



# A PATH TO ELIMINATING \$3.6 TRILLION IN WASTEFUL HEALTHCARE SPENDING

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## WHAT IS HEALTHCARE SYSTEM WASTE?

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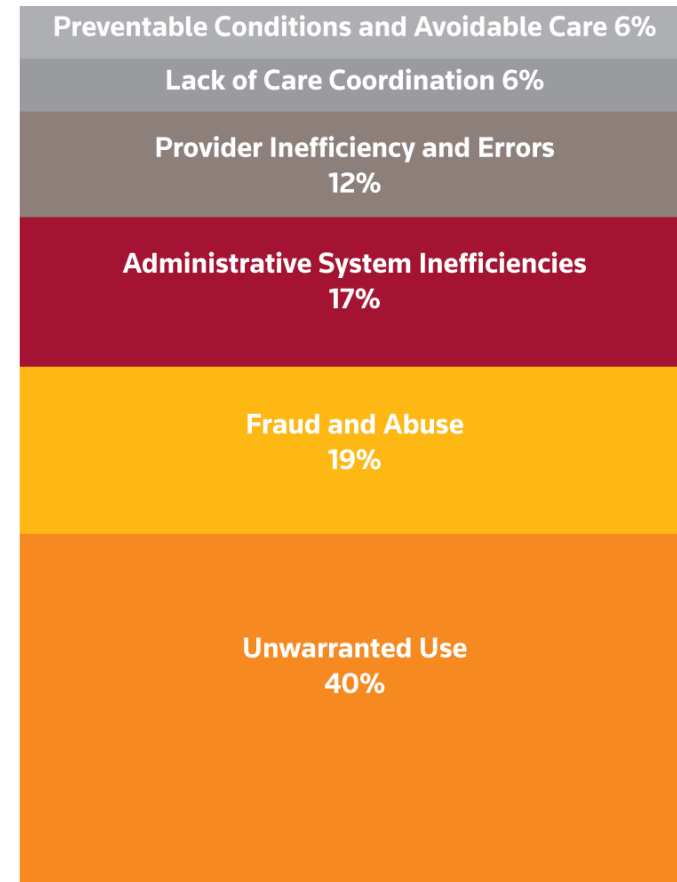
*The New England Healthcare Institute (NEHI) has defined waste in healthcare as “Healthcare spending that can be eliminated without reducing the quality of care.”*



# PRESENT TOTAL COST OF WASTE

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1. Administrative Inefficiencies	\$100-150
2. Provider Inefficiency and Errors	\$75-100
3. Lack of Care Coordination	\$25-50
4. Unwarranted Use	\$250-325
5. Preventable Conditions	\$25-50
6. Fraud and Abuse	<u>\$125-175</u>
	<b>\$600-850</b>



Without efforts to control healthcare expenditures, U.S. system waste could reach **\$1.6 trillion dollars by 2020** – doubling in just ten years.



# SHOULD THESE BE CONSIDERED WASTE ?

## High price and utilization of medical services

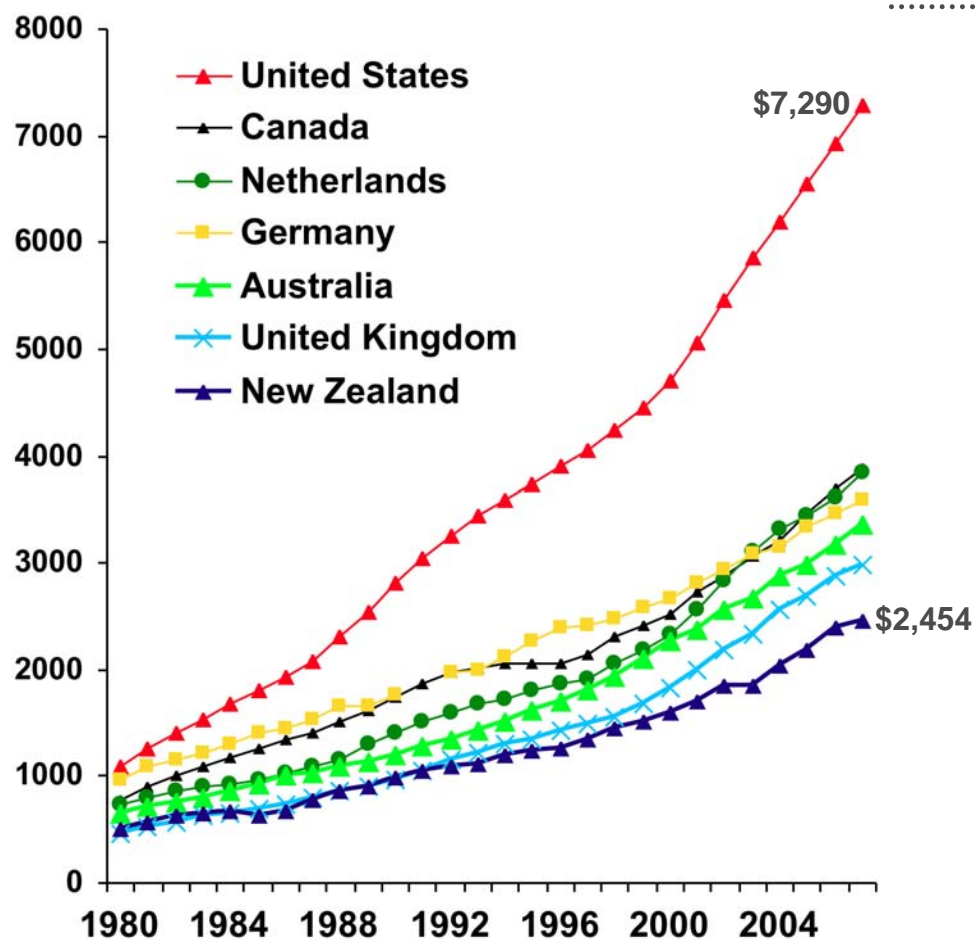
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- The U.S. healthcare system charges higher prices than other countries for services such as specialist procedures, hospital stays, and prescription drugs
- The U.S. healthcare system utilizes more expensive services than other countries such as specialist procedures, hospital stays, and prescription drugs
- Some of this cost may be associated with system inefficiencies
- Some of this cost may be the result of complicated market relationships between payers and providers

