



American Hospital
Association

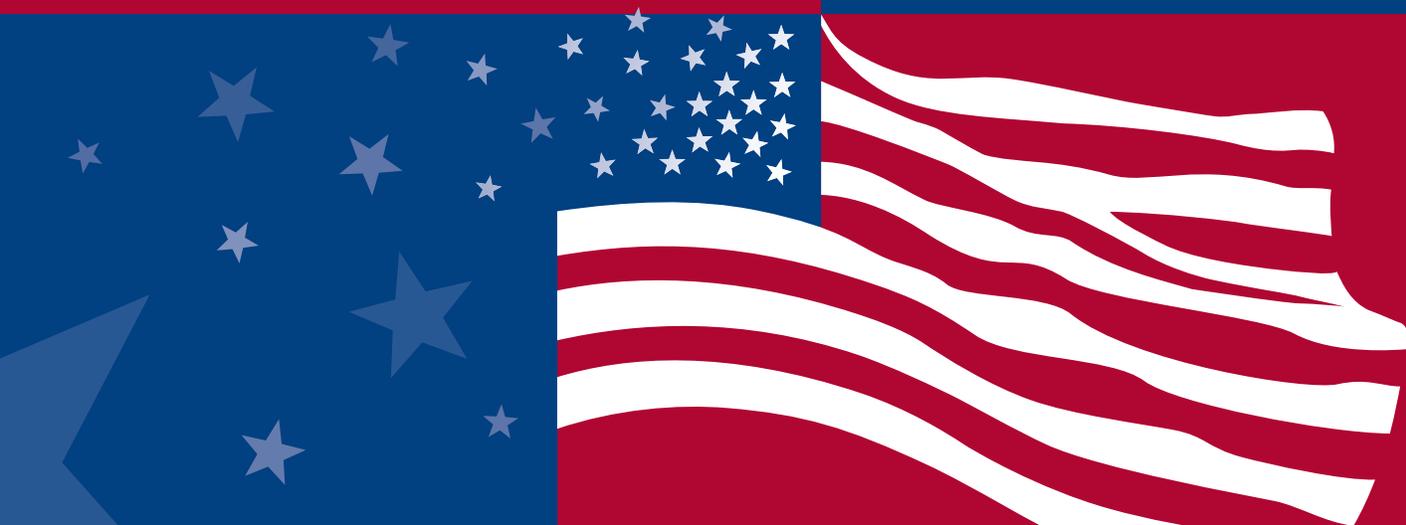
A CLEAR
FOCUS ON
TODAY'S
ISSUES

Making
Health Care
More Affordable

VISION TO ACTION

LOCAL LEADERSHIP

NATIONAL CHANGE



CASE EXAMPLES

HOSPITALS TAKING ACTION

SPECTRUM HEALTH in Grand Rapids, Michigan, implemented the Nutrition Options for Wellness (NOW) program to help low-income patients with any of seven diseases make healthier food choices. In the process, patients learn more about their illnesses and develop strategies for better controlling them. The linchpin of the program is a network of 10 area food banks, where patients go after receiving a “food prescription” from a clinical dietitian. NOW participants consistently rate the program as effective, and there has been a 26 percent decrease in emergency visits, a 44 percent decline in hospitalizations and a 41 percent drop in office visits among participants who have completed the program. In addition, Spectrum has developed a guide to help other communities establish a similar program.¹¹

In Columbia, South Carolina, **PALMETTO HEALTH** and a community coalition of 23 organizations developed Richland Care, a coordinated health care delivery system for the county’s low-income, uninsured residents. The program provides participants with a medical home and access to prescription drugs, specialty services, case management for hypertension and diabetes, a 24-hour nurse call line and other health education activities. During its first 34 months of operation, there was a 55 percent reduction in emergency department usage and a 70 percent decrease in hospitalizations among Richland Care patients, compared with the prior two years. Those trends have continued, and during the 2004-2005 fiscal year, net savings were estimated to be nearly \$2.9 million.¹²

The **MICHIGAN HEALTH & HOSPITAL ASSOCIATION** created the Keystone Center for Patient Safety & Quality in 2003 to improve patient safety and quality and lower costs by putting research into practice. The Keystone intensive care unit (ICU) project implemented proven approaches to

increase patient safety, eliminate two types of healthcare-acquired infections and reduce death rates. The results: across the 120 participating ICUs, this program saved an estimated 1,729 lives, reduced hospital days by 127,000 and saved \$237 million.¹³

