Your Money or Your Life:
Strong Medicine for America's Health Care System

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About health care passivity...

- I have but this to say:

"Speaking for myself, I too believe that humanity will win in the long run.
I am only afraid that at the same time the world will have turned into one huge hospital"
- Goethe, May 1787 letter

It's Time to Vote (Again?...)

- True or False: There is a fundamental conflict between rising medical costs and insuring the uninsured.

- Agree or disagree: I would forgo all future medical advances if we could enact, now and forever, universal insurance coverage.

- Agree or disagree: Thank God for the Schiavo legislation. I feel a lot more secure.

The Holy Trinity of Health Reform

- Costs: We spend too much.

- Access: Insure the uninsured.
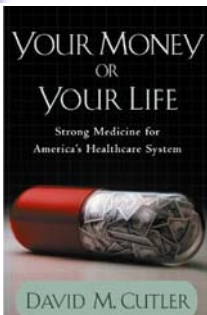
- Quality: Quality is uneven.

Common Solutions Fail Because They Produce Conflict Among Goals

- Save money and cover more people (aka the Clinton Plan)
    - That means cutting back on the insured to give to the uninsured

- Improve quality through IT investment, malpractice reform (aka the IOM Plan)
    - How can we afford it?

Central questions

- What do we get for increased medical spending?
    - Conventional wisdom: Very little
    - My answer: An enormous amount. There is no "speed limit" to spending even more.
- What can we do to reform the system?
    - Conventional wisdom: ???
    - My answer:
        1) Expand insurance coverage
        2) Get even more value by paying for quality.

- *It's the value, stupid.*

The Full-Length Version

YOUR MONEY
OR
YOUR LIFE

Strong Medicine for
America's Healthcare System

DAVID M. CUTLER

- This talk is based on my research over the past decade, which I have written a book about.

Outline

- The value of medical spending
    - It's worth it.
- Can we sustain it?
    - Yes.
- Can we do better?
    - Yes, if we transition to paying for poking and prodding to paying for performance.

The Rise of Modern Medicine

Why do we spend more on medical care?

- Because we can do more.
  - Price increases are a small part of the story
  - Quantity and quality increases are

- Examples:
  - Cardiovascular disease
  - Low birth weight babies
  - The mentally ill

Changes in Medical Care for Severe Heart Disease (MI)

- 1950 Standard
  - Bed rest (6 mos +)

- Today's Standard
  - Pharmaceuticals to restore blood flow;
  - Intensive diagnostic therapies
  - Invasive revascularization

- Cost ~ $0

- Cost ~ $30,000 in present value at age 45

Changes in Medical Care for Low Birth Weight Infants

- 1950 Standard
  - First incubators, experimentation with warming, etc.

- Today's Standard
  - Neonatology unit; artificial surfactant; ventilators; etc.

- Cost ~ $0

- Cost ~ $70,000 in present value.

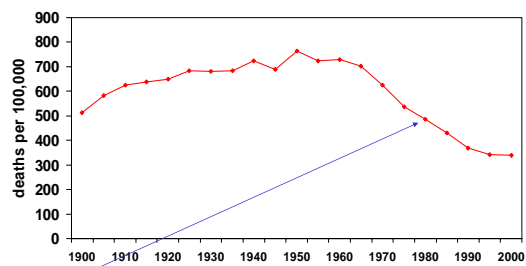## Changes in Medical Care for People with Depression

- 1950 Standard
  - Mental institutions for very ill; little for others
  - Lobotomy, ECT, Insulin therapy

- Today's Standard
  - SSRIs

Costs have doubled in the past 20 years, as we treat more people
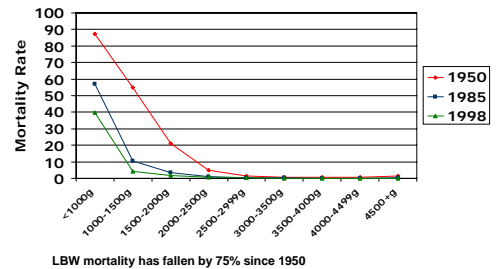
What Are the Benefits?

- Mortality
- Quality of life

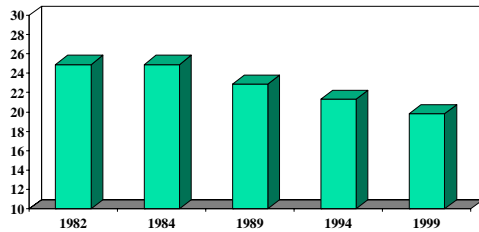## The Single Biggest Factor in Reduced Mortality -- Cardiovascular Disease

Life expectancy at age 45 increased by 4½ years.

Infant Mortality by Birth Weight

LBW mortality has fallen by 75% since 1950

4

Fewer elderly have impairments in personal or living functions

Decline between 1.0 and 1.5 percent per year.

Matching Benefits and Costs -- Cardiovascular Disease

- Benefits
  - About **3 years** of longer life (4½ in total for CVD) is a result of medical advance.
- Costs
  - Spending on CVD is about **$30,000** in present value from age 45 on.