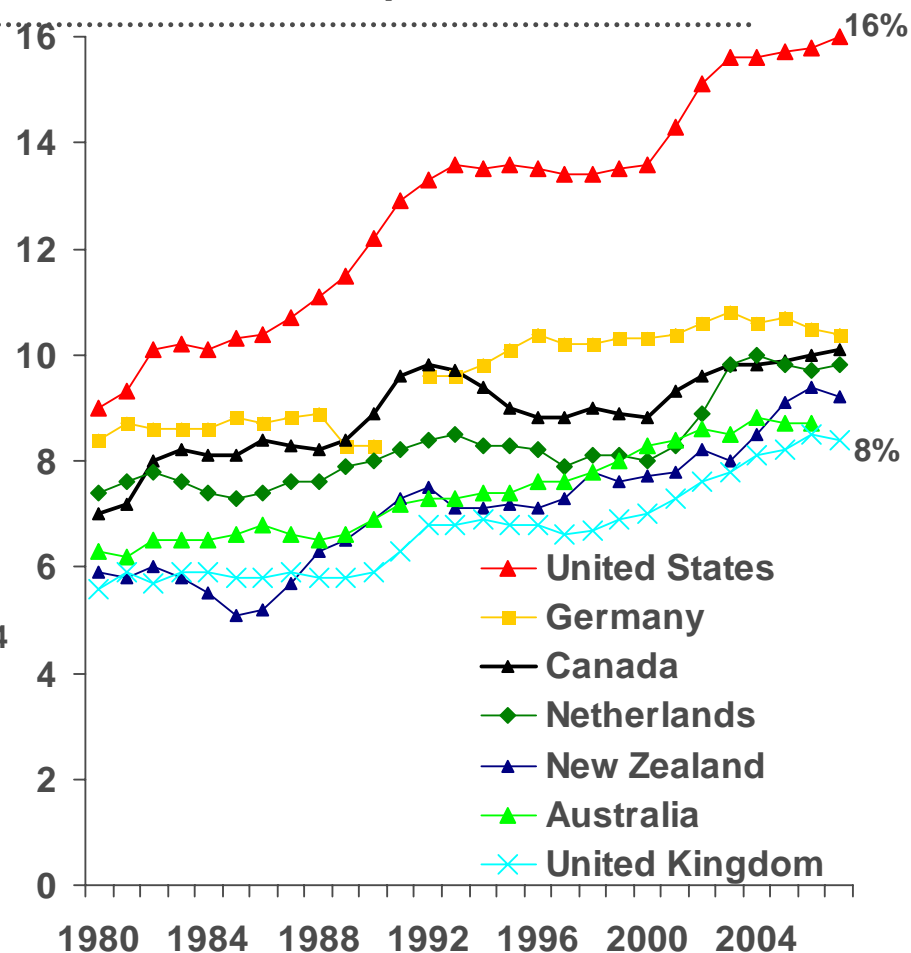


# International Comparison of Spending on Health, 1980–2007

Average spending on health per capita (\$US PPP)



Total expenditures on health as percent of GDP



Note: \$US PPP = purchasing power parity.

Source: Organization for Economic Cooperation and Development, *OECD Health Data, 2009* (Paris: OECD, Nov. 2009).





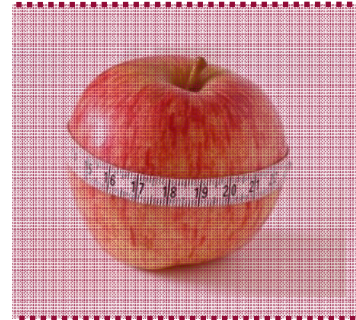
# SHOULD THESE BE CONSIDERED WASTE?

## Increased disease due to modifiable behaviors

- The Centers for Disease Control and Prevention (CDC) estimates...
  - 80% of heart disease and stroke
  - 80% of type 2 diabetes
  - 40% of cancer

...could be prevented if only Americans were to do three things:

- ✓ Stop smoking
- ✓ Start eating healthy
- ✓ Get in shape



# A REASONABLE GOAL FOR WASTE REDUCTION

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The *New England Journal of Medicine* suggests a reasonable goal is to maintain healthcare expenditures at the current level: **17% of GDP.**

SOURCE: P. Hussey, C. Eibner, M. S. Ridgely, and E. McGlynn; "Controlling U.S. Health Care Spending — Separating Promising from Unpromising Approaches"; NEJM Volume 361:2109-2111, November 26, 2009, Number 22.