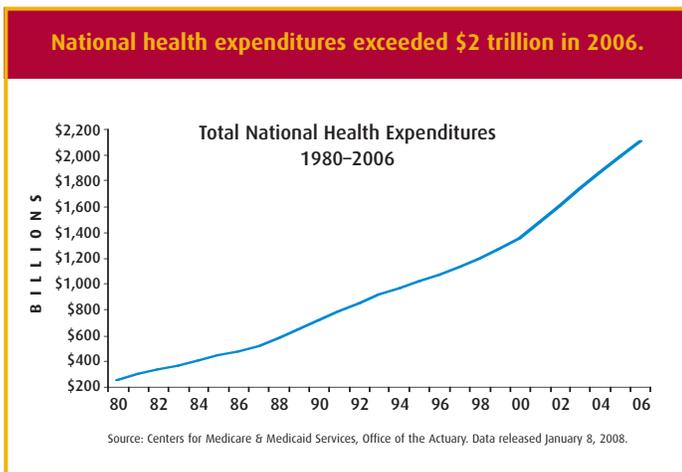
At **MAIMONIDES MEDICAL CENTER** in New York, all of the medical staff order medication and lab tests, check lab results and track their patient’s treatment using the hospital’s computerized medical records system. This system provides medical staff leadership with a real-time view of what is happening within their clinical area. The computerized system has made for dramatic improvements in the pharmacy service, cutting the average turnaround time for administering inpatient drugs by almost 66 percent, as well as reducing prescription errors.

The reporting of quality information and the introduction of pay-for-performance programs have increased the focus on quality and, the data suggests, led to real performance improvement. But these efforts also have increased the data collection and reporting burden for hospitals because the many stakeholders—insurers, business groups, accrediting bodies, state and federal agencies—have each instituted their own unique program. Each program has different measures, requiring hospitals to develop different tracking and reporting systems for each one. The **HOSPITAL QUALITY ALLIANCE**, a public private collaboration between hospitals, the Centers for Medicare & Medicaid Services and other stakeholders, is working to streamline these efforts by developing a single set of quality measures that would be reported by all hospitals and accepted by all purchasing, oversight and accrediting entities. Standardization of these efforts will dramatically reduce the administrative costs associated with these efforts.

MAKING HEALTH CARE MORE AFFORDABLE

\$2.1 trillion. That's the total amount that the U.S. spends on health care. Rising health costs are a constant concern and are shaping up to be a major issue in the 2008 presidential campaign. More Americans worry about health care costs than about losing their jobs, paying their rent or being a victim of a terrorist attack.¹

Rising costs are due both to increased use of health care services and increased costs to provide each service. The most common reasons cited for this growth include the graying population, advances in medicine, an unprecedented rise in obesity and the rising number of people living with chronic diseases.



At the same time, the costs of caring for each patient continue to climb. A severe workforce shortage is driving up wages and benefits for nurses, physicians and other caregivers. For hospitals, labor represents about 60 percent of total expenses. Costs also are rising for pharmaceuticals, new technology and facility upgrades. These factors all drive up the cost of health care, and none are expected to change in the short term.

Unfortunately, discussions of health care spending too often focus on cutting costs and overlook other important parts of the equation. Advances in medicine bring enormous benefits to daily lives—benefits that need to be weighed against the costs. Also, health care is a huge part of the U.S. economy, accounting for millions of jobs and trillions of dollars of economic activity. Efforts to increase affordability must consider the value of the economic, social and medical contributions of health care alongside the costs.

Overall, advances in health care contribute to longer and better lives.

Where We Would be in 2000 Without Advances in Health Since 1980

- 470,000 more deaths
- 2.3 million more disabled persons
- 206 million more days in the hospital

Source: Adapted from Luce, BR et al. The Return on Investment in Health Care. From 1980 to 2000. Value in Health 9(3); 146-156, 2006. Calculated by applying 1980 Health Status indicators to 2000 population.

