

Cost Reducing Innovation in Health Care

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OVERVIEW

- Why is cost growth a problem?
- Causes of cost growth
- Reforming the purchasing of health care
- Responses by the health care industry
 - Pushback
 - Process innovation
 - Product innovation

Why is Health Care Cost Growth A Social Problem?

- Can we afford it?
 - Yes. We currently pay 16% of GDP. We can pay 20%.
- Is it worth it?
 - Yes. Although we could get the same “output” for lower expenditures (and should), the reductions in mortality, morbidity, and disability over the past 30 years have been worth more in dollar terms than the costs

The Real Problem with Health Care Cost Growth

- Unraveling the social fabric
 - Rising costs disproportionately hurt the most vulnerable (the sick and the poor) through implicit rationing
 - This violates our sense of fairness and community
- The demonization of the industry
 - The social stresses lead to ever more adverse publicity, litigation, and regulation of every health care sector

The Causes of Cost Growth: Not

- Expenditures on health care costs have been outpacing overall economic growth for 50 years
- This is not due to:
 - Aging of the population
 - Defensive medicine
 - Profiteering
 - Fraud and abuse
- Of course, these play a role 😞

The Causes of Cost Growth: (1)

- Innovation in clinical technologies (drugs, devices, diagnostics, procedures, protocols)
 - Some supplement rather than supplant older therapies
 - Some reduce unit costs but lead to increased utilization
 - Some treat previously untreatable conditions
 - Some reduce uncertainty and anxiety

The Causes of Cost Growth (2)

- The revolution of rising expectations
 - In Afghanistan, health care is about reducing mortality
 - In Portugal, it's about reducing morbidity
 - In San Francisco, it's about feeling good
 - In Los Angeles, it's about looking good
 - In Orange County, it's about looking really good

The Causes of Cost Growth (3)

- Perverse incentives
 - Tax policy
 - Regulation
 - Provider payment
 - Consumer benefit design
- These we can work on: see below 😊

No Silver Bullet

- There is no one silver bullet for controlling costs
 - Not pay-for-performance
 - Not high-deductible health plans
 - Not single-payer insurance
 - Not electronic health records
 - Not disease management
 - Not comparative effectiveness analysis
 - Not [INSERT YOUR FAVE HEALTH FAD]

Reforming the Demand and the Supply

- Moderating costs requires changes in demand
 - Reduce tax, regulatory, payment, and benefit policies that prevent or undermine incentives for economizing, and promote policies that promote or reward cost-reducing innovations
- Moderating costs requires changes in supply
 - The health care industry (providers, manufacturers, etc.) need to respond creatively to the changes in demand

Reforming the Demand for Health Care

- Tax policy
 - Open-ended tax exclusions for employment-based (and individually purchased) insurance are regressive and promote over-insurance
- Regulatory policy
 - Mandated insurance benefits, any-willing-provider laws, staffing ratios, scope of practice rules, state licensure, Certificate-of-Need, corporate practice of medicine, gainsharing bans, Stark laws: these undermine competitive entry and economizing

Reforming the Demand for Health Care

- Provider payment
 - Most forms of provider payment encourage increase in volumes, complexity, and amenities: fee-for-service, “buy and bill” for oncology drugs, physician consulting fees for medical devices, hospital chargemaster pricing
- Consumer benefit design
 - Some Americans suffer from no insurance, some from under-insurance, and most from over-insurance
 - We spend other peoples’ money different from how we spend our own (insurance is other peoples’ money)

Reforming the Supply of Health Care

- Moderation of costs happens or does not happen on the supply side of health care
 - Physicians and other caregivers
 - Hospitals and other facilities
 - Pharmaceutical, device, diagnostics firms
 - And everyone else in health care
- The question is: how will the supply side respond to changes in the demand side?

Three Supply Side Responses

1. Pushback
2. Process innovation
3. Product innovation

Supplier Response: Pushback

- The favorite response by providers and other suppliers is to push back against pressures to reduce costs, which are revenues to them 😊
- Consolidation of hospitals, specialists, etc.
- Lobbying against CMS initiatives
- Physician detailing, consumer DTC advertising
- To date, the pushback has been very successful

Supplier Response: Process Innovation (1)

- Much of health care remains in the hands of fragmented and autonomous providers who rely on professional judgment and perverse incentives rather than benchmarks and best practices
- In other industries, efficiency (and quality) improve through continual process analysis and re-design, often with reduction in variance

Process Innovation (2)

- Of course there will always remain idiosyncratic uncertainty and the need for professional judgment
- But much can and should be standardized
 - Orthopedics and much of surgery, cardiology
 - Drug dosing for ESA among renal failure patients
 - Mix and sequence of oncology drugs
 - Care management for chronically ill patients
 - Population rates of hospital admission and LOS

Process Innovation (3)

- Cost reducing process innovation requires:
 - Integrated data systems that measure performance across all providers, facilities, inputs and over time
 - Bundled payment methods that give incentives for physicians, facilities, and suppliers to work together to find efficiencies and then share the savings
 - Service line organizational structures that bring all those involved in a course of treatment into a (virtually?) integrated organization with mutual accountability

Supplier Response: Product Innovation (1)

- Many sectors see upward creep in product performance and cost since producers respond to “best” (price-insensitive, quality-sensitive) customers, neglecting price-sensitive potential customers who seek “good-enough” performance
- Market entrants then come with new products that have initially lower functionality and much lower cost, and displace the incumbents
- Toyota, Sony, Nucor, Apple, Kaiser
- “Disruptive innovation”

Product Innovation (2) Examples in Health Care

- Cost-reducing products
- Cost-reducing sites of care
- Cost-reducing changes in staffing

Cost Reducing Products

- Generic drugs, OTC, bio-similars
- Cheap diagnostic kits for pregnancy, UTI
- Demand matching in orthopedics
- Reused and recycled equipment
- Minimally invasive everything

Cost Reducing Sites of Care

- Shift from inpatient to outpatient
- From hospital OPD to ASC
- From ASC to the physician's office
- Retail clinics in pharmacies
- Schools and other community sites of care
- The patient's home

Cost Reducing Changes in Staffing

- All services should be provided at the lowest level of training and expertise that is competent
- Broader scope of practice:
 - Reward primary care MDs for broad scope
 - Nurse practitioners, pharmacists, midwives
- Patients and their families should play larger roles (with some financial compensation)

Conclusion:

Options for the Health Care Sector

- Option 1: Get lucky
 - Cost-decreasing innovations in other sectors continue to finance cost increases in health care
- Option 2: Get going
 - The health care system embraces and accelerates cost-decreasing innovation in products and processes
- Option 3: Get ready
 - With cost-decreasing innovation, things could get unpleasant