Getting to Affordability

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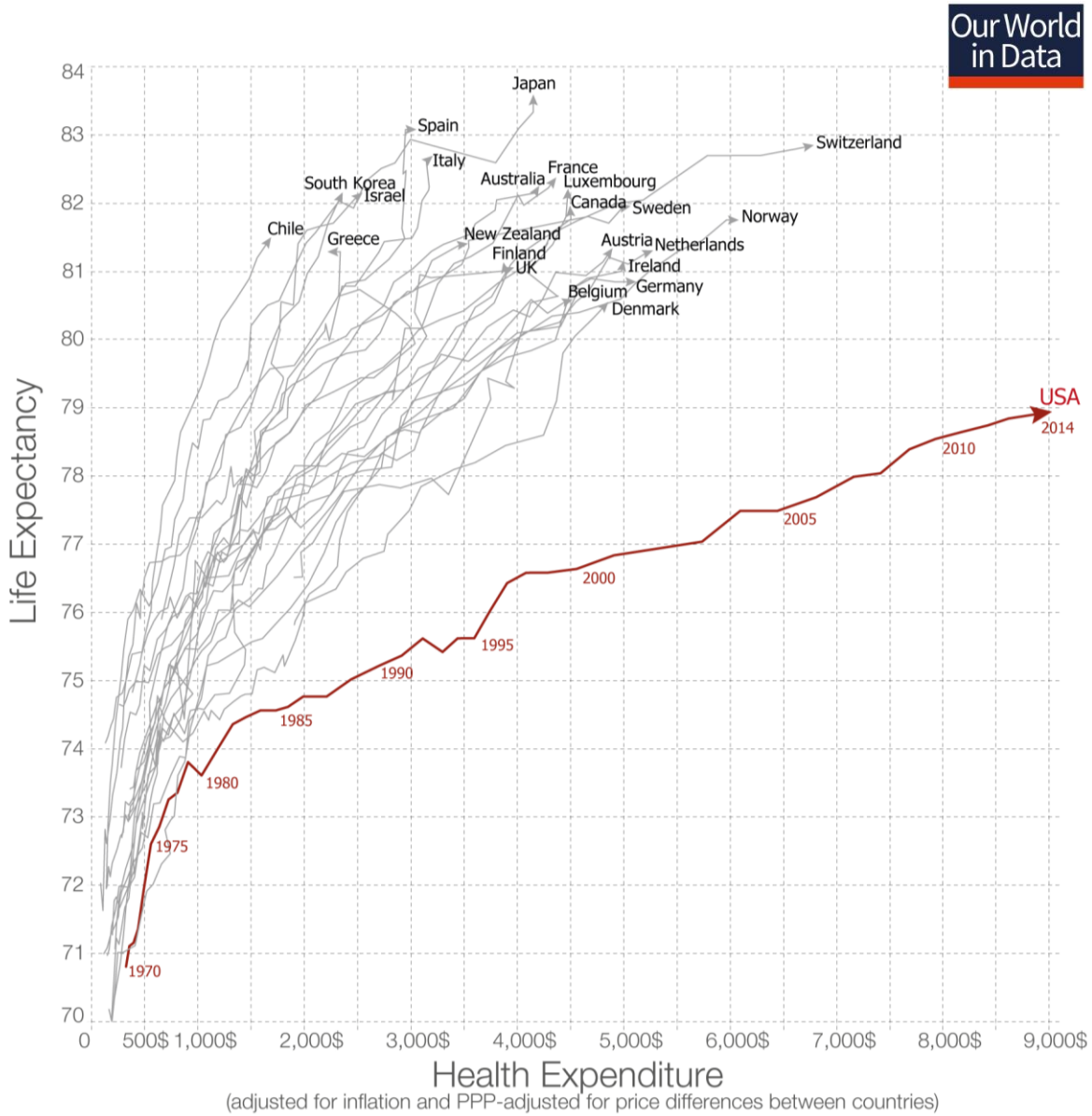
US Health Care Spending (2017):

$3.5 Trillion

US Health Care Rank

	GDP in 2017	Rank
USA	$19.39 trillion	#1
CHINA	$12.23 trillion	#2
JAPAN	$4.87 trillion	#3
GERMANY	$3.67 trillion	#4
UK	$2.62 trillion	#5
INDIA	$2.59 trillion	#6
FRANCE	$2.58 trillion	#7



