



# **The Fly in the Ointment: Health Care Costs**

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**“The path to fiscal responsibility must run directly through health care.”**

**Peter Orszag, OMB  
Dir., @ White House  
Fiscal Resp. Summit**

New York Times  
February 23, 2009



# A Sisyphean Task



# Basic Facts Review

- US spent 17.9% of GDP on health care in 2017
  - 1 out of every \$6 spent in the country



- \$3.3 trillion

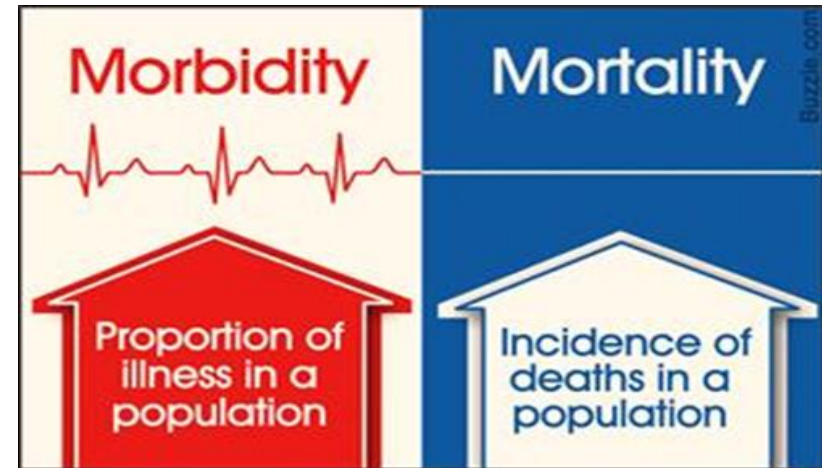


- Almost twice as high a %-age as other high-income\* countries



# Basic Facts Review (cont.)

- **But US Morbidity & Mortality far worse than other countries**
  - **US Life expectancy now lowest (78.8 yrs)**
  - **Infant, neonatal & maternal mortality now highest among 11 wealthy nations\***
- **And health care costs far higher in US**



\*JAMA. Mar. 13, 2018

# Basic Facts Review (cont.)

- **12.2% of US population *uninsured* in 2018**



- **99 – 100% of population in other wealthy countries insured**

## Who is Insured?

- EVERYONE under the national healthcare insurance



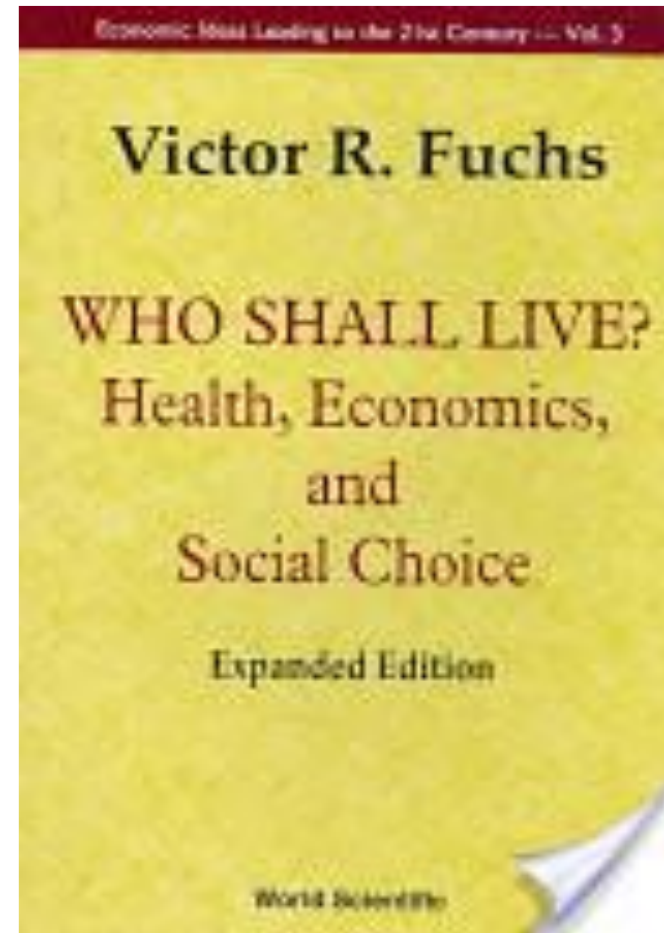
# This Can't Go On



*Edwina, we can't go on forever  
propping each other up like this.*

# Victor Fuchs on Health Spending:

- “If we solve our health care spending problems, practically all our fiscal problems go away.”
- And if we don't?
- “Then almost nothing else we do will solve our fiscal problems.”



