

Reconciling the Benefits of Health Care With the Costs

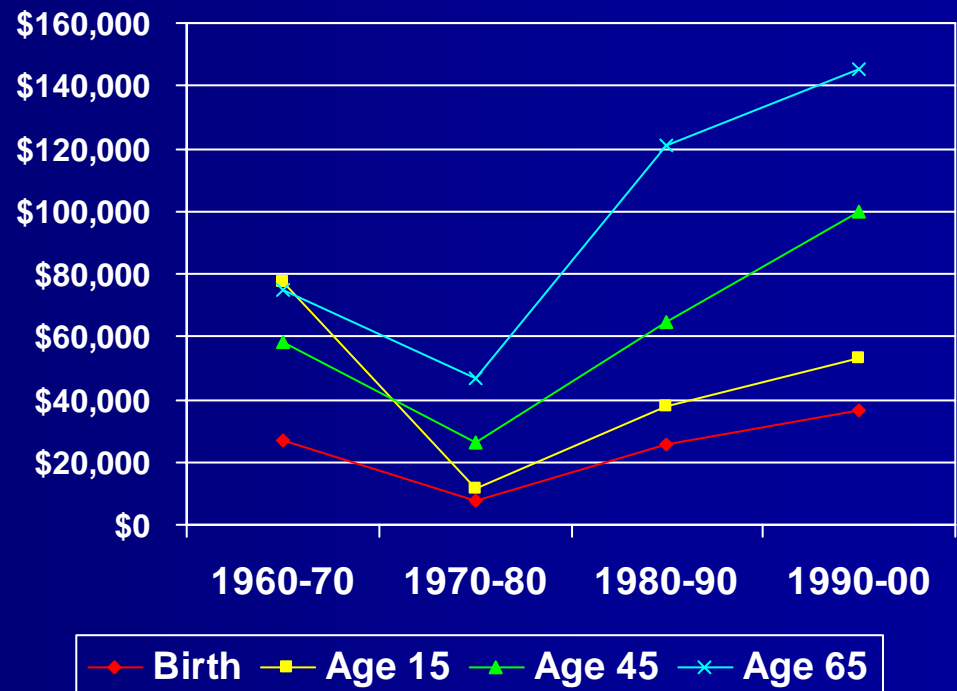
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Two Facts