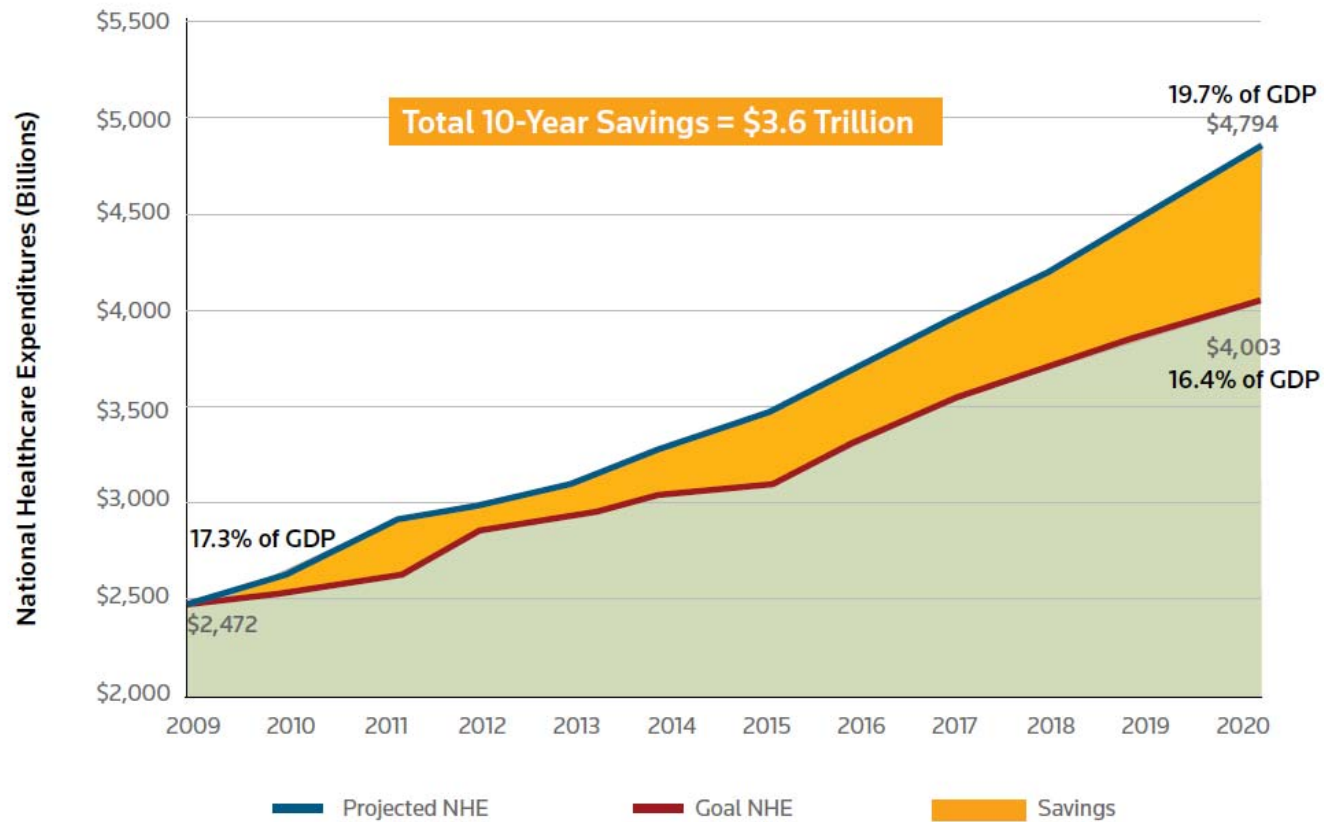
# A REASONABLE GOAL FOR WASTE REDUCTION

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If a phased reduction of waste – **starting at five percent and increasing an additional five percent every year until we reach 50 percent in ten years** – can be accomplished, this goal is feasible.

# A REASONABLE GOAL FOR WASTE REDUCTION



# FIVE SUCCESSFUL STRATEGIES FOR REDUCING WASTE



## FIVE SUCCESSFUL STRATEGIES:

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**CONSUMER ACTIVISM &  
TRANSPARENCY**

**SYSTEMS IMPROVEMENTS & CARE  
COORDINATION**

**PATIENT SAFETY & QUALITY  
IMPROVEMENT**

**MEDICAL HOME & A CULTURE OF  
HEALTH**

**PAYMENT INTEGRITY: Ease Reimbursement,  
Reduce opportunities for Fraud & Abuse**

**ALIGNING  
WITH DOCTORS  
ACROSS CONTINUUM**

**COLLABORATING  
WITH DOCTORS  
ACROSS CONTINUUM**



# STRATEGY #1: CONSUMER ACTIVISM AND TRANSPARENCY

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Encourage patients to be better consumers of health care services

- Educate and engage the public on the importance of understanding and discussing with their caregivers the value and risks of specific treatment options
- Eliminate disincentives (even provide incentives) for providers to pursue more conservative treatment options whenever appropriate



## STRATEGY #2: SYSTEM IMPROVEMENTS AND CARE COORDINATION

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Better link providers in actual or virtual teams. Make all relevant information available at point of care

- Reduce fragmentation in the delivery of care
- Address significant issues in care coordination, administrative overhead, and redundancy in diagnostic procedures and information collection





## STRATEGY #3: THE MEDICAL HOME AND CULTURE OF HEALTH

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Encourage patients to manage their mown health.  
PCPs accountable to patients to help set goals and tools for success

- Ensure that patients are actively engaged, along with their clinicians, in managing their own health through attention to personal behavior, disease prevention, early detection, and appropriate care for chronic diseases
- Promote healthy workplaces and environments that make wellness a priority



## STRATEGY #4: PATIENT SAFETY AND QUALITY IMPROVEMENT

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Create a “culture of performance improvement” that promotes the quick dissemination and adoption of best practices

- Encourage and support local, regional, and national quality improvement initiatives to reduce healthcare treatment errors that result in patient harm and higher costs



## STRATEGY #5: PAYMENT INTEGRITY/FRAUD AND ABUSE

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Engage the community, including patients and providers, in programs that make the billing process easier while eliminating opportunities for fraud and abuse

- Change the culture of fraud. Educate public and provider community on how fraud reduces available resources
- Recognize providers for high levels of payment integrity



# FIVE SUCCESSFUL STRATEGIES FOR REDUCING WASTE

	Consumer Activism & Transparency	Systems Improvements & Care Coordination	The Medical Home & Culture of Health	Patient Safety & Quality Improvement	Payment Integrity: Ease reimbursement, reduce opportunites for fraud & abuse
Unwarranted Use	●	●	●	●	●
Fraud & Abuse	●	●			●
Admin System Inefficiencies	●	●	●		●
Clinical Inefficiencies & Errors	●	●	●	●	
Lack of Care Coordination	●	●	●	●	
Preventable Conditions & Avoidable Care	●	●	●	●	●

● High Impact
● Moderate Impact



# EVIDENCE OF PROGRESS

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- Slower growth in overall healthcare spending
- Reduction in patient care error rates
- Accelerating adoption of Information Technology
- Improved recognition of potential fraud and reduction in estimated rates of its occurrence
- Reduction in the utilization of specific high-cost services where alternatives are available that are equally or more effective
- Reduction in the variability in use of high-cost procedures
- Reduction in avoidable care and complication rates



# FOR MORE INFORMATION

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#### A PATH TO ELIMINATING \$3.6 TRILLION IN WASTEFUL HEALTHCARE SPENDING

Our newest white paper outlines  
five market-tested strategies  
for reducing waste.

