* get article

DRAFT

EXAMPLES OF SAVINGS

1. **By reducing uncompensated care, we will achieve clear savings.**

Today's System:

- Some experts estimate that $25 billion in health care costs are shifted onto people with private insurance each year. [*"Responses to Uncompensated Care and Public-Program Controls on Spending: Do Hospitals `Cost Shift'?"*, Congressional Budget Office, May 1993]

- In 1991, hospitals were left with an estimated $10.8 billion in unpaid bills from uninsured patients -- up from $3.5 billion in 1981. [Lewin-ICF, Los Angeles Times, 4/12/92]

- During the LA riots, Daniel Freeman Memorial Hospital in Inglewood, Caliornia treated 372 injured people, only 1/5 of whom had insurance and as a result the hospital absorbed a loss of $500,000. [*"Amid Mountains of Paper - A War Against a Tide of Red Ink,"* New York Times, 11/14/93]

Success Stories:

- Hawaii: After building upon their current employer-based health care system to achieve near-univeral coverage, *"[h]ealth insurance premiums are about 30 percent cheaper here, while almost everything else in Hawaii is more expensive than on the mainland."* [*"Hawaii is a Health Care Lab as Employers Buy Insurance"*, New York Times, 5/6/94]

* more success stories; ask Christine / MEV? - more business ones that are anecdotal
COST SHIFT cf HBGAW cf NAM - LEWIN

2. **Our international competitors control costs and provide security to all their citizens.**

Today's System:

- In 1992, the U.S. spent $819.9 billion on health care -- or 14.0% of the GDP. U.S. health costs have been growing at 9 - 10% per year -- x times faster than GDP. [Health Care Financing Administration; Congressional Budget Office] **CHECK WITH KIM**

- There are currently 38.5 million Americans -- 15% of the U.S. population -- who have no health insurance. [EBRI based on March 1993 Current Population Survey]

Success Stories:

- Other industrialized countries have been successful at keeping their rate of growth in national health expenditures in line with their rate of growth in their nation's GDP. At the same time that their costs have been kept under control, the quality of health care has remained high -- with comprehensive insurance for all their citizens and health outcomes that are in many cases better than the U.S.

Germany: From 1981 to 1991, Germany's GDP grew at an average of 5.2% while its national health expenditures grew at an average of 4.9%. [OECD, 1992]

Japan: From 1981 to 1991, Germany's GDP grew at an average of 5.5% while its national health expenditures grew at an average of 5.4%. [OECD, 1992]

3. Cities and states that have tried reform have been able to control costs.

Today's System: Reg. Variation → Speak with Kim
→ financing for premiums (Finance I Binder)

Success Stories:

- Hawaii: After building upon their current employer-based health care system to achieve near-univeral coverage, *"[h]ealth insurance premiums are about 30 percent cheaper here, while almost everything else in Hawaii is more expensive than on the mainland."* [*"Hawaii is a Health Care Lab as Employers Buy Insurance"*, New York Times, 5/6/94]

- Washington State: The State of Washington recently passed a health reform plan based on shared responsibility among employers and employees. Like the President's proposal, it backs up its competitive system with a premium cap to guarantee that costs would not continue to rise. The only opposition to premium caps in Washington state came from insurance companies; providers throughout the state supported premium caps. And well before the caps have even gone into effect, Washington state has seen costs moderate dramatically which may make the caps unnecessary. [State of Washington Finance Management, Health Care Authority, 1994.]

- City of Rochester, New York: In Rochester, doctors, hospitals and local businesses have cooperated to keep the quality of care high, while implementing incentives to control costs. A central element of the Rochester plan is the cooperation of local hospitals, which have agreed over the years on which institutions should perform certain specialized services -- like organ transplants -- to prevent expensive duplication. Rochester's medical costs are now 25 percent lower per capita than national levels and their administrative costs are half of the national average. Experts estimate that if provider behavioral change brought utilization throughout the country to the Rochester level, national expenditures would decline by approximately 10%. [*"Rochester Serves as Model in Controlling Health Cost,"* New York Times, 8/25/92]

94% of Popn. is insured.