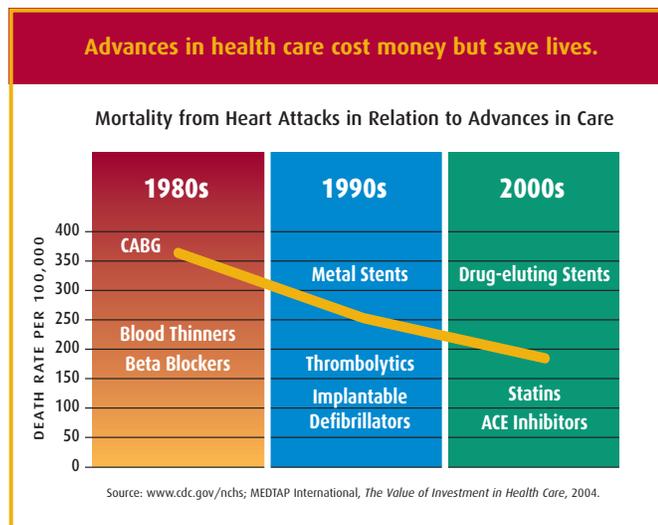
HEALTH CARE SPENDING IS AN INVESTMENT IN BETTER LIVES

Investment in health care produces real value to individuals, communities and society at large. Much of the increase in health care costs reflects advances in technology, surgical and diagnostic techniques, pharmaceutical and therapeutic science. A recent study found that every dollar spent on health care over the past 20 years has produced health gains worth up to \$2—that's a 100 percent rate of return. These gains are measured by calculating the value to individuals of key changes in health including a 16 percent reduction in mortality, an increase in life expectancy of 3.2 years, and a 25 percent drop in the disability rate for people over 65.²

Further, improved health and longevity have implications for the economy as well—healthy people are more productive. A 2006 National Bureau of Economic Research study found that from 1970 to 2000, increased life expectancy added about \$3.2 trillion per year to the nation's economy, with half of these gains due to advances in cardiac care alone.³

These advances cost more but significantly improve outcomes for cardiac patients. For example, between 1980 and 2000, the death rate for heart attacks was cut nearly in half. Cardiac care is only one example of where added investment—new drugs, diagnostics and procedures—has produced a large positive return for patients.

The fact that some dollars are well spent, however, does not mean that every dollar is well spent. But efforts to make health care more affordable must focus on improving value not just on cutting costs.



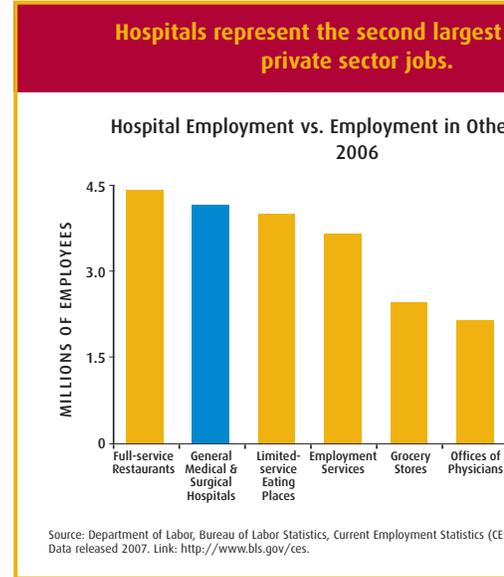
ECONOMIC CONTRIBUTIONS OF HEALTH CARE OFTEN OVERLOOKED

Health care plays a critical role in our economy. Unfortunately, when investors, policy makers and the public think about sectors that promote economic stability and growth, most do not think about health care. While increased spending on cars, computers or clothing inspires optimism about the nation's fiscal health, increases in spending on health care are typically viewed with concern. But health care makes up 16 percent of the total value of the goods and services produced in the United States. In fact, hospitals alone employ more than 5 million Americans. They are the second largest source of private employment and support one out of every 10 private sector jobs.

And, health care is a source of stability during times of economic stress. For example, while the economy as a whole lost 1.6 million jobs during the last recession in 2001, hospital employment grew by 2 percent.

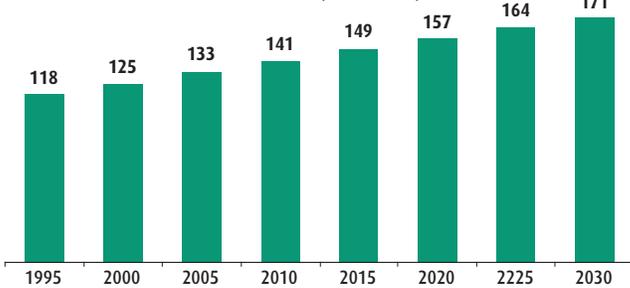
TAKING ACTION TO INCREASE AFFORDABILITY

We can make health care more affordable. Opportunities exist to reduce costs without compromising care. Hospitals and physicians are an important part of the solution and are addressing these opportunities in a variety of ways.



By 2030, a projected 171 million individuals will have a chronic disease.

Number of Americans with Chronic Conditions 1995-2030* (in millions)



*Values for 2005-2030 are projections.

Source: Adapted from Partnership for Solutions. Chronic Conditions: Making the Case for Ongoing Care, 2007.