[Download the paper](#)  
and learn more.

#### FIVE MARKET-TESTED STRATEGIES FOR REDUCING WASTEFUL HEALTHCARE SPENDING

Our new white paper, "A Path to Eliminating \$3.6 Trillion in Wasteful Healthcare Spending," charts a course for the U.S. healthcare industry to eliminate \$3.6 trillion in healthcare waste over the next 10 years by addressing a series of operational inefficiencies.

The paper analyzes the country's leading public and private sector efforts to reduce waste in the healthcare system and identifies five proven strategies that have been deployed in the real world to cut costs and improve patient care:

1. Engage Consumers
2. Coordinate and Share Information
3. Manage Disease and Maintain Wellness
4. Design for Patient Safety and Quality
5. Reduce Opportunities for Fraud

By systematically incorporating these best practices into the organizational structure of the healthcare industry, the new paper says it's possible to cut waste 5 percent per year. Over 10 years, that would add up to \$3.6 trillion and keep total healthcare expenditures at their current rate of about 17 percent of the nation's gross domestic product (GDP).



#### GET THE FACTS. ELIMINATE WASTE.

Find out how to save \$3.6 trillion in wasteful  
healthcare spending over the next decade.

What can you do to combat wasteful spending in your organization? In our latest white paper, we discuss the most significant challenges facing the industry, highlight five best practices to help reduce waste, and illustrate specific targets with real-life examples. Download your copy to learn more today.

[DOWNLOAD NOW](#)





# Appendix

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# SIX SPECIFIC TARGETS FOR REDUCING WASTE



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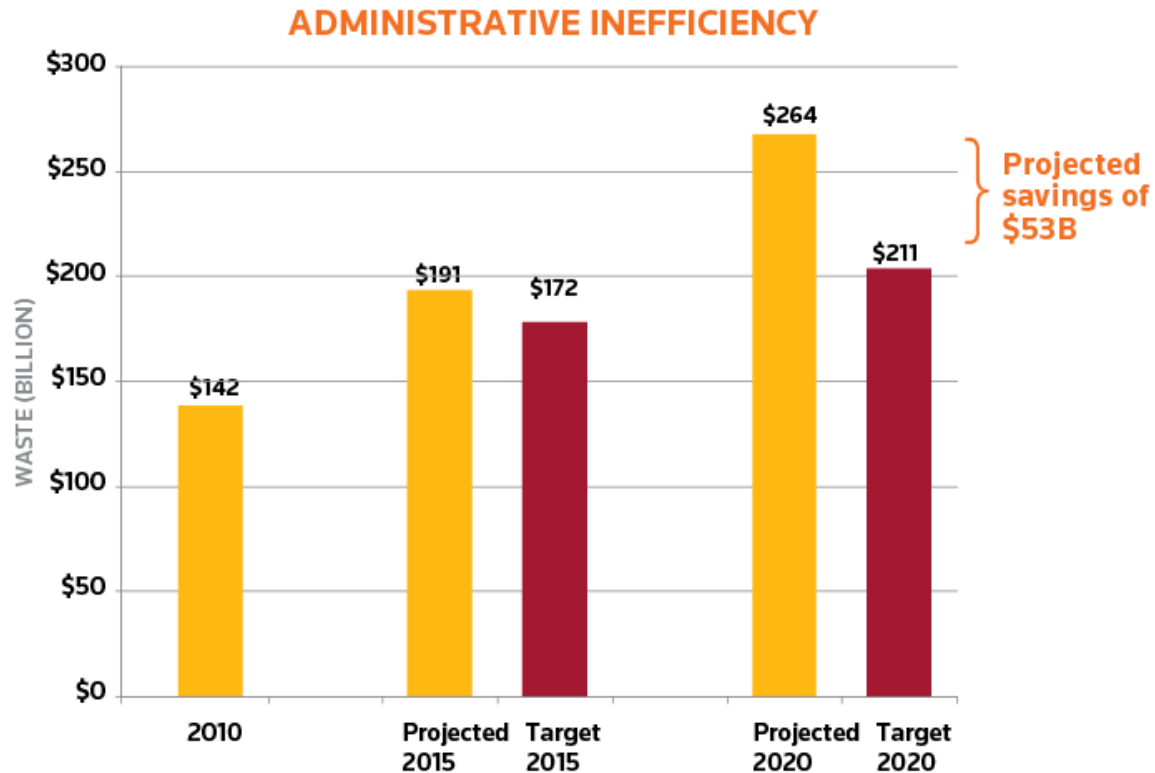
1. Administrative Inefficiency
2. Provider Errors and Inefficiency
3. Lack of Care Coordination
4. Unnecessary Care
5. Preventable Conditions and Avoidable Care
6. Fraud and Abuse



# TARGET #1: ADMINISTRATIVE INEFFICIENCY

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**Suggested Target Reduction:** 10 percent in 5 years; 20 percent in 10 years



# TARGET #1: ADMINISTRATIVE INEFFICIENCY

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## **Significant Challenges:**

- Complexity in claims-related systems
- Unclear leadership role in defining and mandating standards
- Nonstandard, complicated benefit programs
- Multiple providers in one episode of care
- Different rates for identical services
- Consumer expectations that all combinations of providers and health plans be accessible



# TARGET #1: ADMINISTRATIVE INEFFICIENCY

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## Developments Underway:

