health Spending Growth Per Enrollee And Per Capita, 2006–11.



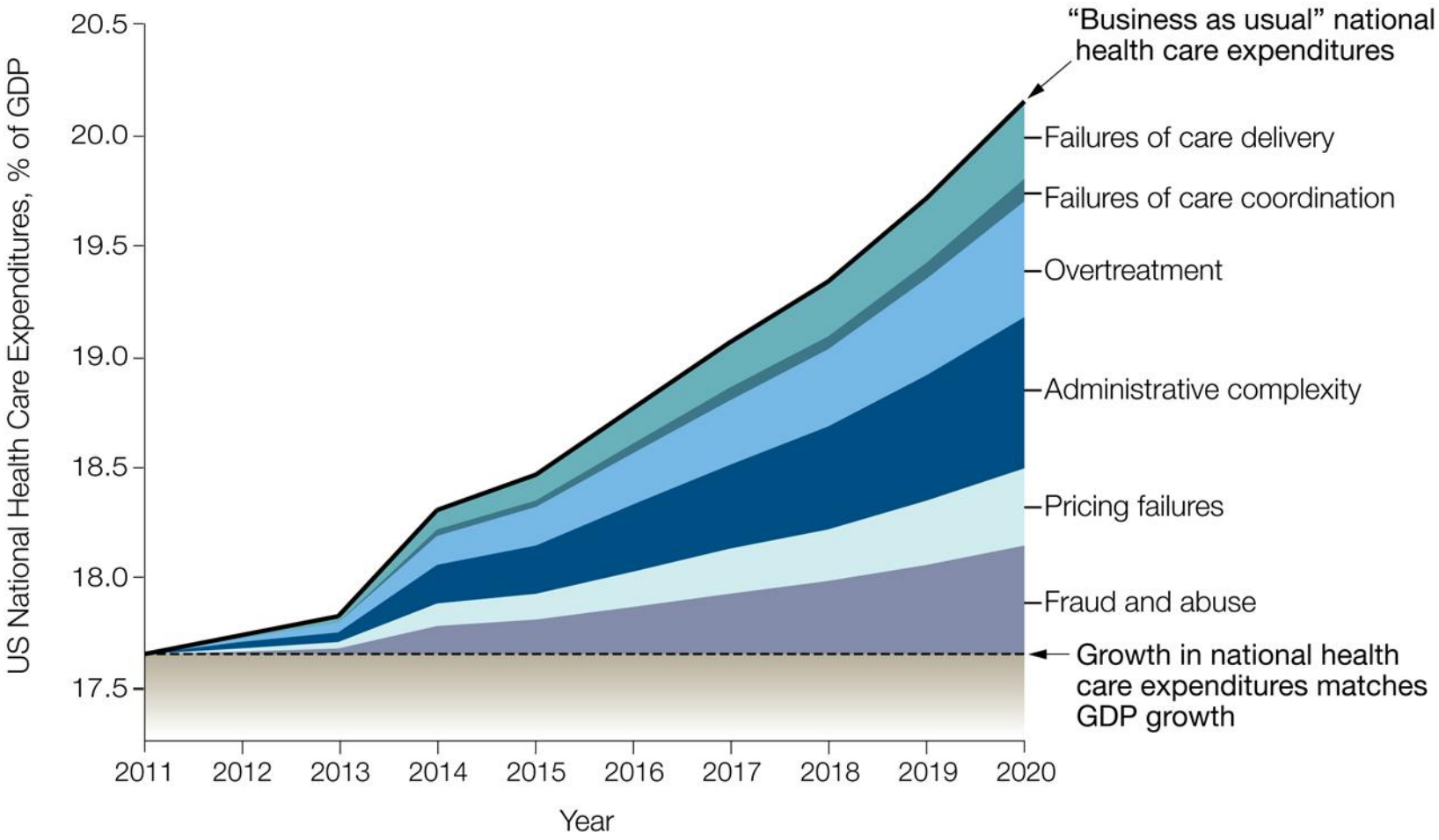
Source: Ryu, AJ. et al. Health Affairs May 2013; Cutler, DM. Sanhi, NR. Health Affairs, May 2013

