

Strategies to address rising health care costs

U.S. health care spending continues to rise faster than the overall economy, wages and inflation. As a nation, we now spend more than \$2 trillion per year on health care—\$7,000 per person, or 16 percent of gross domestic product. Rising health care costs are inextricably linked to growth in the number of uninsured, making it imperative that health system reform include efforts to address rising costs. The American Medical Association (AMA) has identified four broad strategies to contain health care costs and achieve greater value for health care spending:

- Reduce the burden of preventable disease.
- Make health care delivery more efficient.
- Reduce nonclinical health system costs that do not contribute to patient care.
- Promote value-based decision-making at all levels.

These strategies should be implemented to bring immediate improvement to the health care system, and to strengthen the impact of the comprehensive reforms—that is, financial assistance for those who most need help buying health insurance, personal choice of coverage and fair health insurance market rules—described elsewhere in this series.

Better value for health care spending

The ultimate public policy goal is to achieve better value for health care spending, rather than reduce cost alone. Value can be thought of as the best balance between the benefits and costs of health care, and better value can be thought of as improved clinical outcomes, quality of care and patient satisfaction per dollar spent. The goal is not necessarily to reduce utilization of health care but to find the most valuable use of services in accordance with their relative benefits and costs. Indeed, additional spending has yielded substantial clinical, economic and quality-of-life benefits, such as helping to dramatically reduce death rates for cardiovascular disease since the 1960s. Thus, the likely, but not guaranteed, result of focusing on value would be lower per capita health care spending, with slower or negative cost growth over time.

Why are costs so high?

- **The rising toll of preventable illness.** Studies have shown that a major contributor to the growth in aggregate health care spending is the marked increase in patients receiving treatment for diabetes, high blood pressure and other chronic conditions. Higher rates of treatment for such conditions primarily reflect an increase in disease prevalence, as opposed to earlier detection and/or more aggressive treatment than in the past. For example, rates of obesity and diabetes have doubled over the past 25 years, and more than a quarter of recent spending growth is attributable to the rise in obesity and related growth of diabetes, high cholesterol and heart disease. Other major sources of avoidable mortality, morbidity and cost include modifiable lifestyle behaviors such as unhealthy nutrition, physical inactivity, smoking and excessive alcohol use, as well as motor collisions, gun violence, domestic violence and other forms of trauma. Minorities experience markedly higher rates of chronic illness and injury, suggesting that targeted initiatives might yield greater overall improvement in health outcomes, in addition to reducing health disparities.
- **Inefficiencies in the health care system.** Inefficiencies in health care delivery add cost and detract value from the health care system. For example, recent studies have documented, on the one hand, costly overuse of diagnostic testing during routine preventive exams and, on the other hand, underuse of services recommended by clinical guidelines, including preventive services and care for high blood pressure, high cholesterol and diabetes. Factors contributing to inefficient use of services include fragmentation of care, lack of available cost-effectiveness information and lack of incentives to consider both costs and benefits in health-related decisions—for example, fragmented delivery of health care results in repeated medical histories and duplicative diagnostic tests because patient records are not readily available. Fragmented care also leads to futile end-of-life care, defensive medicine and missed opportunities for patients to receive lifestyle counseling. In addition, administrative costs, profits, marketing and other nonclinical spending often add to health system costs without contributing demonstrable value to patient care. Waste arises from unnecessarily complex procedures for filing insurance claims; countless state insurance regulations; and an excessive proliferation of new cottage industries to assist insurers with billing, pharmaceutical benefit management, determination of medical necessity, repricing of payments to providers and regulatory compliance.

Broad strategies

The AMA has identified the following four broad strategies to address rising health care costs and achieve greater value for health care spending:

- **Reduce the burden of preventable disease.** Reduce risk factors for disease and prevent the onset of chronic illness; improve patient compliance with medications and preventive care recommendations; encourage improved nutrition and physical activity; prevent injury due to accidents and violence; and conduct public health campaigns.
- **Make health care delivery more efficient.** Improve coordination of care; reduce unnecessary use of services; increase use of services with positive return on investment (i.e., in terms of future disease and cost); increase availability of information on relative cost-effectiveness of different treatments; improve management of chronic illness; reduce medical errors; and shift care to cost-effective sites of service (e.g., physicians' offices and clinics vs. emergency rooms).
- **Reduce nonclinical health system costs that do not contribute to patient care.** Eliminate all activities that do not meet the cost-effectiveness criteria of adding value to patient care, e.g., excessive spending on administration, profits and marketing (see "Administrative costs of health care coverage" in this series).
- **Promote value-based decision-making at all levels.** Improve the processes by which decisions are made so that they take into consideration both cost and benefit—particularly clinical outcomes. Both information and incentives are needed to improve a host of private and public decisions. Value can be increasingly integrated into such decisions as physicians and patients choosing among drug therapies, insurers designing health plan features, and legislators determining public health budgets or mandated coverage of particular benefits.

Necessary actions

The AMA has identified a short list of specific crosscutting, synergistic actions to help put these broad strategies into effect.

- **Promote patient lifestyle counseling.** Support routine lifestyle counseling by physicians through adequate insurance payment; inclusion of lifestyle counseling in quality measurement and pay-for-performance initiatives; medical

education; and information technology systems. Provide complementary patient support through educational materials, healthy lifestyle reward programs, and insurance coverage of services such as nutrition counseling and prescription drugs to aid smoking cessation.

- **Support cost-effectiveness research.** Give funding priority to medical research that uses both cost and clinical evaluation criteria; translates findings into useable information; and widely disseminates information to physicians, patients and other decision-makers.
- **Apply consistent cost-effectiveness criteria.** Support ongoing analysis of nonclinical activities in order to reduce costs that do not add value to patient care.
- **Continue development of health information technology.** Design systems to automatically provide relevant, timely and actionable information, e.g., clinical guidelines and protocols; cost-effectiveness information; quality measurement and pay-for-performance criteria; patient-specific medical and insurance information; prompts for lifestyle counseling and care management; and alerts to flag and avert medical errors.
- **Use clinical performance and quality measurement to improve efficiency.** Encourage development and adoption of measures aimed at reducing overuse of unwarranted services and increasing use of recommended services known to yield cost savings.
- **Encourage use of targeted benefit design by insurers.** Encourage insurers to reduce or waive patient cost-sharing for chronic illness medications, particularly when patient noncompliance poses a high risk of adverse clinical outcome and/or high medical costs.
- **Reduce health disparities based on race and ethnicity.** Support medical care, insurance coverage and public health initiatives targeted toward underserved populations in order to achieve greater overall impact.
- **Build broad coalitions of stakeholders.** Recognize that while physician leadership is essential, confronting endemic problems such as obesity, tobacco use and violence will require societal change and collaboration within and outside the health care system.

Visit www.voicefortheuninsured.org for more information on the AMA proposal and to view additional pieces in this series.