4. There are many health plans today that control costs while providing high-quality care.

Today's System:

- "Traditional medical indemnity plans remained the most costly vehicles for providing medical benefits in 1992. At an average of $4080 per employee, traditional medical indemnity plans cost 10% more than PPOs ($3566 per employee), 14.4% more than POS plans ($3313 per employee)." [Foster Higgins Health Care Benefit Survey, 1992]

- "Managed Care Plans also saved money compared to traditional indemnity plans; average per employee cost was about 20% lower for HMOs and about 10% lower for PPOs.... While average traditional indemnity plan cost rose 14.2%from 1991 to 1992, the aggregate cost increase for all managed care plans was only 9.2%." [Foster Higgins Health Care Benefit Survey, 1992]

Success Stories:

- Group Health Cooperative of Puget Sound (Seattle, WA): Seattle's Group Health Cooperative (GHC) is the largest consumer-run HMO in the country. It is the most heavily researched HMO in the country -- forming the basis for the RAND corporation study which concluded that HMOs can control costs while providing high quality comprehensive services. Customer satisfaction -- which GHC takes pains to measure regularly -- is very high and has resulted in a low patient turnover. Physicians at GHC are so satisfied that their attrition rate is almost two-thirds less than national levels. [*"Non Profit, Consumer Run, Health Plan Prospers in Seattle,"* The Washington Times, 8/9/92]

- Mayo Clinic (Rochester, Minnesota): The Mayo Clinic is the largest group practice in the United States. This non-profit organization is very well known for its high quality, technologically sophisticated services, yet has been able to significantly contain costs through its use of "practice guidelines". These practice guidelines, combined with top doctors who are all on salary -- has helped the Clinic to provide its high quality service at surprisingly low cost (3.9% annual increases (close to the national inflation rate). [*"The World's Greatest Hospital,"* 50 Plus, 1/87]

- California hospitals have kept their growth rates well below the national average -- 9% versus 30% between 1983 and 1990. **[CITE?]** Speak to Lynn

5. More information about health outcomes can point to potential areas of savings. More money spent doesn't always mean higher quality care.

Today's System:

- Boston, MA residents get twice as much care -- costing $300 million more annually -- than residents of New Haven, CT yet there is no difference in the quality of care people receive. [Hearing on Health Care Crisis in America, Testimony by John E. Wennberg, M.D. / Ph.D. before JEC, 9/14/93]

- A survey of Pennsylvania hospitals showed that the cost of the same heart operation was $21,000 in one Pennsylvania hospital and $84,000 in another hospital in the same state. And the lower cost hospital had better outcomes. [Pennsylvania Cost Control Committee, or *"Outcomes; Accountability; Taking Charge,"* American Health, Fitness of Body and Mind, 4/93]

- Consumer Reports estimates that at least 20 percent of patient care -- or $130 billion each year -- is spent on procedures and services that are clearly unnecessary. [*"The $200 billion Bottom Line,"* Consumer Reports, 7/92] These #s are correct

- C. Everett Koop, former Surgeon General under President Reagan, said: *"I am among those who have concluded that 25 - 30% of current diagnostic and treatment procedures is medically unnecessary. If we cut that fat alone, we would save 200 billion dollars, which would more than pay for what the uninsured lack."* [C. Everett Koop, Health Care University, 9/20/93]

Success Stories:

- Central Florida Health Care Coalition (Orlando, FL): The 78-member Central Florida Health Care Coalition worked with hospitals to analyze why costs and quality of care differed for patients with the same illness and then used this information to bargain for better prices. Costs per patient admission fell 2% in each of the past two years and quality improved across a variety of procedures. The cost savings enabled the Orange County School Board to retain 20 teaching slots it had planned to eliminate. [*"Some Elements of Health Care Industry Already Curbing Costs,"* The Associated Press, 8/13/93]

- Memphis Business Group on Health (Memphis, TN): Memphis Business Group on Health (a group of 11 employers) commissioned a study that found some hospitals charged as much as 80% more for the same service. The group published the findings and took competitive bids for their 25,000 employee group. One hospital offered discounts of up to 20%. Members of the group report that they

have saved tens of millions of dollars. [*"Memphis Business Group on Health - A Model for Health Care Reform and Cost Containment,"* Managed Care Q., 1994]