Recession explains only one-third of slow down



Source: Cutler DM, Sahni RS, Health Affairs, May 2013

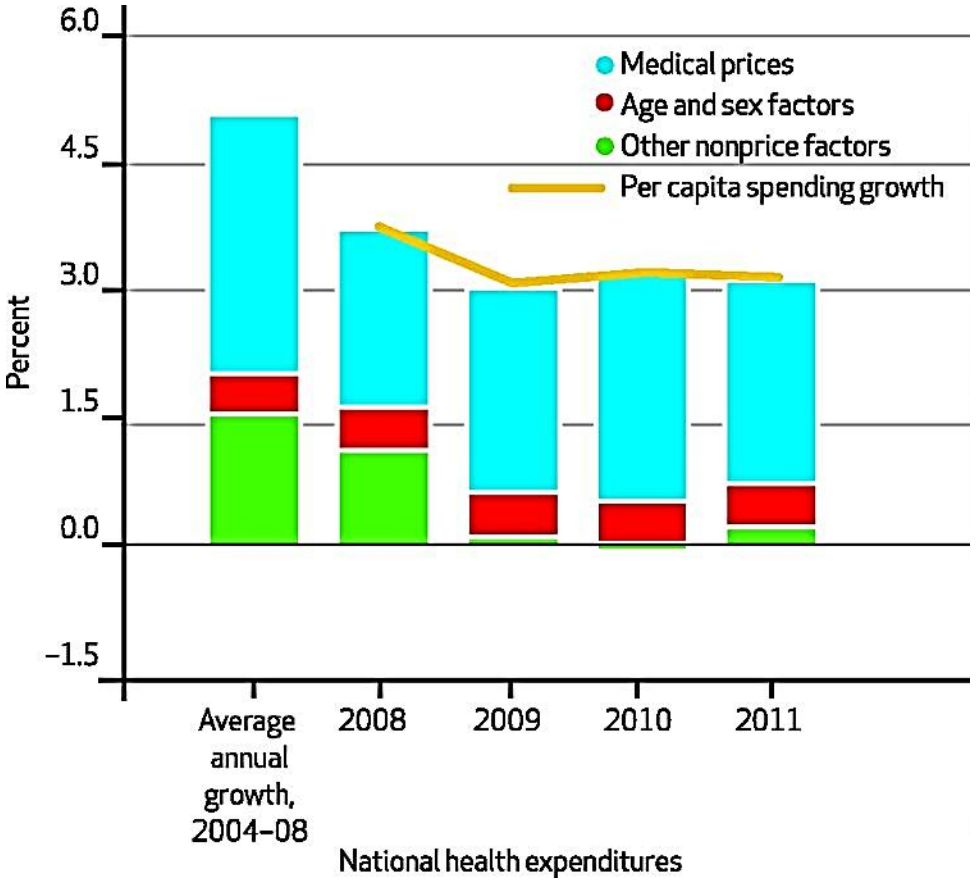
Non-clinical sources of “waste” exceed clinical sources



Source: Berwick, D. M. et al. JAMA April 11, 2012

Health care spending increases were primarily price related

Factors Accounting For Growth In Per Capita National Health Expenditures, 2004–11.



Source: Hartmann, M. et al. Health Affairs, January 2013

High U.S. Spending Is Not Due Primarily to Over Use of Services

U.S. hospital costs are 70% higher but utilization is 30% lower than other developed countries

	Percent of GDP	Real Annual Avg Growth Rates (%) 1970-2005	Inpatient Spending per Capita (U.S. $ PPP)	Inpatient Acute Care Days per Capita
U.S.	15.3	4.4	$1526	0.7
OECD Median	9.1	4.1 (2.3-6.8)	$904	1.0 (0.4-2.1)