FOCUS ON WELLNESS. Because much of the cost of health care is tied to preventable chronic conditions, we must increase our focus on keeping people healthy. Many chronic diseases are preventable through different lifestyle choices or early detection and management of risk factors. For example, obesity can lead to hypertension, heart disease, diabetes, stroke and many types of cancer. Helping people maintain a healthy weight could substantially reduce the estimated \$117 billion in health care costs and 300,000 lives lost annually to obesity.⁴

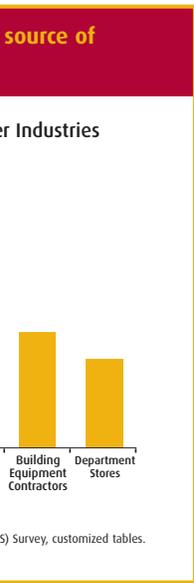
Specific actions that can be taken to improve health include: providing information and education to the public, investing in school and community-based health, providing incentives, coaching and support to promote healthy choices, increasing our investment in primary care services, and making wellness a central part of health professions education.

BETTER COORDINATE CARE. Today's health care system is fragmented and complex making it hard for patients to get the care they need

at the right time and in the right setting. Care coordination is particularly critical for the chronically ill who account for 80 percent of spending on health care but receive only half of all recommended care. When chronic diseases are not appropriately managed, complications can arise leading to the need for emergency care or even a hospital stay. Care coordination, with the broad participation of various community resources, also can make a difference for patients needing end-of-life care. The Commonwealth Fund estimates that strengthening primary care management and care coordination in the Medicare program alone could save \$60 billion over five years.⁵

Specific actions to improve care coordination include: realigning financial incentives to reward care coordination, modernizing laws and regulations to allow doctors, hospitals and others to work together in teams or "networks," emphasizing chronic disease prevention and management in health education and training programs, testing new payment approaches that provide a single amount to provider groups to manage the patient's entire episode of care, and expanding options for palliative and hospice services at home.

REWARD PERFORMANCE EXCELLENCE. Hospitals and physicians that achieve top standards in care delivery are shown to reduce patient time in the hospital, avoid complications and readmissions and increase patient satisfaction. Following care guidelines and protocols can reduce variation in care by ensuring patients get only the care they need. Yet these behaviors are not rewarded in our current payment system. Findings from the Premier Hospital Quality Incentive Demonstration, a program that recognizes and provides financial rewards to hospitals that demonstrate high quality performance in specific areas, has shown that actions to increase quality can actually *lower* costs. Premier estimates reaching ideal standards of care nationwide for six conditions could not only save \$4.5 billion but also save 70,000 lives over a one year period.⁶



But rewarding excellence depends on our ability to define it. Research is needed to identify best practices as well as to assess the risks and benefits of new diagnostic and treatment options.

Specific actions to achieve excellence include: investing in efforts at the national level to identify what care is most effective and creating incentives to speed the adoption of these methods in practice, rewarding quality, and measuring performance and providing this information to the public.

SPEED ADOPTION OF IT. Information technology has increased efficiency in banking, manufacturing, government and other sectors of the economy. It is time to speed adoption of IT in health care to improve patient care, quality and efficiency. RAND estimates that the widespread adoption of IT in health care could yield \$77 billion in annual savings from improved efficiency, but significant upfront investment would be required.⁷

Key enablers in speeding the adoption of IT include creating interoperable standards for information exchange, establishing unique patient identifiers to link people to their health records, and creating incentives for providers, suppliers and insurers to use IT.

REDUCE ADMINISTRATIVE COSTS. Today's health care system is choked with paper. Hospitals face duplicative regulations and compliance burdens and a myriad of insurance plans each with different claims processing and record keeping requirements. Health care will be more affordable if health care professionals spend more time at the bedside and less on paperwork. Currently administrative costs—costs not associated with the delivery of patient care—comprise between \$145 billion and \$294 billion of our nation's annual health care spending.⁸

Opportunities to reduce administrative costs include standardizing and automating claims processing, simplifying the workings of public and private insurance and streamlining regulations.