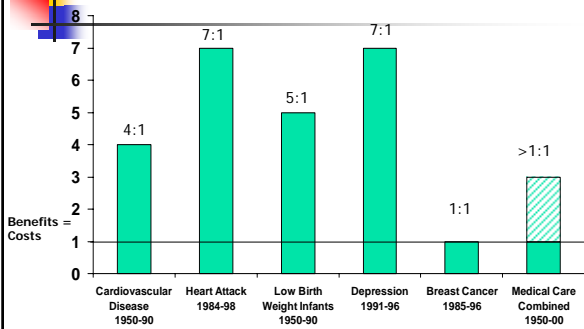Is it worth it?

What's A Life Worth?

- Health is priceless
  - Well, not really

- How much are you willing to pay for an air bag, or a better braking system in your car?
  - $300 for an airbag → $100,000 per year of life saved.

Analysis of Cardiovascular Disease

- Benefits
  - Present value is about **$120,000**
- Costs
  - Increased spending of about **$30,000**.

Rate of return is **4:1**

Slide 1

The Mortality Benefits of Medical Advance Are Significantly Greater than the Costs

Benefits = Costs

| Cardiovascular Disease 1950-90	Heart Attack 1984-98	Low Birth Weight Infants 1950-90	Depression 1991-96	Breast Cancer 1985-96	Medical Care Combined 1950-00
4:1	7:1	5:1	7:1	1:1	>1:1

Slide 2

The Key

- People value their health highly
  - Two-thirds of Americans rank health care as a top item for an expanding economy.
- Medical advance costs a lot, but is worth it.
  - That's why the 'R' word (rationing) is not utterable in the States.

Slide 3

Sustainability

Slide 4

Can We Afford to Continue?

- Will there be valuable medical things to buy in the future?
  - Yes (likely)
- What would we give up by devoting more resources to medical care?
  - Medical care would take a large share of spending *increases*, but non-medical consumption would still rise.

# Expected Changes in Medical and Non-Medical Consumption

	2004	2034

■ Non-Medical ■ Medical
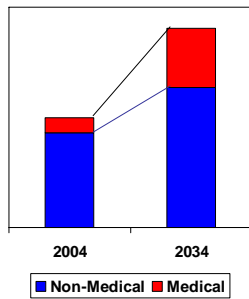
What's the big worry?

- When IT grows as a share of the economy, that's good.
- When health care does the same, that's bad.

- Why?

What's the big worry?

1. Government budgets
   - Government will need more money
   - Perhaps a dedicated financing stream for medical care

Government Spending as a Share of GDP

Defense

Medicare and Medicaid

Social Security

Depression
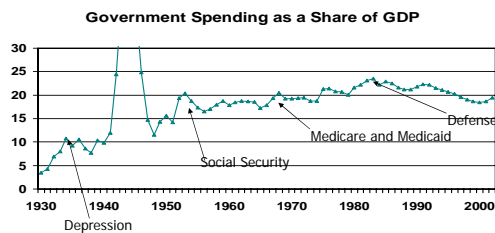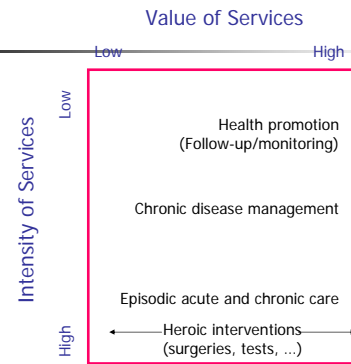

What's the big worry?

2. Those left out
   - *Step 1 in health reform: Cover everyone*

What's the big worry?

3. Waste
   - Yes, but…
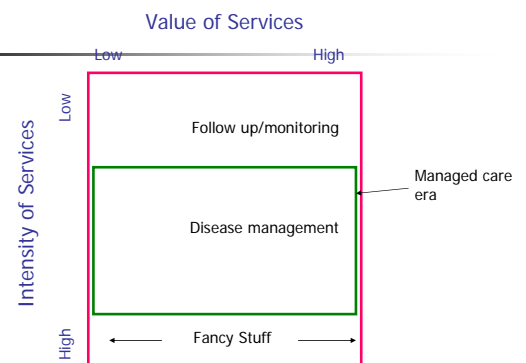   - Waste and value are the Dr. Jekyll and Mr. Hyde of health care.

Waste and Value

Value of Services

Low — High

Intensity of Services (Low → High)

Health promotion
(Follow-up/monitoring)

Chronic disease management

Episodic acute and chronic care

Heroic interventions
(surgeries, tests, …)

Waste and Value

Value of Services

Low — High

Intensity of Services (Low → High)

Follow up/monitoring

Disease management

Fancy Stuff

Traditional reimbursement

Waste and Value

Value of Services

Low — High

Intensity of Services (Low → High)

Follow up/monitoring

Disease management

Fancy Stuff

Managed care era

Waste and Value

Value of Services

Low — High

Intensity of Services

Low — High

Follow up/monitoring

Quality-based payment

Disease management

Fancy Stuff

Step 2 in health reform

2. Transition to a pay-for-performance system
   - Add 5 percent to Medicare payments via a Quality-improvement fund
     - Assign points for meeting quality standards and take away points for missing them, with funds awarded based on annual points.
     - Measures of quality: Process, Outcomes, Satisfaction
   - Lower patient cost sharing for effective care.

A Vision of the Future Health System

- Has less wasteful care and more valuable care.
  - Overall spending may be higher or lower

- Has sustained cost increases, for new technologies.
  - Makes sure financing system is stable

- Insures everyone.

- Challenges and rewards for high *value.*