

# WHERE ARE THE HEALTH CARE COST SAVINGS?

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# U.S. Health Care Spending

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In 2012, the U.S. will spend

**\$2.80 TRILLION**

on Health Care

# Health Care Spending in Context

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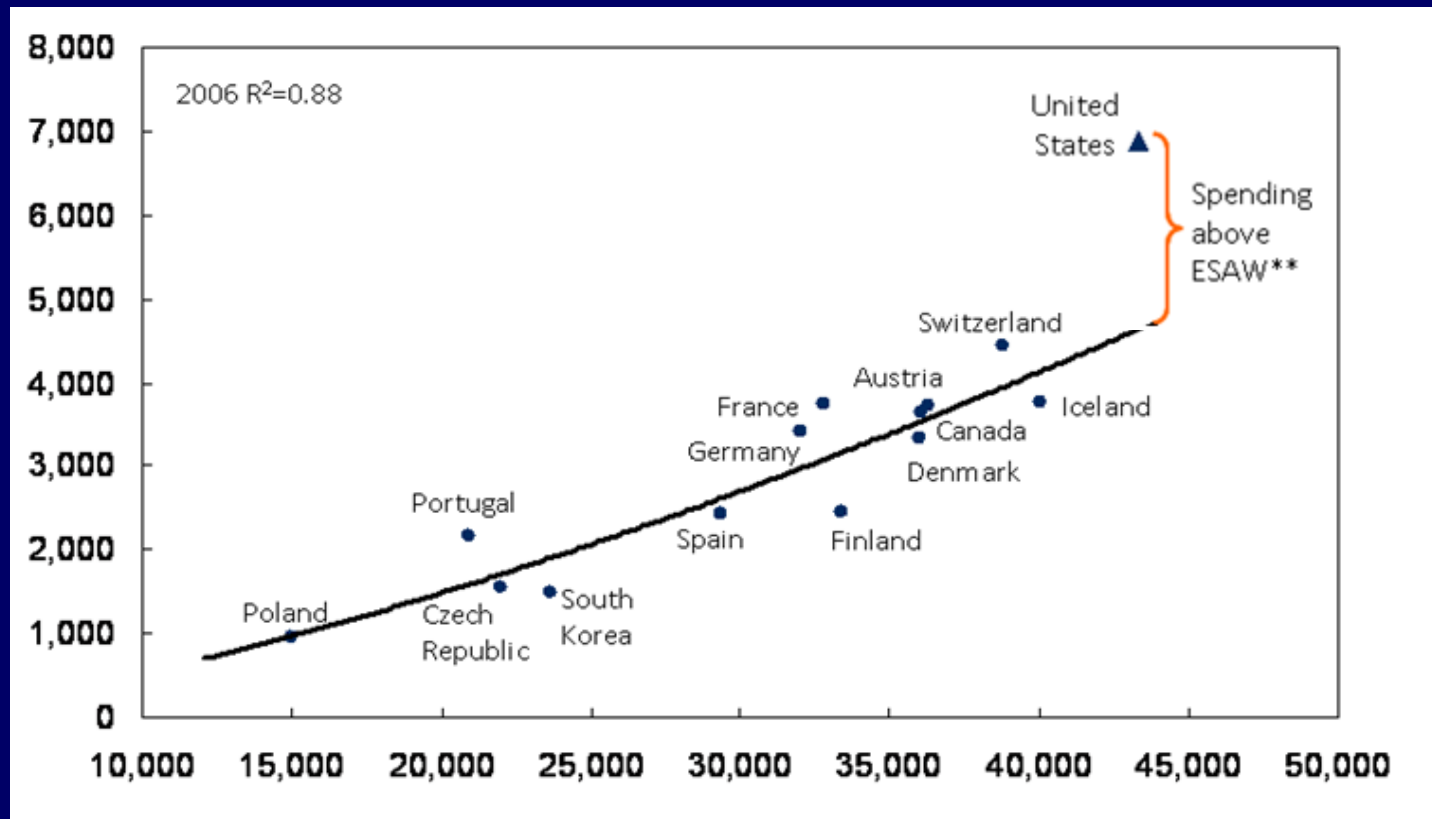
	<u>GDP in 2011</u>	<u>Rank of Economy</u>
CHINA	\$7.30 trillion	#2
JAPAN	\$5.87 trillion	#3
GERMANY	\$3.58 trillion	#4
FRANCE	\$2.78 trillion	#5
BRAZIL	\$2.49 trillion	#6
UK	\$2.42 trillion	#7