CREATE A BETTER ALTERNATIVE TO TODAY'S LIABILITY SYSTEM. Hospitals and physicians face skyrocketing costs for professional liability insurance. Unaffordable insurance is affecting access to care as physicians leave states with high insurance costs or stop providing services that expose them to higher risks of lawsuits. Particular areas of concern include obstetrics, neurosurgery and emergency services. In addition to the rising costs of insurance, physicians also practice "defensive medicine"—the practice of providing extra care to minimize the risk of lawsuits. Estimates place the national cost of defensive medicine at between \$50 billion and \$100 billion per year.⁹

Specific approaches to reforming today's liability system include: using administrative compensation systems and health courts to determine when an avoidable, preventable event has occurred, providing prompt compensation to injured patients and families based on agreed-upon payment schedules when an error takes place and adjusting provider's liability insurance premiums based on the occurrence of preventable errors.

ANALYZE THE COMPARATIVE EFFECTIVENESS OF DIAGNOSTIC AND TREATMENT OPTIONS. Medical innovation improves health outcomes but can contribute to rising costs. More than 50 percent of the growth in per capita health spending can be accounted for by medical technology, but those involved in health care decisions have little information about what treatments are most effective.¹⁰ Evaluating the risks and benefits of current and new technologies, medicines, practices and procedures and making this information readily available can improve treatment decisions. When this information includes the cost of these innovations, it can also be used to help increase the value of every dollar spent.

Specific actions include creating centers tasked with assessing the relative risk, benefit and cost of diagnostic and treatment options and making comparative effectiveness information available on a public Web site in a way easily understood by clinicians, purchasers and patients.

CONCLUSION

The dramatic increases in life span, the increased survival rates for conditions that were fatal just a generation ago and the direct and indirect economic impact of hospitals make clear the value of health care spending. It is an investment in the physical and economic health of individuals, communities and the nation. At the same time, as the above examples demonstrate, health care can be made more affordable but any decisions on what actions to take must consider the long-term value of the investment in health care, not just the short-term potential for cost savings.



American Hospital Association

One North Franklin
Chicago, IL 60606-2421

Washington Office:

Liberty Place
325 Seventh Street, NW
Washington, DC 20004-2802

www.aha.org

NOTES

¹ Kaiser Family Foundation. *Health Security Watch*, 2007.

² Luce, BR et al. The Return on Investment in Health Care: From 1980 to 2000. *Value in Health*. 9(3): 146-156, 2006.

Calculations of the return on investment in health are based on standard values for a statistical life developed by economists and used to assess the costs versus benefits in a wide array of fields including consumer product safety, environmental protection, and health care. These values are based on studies of people's willingness to pay to avoid injury or death or willingness to be paid to take on risk—e.g., wage differentials for risky jobs, amount people will pay for safety devices in automobiles, etc.

³ Murphy, KM and Topel, RH. The Value of Health and Longevity. *Journal of Political Economy*, 114(9): 871-904, 2006.

⁴ Grantmakers in Health. *Weighing in on Obesity: America's Growing Health Epidemic*, Issue Brief no.11, 2002.

⁵ The Commonwealth Fund Commission on a High Performance Health System. *Bending the Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending*. December 2007.

⁶ Manos, D. Hospital P4P improves care, lowers costs and saves lives. *Healthcare Finance News*, February 4, 2008.

⁷ Rand Health. *Health Information Technology: Can HIT Lower Costs and Improve Quality?* 2005.

⁸ Peterson, C. L. and Burton, R. U.S. Health Care Spending: Comparison with Other OECD Countries. Woolhandler, S. Campbell, T. and Himmelstein, D. U. Cost of health care administration in the United States and Canada. *New England Journal of Medicine*, 349 (8):768-775, August 21, 2003.

⁹ Bordy, WR. Dispelling Malpractice Myths. *The Washington Post*, p B.07, November 14, 2004.

¹⁰ Pauly, M. Competition and New Technology. *Health Affairs*, 24(6), 1523-1535, 2007.

¹¹ Nutrition makes the grade: nutrition options for wellness program. Spectrum Health, Grand Rapids, MI, in Rollins G: The 2007 NOVA awards. H&HN, July 7, 2007.

[http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?
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domain=HHNMAG#spectrum](http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/07JUL2007/0707HHN_FEA_NOVA&domain=HHNMAG#spectrum)

¹² Creating a coordinated care system: Richland Care, Palmetto Health (Columbia, SC), in: Rollins G: The 2007 NOVA awards. H&HN, July 7, 2007.

[http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?
dcrpath=HHNMAG/Article/data/07JUL2007/0707HHN_FEA_NOVA&
domain=HHNMAG#palmetto](http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/07JUL2007/0707HHN_FEA_NOVA&domain=HHNMAG#palmetto)

¹³ Michigan Hospital Association Keystone for Patient Safety & Quality.

http://www.mha.org/mha_app/keystone/icu_overview.jsp. Accessed March 5, 2008.