

The Economy and You Report

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How to Improve the Cost-effectiveness of U.S. Healthcare

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Congress Creates a Six-legged Moose

In my opinion, the healthcare reform bill before the Senate is little more than an attempt to get more people covered by healthcare insurance regardless of the cost. I see very little in the 2000 page bill that will increase the cost-effectiveness of our healthcare system. Like every other bill passed by Congress, it is full of compromises and giveaways to politicians and private interests that wouldn't be needed to gain support if Congress used the right approach in the first place (see "[Stop the Healthcare Madness](#)" in the August 12 issue).

The cost estimates being tossed about by the Obama administration seem as credible as the estimates made by the Bush administration when it passed the Medicare drug bill – and we know how that worked out. Unless the current bill is totally reworked or a miracle occurs, actual costs will exceed projections by an appreciable margin. Does anyone want to make a bet to the contrary?

The only way to improve our healthcare system is to change what we do and how we do it. Maintaining the status quo will undoubtedly produce the same results and most people think our current healthcare system is unacceptable because it costs too much, does not produce superior results, and does not provide adequate coverage to too many people.

The following article summarizes changes we could make to move our healthcare system to a substantially higher level of cost-effectiveness. In a [detailed summary of the proposed bill](#), I found 20 line items out of 82 that seemed to have any relationship to improving cost-effectiveness, but only 10 of them appeared capable of making any tangible contribution. This is unacceptable to me and it should be unacceptable to you.

How to Improve the Cost-effectiveness of U.S. Healthcare

How can we increase the cost-effectiveness of U.S. healthcare? Here are some ideas that came from a number of reputable sources. Many of these ideas have already established some record of success and others certainly make a lot of sense. For whatever they are worth, I have also thrown in a few ideas that came to me while writing this article.

In all cases, the stated numbers should be taken as ballpark figures based on different studies. Where cost figures are concerned, they cannot be added to get a grand total because there is overlap between the different cost categories.

Where are the greatest opportunities for improving cost-effectiveness?

The largest opportunities for reducing healthcare costs and improving effectiveness fall into four areas: administrative costs, treatment waste, treating catastrophic illnesses, and end-of-life care.

1. Some studies indicate administrative expenses eat up as much as 30% of healthcare spending. Reducing this to 20% of total spending would be a tremendous benefit.
2. Treatment waste in the form of unnecessary and duplicated tests, misdiagnosis, ineffective and inappropriate treatments, and operational inefficiencies could be as high as 30% of costs according to some studies. Whatever the true number, there is broad agreement that reducing treatment waste has significant potential.
3. Less than 1% of the population accounts for 30% of total medical costs, most of which are cancer patients. Another 11% of the population, mostly patients with chronic diseases at advanced or end stages, accounts for 43% of costs. Improvement efforts should be focused on this 73% of healthcare costs tied to catastrophic illnesses, but this large bucket of costs is made up of many pieces, each of which may need a different solution.
4. No one wants to let a loved one die, but one-third of expenses in the last year of life are spent in the final month, with aggressive treatments to prolong life accounting for 80 percent of those costs. The one-in-twenty Medicare patients who die each year use up almost one-third of each year's expenditures and estimates show that about 27% of Medicare's annual \$327 billion budget goes to care for patients in their final year of life. Some programs have demonstrated that it is possible to reduce these costs while producing more desirable outcomes.

These are the areas of largest potential for improving the cost-effectiveness of our healthcare system, but how can we do it?

The potential solutions that follow have been put into categories that overlap to some extent. Many of these concepts are much more than a good idea; they have demonstrated some success in practice and only need to be refined and deployed.

Cost control

The best defense against rising costs is to monitor costs and take corrective action when they appear to be getting out of line with normal usage or generally accepted practices. Other ideas for controlling and reducing costs include the following.

- Make consumers put more skin in the game. Some analysts think consumers are too isolated from the costs of care by insurance and carelessly use or over-use healthcare services.
- Reduce payments or apply higher co-pays to procedures of questionable effectiveness.
- Place limits on what treatments Medicare and other government programs will cover. Insurance companies already do this and government programs will eventually have to do the same, whether anyone likes it or not.
- Keep treatment capacity in line with needs. Some studies say supply tends to drive demand in healthcare services: "We have it and we have to pay for it, so let's use it."
- Provide an incentive for consumers to use less expensive drugs by charging smaller co-pays for preferred drugs instead of more expensive equivalents. Another option is to reward doctors and consumers for using lower-cost products that are known to be effective.
- Pay for results, not the number of services performed. Rewarding cost-effective care is simple in principle, but it could be difficult in practice.
- Monitor physicians' performance to identify possible misuse of tests, procedures, and drugs. Do the same to identify consumers' over-use of services and products.
- Link personal responsibility to consumers' costs. For example, apply higher insurance fees to smokers and lower fees to patients who comply with doctor's treatment requirements. United Healthcare just introduced an incentive program that rewards patients with diabetes

who do what they are supposed to do - lose weight, exercise, and properly control their blood sugar.

