The United States spends more money on health care than any other industrialized country, yet Americans are dissatisfied with certain aspects of our health care system, especially the high cost of care. More Americans worry about health care costs than about losing their jobs, paying their rent or being the victim of a terrorist attack. This concern is growing quickly: over half of Americans were dissatisfied with the cost of health care in 2006, up from one third in 2005.

Consumers see the cost of health care reflected in rising insurance premiums. This growth in insurance costs is troubling to Americans, who now rank health care second, behind the war in Iraq, as a top issue that 2008 presidential candidates should discuss. High costs are the primary concern; Americans rank reducing the costs of care and insurance above expanding coverage to the uninsured, improving the quality of care and reducing spending on government programs.

Overall cost growth in the U.S. can be attributed to a variety of factors, including the growing number of individuals with chronic disease, expensive new medical therapies and procedures and variations in care that may not be warranted. Perhaps most troubling, higher spending in the U.S. relative to other countries does not always correspond to better health outcomes. Despite greater spending, Americans have a lower life expectancy than residents of many other developed nations. Further, health care spending is growing more rapidly in the U.S. than in most other countries. To help make our health care system more affordable, we must identify and address the inefficiencies that contribute to rising costs.

“The cost of family health insurance is rapidly approaching the gross earnings of a full-time minimum-wage worker.”

– Drew Altman, president, Kaiser Family Foundation
Consumers Are Unable to Keep Pace with Health Care Costs

Health care costs, specifically insurance premiums and cost-sharing, are becoming increasingly burdensome for individuals, families and employers. Insurance premiums have risen 78 percent since 2001, a rate that outpaces both general inflation and growth in workers’ earnings. In 2007, the average health insurance premium for family coverage is $12,106, of which workers pay $3,281 out-of-pocket. Out-of-pocket contributions by workers have increased $1,500 since 2001.

Rising insurance costs have negative consequences for businesses and their employees. The majority of Americans receive health coverage through their employers; as health insurance costs continue to rise, employers may restrict benefits, increase employees’ cost-sharing or simply drop coverage. Small and mid-sized business owners now rank the cost of health benefits as their second greatest worry after general economic uncertainty. Since 1995, the percentage of these employers offering health benefits has declined from 67 to 41 percent. And, in 2007, nearly half of all employers surveyed report that they are at least somewhat likely to increase employees’ share of health insurance costs for 2008.

Rising premiums and increased cost-sharing make health insurance less affordable, potentially leading individuals and families to drop coverage. The number of uninsured Americans is now 47 million, a figure that has increased markedly since 1987. Uninsured individuals are much more likely than people with insurance to forgo needed care and medication and to rely heavily on emergency services. As a result, they may experience poorer quality of life and reduced ability to work.

Businesses also suffer when employees lack insurance and forgo care as those workers have higher rates of absenteeism and lower productivity. Businesses that do offer insurance to their employees also may find that their insurance premiums rise to compensate for providers’ costs of caring for the underinsured and uninsured. Studies estimate that this “cost-shifting” raises employers’ insurance premiums by 8.5 percent.

As more individuals are without insurance, medical providers increasingly will be called upon to deliver care for little or no compensation. Additionally, people with insurance who live in communities with high rates of uninsured individuals use less preventive care, have more difficulty seeing specialists and are less likely to be satisfied with their health care provider.

“Health care is our number one expense, next to salary. As baby boomers continue to age, it’ll put a tremendous pressure on health care costs.”

– Nick Jacobs, administrator, Windber Medical Center
Improved Efficiency Can Slow Rising Health Care Costs

American health care dollars could be better spent. Efficiency can be improved in several key areas – including chronic disease management, technology assessment and administrative requirements – to free resources for patient care, reduce unnecessary spending and improve outcomes.

Better Manage Chronic Diseases

U.S. health care costs could be reduced by better preventing and controlling chronic diseases. The burden of chronic disease in the U.S. is growing unabated. Currently, 130 million Americans suffer from one or more chronic illnesses, and the Centers for Disease Control and Prevention (CDC) estimates that 70 percent of deaths among Americans are due to chronic disease. The medical costs associated with chronic disease account for more than 75 percent of all health care spending.

Neither patients nor providers are managing chronic diseases well. Fewer than 25 percent of hypertension patients have well-controlled blood pressure, a pattern not unique to that illness. The American Heart Association estimates that half of patients being treated for a chronic disease do not adhere to their prescribed medication and lifestyle guidelines.

Mismanagement of chronic illness leads to avoidable, costly use of health care services such as hospitalizations and emergency services. However, the current payment system does not encourage physicians to engage in ongoing disease management and prevention. Clinicians are typically paid for each distinct service they provide, and not for ongoing management of chronic conditions, such as counseling patients about diet and exercise. New payment structures are needed that encourage care coordination and improve efficiency.