- Cincinnati Hospital System (Cincinnati, Ohio): Four major Cincinnati area corporations -- Procter and Gamble, GE Aircraft Engines, The Kroger Company and Cincinnati Bell Telephone -- recently joined together to challenge area hospitals to offer quality care at competitive prices. The project, driven by outcome, used a computerized system to allow hospitals to share data on effectiveness of treatments and cost of care. Results were achieved rapidly -- within the first year of the project. All but one of the hospitals reduced charges, average lengths of stays were reduced, and quality indicators improved. [*"Cincinnati Firms Cutting Costs with Hospital - Ranking System,"* Wall Street Journal, 4/2/93]

- Researchers noted an 11-fold variation in tonsillectomy rates in small areas Vermont. After pediatricians in those areas were informed of this variation, tonsillectomies in the area with the highest rate dropped over the next four years from 444 per 10,000 children (age 14 and under) to 50 per 10,000 with no significant differences in outcome. [Pediatrics, 1977;59;821]

- The Aluminum Company of American (ALCOA) created a partnership with a group of area hospitals which provide ALCOA with data on process, outcomes, and cost to drive quality improvement ALCOA saved $500,000 on the 500 employees that used the network during the first year of the partnership. [*"The Health Reform Challenge: Employers Lead The Way,"* Washington Business Group on Health, 5/93]

6. Streamlining administration and cutting paperwork will save money.

Today's System:

- In the last decade, the number of health administrators grew 16 times as fast as the number of doctors. [Statistical Abstract, 1993]

- Under today's system, up to 30-40% of the premiums paid by small firms support the overhead of brokers, insurance agents and underwriters. Large firms pay significantly less for administration -- as low as 5% of premiums. [CBO, 10/92]

- Children's Hospital has to involve as many as 25 professionals to process a patient through a typical inpatient encounter. Then another 17 insurance professionals are required to complete the admission, review, and payment process. The hospital estimates that they could cut out 12% in patient-related administrative costs simply through standardization. [Aging 2000, 10/91]

Don't need a & b, Pick one!

- At Children's Hospital Paperwork grows at 6.5 feet per week. They spend $100 billion per year on Health Care administration paperwork. (About $0.25 of every $1.00 on a hospital bill goes to pay administrative costs, not patient care.) [*"Clinton Pressing HEalth Care Campaign with Hospital Visit,"* Associated Press and *"Bureaucracy takes 25% of Hospital Bill,"* Reuters]

b)

- A study by an insurer estimated that the average hospital bill contained almost $1400 in unnecessary charges. [*"Confusion, Errors and Fraud in Medical Bills,"* New York Times, 11/14/93]

- The General Accounting Office has estimated that 99% of hospital bills contain overcharges. These cases of fraud and abuse make up around 10% of health care expenditures or over $200 billion per year. [Washington Post, 5/4/93]

- If the administrative time spent by floor nurses, technicians and doctors is added to "pure" administrative costs -- such as insurance overhead and administrative expenses -- administration counts for 53% of the total cost of running a hospital and 46% of the cost of running a physician's office. [Aging 2000, 10/91]

Success Stories:

- Lakeland Regional Medical Center (Lakeland, Florida): Patients at this 897-bed facility are looked after by a "care pair" -- usually a registered nurse and a helper -- from check-in to discharge. The teams are cross-trained in functions ranging from EKG monitoring to housekeeping chores to recording patients' expenses. The "care pair" approach nearly eliminates idle time, which many estimate is the largest waste of hospital resources, while also streamlining staff and cutting paperwork. Lakeland claims that teams can increase time spent with patients by 60% while lowering personnel costs by as much as 40%. At Lakeland's 40-bed pilot unit, per-bed annual operating cost is $12,000 -- almost 10% less than at conventional units. And patient satisfaction is much higher in these units due to the personal, individual care. [*"Hospital, Heal Thyself,"* BusinessWeek, 8/27/90]

is 9.2 %.

need more examples : speak to Christine

7. **Putting consumers in the drivers' seat, giving them a choice of health care plan and forcing these plans to compete for their business will bring down costs.**

Today's System:

- For comparable plans and benefits, health plan costs are 10 to 40 percent higher for small employers than for large firms. [*"Health Care Coverage and Costs in Small and Large Businesses"*, Lewin-ICF, 4/15/87]

- A survey from the late 1980s estimated that employers with fewer than 25 employees pay about 30% higher premiums than large employers. [National Small Business United]

- "More employers now offer managed care plans than offer traditional indemnity plans." [*"1992 Health Care Benefits Survey"*, Foster Higgins, 1992]