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# US Spending vs. Other Countries

Per capita health care spending, 2006

\$ at PPP\*



Per capita GDP (\$)

\* Purchasing power parity.

\*\* Estimated Spending According to Wealth.

Source: Organization for Economic Co-operation and Development (OECD)

# Rising Health Costs Jeopardize:

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1. Coverage and Access
2. State Budgets and Support for Education
3. Middle Class Wages
4. America's Long-Term Fiscal Stability and Status as a World Power

# Cuts in State Programs

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“Medicaid and other health-care expenses are predicted to grow to as much as 40% of the state budget by 2015. That will force the state to cut higher education funding because there are few other options. ... It certainly seems to be on a collision course.”

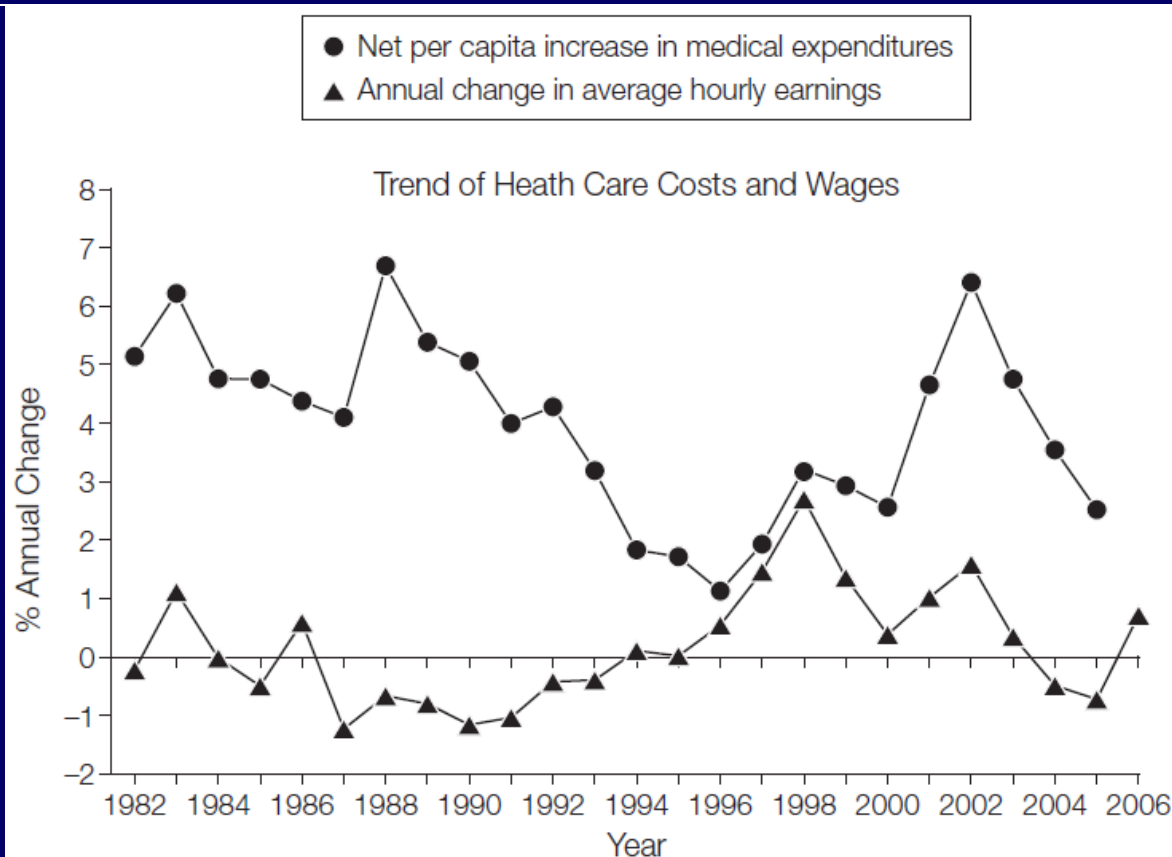
John Arnold, Director of the Arizona Office of Strategic Planning and Budgeting