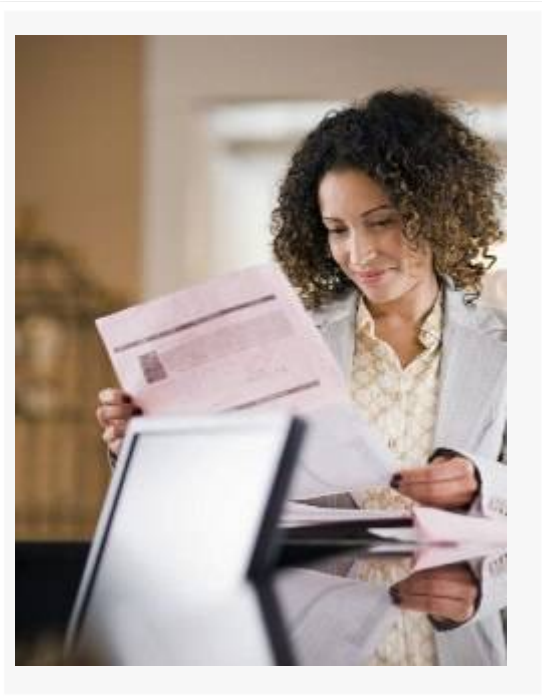
- New Jersey pilot program allows providers to communicate with health plans and do administrative tasks through a single Web portal
- Towers Watson survey found that 22 percent of plan sponsors intend to move to electronic communications
- Minnesota law requiring the standard, electronic exchange of business transactions will save the state more than \$60 million per year





## TARGET #1: ADMINISTRATIVE INEFFICIENCY

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By reducing paper EOBs, Humana will save \$3-6 PMPY, and as much as \$10-12 PMPY for high utilizers of medical care

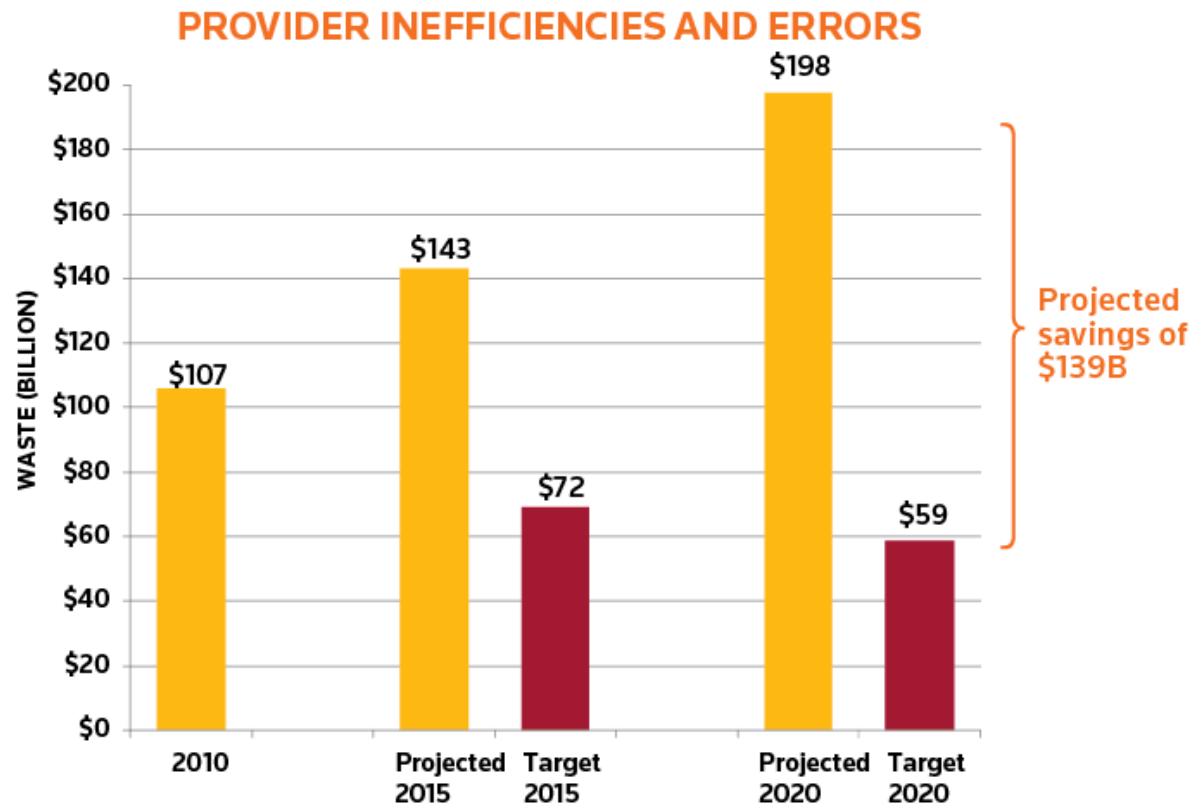
Applied to all employer-sponsored plans, possible **\$800 million savings** per year



## TARGET #2: PROVIDER INEFFICIENCY AND ERRORS

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**Suggested Target Reduction:** 50 percent in 5 years; 70 percent in 10 years



## TARGET #2: PROVIDER ERRORS AND INEFFICIENCY

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### **Significant Challenges:**

- Hospitals have little control over physician practices
- Specialty care silos result in unclear roles and responsibilities
- Systems enable unnecessary variation in care
- Lack of short-term return to IT investments
- No financial incentives for increased efficiency and effectiveness
- Culture inhibits learning from mistakes



## TARGET #2: PROVIDER ERRORS AND INEFFICIENCY

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### Developments Underway:

- Geisinger Health System systematically researched how best to deliver care and hardwired the process steps into its EHR. Reduced variation
- Kaiser Permanente's EHR increased telephone visits (8x) and emails (6x) while decreasing office visits by 25.3% and specialty visits by 21.5%
- A rapid response team used electronic surveillance to decrease mortality by 30.8% and reduce the need for bedside resuscitation by 3/4