- "In 1988 , 89% of employers offered indemnity (fee-for-service) plans. In 1993, only 65% of employers offered such plans." [*"Health Benefits in 1993"*, KPMG Peat Marwick]

NEED MORE

Success Stories:

- Xerox Corporation (Rochester, NY): In response to 20% increases every year in its health care costs, Xerox began pegging its contribution to employee health care packages to the cost of the most efficient, or "benchmark", health care plans. Xerox offers a menu of health care options and then makes sure that employees either pocket the savings offered by more efficient "benchmark" plans -- or pay for choosing more expensive ones. Competition among health care plans is the cornerstone of their plan. All plans are screened each year to ensure that they meet high quality standards and offer comprehensive benefits packages. Premium increases for all health care plans -- especially the benchmarks -- have fallen significantly. Xerox estimates that enrollment in the lower cost more competitive plans was up 30 percent, saving up to $1,000 per year for each employee who switched. ["In Controlling Health Cost," New York Times, 8/25/92] stats

- Digital Equipment Corporation (Massachusetts): Digital switched to a low cost pricing strategy in 1991. DEC estimates that this strategy has reduced 1993 costs by $360 per employee. They further estimate that their savings will amount to $1,400 per employee by 1997. This translates into 1993 savings of $20 million, rising to $63.5 million in 1997. **[CITE!]** → lynn

- Minnesota State Employee Health Plan: Evidence indicates that consumers respond to changing incentives and in turn annual rates of increase can fall. The Minnesota program -- changed five years ago from paying for 100% of a fee-for-service plan to 100% of the lowest-cost plan serving a given county -- has seen cost increases stay 2% below statewide trends since 1991. Estimated savings have been $23 million over the last three years, $12 million in 1993 alone. [New York Times, 10/9/93]

- California Public Employees Retirement System: By pooling large groups of consumers to negotiate among providers, a buying group in California that represents 900,000 people -- known as CalPers -- held their premium increases in 1992 to 3.1%, compared to a statewide average of 13.2%. They did this by forcing its insurers to root out wasteful administrative costs, reduce inappropriate care, and encourage hospitals and doctors' groups to moderate their rates. Customer satisfaction remains very high and 2/3 say ~~they~~ would recommend the plan to a friend. Members have a choice of 24 different health plans. [New York Times, 2/10/93] same info. in Memo to Mrs. Clinton on 2nd Task Force. # is 19 conversation was other source

- The 40,000 members of the Health Insurance Plan of California -- a purchasing group for small businesses -- will see their premiums decline next year, although health insurance costs have been rising 6-8% recently. In fact, when the alliance was first formed, it received bids for one plan that were as much as 55% lower than offered for that same plan elsewhere. Members now may choose from among 15 plans. And the alliance of 2,300 companies is administered by a staff of just 13 state workers. [Los Angeles Times, 3/21/94, **CITE for 55%**] → Lynn.

8. Prevention will save money in the long-run.

Today's System:

- 70% of the burden of illness and associated costs are preventable. Preventable ~~causes~~ illnesses account for 8 of 9 leading catagories of traditional disease classification and for 980,000 deaths per year. [*"Reducing Health Care Costs By Reducing The Need And Demand For Medical Services,"* The New England Journal Of Medicine, 7/29/93]

- Lifetime medical costs are approximately $225,000 per person and closely related to health habits. A clear example of this is that the lifetime health care cost for smokers is about 1/3 higher than it is for non-smokers. [*"Reducing Health Care Costs By Reducing The Need And Demand For Medical Services,"* The New England Journal Of Medicine, 7/29/93]

- A study demonstrated that in large corporate settings, people with three or more risk factors on a list that included obesity, smoking, hypertension, hypercholesterolemia, and diabetes had claim costs that were double those of people who had no risk factors. [*"Reducing Health Care Costs By Reducing The Need And Demand For Medical Services,"* The New England Journal Of Medicine, 7/29/93]

- A study sponsored by the National Institutes of Health in Birmingham, Alabama, showed that savings were 10 times greater than costs and held costs to the city

→ bring to success section.

constant over a five year period. [*"Reducing Health Care Costs By Reducing The Need and Demand For Medical Services,"* The New England Journal Of Medicine, 7/29/93]

- A recent report indicated that one of every 10 hospital stays in Massachusetts could be avoided by better preventive medical care for conditions such as asthma, pneumonia and anemia. The study found that Massachusetts residents check in for 55,000 avoidable hospital stays each year costing hundreds of millions of dollars. [*"1 in 10 Mass. hospital stays preventable, analysis finds,"* Boston Globe.]