Process improvement

The principles of process improvement have a well-established record of significantly reducing costs and improving quality in virtually every industry, including some healthcare organizations. My limited exposure to the healthcare industry indicates there are many things individual organizations can do on their own to improve performance and reduce costs.

- There is evidence primary care physicians (family doctors) can reduce costs by having a better understanding of a patient's history and improved communications with the patient, leading to more effective diagnosis and treatment. Unfortunately, there is a shortage of general practitioners because specialists get higher pay. The primary solution is to graduate more general practitioners, perhaps by paying them more, subsidizing medical school costs and other incentives.
- Do a better job of informing patients of alternative treatments. Shared decision-making has demonstrated good results.
- Find good models for providing healthcare services and duplicate what they do. Kaiser Permanente, Cleveland Clinic, and Mayo Clinic produce excellent results at lower costs than most other providers.
- Determine "best practices" or evidence-based treatment standards and communicate them to the medical community. Although a particular best practice may not fit every situation, some practices are clearly better than others. Other industries have found identifying best practices very productive – just ask the Japanese car companies. Perhaps the government could fund studies to determine best practices in high cost areas if the private sector can't do it. I have known doctors who were prescribing treatments that were essentially obsolete and in one case, life-threatening.
- Measure the performance of doctors, hospitals and other providers and give them feedback on their performance. There is considerable evidence in healthcare that when people get feedback that shows they are not performing as well as others, they take steps to improve their performance. I know from experience that properly designed and implemented performance measures will yield significant benefits in almost any situation. "If you don't measure it, you can't manage it" has been well-proven in practice.
- Implement electronic medical records to give physicians an accurate and complete picture of a patient's healthcare history. This data could yield improvements such as eliminating duplicate tests and treatment, improving diagnosis, and identifying effective and ineffective treatments. The data-processing industry has been trying to sell this concept to Congress for years because of the many billions of dollars of equipment and software that would be involved, but implementing electronic medical records seems to have considerable merit.

A good system would probably pay for itself in 5-10 years. Medicare and insurance companies already know every doctor visit, treatment, and drug a patient has used, so why can't a sizeable pilot project be set up at greatly reduced cost to test the feasibility of electronic medical records and determine the benefits?

- Use technology to improve diagnosis, help patients comply with treatment regimens, provide remote monitoring of patients with chronic health problems, automate doctors' offices, and improve other aspects of delivering healthcare services. New Zealand reportedly uses more technology than we do and their healthcare system gets high marks for performance with much lower costs.
- Improving prevention of disease and health problems has potential for reducing costs, but some analysts say the potential savings are being over-rated. After all, life can be extended, but death cannot be prevented. However, almost everyone agrees practicing a healthy lifestyle offers significant savings and there is plenty of evidence that it works. Getting people to change their behavior isn't easy, but some companies have produced remarkable results.

- Will's idea 1: Where there are several hospitals in an area, why can't some hospitals specialize in certain treatments and let other hospitals specialize in other areas? It seems there would be economies of scale and there is data that shows when doctors do higher volumes of specific procedures they get better results. This is why you don't see cars, tractors and motorcycles being produced in the same plant.
- Will's idea 2: Why doesn't the government fund some research about delivering healthcare services more efficiently, instead of funding research on obscure diseases that will benefit only a relatively small number of people? An often heard complaint about government funding of health research is that it is based on political pull (lobbying, campaign contributions and political support) instead of being based on where it could prevent the most disease or save the most lives.
- Will's idea 3: Why can't the insurance industry standardize insurance procedures, forms, and policies to lower administrative costs for doctors, hospitals and other service providers? I have no idea how bad this problem is, but doctors have told me the many different policies and procedures they have to deal with are a costly headache. One doctor said he had to spend one minute processing paperwork for every minute he practiced medicine. What a waste of valuable time!

Areas where legislation will be required

Most methods of improving healthcare lie in the private sector, but some solutions require changes in federal and state regulations. Many critics of our healthcare system maintain that government insurance and healthcare regulations have added many costs that produce few benefits.

- Revise the Emergency Medical Treatment and Active Labor Act to treat only real emergencies in hospital emergency centers. Couple this with providing separate clinics for non-emergency indigent care. This could create other problems, but it seems it would be a more cost-effective approach than tying up expensive emergency facilities with non-emergency illnesses.
- Some sort of tort reform certainly seems to be required. The sum of direct insurance costs and the costs of defensive medicine have been estimated at 4-9% of total medical costs. While gross malpractice cannot be excused, medicine is not an exact science. Human judgment is a key ingredient and it seems our laws should reflect these realities. One hospital told me they don't collect data on medical errors because it would increase their exposure to lawsuits. This makes reducing errors much more difficult, which means the threat of lawsuits contributes to higher error rates and more lawsuits!
- Equalize tax treatment of employer and individually-provided health insurance. What's good for one should be good for all.
- Implement heavy penalties for Medicare and medical fraud in general. From recent news about Medicare fraud, it looks like Medicare needs more effective data analysis to identify potential fraudulent transactions more quickly.