## TARGET #2: PROVIDER ERRORS AND INEFFICIENCY

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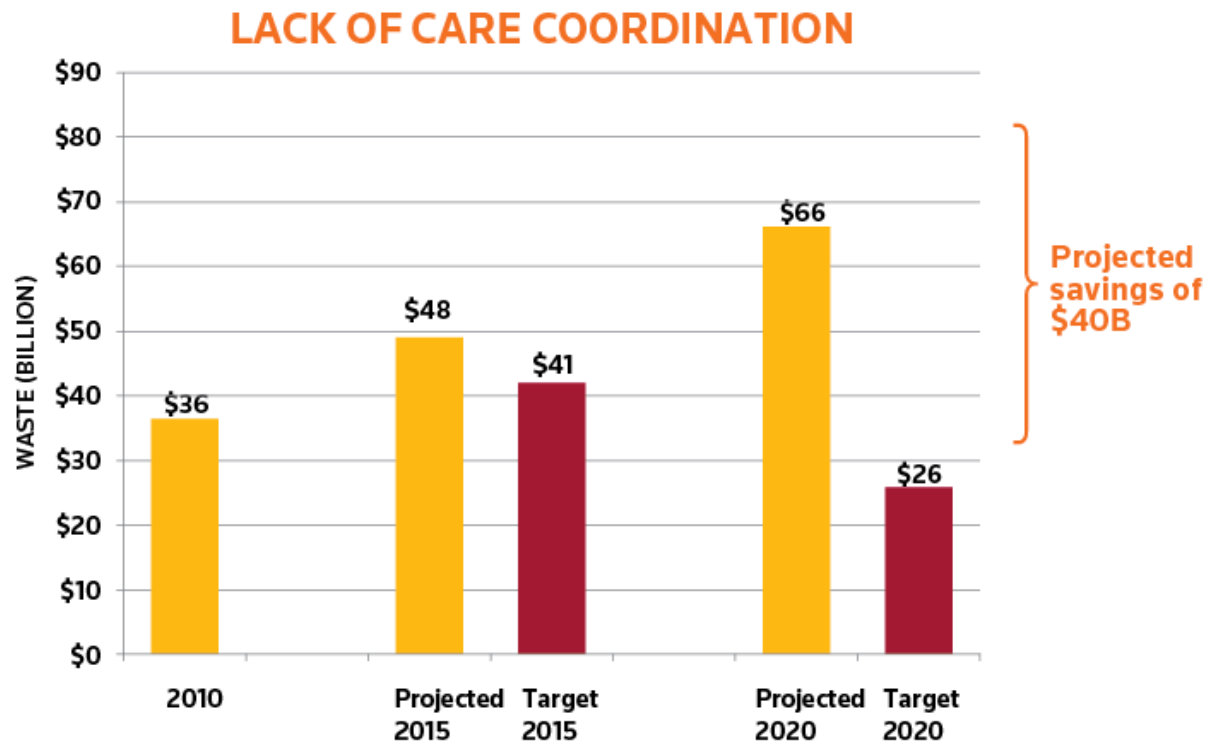
A Medicare demonstration project (1991-1996) bundled hospital and physician payments for CABG surgery and saved 10% of the cost

Possible national savings of **\$1.4 billion annually**

## TARGET #3: LACK OF CARE COORDINATION

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**Suggested Target Reduction:** 15 percent in 5 years; 60 percent in 10 years





## TARGET #3: LACK OF CARE COORDINATION

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### **Significant Challenges:**

- No effective infrastructure for communication and information sharing among providers and patients
- Lack of incentives and protocols for care coordination
- Concerns about the privacy and confidentiality of patient data
- Lack of access to appropriate services/settings turns patients to costlier alternatives, i.e. emergency room (ER)



## TARGET #3: LACK OF CARE COORDINATION

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### Developments Underway:

- North Shore Hospital System announced that it will pay \$40,000 to each physician who adopts its EHR
- A transportation company provides 24-hour, toll-free nurse lines to employees. This saved \$1.62 PMPY
- A large multi-hospital system reduced ER visits by referring frequent, non-urgent users to primary care physicians, resulting in a 72% drop in ER utilization



## TARGET #3: LACK OF CARE COORDINATION

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IHI identifies 50% of all ER visits could be avoided by care in other settings

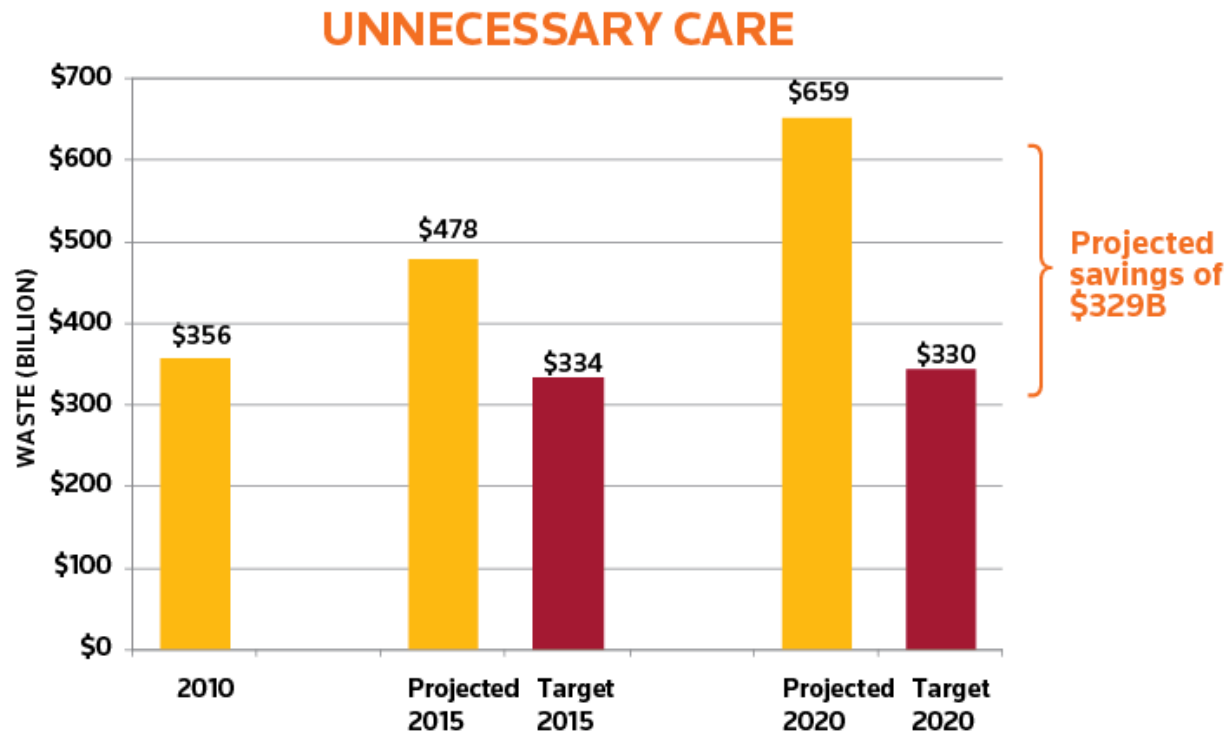
Potential **\$2 billion** saved annually for employer-sponsored plans alone