# Stagnant Wages

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- Over the last 30 years:
  - Health insurance premiums increased by 300% after inflation.
  - Corporate profits increased 200% after taxes.
  - Net worker income in private industries declined by 4%.

# Stagnant Wages



Data are from the Council of Economic Advisers<sup>6</sup> and Catlin et al.<sup>7</sup>



# Fiscal Cliff

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“Medicare and Medicaid will rise from 4.5% of the economy today to 20% of the economy by 2050.

This is the central long-term fiscal challenge facing the United States, period.”

- Peter Orszag, while director of the Congressional Budget Office

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# **We Need to Get Costs Under Control**

# False Cost Control

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- Physicians often point to proposals that tend to ignore their own role and fail to change their current practices
- They often cite issues like:
  - ✓ Medical Malpractice & Defensive Medicine Costs
  - ✓ Insurance Company Profits
  - ✓ Drug Costs
  - ✓ “Million Dollar Babies” & Demanding Patients

# Medical Malpractice & Defensive Medicine

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- Does not account for major cost savings
- Malpractice premiums, settlements, and administrative costs are approximately \$35 billion, about 2% of total health care costs
- Defensive medicine amounts to approximately \$66 billion, or 3% of total health care costs

# Medical Malpractice & Defensive Medicine

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- A tort reform proposal might include:
  - \$250,000 cap on non-economic damages
  - \$500,000 cap on punitive damages
  - Reduction in statute of limitations
  - Replacement of joint-and-several liability with a fair-share rule

# Medical Malpractice & Defensive Medicine

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- According to the CBO, those measures would:
  - Reduce malpractice premiums by 10% (\$3.5 billion/year)
  - Reduce defensive medicine by 0.3% (\$7 billion/year)
- All together, tort reform would lower health care spending by about 0.5% or \$11 billion per year
- **We need more savings**

# Insurance Company Profits

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- The 5 largest insurers in America are:
  - Wellpoint
  - United
  - Aetna
  - Humana
  - Cigna
- In 2010, their combined profits increased substantially – totaling \$11.7 billion
- But in the grand scheme of **\$2.8 TRILLION**, insurance company profits are still a drop in the bucket



# Demanding Patients

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- Many physicians believe we spend too much on “**million dollar babies**” – patients who demand and use **a lot** of care
- But who induces demand?