- Victor Fuchs, Stanford Health Economist, NYTimes, March 5, '12



# So What Is Our Problem?



# Is It Lack of Health Insurance for 12.2% of the Population?

- That does contribute to costs when the uninsured end up in expensive ERs (& we pay for them anyway)



- But not disproportionately  
(Main impact is to depress indices of morbidity & mortality)

# Is it Overutilization?

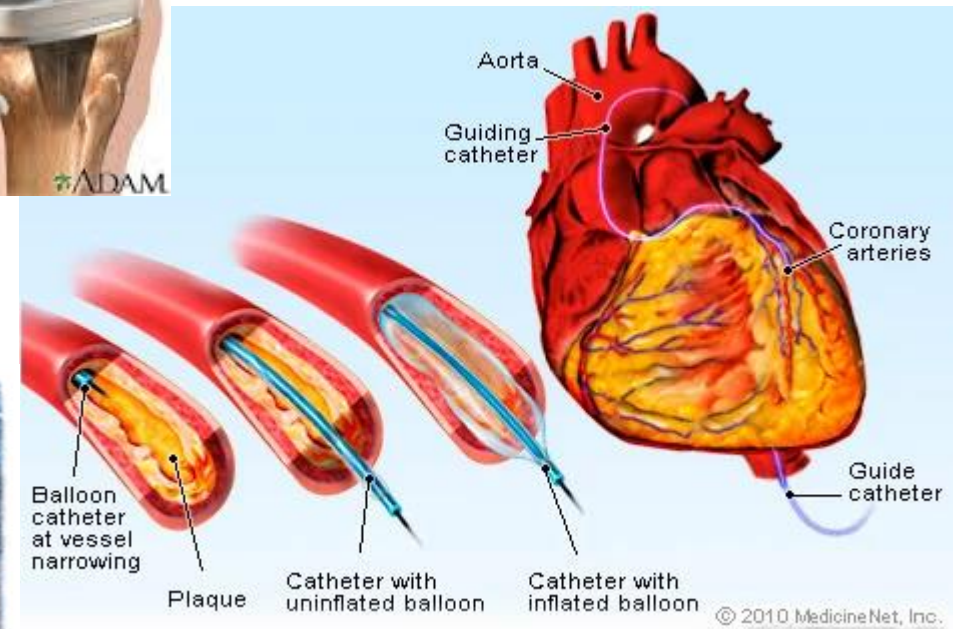
© Cartoonbank.com



***"Ask your doctor if taking a pill to solve all your problems is right for you."***

# Is it Overutilization? (cont.)

- *Not so much,\** except for:
  - Total knee replacements
  - Angioplasty, &
  - C-sections