- In 1990, almost half of emergency room visits -- 42% -- were for non-urgent conditions. The most frequent reason given for nonurgent use of the Emergency Room was that patients did not have a primary care physician. [*"Emergency Departments: Unevenly Affected by Growth and Change in Patient Use"*, GAO, 1/14/93]

- According to the first national survey of hospital emergency room departments, fifty-five percent of the 90 million emergency room visits in 1992 were for ailments that could have been treated elsewhere.[National Hospital Ambulatory Medical Care Survey; 1992 Emergency Department Summary; HHS, National Center for Health Statistics]

- The hospital emergency room has become the family doctor for too many Americans. Almost as many people came to the emergency room for coughs and sore throats (4 million) as came to the emergency room for chest pain (4.6 million). [National Hospital Ambulatory Medical Care Survey; 1992 Emergency Department Summary; HHS, National Center for Health Statistics]

- An emergency room visit costs at least three times that of a visit to a community-based physician in the same area. [Department of Health and Human Services, Inspector General Report, 1992]

- At the University of California at San Diego in 1985, hospital care for babies born with no prenatal care cost an average of $2,200 more than corresponding care for babies whose mothers received adequate prenatal care. But such care cost only about $1,000 per pregnancy. [*"Opportunities for Success: Cost Effective Programs for Children,"* Report of the Select Committee on Children, Youth and Families, 1988]

Success Stories:

- Hawaii: Experts argue that Hawaii's system of universal coverage and emphasis on primary and preventive care has led to a healthier population and lower costs. *"The competition has kept prices down and encouraged the sort of preventive care that means a slightly above-average rate of doctor visits yearly but also lower hospitalization rates, shorter hospital stays, and less frequent surgery."* [*"Hawaii is a Health Care Lab as Employers Buy Insurance"*, New York Times, 5/6/94]

- City of Birmingham, Alabama: In 1983, Birmingham Alabama's health care expenses were rising at twice the national average. Officials launched a full-scale prevention program. From 1985 to 1990, the city's health costs did not rise although health costs skyrocketed throughout the country. By investing $3 million in health promotion, Birmingham officials estimate they saved $10.5 million over five years. [Business and Health, 3/15/92] name of article

- Pre-natal care saves between $14,000 and $30,000 for each low-birthweight baby. [Detroit Free Press, 3/17/93]

9. Malpractice reform will decrease defensive medicine and save money.

Today's System:

- For each baby delivered in Florida, $1,119 goes to pay liability insurance. [Coalition for Effective National Medical Liability Reform]

- According to the latest American Medical Association estimate, defensive medicine cost $15 billion in 1989. [GAO, 10/25/93]

- Medical malpractice insurance costs added about $7 billion to the nation's health care bill in 1990. [GAO, 10/25/93]

Success Stories:

Also to add:

- **Insurance company profits / Insurance CEO salaries / Doctor's salaries**

FROM JAMIESON : more

- A recent California Medical Association study revealed that 31 percent of the premium dollar for insurance companies goes to non-patient services. [In contrast, 95 percent of Kaiser Permanente's premium dollar goes to patient care services.] [American Political Network, 5/16/94]

- **Fraud and Abuse**

Today's System:

- According to the GAO, as much as 10 percent of the money the nation spends on health care may go to line the pockets of abusers and outright crooks. By 1995, the GAO estimated, that cost could run to $100 billion. ["*Health Care Fraud Costs $70 Billion: GAO Report Says Effort to Stop the Scams Is Limited by Complex Insurance Payment System,*" Washington Post, May 5, 1992]

Good Stories

Fort Bragg Child / Adolescent Mental Health Demonstration Project
→ community based
→ managed care principles
→ largest child mental health project
→ offer alternative solutions to hospitalization
ex. 24 hr. crisis service
home based services
outpatient + day treatment
school based services
→ no copayments, deductibles or arbitrary service limits at Fort Bragg; more kids use outpatient than inpatient
93% satisfaction; pay 50% less than comparison sites