1. We spend a lot more on medical care than we used to, and the care is worth it as a whole.

Incremental Cost per Year of Life

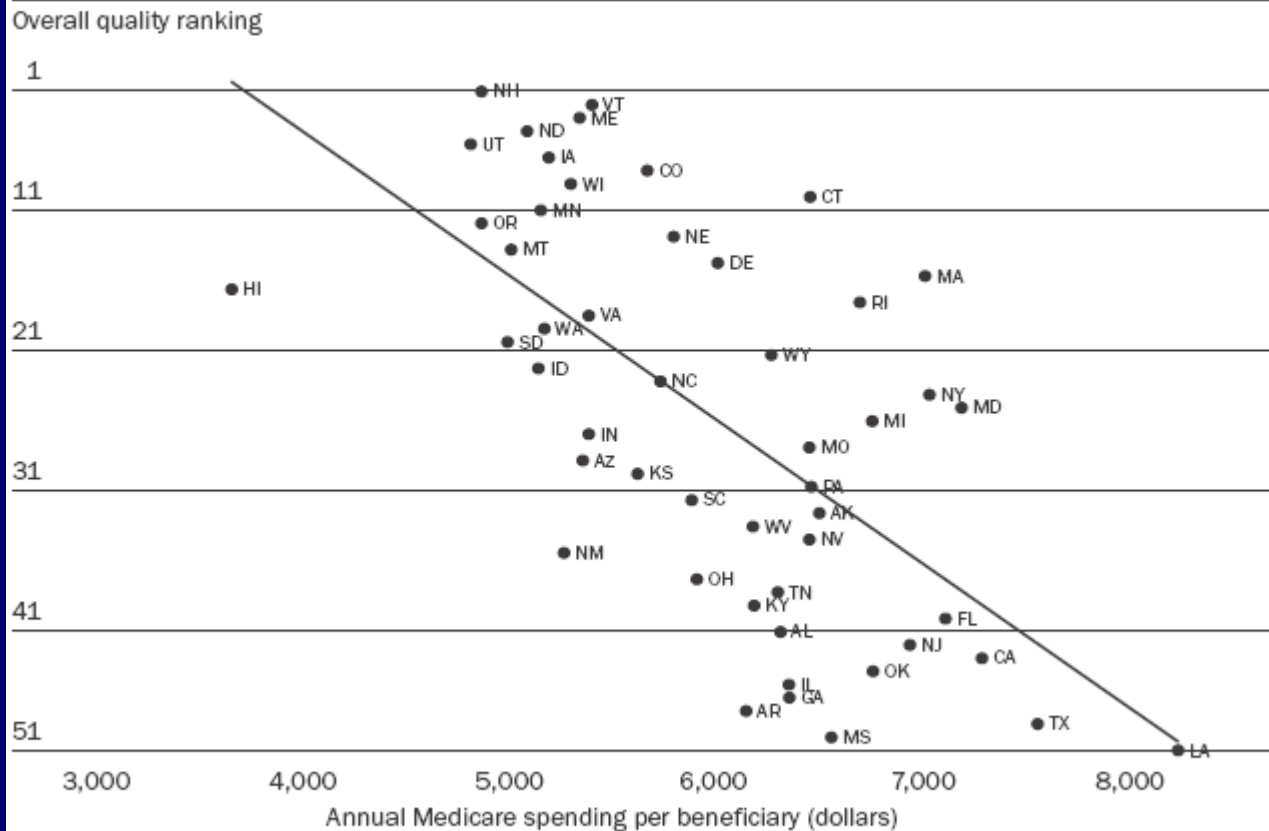


Two Facts

2. Areas that spend more don't get more.

EXHIBIT 1

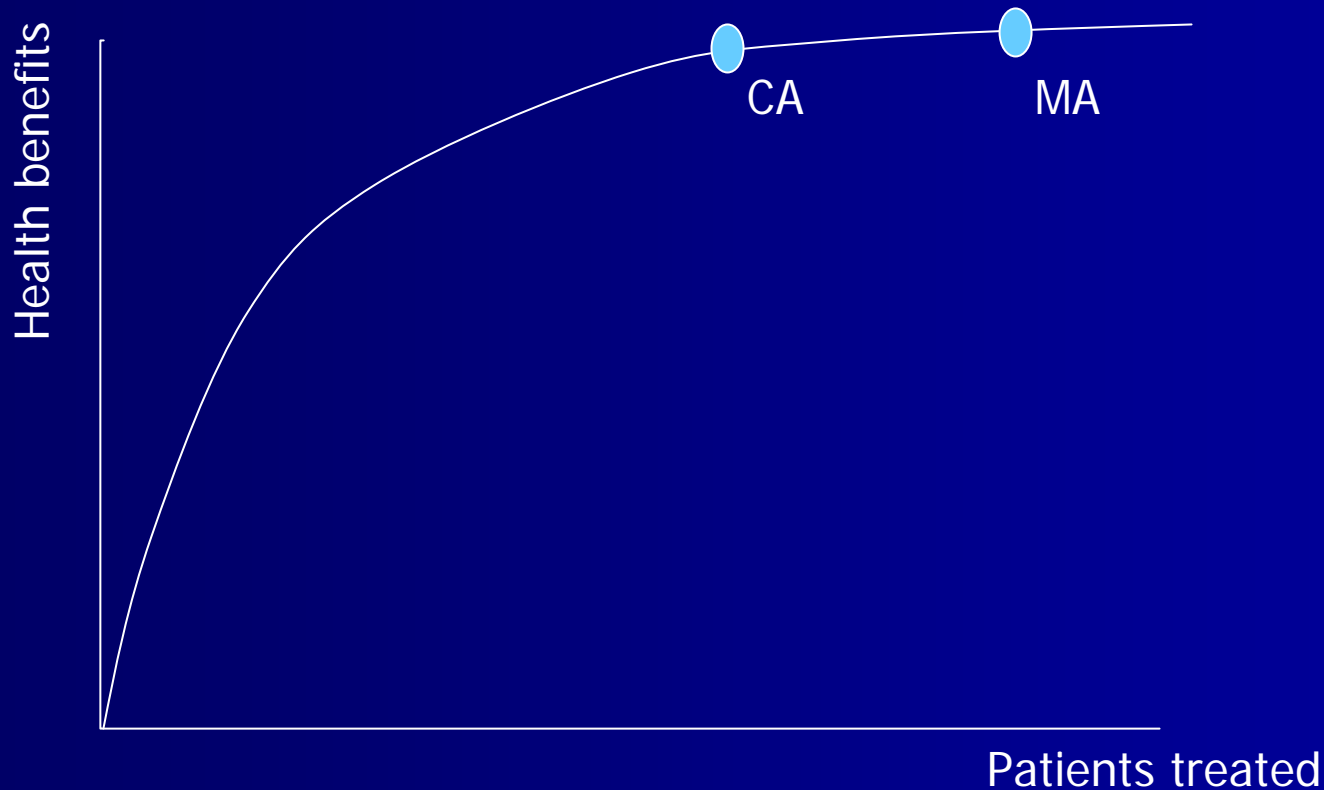
Relationship Between Quality And Medicare Spending, As Expressed By Overall Quality Ranking, 2000–2001