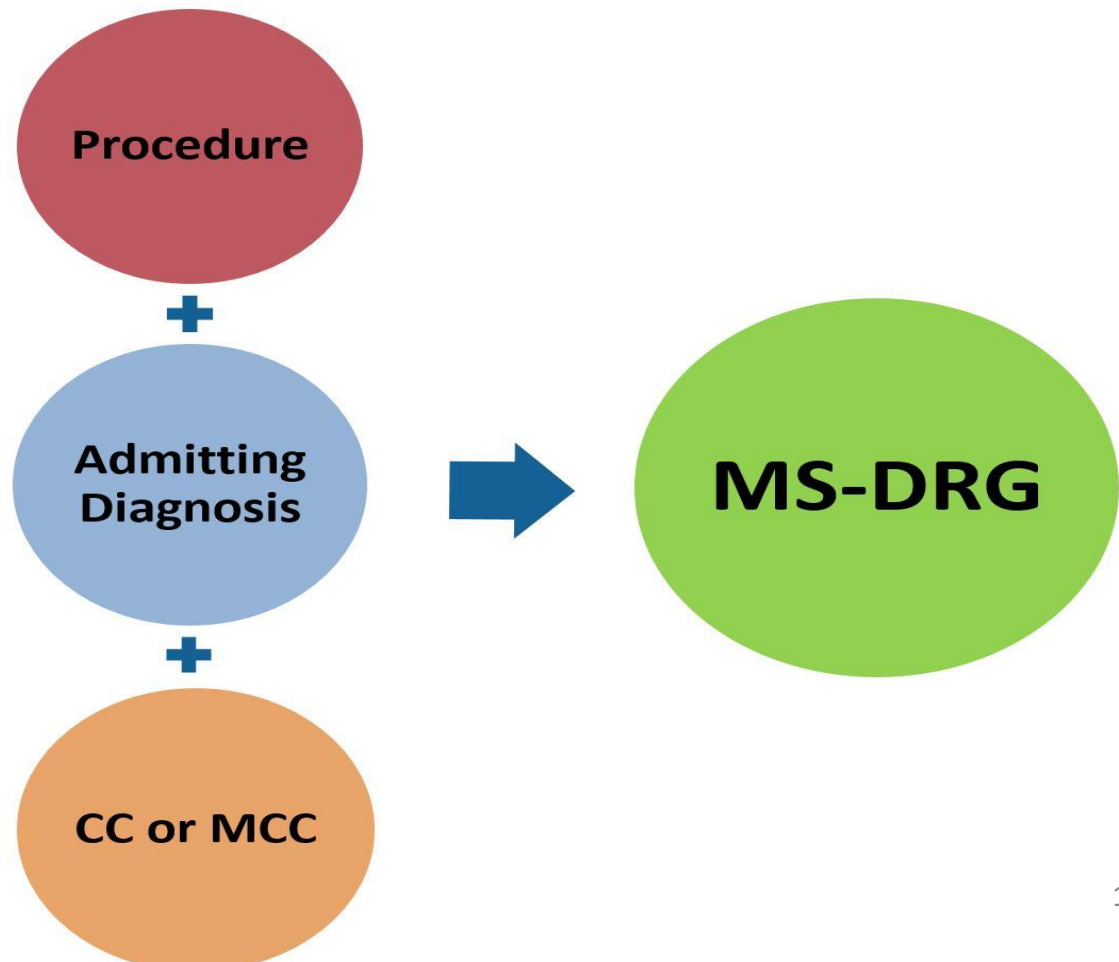


Next 10 slides: JAMA, 3/13/18

# Is it Overutilization? (cont.)

- **US Hospital length of stay and specialist use = well *below* mean LOS of 11 highest-income countries**

**(Thank you DRGs!)**



# Is It Structural Capacity?

- **Nope**

- **# of Hospital beds**



- **# of Specialist physicians, &**



- **# of Nurses**



- **Not markedly different from other 10 high-income countries**

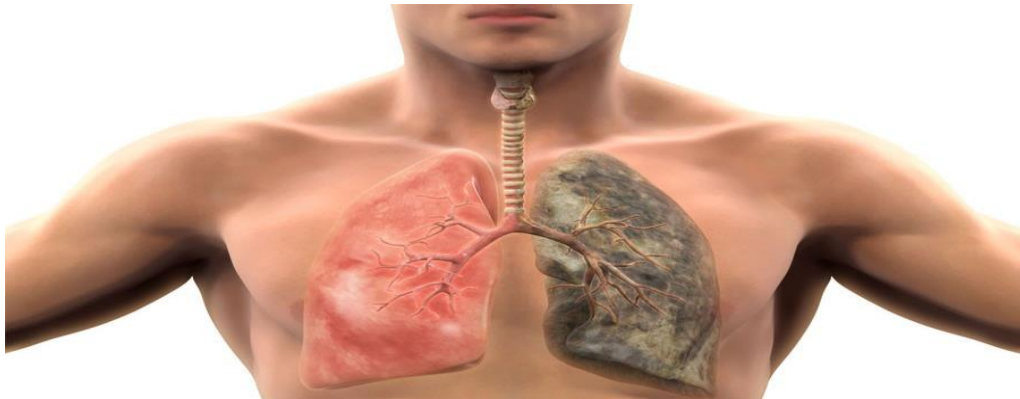
# Is It Demographics?

- US has highest % of overweight adults **(70%!**)