Life Expectancy vs. Health Spending (1970-2014)

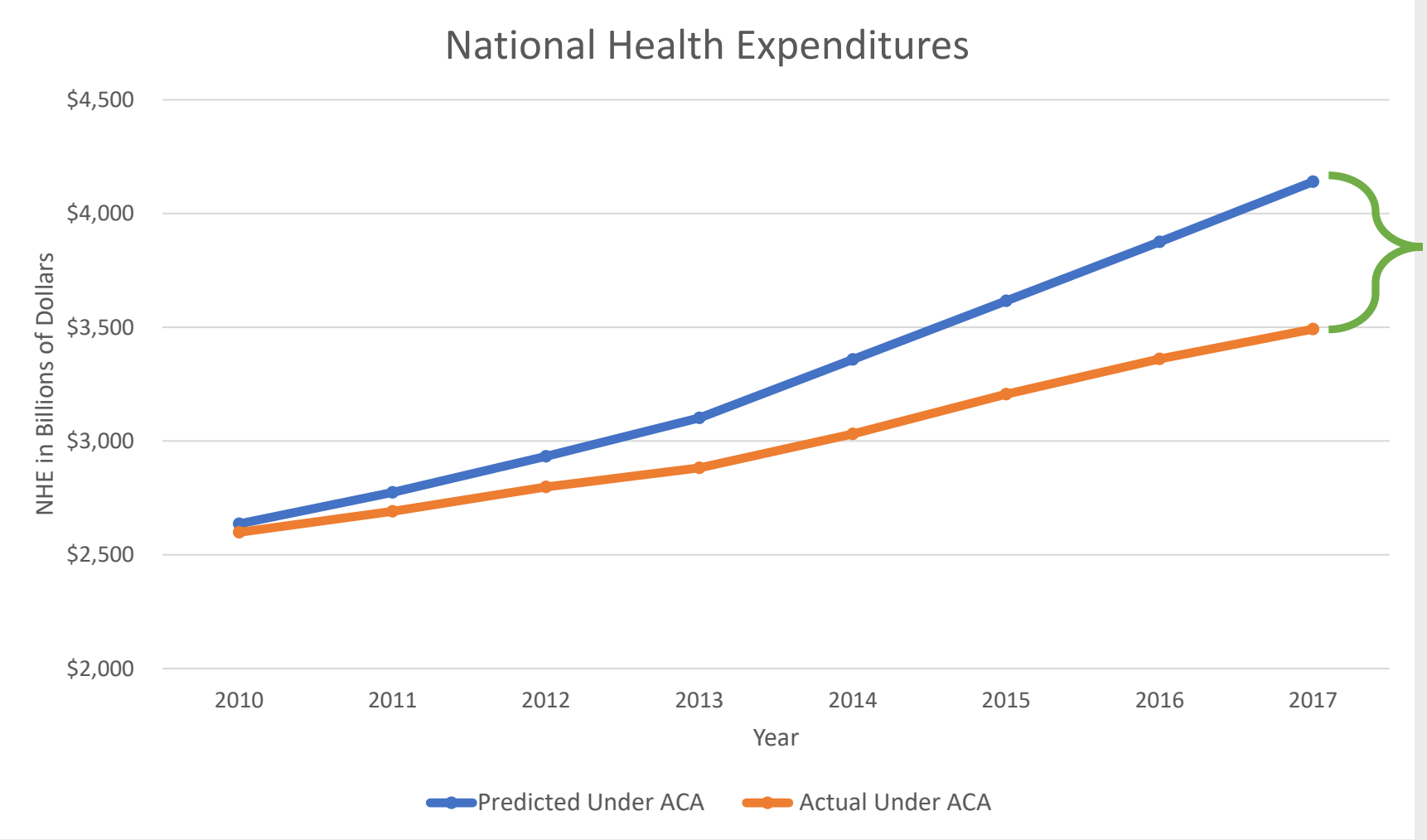
Source: health expenditure from the OECD; life expectancy from the World Bank.