How do we reconcile these?

- Note that they ask different questions.
 - One asks about *over time* variation.
 - Would we be better off doing and spending what we did in 1960?
 - The other asks about variation in care *at a point in time*.
 - Are we better off living in MA than CA?

1. Maybe it's flat of the curve care?



But...

1. Differences in use rates are really large.
2. High use areas don't do more procedures. They do more tests.

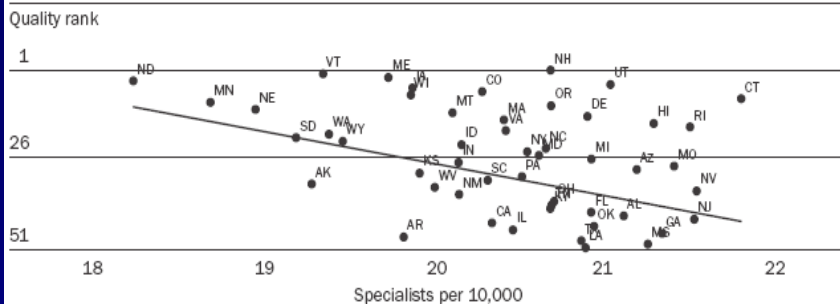
2. Who Does What?

- High use areas have a lot of specialists, and they do the things that specialists do.

Comparison of Generalist and Specialist Physicians

EXHIBIT 6

Relationship Between Provider Workforce And Quality: Specialists Per 10,000 And Quality Rank In 2000

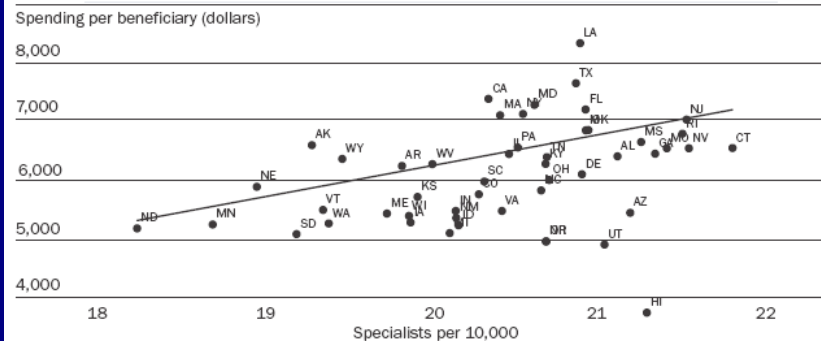


SOURCES: Medicare claims data; and Area Resource File, 2003.