& obese

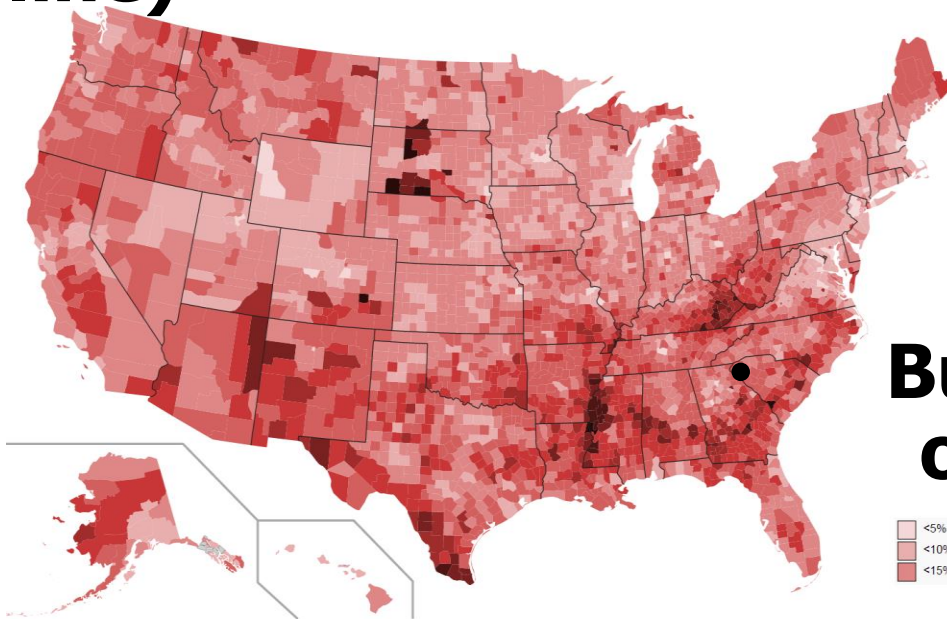
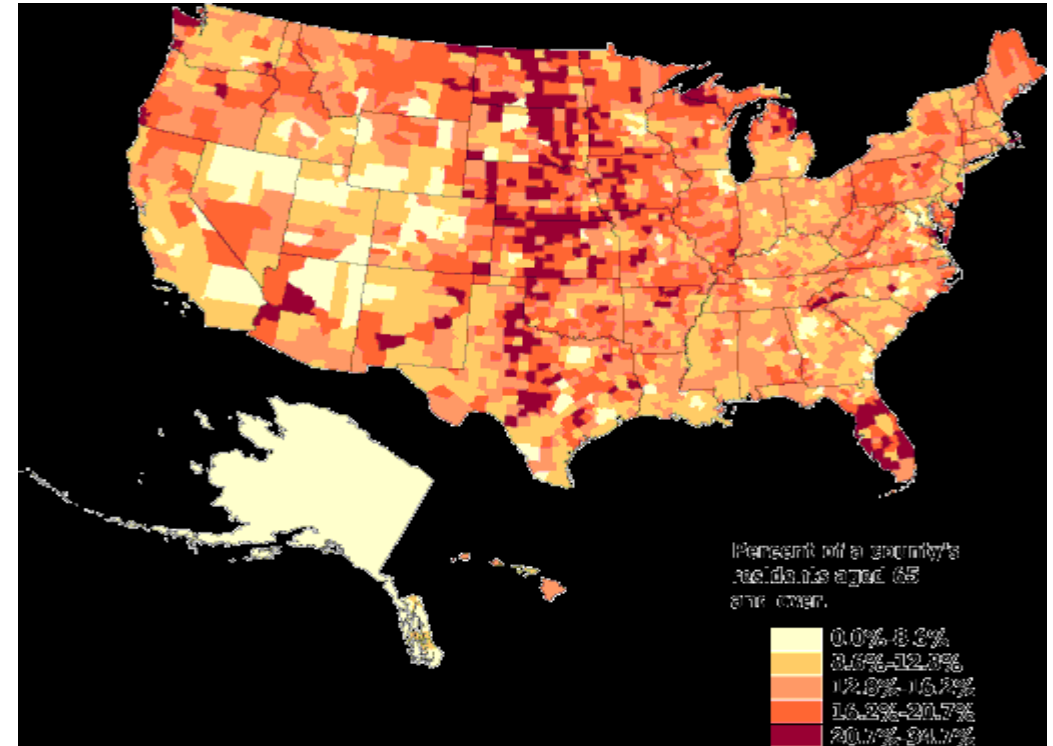
- But 2d lowest % of non smokers **(11.4%)**



Health issue costs for these 2 groups tended to cancel one another out.