Enactment of Health Care Reform

Patient Protection and Affordable Care Act

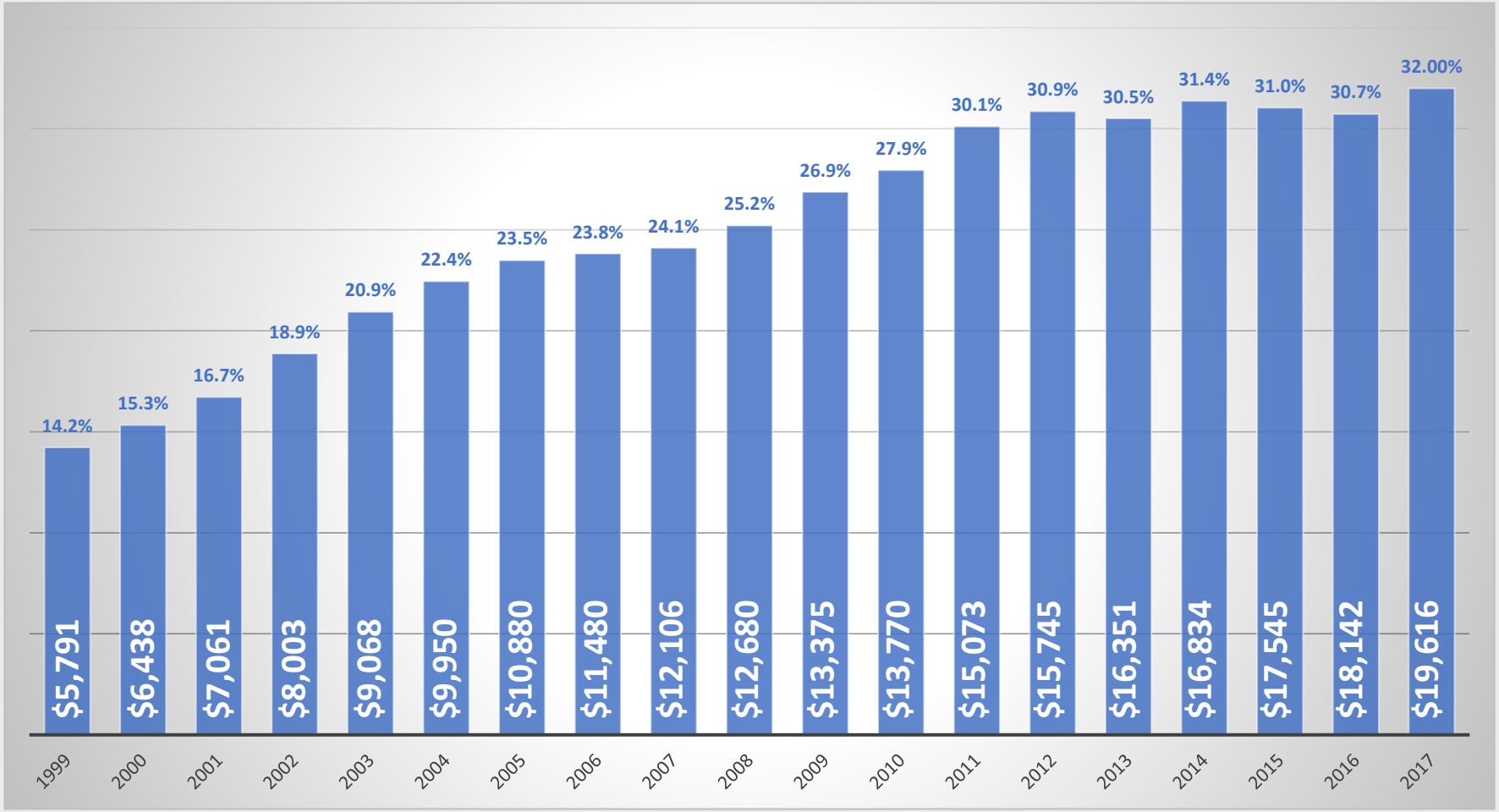
March 23, 2010

The ACA Contained Costs More Than Expected

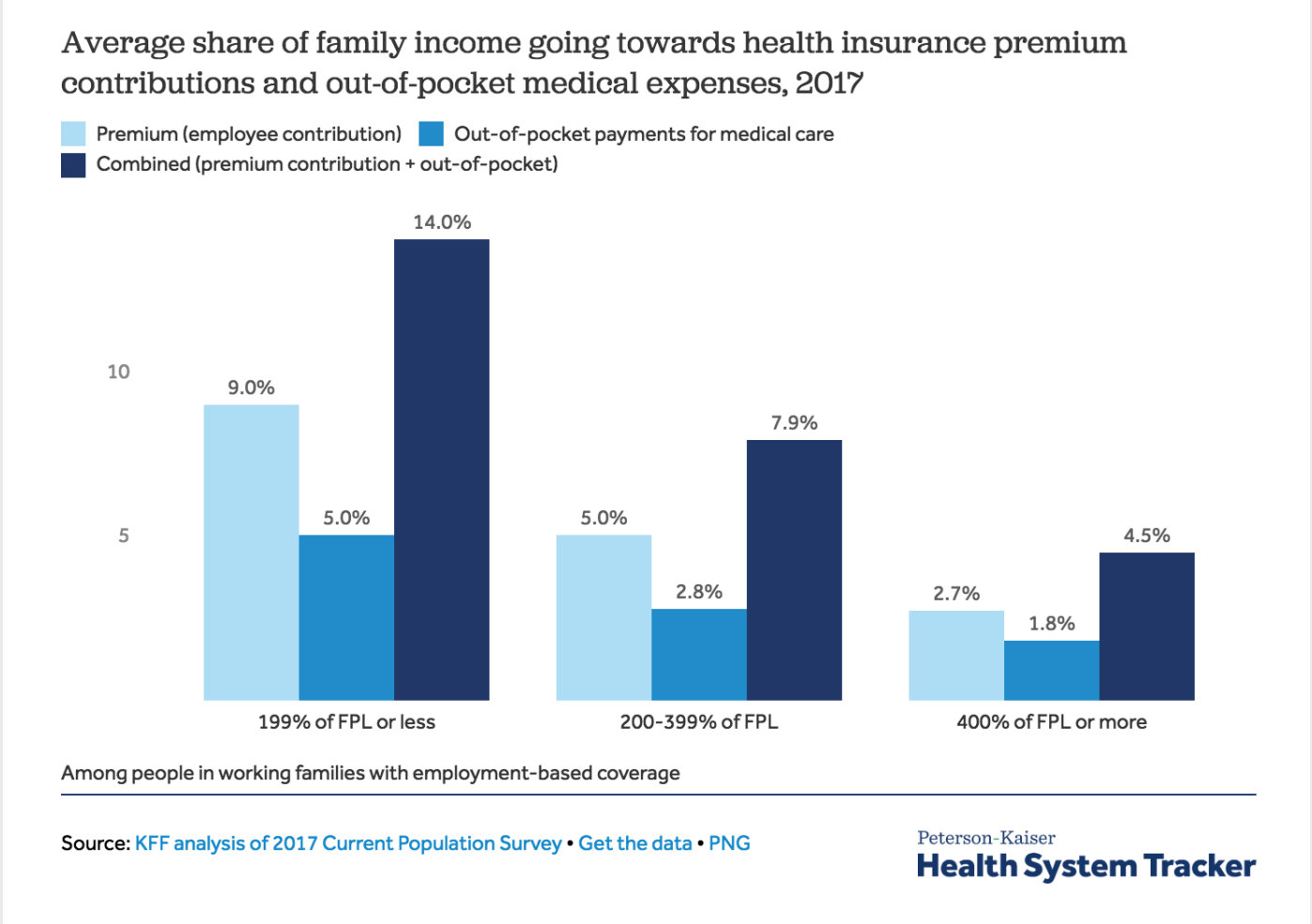


Affordability Index

Family Health Insurance Premiums as Percentage of Median Income (2001 – 2017)



Affordability for Families



What will the future of American health care look like?

