

Most Efficient, Affordable Care

Background

Rising health care costs top the concerns of Americans and dominate the news. Spending on health care is expected to reach 20 percent of gross domestic product by 2017. A recent poll found that more than three quarters of Americans are dissatisfied with the costs of health care.

Why are America's health care costs so high? The graying population is a contributing factor. Chronic diseases such as heart disease, diabetes and arthritis are on the rise and significantly add to the nation's health care tab. Nearly half of all Americans live with at least one chronic condition.

At the same time, the costs of caring for patients continue to climb. High quality health care requires resources, from salaries for qualified, trained nurses, physicians and other caregivers, to investments to help keep up with the demand for pharmaceuticals, new technologies and upgrades to facilities.

But the United States devotes more money to health care per citizen than any other industrialized nation. And many policymakers are questioning why that is, whether that results in better quality of care and what can be done to help reign in spending on health services.

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, trillions of dollars of economic activity and providing continued growth even in these troubled economic times. Efforts to increase affordability must consider the value of the economic, social and medical contributions of health care alongside the costs.

AHA View

As part of the *Health for Life* initiative, the AHA determined that an essential element of reforming our health care system is to focus on how to deliver the most efficient, affordable care. It's one of the five pillars of the AHA's framework for change. Keeping health care affordable will involve every segment of the health care system – insurers, hospitals, business, physicians, nurses, employers and individuals. It will involve personal responsibility, better stewardship of health resources and innovative ways to transform care for an aging and increasingly diverse population. Many opportunities exist to reduce costs without compromising care.

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.¹

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 facing 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.²

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.

Achieve 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.

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) initiative shows that actions to improve quality can actually lower costs. This program applies evidence-based practices to reduce healthcare-acquired infections. The center estimates that it has saved 1,800 lives, avoided 129,000 excess hospital days and saved \$247 million from 2004 to 2008 across 76 participating hospitals.³ A congressional staff report concluded that the program could reduce costs by \$1 billion annually if it were expanded nationwide.⁴

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.

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.⁵ 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 whose responsibility is to assess 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.

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.⁶

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. *The American Recovery and Reinvestment Act of 2009* takes a number of steps in this direction, but more support will be needed. Continued coordination and oversight are required to ensure the assumed efficiencies are not lost to the complexities of IT implementation.

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 recordkeeping requirements. Health care will be more affordable if health care professionals spend more time at the bedside and less on paperwork. 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.

Opportunities to reduce administrative costs include: standardizing and improving access to up-to-date eligibility and enrollment information, benefits, coverage and cost sharing information; simplifying and standardizing elements of the billing claims processing and adjudication process; standardizing the collection and reporting of quality data; and streamlining the process for establishing the competency and scope of practice credentials of health care providers.

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.⁷

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.

Health Plan Consolidation. Over the past decade, numerous health plans have merged, creating a highly concentrated health insurance industry. One result is that premiums have skyrocketed, coverage has declined and patients are expected to pay higher out of pocket costs. The AHA is concerned that health plan consolidation causes competitive harm that adversely impacts hospitals, physicians and patients. Among other harms, insurer consolidation creates dominant payers for hospitals. Because that represents such a large share of a hospital's business, hospitals are left with no alternative but to accept payment rates that are not competitive and other terms and conditions that may adversely affect the provision and quality of care.

To ensure the health insurance industry does not increase or abuse its dominance, federal and state antitrust authorities must become more active to curb the pervasive market, or monopoly power, health plans currently enjoy.

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.

Notes

¹ Grantmakers in Health. *Weighing in on Obesity: America's Growing Health Epidemic*, Issue Brief no. 11, 2002.

² 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.

³ The MHA Keystone Center for Patient Safety and Quality, 2008 Annual Report.

⁴ Staff Report to the Committee on Oversight and Government Reform, US House of Representatives, “Survey of State Hospital Associations: Practices to Prevent Hospital-Associated Bloodstream Infections”, September 2008.

⁵ Pauly, M. Competition and New Technology. *Health Affairs*, 24(6), 1523-1535, 2007.

⁶ Rand Health. *Health Information Technology: Can HIT Lower Costs and Improve Quality?* 2005.

⁷ Bordy, WR. Dispelling Malpractice Myths. The Washington Post, p B.07, November 14, 2004.