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Controlling Health Care Costs: Making the Tough Choices

Colorado Health Symposium

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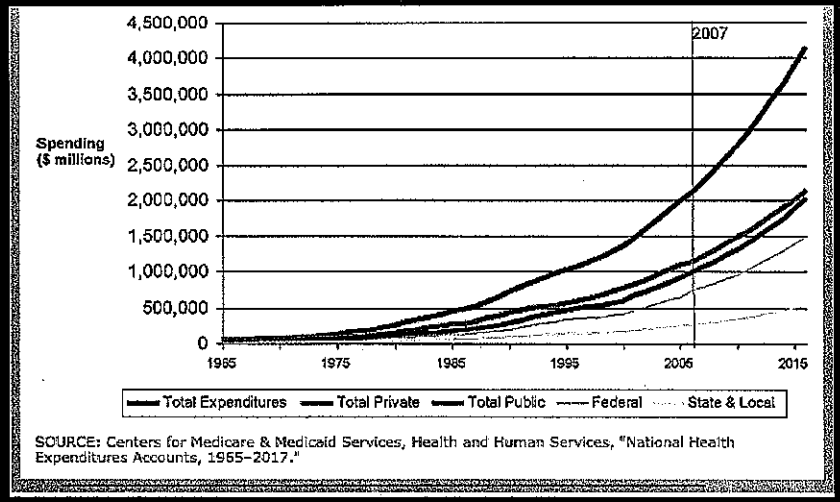
Associate Director, RAND Health
July 31, 2009

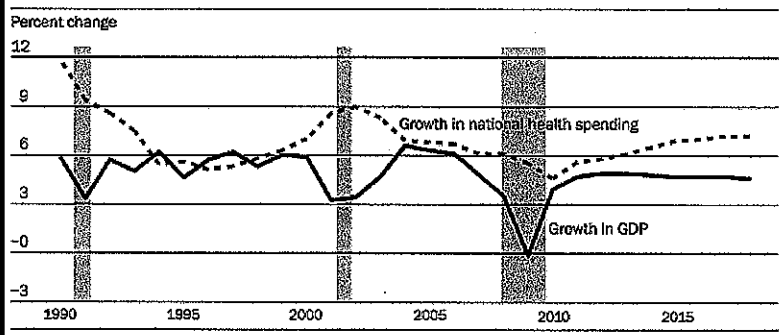
U.S. Health Spending Increasing Rapidly



SOURCE: Centers for Medicare & Medicaid Services, Health and Human Services, "National Health Expenditures Accounts, 1965–2017."

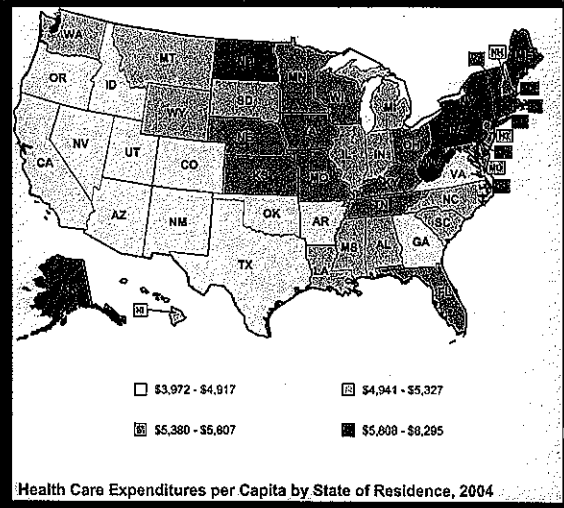
Health Care Spending Is Increasing Faster than GDP Growth

EXHIBIT 3
Growth In National Health Spending Versus Gross Domestic Product (GDP), 1990–2018



SOURCES: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; U.S. Department of Commerce, Bureau of Economic Analysis; and National Bureau of Economic Research.
NOTES: Historical data through 2007; projected data from 2008 to 2018. Recessions took place during July 1990–March 1991; March 2001–November 2001; and December 2007–2009 (projected) and are denoted by shading.

Per Capita Spending Varies by State



Health Care Expenditures per Capita by State of Residence, 2004

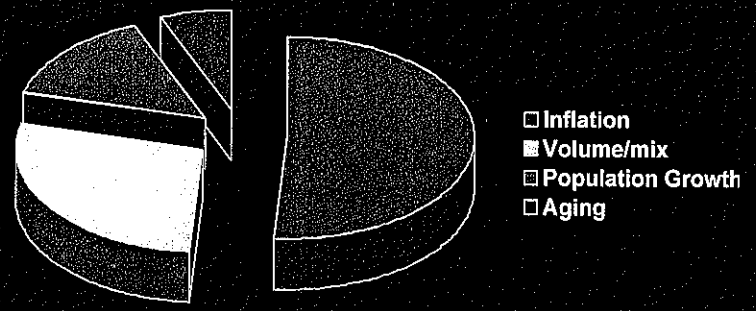
Source: Kaiser Family Foundation 2008

Attachment N

Does It Matter How Much We Spend on Health Care?