Source: Anderson, GF. Frogner , BK. Health Affairs, November 2008

Utilization rates in US are not necessarily higher

Services Utilization	US	France	Non US OECD
Higher			
Cardiac Catheterization / 100,000 persons	357.8	NA	171.75
Hip Replacement / 100,000 persons >65 years	14.4	13.7	11.7
MRI Scan / 1000 persons	91.2	55.2	25
Lower			
Hospital Discharge / 100,000 persons	13,086	26,251	16,234
Physicians Visit / capita	3.9	6.9	6.5
Pacemaker Insertions / 100,000	56.3	NA	61.4
Transurethral Prostatectomy / 100,000 men	43.4	186.7	114.15

Source: Topher, S. Annals of Internal Medicine October 2012

Price of US Services are Considerably Higher

Price of Services (in US Dollars)	US	France	Switzerland
Routine Office Visit	89	23	64
Cost per hospital stay	15,734	3,396	4,566
Hip replacement surgery (hospital and physician)	38,017	11,353	17,521
Coronary Artery Bypass graft (hospital and physician)	67,583	16,140	25,486

Average US generalist, income = 5x average US worker.

Average US specialist, income = 10x average US worker.

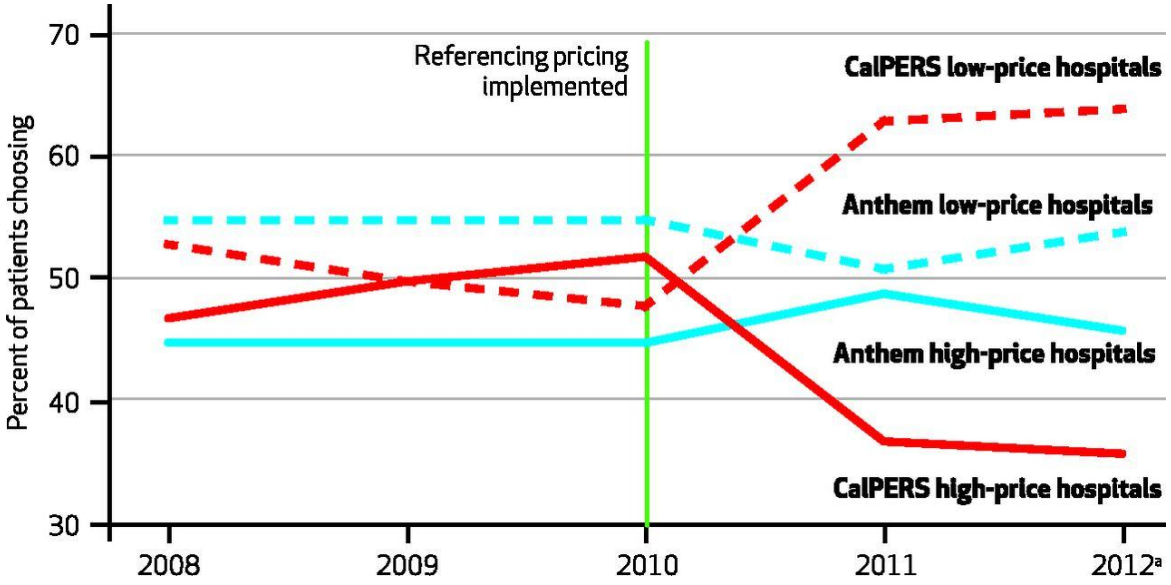
Average OECD generalist, income = 2x average OECD worker.

Average OECD specialist, income = 2.7x average OECD worker.

Source: Topher, S. Annals of Internal Medicine October 2012

Reference Pricing reduces use and prices at high cost providers

CalPERS experience for knee and hip replacement surgery using reference pricing vs. Anthem BCBS



28.5%
↑ volume for low-price

5.6%
↓ price for low price

34.3%
↓ price for high price

4.4%
↑ price for low-price to Anthem

7.8%
↓ price for high price to Anthem

CalPERS PPO members had $30,000 payment limit to hospital charges plus usual coinsurance. Low-price hospitals agreed to value based purchasing design rates, quality and access standards