# Is It Demographics? (cont.)

- U.S. has *lowest* population % older than 65 (15.5 v 11 wealthy country mean of 18.2)
- And the *highest* poverty rate (24% living below the poverty line)



• But these also tend to cancel each other out



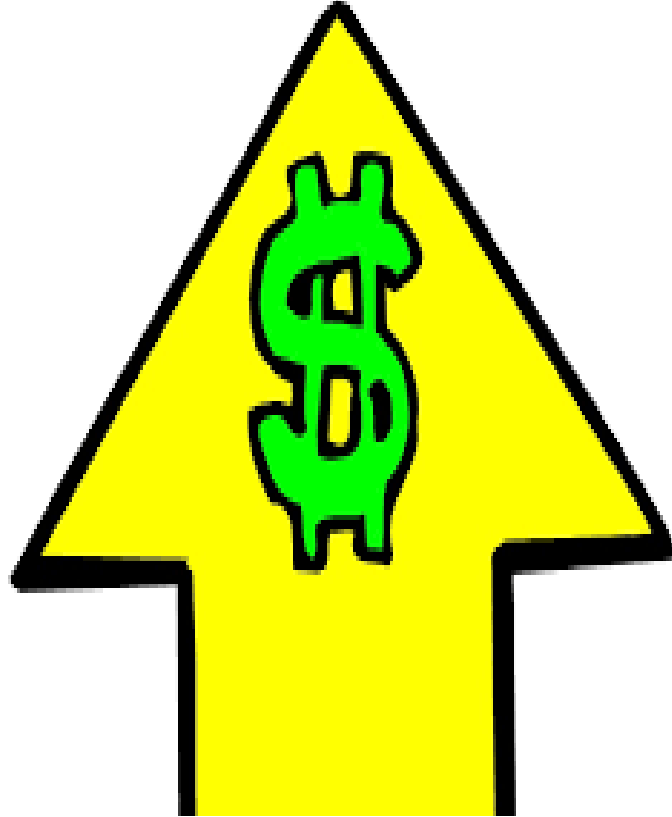
# Is It Pharmaceutical Costs?

- That's a piece of it
- US has highest pharmaceutical (\$1443, 50% & twice the
- *Notwithstanding 84% generic the US !*



# But The Main Culprits?


- High Prices,



- & High Administrative Costs

CULPRIT

The bad apple in the lot!  
The one who does the misdeed,  
who commits the crime!



[www.wordpandit.com](http://www.wordpandit.com)

A rectangular box with a grey background. At the top, the word "CULPRIT" is written in a serif font. Below it, there are three lines of text defining the term. To the right is a cartoon illustration of a thief wearing a cap, sunglasses, and a backpack, running while holding a red tool. At the bottom left, there is a small cartoon character and the website URL "www.wordpandit.com".

## Re High Prices:

- **US health professionals' compensation:**

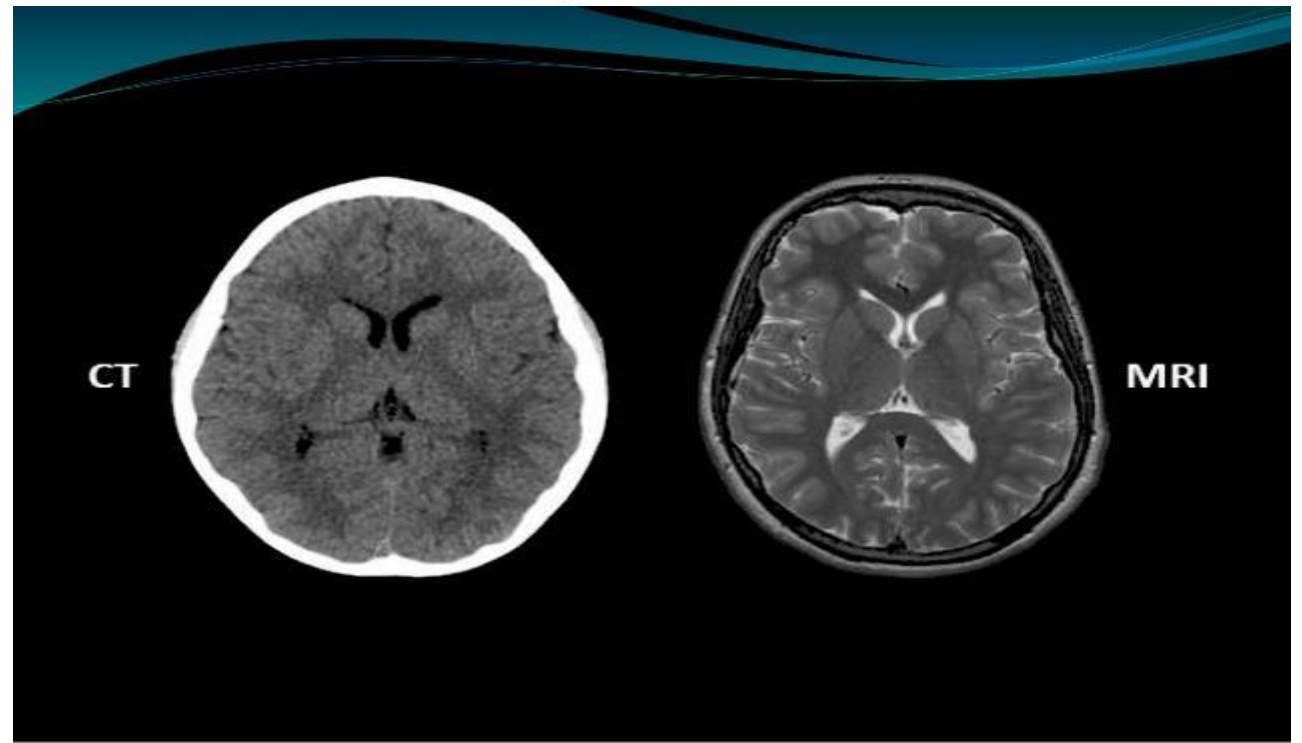
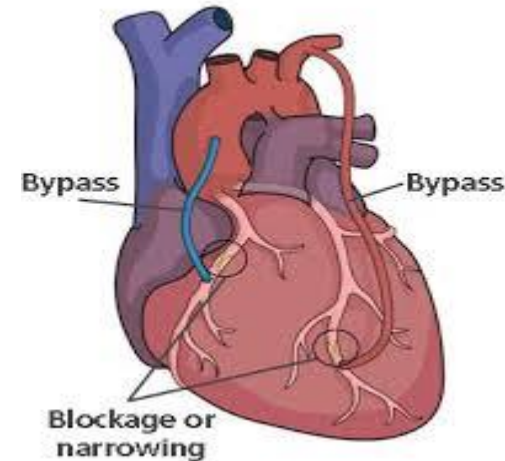
- **Mean generalist MD compensation = \$218 K, almost double 11-country mean**
- **Nurse compensation also higher (\$74 K v. \$42-\$65 K in other 10 countries)**