- Money spent on health care can't be spent on other things
- Spending on health care may overtake most other discretionary government spending
- But, we've been concerned about these increases for a long time without taking any serious action
- And many economists argue that we've gotten good value for this expenditure

Drivers of Health Spending Increases



Source: California HealthCare Foundation. Snapshot, Health Care Costs 101, 2008.

Two Basic Approaches to Reducing Spending

$ = Price x Quantity

Reduce prices Reduce volume

And Two Strategies for Each...

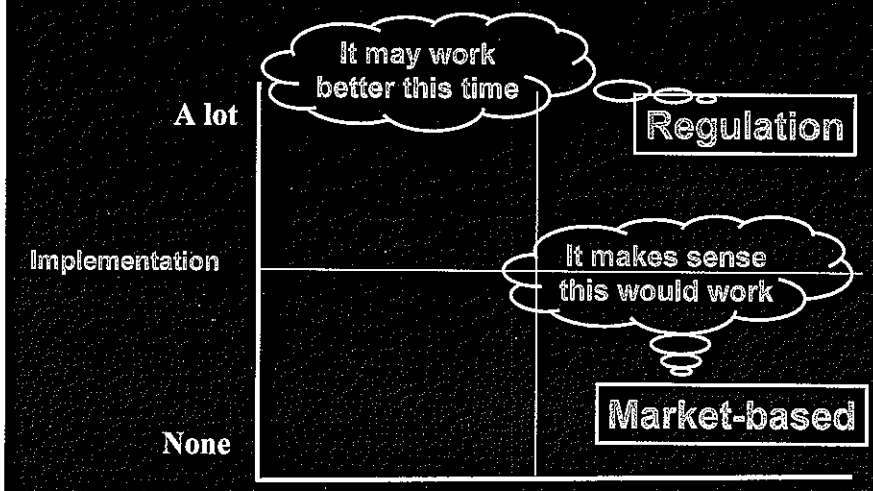
Reduce prices

- Market-based
  - Substitution
- Regulatory
  - Price setting

Reduce volume

- Market-based
  - Incentives
- Regulatory
  - Supply constraints

Competing Challenges in Examining Evidence



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Where Should We Start?

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What Makes Some Options More Promising than Others?

- The size of the population affected by a policy change
  - Only a few conditions affect more than 1% of population
  - Obesity affects one-third of the population
- The spending by the target population
  - Many options get savings from reducing hospitalization or emergency department visits
- A clear mechanism for changing the price or volume of services delivered
  - It isn't enough to observe that Y < Z: need to know how to make Z like Y

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Illustrating Some Tough Choices

- Obesity
- Bundled payment
- Reducing resources spent on end of life care

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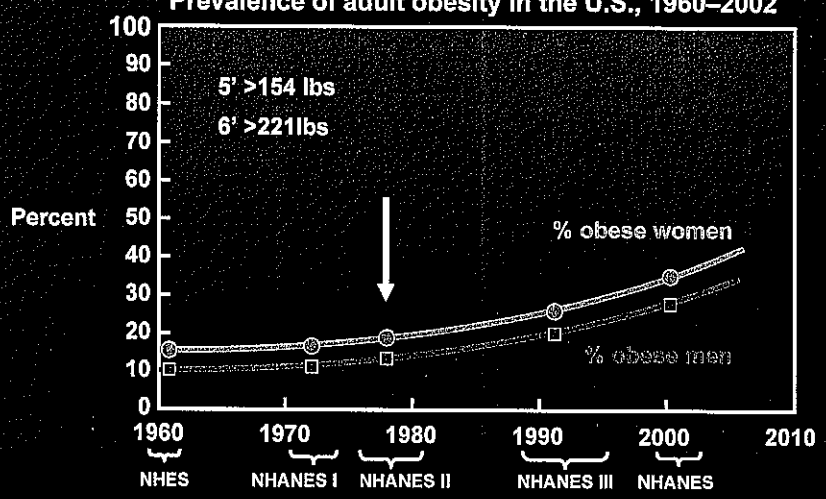
Obesity