Source: Robinson , JC. Brown, TT. Health Affairs August 2013

Accountable Care Savings are from price more than utilization

Massachusetts BCBS Alternative Quality Contract 2009 and 2010

Year 1 Saving 1.9%

Year 2 Savings 3.3%

- No 'prior risk' group 6.3% and 9.9% savings
- Prior risk experience 1.1% and 1.8% savings

Source of savings: Outpatient; imaging; testing; DME

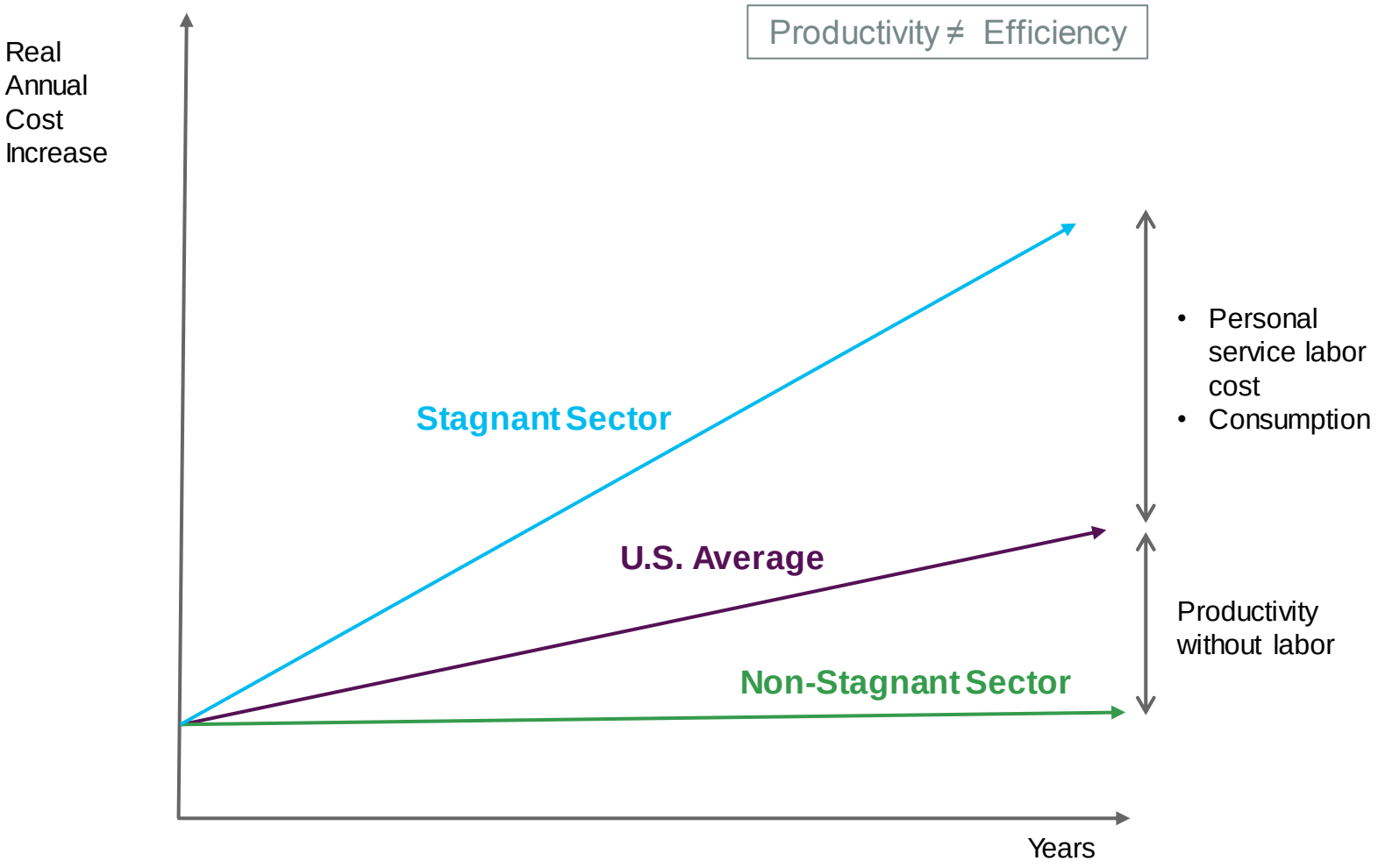
Lower utilization:
- 50% of no prior risk year one
- No reduction in prior risk group
- Referral shift not price reduction

- Quality incentives and infrastructure payments exceeded medical savings

5 year contracts, global budget with two sided risk, quality incentives, technical support to manage data and quality. **7** groups, **1600** PCP, **3,200** specialists, **88%** members in groups with "prior risk" experience.