# Re High Prices (cont.):

- **Markedly higher US prices for non-physician services & procedures:**

- **CABG surgery - \$75,345 in US v \$15,742 in the Netherlands**
- **CT scans - \$896 in US v \$97 in Canada**
- **MRI Scans - \$1145 in US v \$350 in Australia**



# Re (Very) High Administrative Costs:

- **US: 8% of *GDP* spent on health care adm. & governance**

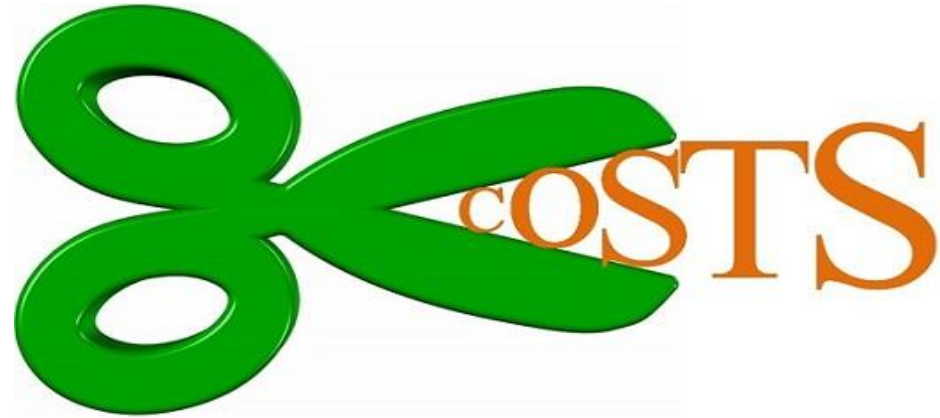


- **Mean GDP of *all 11* rich countries spent on adm. & governance = 3% GDP**



# Implications?

- **Traditional cost containment efforts haven't had much impact thus far\***



- **It may take more drastic measures to bring US health care spending under control**



- **\*Tho DRGs have constrained hospital utilization**

# So What Can We Do About It?



# Well, Here Are Some Payment Methodologies – What Do You Think?

- **Fee for service - payment for each service rendered**
- **Capitation – lump sum for total patient care**
- **Bundled payments – provider capitation for *episodes* of care**
- **More skin in the game for patients – higher co-pays & deductibles**
- **Provider financial bonuses for meeting utilization and/or quality benchmarks**
- **Provider financial penalties for *missing* benchmarks**



# Or Maybe This Is the Answer



**“What if we don’t change at all and something magical just happens?”**

# Tune in Monday for the Final Word