Overweight and Obesity Are Major Health Issues

- Two-thirds of American adults and one-third of children are either overweight or obese
- Obesity is associated with, causes, or exacerbates many medical problems, e.g.:
  - diabetes
  - cardiovascular disease
  - hypertension
  - musculoskeletal problems
- Direct costs of obesity have been estimated at $147 billion annually (2008) or 9.1% of all spending

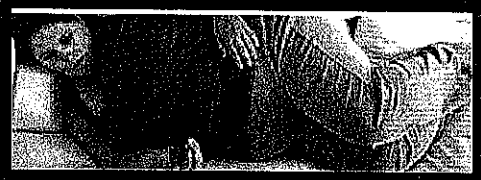
Obesity Has Been Increasing Over the Past 30 Years

Prevalence of adult obesity in the U.S., 1960–2002



Overweight = BMI≥25 kg/m², but < 30; obesity = BMI ≥ 30 kg/m²

RAND Was Asked to Assess Effectiveness of Bariatric Surgery Compared to Non-Surgical Weight Loss Methods

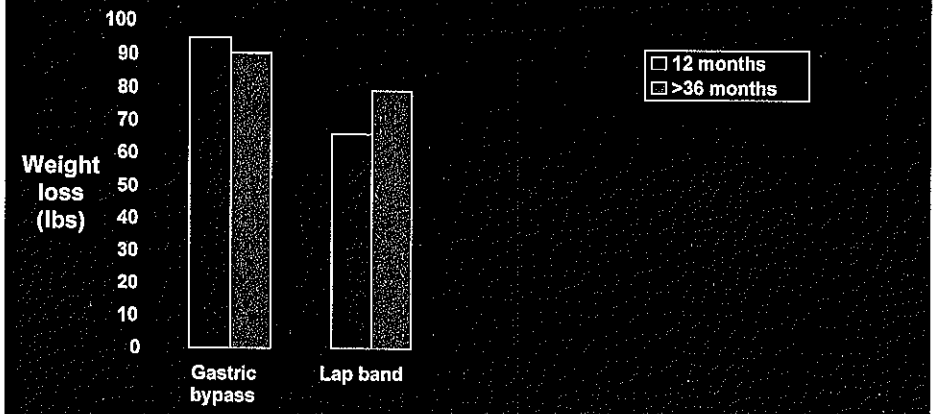


Diet/ Exercise

Pharmaceutical

Surgery

Bariatric Surgery Generates Substantial and Sustainable Weight Loss



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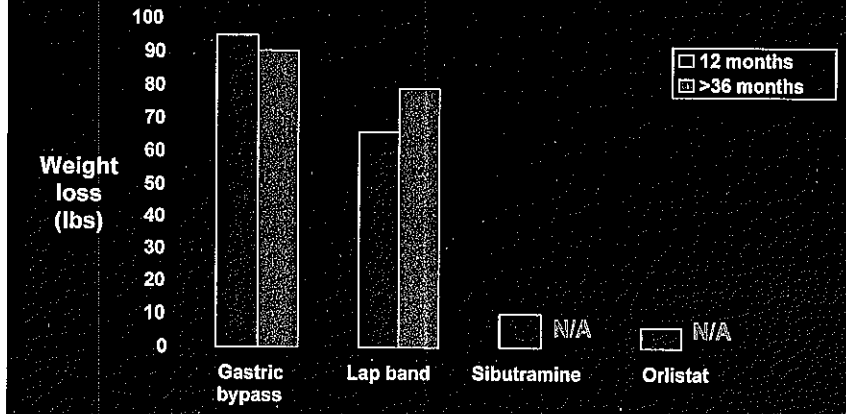
Bariatric Surgery Generates Substantial and Sustainable Weight Loss



No data for pharmaceuticals beyond 12 months

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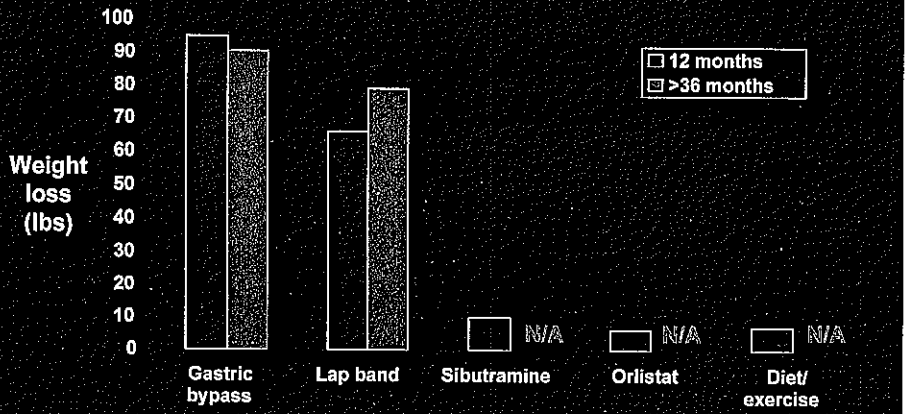
Bariatric Surgery Generates Substantial and Sustainable Weight Loss