Chronic disease management programs may improve patient outcomes and reduce costs. Participants in disease management programs consistently show improved health outcomes, use fewer emergency services and experience fewer hospital admissions. Even when program costs are included, disease management programs for conditions such as asthma and diabetes have saved money for certain patient populations. Improved disease management can be achieved by rewarding providers for care coordination. Funding initiatives are gaining traction across public and private payers. The Centers for Medicare & Medicaid Services (CMS) has initiated several demonstration projects, including the Chronic Care Improvement Programs, designed to improve care coordination, and the Wellmark Foundation established diabetes care as one of its four funding priorities for 2007.
Evaluate Medical Innovations to Optimize Use

Evaluating and documenting the benefits of new medical technology could improve efficiency in the health care system. Medical innovation – whether in imaging and diagnostics, pharmaceutical products, devices, procedures or information technology – improves health outcomes but can contribute to rising costs. More than 50 percent of growth in per capita health spending in 2002 was accounted for by medical technology, but the health care system does not regularly or effectively assess the relative value of these new services.

Evaluations of new products or procedures can help determine their effectiveness and value compared to existing technologies. A national body responsible for conducting these objective assessments – for example, evaluating the benefit of a new “blockbuster” drug over existing medications – could compile relevant data and disseminate information. Greater availability of quality and price information for all sectors of the health care industry will allow patients and providers to make more informed health care decisions, but educational support will be necessary to help many patients use this data.

Disease management programs may lower costs and reduce inappropriate use of services...

Chart 5: Costs per Member per Month and Service Utilization per 1,000 Members per Month, Disease Management Participants vs. Non-participants, 1987-2001

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Inpatient Hospital Costs ($)</th>
<th>Outpatient Hospital Costs ($)</th>
<th>Pharmacy Costs ($)</th>
<th>Hospital Admissions (#)</th>
<th>ER Visits (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Disease Management</td>
<td>$151</td>
<td>$116</td>
<td>$118</td>
<td>205</td>
<td>303</td>
</tr>
<tr>
<td>Disease Management</td>
<td>$134</td>
<td>$58</td>
<td>$109</td>
<td>143</td>
<td>234</td>
</tr>
</tbody>
</table>

...while better ambulatory care could produce significant savings.

Chart 6: Spending on Avoidable Hospitalizations for Select Conditions, in Millions, 2004

<table>
<thead>
<tr>
<th>Condition</th>
<th>Inpatient Hospital Costs ($)</th>
<th>Pharmacy Costs ($)</th>
<th>Hospital Admissions (#)</th>
<th>ER Visits (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chronic Obstructive Pulmonary Disease</td>
<td>$3,400</td>
<td>$1,400</td>
<td>303</td>
<td>234</td>
</tr>
<tr>
<td>Asthma</td>
<td>$1,400</td>
<td>$966</td>
<td>205</td>
<td>143</td>
</tr>
<tr>
<td>Diabetes and Short-term Complications</td>
<td>$966</td>
<td>$509</td>
<td>143</td>
<td>109</td>
</tr>
<tr>
<td>High Blood Pressure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Spending patterns vary widely across the U.S.

Chart 7: Personal Health Care Spending per Person, by State of Residence, 2004

<table>
<thead>
<tr>
<th>State</th>
<th>Health Care Spending per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah</td>
<td>$3,972</td>
</tr>
<tr>
<td>Arizona</td>
<td>$4,103</td>
</tr>
<tr>
<td>Idaho</td>
<td>$4,444</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$4,471</td>
</tr>
<tr>
<td>Georgia</td>
<td>$4,600</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>$5,283</td>
</tr>
<tr>
<td>Connecticut</td>
<td>$6,344</td>
</tr>
<tr>
<td>New York</td>
<td>$6,535</td>
</tr>
<tr>
<td>Maine</td>
<td>$6,540</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$6,683</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>$8,295</td>
</tr>
</tbody>
</table>

Use of new and existing technologies varies by physician and location, but more care does not always mean better patient outcomes. Data show that use of a variety of services including physician visits, diagnostic tests and hospitalizations is linked to geographical location. CMS data indicate that national per capita health spending ranges from $3,972 to $8,295, with the Northeast leading the country in health spending. However, patients in regions of the country where health care services are used more frequently have outcomes similar to or worse than patients living in regions where services are used less often. The health care system currently lacks the tools needed to distinguish necessary procedures from those that may be less useful medically.

Increase Use of Care Guidelines and Patient Support Tools
Improving the availability and use of treatment guidelines could encourage more efficient care. Care guidelines – specific recommendations on the appropriate course of care for patients with a given condition – are not available for some diseases. And, where this information does exist, providers are not making full use of this knowledge.

Patients also have difficulty determining the treatment option that is best for them. The Institute of Medicine estimates that half of Americans have difficulty understanding and acting on health information, a trend that may be more pronounced in the medically needy elderly population. For example, women diagnosed with breast cancer often cannot make an informed decision as to whether surgery would be their best treatment option, either due to lack of access to information or inability to understand available sources. Support tools can help patients and providers make better use of available information and can help providers to inform patients more fully about treatment options. Engaging patients in care decisions also can improve patient satisfaction.