Source: Song Z. et. al. Health Affairs, August 2012

Health care cost will grow faster than average economy due to high reliance on labor



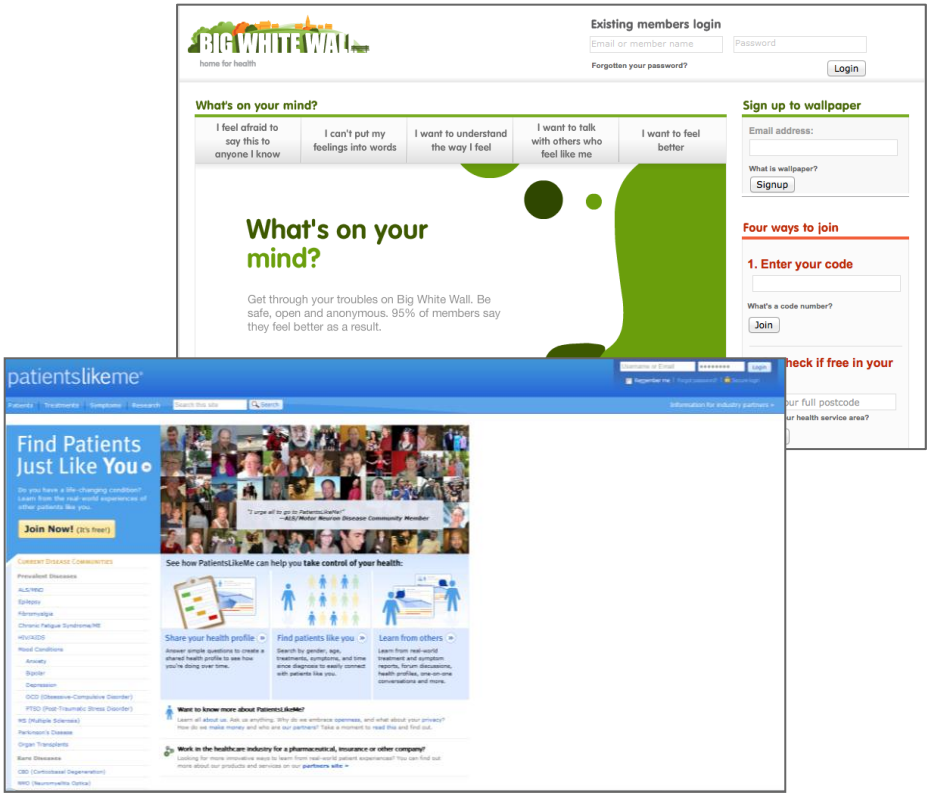
Source: Baumol WJ, The Cost Disease, Yale Univ. Press 2012

Advanced telehealth can help reach the under-served as well as improve care to those who are already well served

- As good as face-to-face care
- One patient, many doctors
- Patient group visits
- Physician collaboration
- Enhanced patient experience (augmented reality)

Social software will be used to deliver healthcare services and will increase self-care and self-service

- Business-class social networks
- Self-service platform
- Community created content
- Gaming



Source: www.bigwhitewall.com; Wicks, P. et al. Nature biotechnology May 2011

The baseline has been reset – the slope may return

1. The curve has been bent by more than just the recession

2. The baseline will be permanently reset due to unit price compression, administrative simplification, increase patient cost sharing and reduction in unexplained variation in practice patterns

3. The long trend line for growth will exceed GDP subject to two “X” factors – medical technology and labor costs

4. The key policy problem is long term public spending not overall healthcare spending

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