No data for diet/exercise beyond 12 months

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Suggestions from the CDC to Address Obesity

- Schools placed within easy walking distance of residential areas
- Improve access to outdoor recreational facilities
- Require physical education in schools
- Enhance traffic safety in areas where people could be physically active
- Enhance infrastructure supporting biking and walking
- Discourage consumption of sugar sweetened beverages

USA Today, July 28, 2009

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What Are Some Choices?

- Lap band for all
  - 16,000 new surgeons to treat the 47 million severely obese (surgically eligible) population
- Premium discounts for people who lose weight (or maintain a healthy weight)
  - Concerns about "fairness" [ERISA]
  - Little information on effectiveness
- Changing the "built environment"
  - Cost, time to achieve impact
- Bottom line:
  - Large target population that spends $$$
  - No clear mechanism for achieving reductions

Bundled Payment

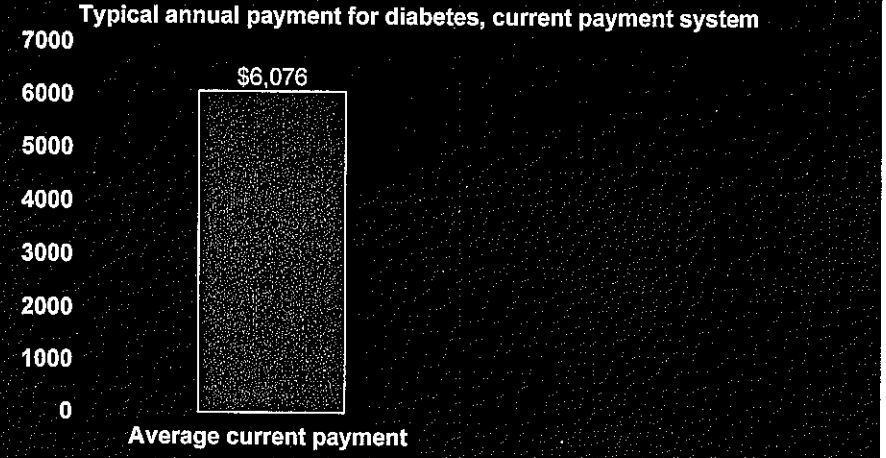
Between FFS & Capitation: Bundled Payment

- Fee-for-service payment reimburses providers separately for each unit of service, which encourages overuse of care
- Under bundled payment, the total cost of needed services for a condition is calculated
- Bundled payment amount is generally a percentage reduction from average current payment to discourage overuse
- Applies across multiple providers and care settings
- Evidence suggests that bundled payment can save money

We Recently Modeled One Bundled Payment Method

- Chronic conditions
  - Diabetes
  - High blood pressure
  - Congestive heart failure
  - Heart disease
  - Chronic lung disease
  - Asthma
- Procedures or admissions
  - Heart attack
  - Bariatric surgery
  - Hip replacement
  - Knee replacement

An Example of the Prometheus Bundled Payment Methodology for Diabetes Care



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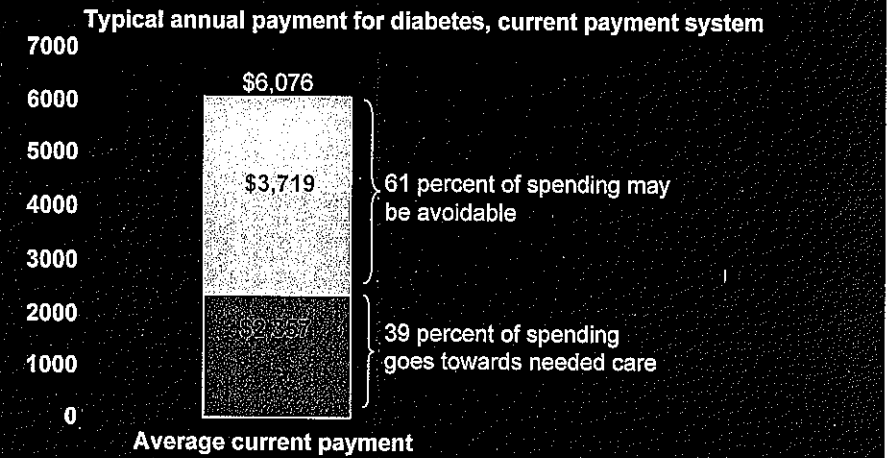
A Large Share of Health Spending May Be Avoidable