Having done it, I know it is possible to identify suspicious transactions with a high degree of accuracy by passing them through a series of logical filters. This can get complicated, but I might volunteer to do it for nothing if I was guaranteed a percentage of the annual savings for the next 5-10 years.

- Prohibit conflict-of-interest relationships between doctors and providers of services or products. Doctors should not be allowed to have financial interests in any companies that provide any services or products they use in treating patients. There are ample investment opportunities for doctors in other areas of our economy and the claim that all doctors are above advancing their self-interests is as ridiculous as saying that all of our political leaders place the welfare of the American people above doing what's best for themselves, their political party, their cronies, and their campaign contributors.

Create a free – or at least a much freer healthcare market

As discussed in the last issue, there is no free market in healthcare as far as consumers are concerned. However, a free market and real competition could conceivably provide many benefits to consumers in the same way that competition from foreign manufacturers led to better cars and lower prices to U.S. consumers – much to the dismay of Detroit. Some basic requirements for a freer market for healthcare include the following items.

- Provide consumers with price information on all drugs and services that are based on actual charges, not inflated list prices.
- Allow price competition for drugs and services through advertising. Some initial attempts at this are appearing on the internet, but some of the systems have serious shortcomings.
- Enable consumers to easily transfer prescriptions between pharmacies, including out-of-state pharmacies.
- Require healthcare providers to charge the same prices to all consumers regardless of their insurance status unless there is a valid reason based on the purchasing volumes of the buyer. For example, hospitals could get lower prices on drugs than individuals if they buy large quantities for their own use. However, individuals with or without insurance would pay the same price the insurance companies pay for drugs and services because the companies don't buy drugs in large quantities for their own use or to resell to consumers. The consumer purchases the products and services and the insurance company only processes the transaction.
- Make performance data on doctors, hospitals and clinics available to the public, including any legal actions and sanctions by professional associations or government agencies. Why should the public not know that a particular hospital has a significantly higher or lower infection rate than other hospitals?
- Enable consumers to purchase insurance across state lines and require insurance companies to offer several standard packages so consumers could compare prices, knowing they were comparing apples and apples. Insurers could sell anything else they choose, but the standard policies would give consumers a basis for comparing benefits and costs.

There are probably other free market requirements that should be mentioned, but it appears reducing healthcare costs and increasing effectiveness is a tremendous business opportunity for some pioneers in the private sector. Regulatory barriers are in the way and there are financial and perhaps legal risks that private companies may not want to take, but the potential profit pool is staggering.

Any company that could rethink healthcare and capture the opportunities just waiting to be picked up could make a fortune while providing better services at lower costs.

Somehow this scenario sounds familiar. Perhaps the history of the U.S. auto industry will be repeated in healthcare and we will see foreign companies enter and take over the U.S. healthcare market.

In any case, I don't hear the people who argue that the "free market" could solve most of our healthcare system's problems putting forth any proposals for creating a free market in healthcare. Have you?

The public insurance option

The public insurance option generates heated emotions on both sides, but a government-based insurance plan could have some advantages. A government plan could reduce the administrative complexity of the current fragmented system and produce other savings while eliminating the corporate profit overhead and the profit motive from some medical decisions.

A government plan could also create many problems, so I do not favor experimenting with the whole country. I think a public insurance program is worth trying on a limited basis under

carefully controlled conditions because I don't see why public and private insurance systems cannot co-exist in the same way that public and private medical and educational systems already exist in the U.S. and other countries.

However, if the private sector would do what it should do to improve our healthcare system's cost-effectiveness, any government intervention would be unnecessary.

Conclusion

This list of proven and possible ways to improve U.S. healthcare shows there is no lack of opportunities to provide better care at lower cost to more people. Implementing any of them will not be easy and considerable investment will be required, but look at the potential return on that investment if healthcare costs were reduced 20 - 30%!

Fear is always attached to change, but we will not make any significant improvements in our healthcare system unless we change what we do and how we do it. Opponents of changing various aspects of our healthcare system have argued, "We shouldn't implement electronic medical records, tort reform, or some other option because it is no magic bullet that's going to solve all of our healthcare problems."

This argument is completely bogus and nonsensical because magic bullets for improving anything as complex as our healthcare system don't exist. However, if each of the options listed reduced costs 1%, our national healthcare bill would decrease about 25%!

Expecting to find magic bullets or get different results by continuing to do the same thing you have been doing is insane. My analysis says the current healthcare reform bill reforms very little and is focused primarily on preserving the past instead of finding the future.

As I suggested in [Stop the Healthcare Madness!](#) Congress should scrap the current bill and start over, using a rational approach to solve our healthcare system's problems instead of making it a political and ideological battle.

Recommendation

If you are interested in learning more about healthcare, read [Healthcare Solved – Real Answers, No Politics](#) by Dr. Debra Smith. Dr. Smith is a physician and economist who has worked in public health, insurance, as a healthcare consultant for the World Bank and the United Nations. She knows what has worked – and not worked – and gives readers her insider's perspective on the changes necessary to make our healthcare system work better and cost less.

***Work hard, play hard, help someone who needs it,
and remember to count the day lost that you don't learn something new!***

Regards,
Will Kaydos

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