# Demanding Patients



# Demanding Patients

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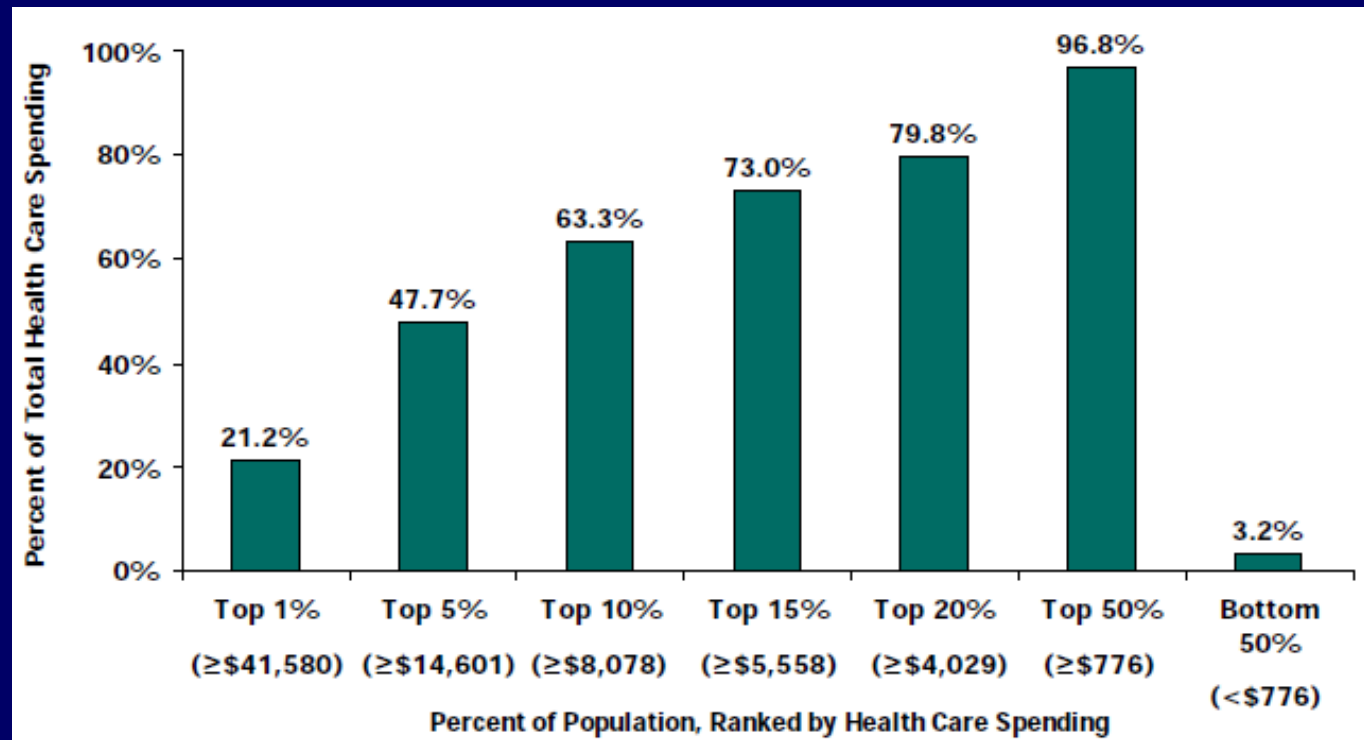
- **There is no evidence that demanding patients are driving up costs**
  - Patients that use over **\$1 million** in care use about **0.5%** of total health care costs
  - Patients that use over **\$250,000** in care use about **6.5%** of total health care costs

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# Where Can We Find “Real” Savings?

# Uneven Distribution of Costs

- 50% of the population spends 3% of all health care costs
- 10% of the population spends 63% of all health care costs



# Responsibility to Practice Effective and Efficient Health Care

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“Physicians have a responsibility to practice effective and efficient health care and to use health care resources responsibly.

Parsimonious care that utilizes the most efficient means to effectively diagnose a condition and treat a patient respects the need to use resources wisely...”

American College of Physicians Ethics Manual, Sixth Edition

# Criteria for Treatment

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1. Improves Survival
2. Improves Quality of Life
3. Reduces Side Effects
4. Reduces Costs

We should stop recommending and ordering medical interventions that have not been shown to do any of the above

# Avastin and Metastatic Breast Cancer



# Proton Beam Therapy and Prostate Cancer

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# Choosing Interventions Wisely is a Good Place to Start...

- **...But it is hardly a good place to end**
- We can never have too much cost control

Per capita health care spending, 2006  
\$ at PPP\*