NOTES: For quality ranking, smaller values equal higher quality. Total physicians held constant.

EXHIBIT 7

Relationship Between Provider Workforce And Medicare Spending: Specialists Per 10,000 And Spending Per Beneficiary In 2000

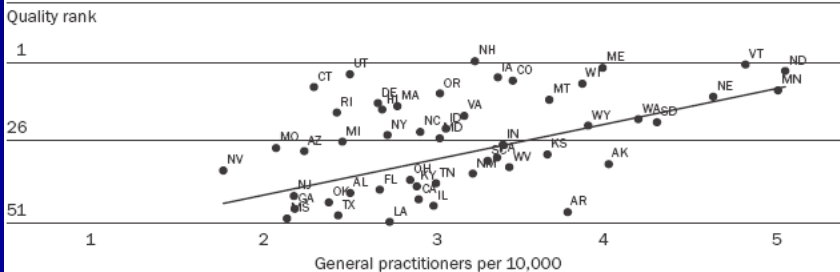


SOURCES: Medicare claims data; and Area Resource File, 2003.

NOTE: Total physicians held constant.

EXHIBIT 8

Relationship Between Provider Workforce And Quality: General Practitioners Per 10,000 And Quality Rank In 2000

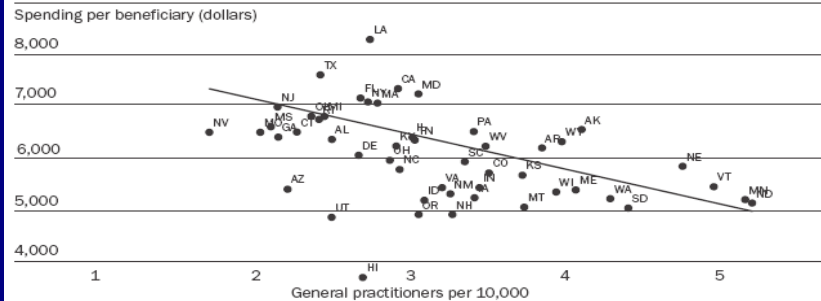


SOURCES: Medicare claims data; and Area Resource File, 2003.

NOTES: For quality ranking, smaller values equal higher quality. Total physicians held constant.

EXHIBIT 9

Relationship Between Provider Workforce And Medicare Spending: General Practitioners Per 10,000 And Spending Per Beneficiary In 2000



SOURCES: Medicare claims data; and Area Resource File, 2003.

NOTE: Total physicians held constant.

Solution (?)

- Auction medallions to practice medicine in different areas.