## TARGET #4: UNNECESSARY CARE

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**Suggested Target Reduction:** 30 percent in 5 years; 50 percent in 10 years



## TARGET #4: UNNECESSARY CARE

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### **Significant Challenges:**

- Lack of consensus on the effectiveness and efficiency of specific clinical care for many conditions
- Liability issues encourage providers to order unwarranted diagnostic tests and treatment
- No consistent awareness, understanding, and application of existing standards
- Financial incentives encourage over-utilization of some procedures
- Little information to support informed patient choice



## TARGET #4: UNNECESSARY CARE

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### Developments Underway:

- The Healthcare Innovation Zone would create programs to design and test regionally specific, integrated care delivery and payment approaches
- One state noted \$434,000 in unnecessary payments annually for URI antibiotics in children
- A randomized, controlled trial in 2005 concluded that those who participated in a structured interview regarding end-of-life care were 20x more likely to move to hospice care



## TARGET #4: UNNECESSARY CARE

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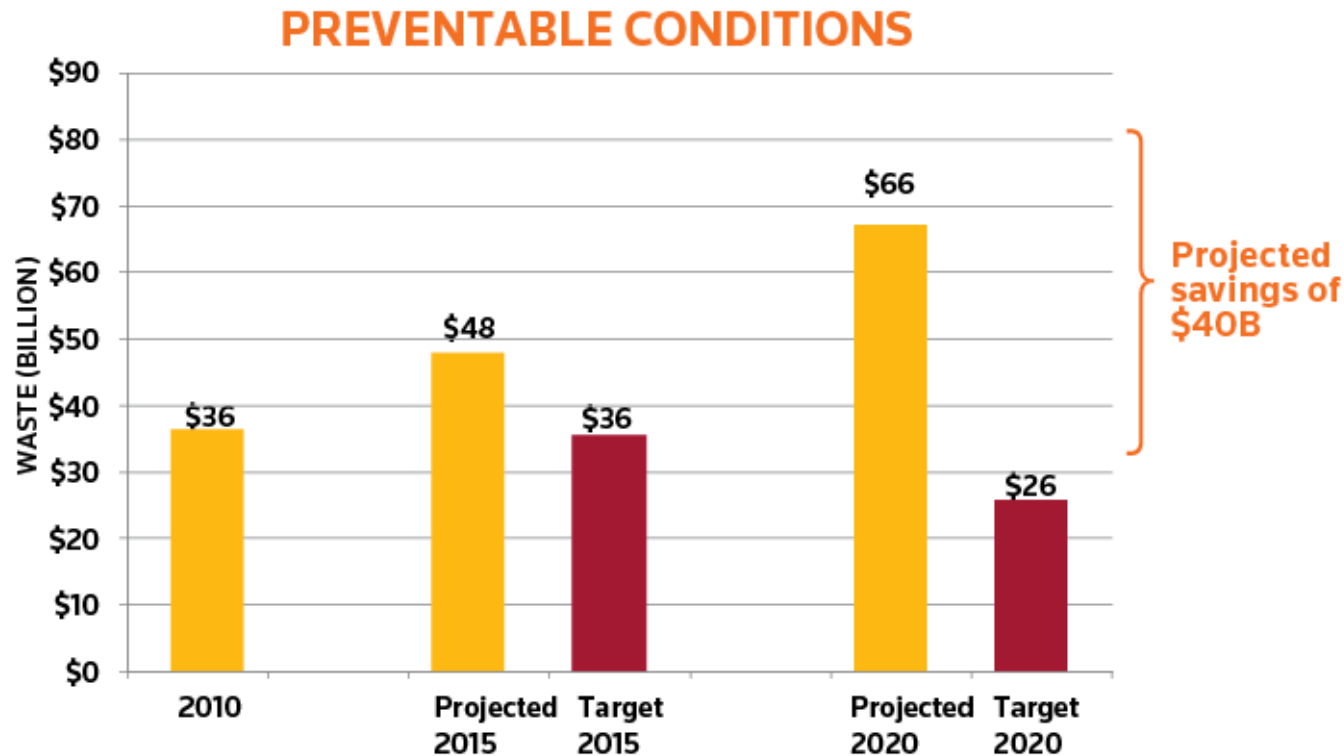
U.S. Oncology study demonstrated that following evidence-based care for non-small cell lung cancer saves 35% without effecting outcomes

Potential annual savings of **\$1.14 billion** for under age 65 population

# TARGET #5: PREVENTABLE CONDITIONS AND AVOIDABLE CARE

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**Suggested Target Reduction:** 25 percent in 5 years; 60 percent in 10 years





## TARGET #5: PREVENTABLE CONDITIONS AND AVOIDABLE CARE

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### **Significant Challenges:**

- The American lifestyle results in in significant, costly, chronic disease
- Sedentary work environments are the norm
- The most convenient and affordable food is unhealthy
- High, out-of-pocket costs or financial barriers for preventive care or disease management services
- Inadequate trust in caregivers and support for elderly