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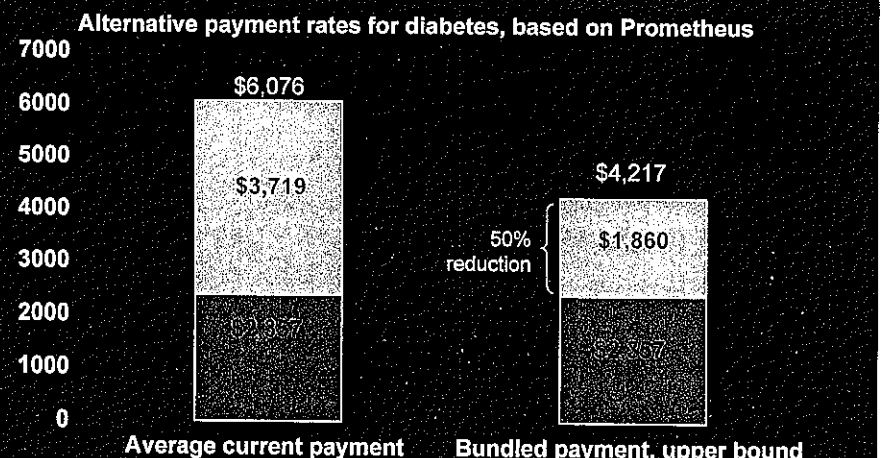
Caps Would Reduce Spending by Limiting Payment for Potentially Avoidable Utilization



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Would It Work in Practice?

- Evidence is from hospital-based conditions
  - But chronic illness is the biggest potential saver
- Bundled payment may only work in organized delivery systems
  - Who "holds" the bundle and allocates payments?
- Bundles are difficult to develop and price
  - Prometheus: ten bundles in three years
  - Requires making assumptions about relative overuse and underuse in current use patterns
- Unknown effects on quality of care
- Bottom line: someone will get less money

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End of Life Care

How Much Do We Spend on Care At the End of Life?

- About 10% of U.S. health care spending is for services to people in the last year of life
- You may be more familiar with Medicare-based estimates
  - 30% of Medicare spending on people in last year of life
- Often used to illustrate "wasted" spending

Spending At the End of Life Varies

The New York Times — April 7, 2008

The Costs of Chronic Care

The intensity and cost of care provided to Medicare patients with chronic illnesses vary widely among academic medical centers.

Five top-ranked academic medical centers	AVERAGE PER PATIENT: Medicare spending in the last two years of life	Hospital days in the last six months of life	Physician visits in the last six months of life
U.C.L.A. Medical Center	$93,842	18.5	52.8
Johns Hopkins Hospital	$85,729	16.5	28.9
Massachusetts General Hospital	$78,666	17.3	39.5
Cleveland Clinic Foundation	$55,333	14.8	33.1
Mayo Clinic (St. Marys Hospital)	$53,432	12.0	23.9

Source: Dartmouth Atlas of Health Care

Note: Data are for patients who died in 2001-5.

THE NEW YORK TIMES

☑ SIGN IN TO RECOMMEND

Some Options for Reducing Spending

- Greater use of advance directives ("living wills")
  - About 20% of Americans have completed them
  - Multiple studies find no relationship with resource use
- Greater use of hospice care
  - One study found hospice patients spent 4% more than those not in hospice
  - May save money in advanced cancer patients (estimates: 7-17%) but not others
- Eliminating "futile" care (do not resuscitate orders)
  - Costs similar for patients with and without DNR

Mary, I just want to be clear: Nobody is going to be knocking on your door; nobody is going to be telling you you've got to fill [a living will] out. And certainly nobody is going to be forcing you to make a set of decisions on end-of-life care based on some bureaucratic law in Washington.

-- President Obama
July 28, 2009

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My problem, as a physician who has practiced medicine for decades, is that I just can't predict with certainty what is end-of-life care, nor can I determine for another individual the meaning of "quality of life."

-- Katherine Dowling Schlaerth, MD
San Francisco Chronicle
July 28, 2009

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Can We Reduce Health Care Spending?

- No magic bullets
- Won't be fast or easy
- Will require multiple interventions and rapid assessment
- A lot of uncertainty
- Easier to make enemies than friends in the search for solutions

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