Cultivate an Appropriately Skilled Health Care Workforce
The size and make-up of the health care workforce are important considerations in improving the efficiency and affordability of care. A critical shortage of skilled health care workers is imminent with the aging of the baby boom generation, a shift that will simultaneously swell the ranks of those requiring care and deplete the pool of skilled workers. Support tools that use graphics, such as calendars with photographs of the medications a patient should take each day, can help patients adhere to their physicians’ treatment guidelines and improve outcomes.
there is a growing need for long-term care workers, yet these caregivers are increasingly difficult to recruit and retain. In addition, a new type of caregiver may be warranted as patient demands shift toward home care services and remote monitoring capabilities that permit patients to stay in their homes longer, rather than move into nursing homes or other long-term care settings.

Educational and vocational training can develop and sustain an appropriately skilled workforce. Efforts to expose young people to careers in health care are underway in several states. Expanding educational offerings in math, technology and science, as well as skills specific to new settings of care, will ensure that the health care workforce is prepared to meet emerging patient needs for long-term care and at-home care. Finally, health information technology training will be crucial as electronic health records and other technological innovations are incorporated into everyday care, and workers must be able to adapt to these technologies.

Redirect Administrative and Legal Costs to Patient Care
Streamlining costs for non-patient care could reduce spending and make health care more affordable. The U.S. spends valuable resources on administrative and legal costs, such as costs related to claims processing or record keeping – using funds that might be better invested in patient care. The U.S. surpasses other industrialized countries in this type of spending. Private insurers spend twice as much on administration as public programs do, due to costs associated with attracting and retaining members, negotiating contracts with multiple providers and offering a variety of health insurance plans. Inefficient administration further raises costs. Duplicative and unnecessary medical tests generate needless expenses, delay patient care and frustrate providers and patients. Patients consistently report that laboratory tests have been repeated when records or test results were unavailable at the time of a physician visit.

Spending associated with professional liability insurance also contributes to administrative costs. Professional liability insurance is becoming unaffordable for providers, interrupting and constraining access to care as physicians in certain specialties try to limit their exposure to lawsuits. Physicians may refuse high-risk patients, relocate or stop practicing if professional liability costs become prohibitive, a pattern already apparent among obstetricians.

As insurance prices rise, providers may pass these costs on to consumers. Estimates place the national cost of “defensive medicine” – the practice of providing extra care to minimize the risk of a lawsuit – between $50 billion and $100 billion per year. Patients may

"The United States is twice as expensive with about the same outcome. As a consumer, I don’t mind paying more if I’m getting more, but that’s just not the case in the U.S." — Gerard Anderson, PhD, director, Center for Hospital Finance and Management, Johns Hopkins Bloomberg School of Public Health, comparing the U.S. with Canada, Australia, France and Britain
Seizing upon some of the opportunities to shift our health care system toward one that is more efficient and affordable will help all Americans get the care they need. Maximizing the efficiency of our health care system could:

- Ensure patients receive the most appropriate care;
- Improve outcomes for patients with chronic diseases;
- Ease the burden of health care costs for consumers and reduce anxiety about affordability;
- Allow providers to refocus on patient care, rather than administrative and legal costs;
- Help businesses maximize productivity by reducing the 64.7 million sick days and $10.6 billion in lost productivity currently attributable to suboptimal health care;
- Ensure that the most beneficial technology is used; and
- Control costs; a 10 to 20 percent reduction in preventable hospitalizations would save $4 billion to $8 billion each year.

What Will We Gain from Affordable, Efficient Care?

What Will We Gain from Affordable, Efficient Care?

![Chart 10: Trends in Professional Liability Premiums by Specialty, 1993-2002](chart.png)


see these costs reflected in their health insurance premiums and out-of-pocket costs. Americans now rank the number of malpractice lawsuits second in contributing factors to rising health care costs.

Reducing overall administrative and legal costs can redirect providers’ attention and resources to patient care. Public and private insurers can collaborate to develop and implement best practices for administrative procedures such as simplifying and standardizing benefit packages to ease claims processing, eliminating redundant procedures, and paperwork and minimizing the burden of compliance and oversight. Lowering administrative spending to the levels achieved in Germany or Switzerland would save between 1.7 and 2.5 percent of health care spending each year, or between $34 billion and $50 billion out of our nation’s $2 trillion in annual health spending.

Reforming the liability system could reduce costs for providers and curtail the costly practice of defensive medicine. Possible improvements include the use of alternative mechanisms, such as mediation to resolve disputes, the introduction of “no-fault” compensation and the imposition of caps on non-economic damages as part of malpractice awards. Providers would be able to treat patients based solely on appropriateness of care, leading to more efficient use of health care services.

$2.1 trillion

Total health care spending in 2006
EnDnoTEs

48 USA Today. (2007). America’s Health and Health Care by calling for: a focus on wellness, the most efficient affordable care, the highest quality care, the best information and health care coverage for all paid for by all.
49 Health for Life – Fall 2007
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