## TARGET #5: PREVENTABLE CONDITIONS AND AVOIDABLE CARE

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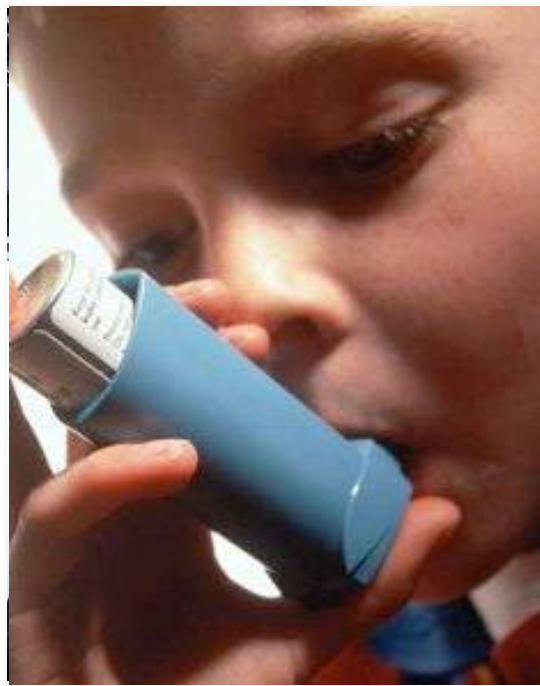
### Developments Underway:

- Wellness program participation at one large employer resulted in a reduction in medical care costs per employee of \$225 annually
- A large employer changed plan design to provide a financial incentive for preventive care and pre-natal care (2.4:1 ROI)
- A Medicaid-managed care plan saved \$7.8 million (hospitalization and specialty visits) by moving high-risk members to care management with incentives for PCPs to manage health



## TARGET #5: PREVENTABLE CONDITIONS AND AVOIDABLE CARE

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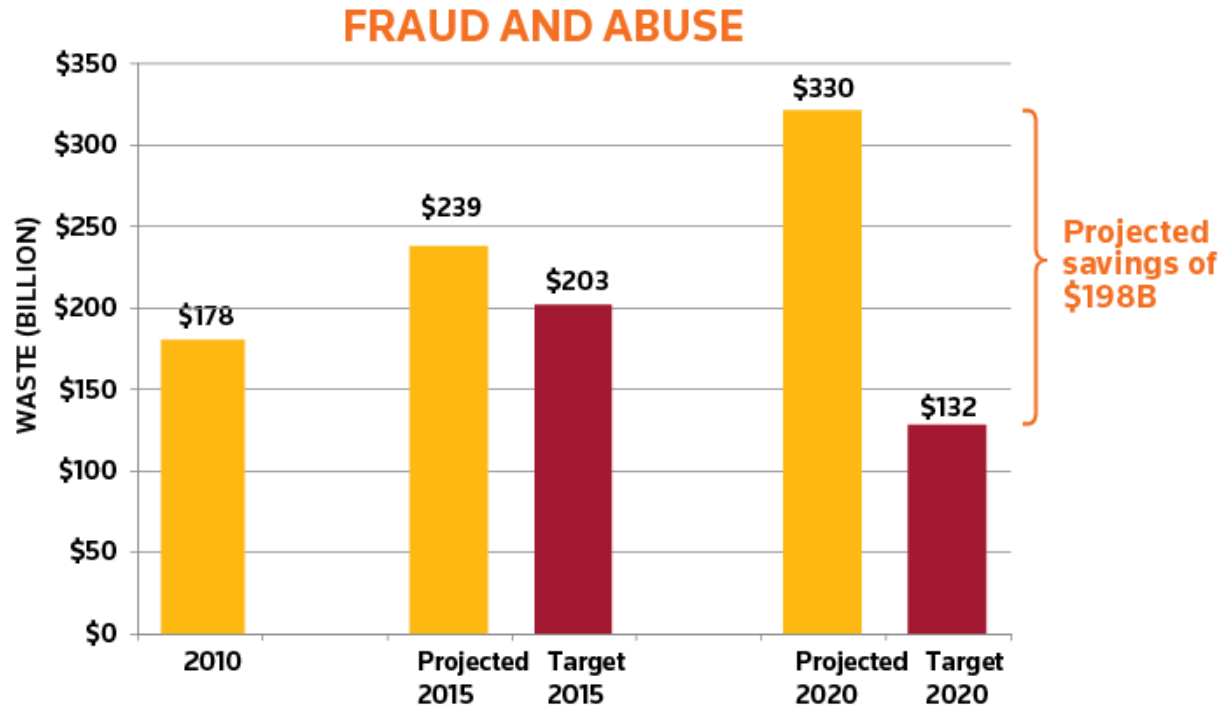
A large employer reduced co-pays for diabetes, asthma, and hypertension medications reducing ER visits by 28% and asthma admissions by 62%

Potential annual national savings of **\$29 million** for diabetes and **\$404 million** for asthma

## TARGET #6: FRAUD AND ABUSE

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**Suggested Target Reduction:** 15 percent in 5 years; 60 percent in 10 years



## TARGET #6: FRAUD AND ABUSE

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### **Significant Challenges:**

- The payer and the receiver of services are separate
- Fraudulent operators are very skilled at manipulating the system
- Healthcare professionals minimize the extent of fraud, claiming it is only among non-professionals
- Payers don't want to jeopardize their relationships with providers by slowing payments
- It is difficult to prove fraud exists and recover payments via the “pay and chase” method



## TARGET #6: FRAUD AND ABUSE

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### Developments Underway:

- Since 2007, the HHS Strike Forces have charged more than 500 defendants in healthcare fraud crimes of more than \$1 billion in fraudulent billing
- The newly enacted Affordable Care Act lengthens prison sentences and provides \$300 million over the next 10 years for enforcement
- Blue Cross and Blue Shield companies' anti-fraud investigators prevented \$134 million in fraudulent or erroneous medical claims, while recouping nearly \$115 million from fraudulent claims



## TARGET #6: FRAUD AND ABUSE

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A pilot program designed to curb prescription drug abuse in the South Carolina Medicaid program saved the state \$320,000+ since it began in January 2009

Potential national reduction in waste of **\$455 million** annually

# EVIDENCE OF PROGRESS

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- Slower growth in overall healthcare spending
- Reduction in patient care error rates
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