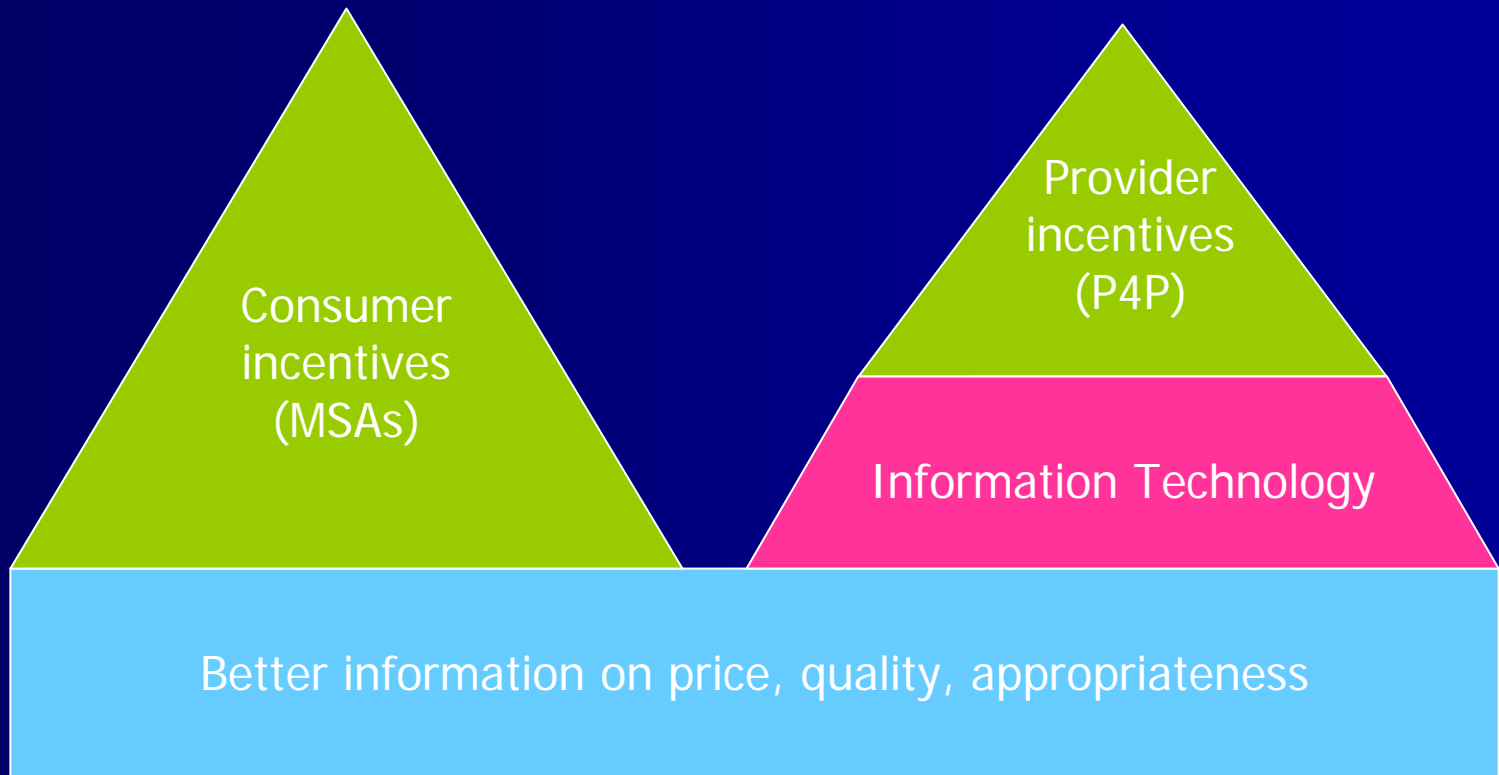
What Would an Efficient System Look Like?

- It would eliminate some wasteful care.
 - Wennberg et al. estimate: 20 – 30% of care.
 - In addition, there are administrative expenses.
- It would spend more to address underuse.
 - Maybe 10% of health spending
- It would still increase in costs.
 - Over time, we spend more because we can do more, and that's good for us.

Can We Afford It?

- What do we give up?
 - Less rapid growth of other consumption
- What will gov't do?
 - Raise taxes
- Doesn't it create more uninsured?
 - Yes. That's dumb
- Increase the value first
 - OK idea.

How Do We Get There?



Four (Modest) Suggestions for Increasing the Value of Care

1. Expand use of pay-for-performance in public insurance programs
 - Medicare has made a slow start.
 - Don't pay more across the board.
2. Encourage regional value collaboratives
 - Pittsburgh, Detroit, Northern CA, ...

Four (Modest) Suggestions for Increasing the Value of Care

3. Wire the medical sector
 - Cost is about \$200 bn – 1-2 years of health spending increases.

4. Reduce cost sharing for care that is clearly warranted
 - Increase for other care.