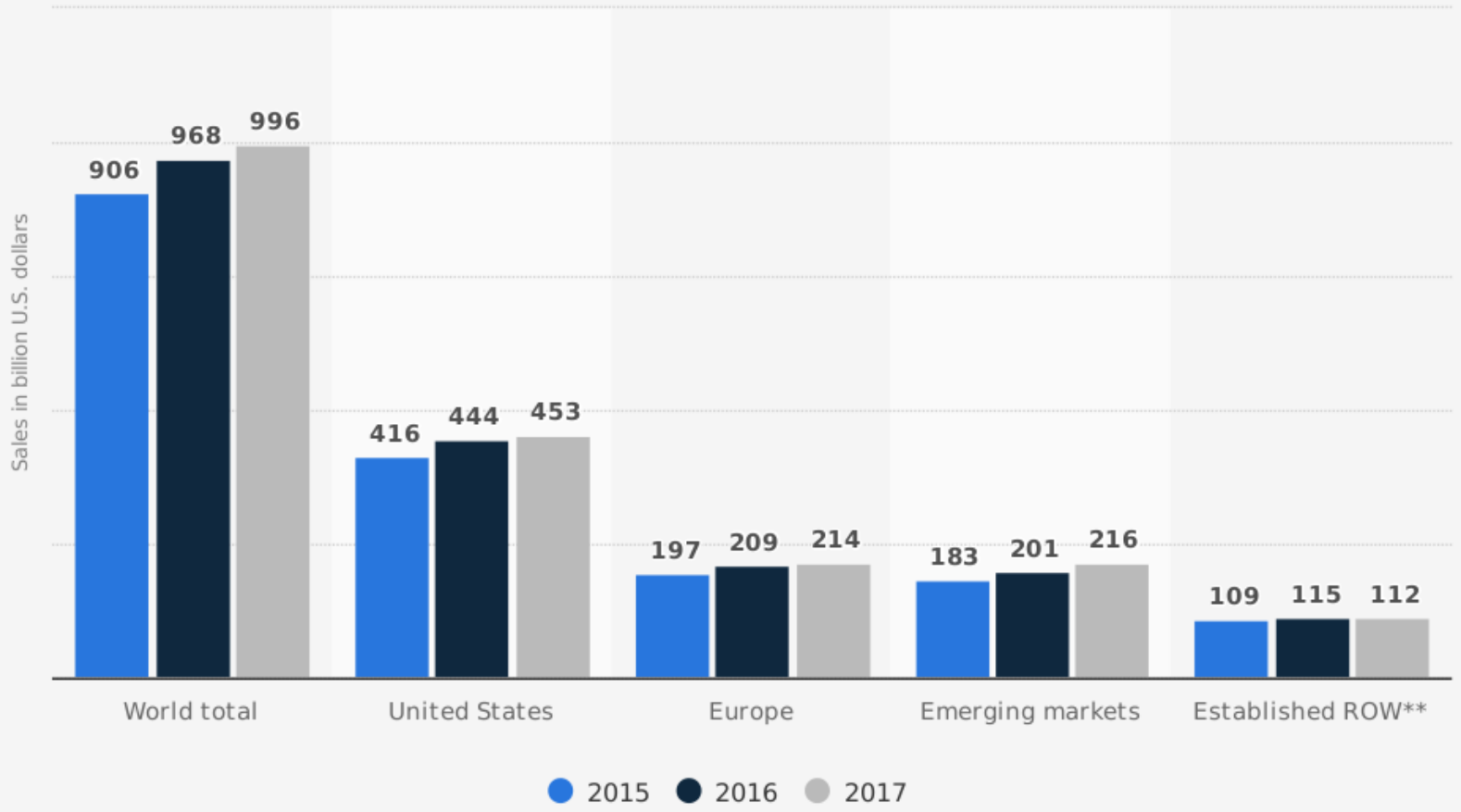
Future Trends of High-Value Care

1. **Private-sector driven** changes.
2. Shift towards **value-based payment.**
3. The **deinstitutionalization** of care.
4. Greater use of **non-physician providers.**
5. VIP care for **chronic conditions**.
6. The **performance measurement** of physicians and other providers.
7. The **incorporation of behavioral health** in regular care.
8. Excessively high **drug prices.**
9. Increasing attention to **social determinants of health**.
10. More patients on **Medicaid.**

Four Key Ways to Address Affordability

1. Drug prices
2. Hospital inefficiency
3. Administrative Costs
4. Physician Payment and Practice Changes

Global pharmaceutical sales from 2015 to 2017, by region (in billion U.S. dollars)*



Sources
AstraZeneca; IQVIA
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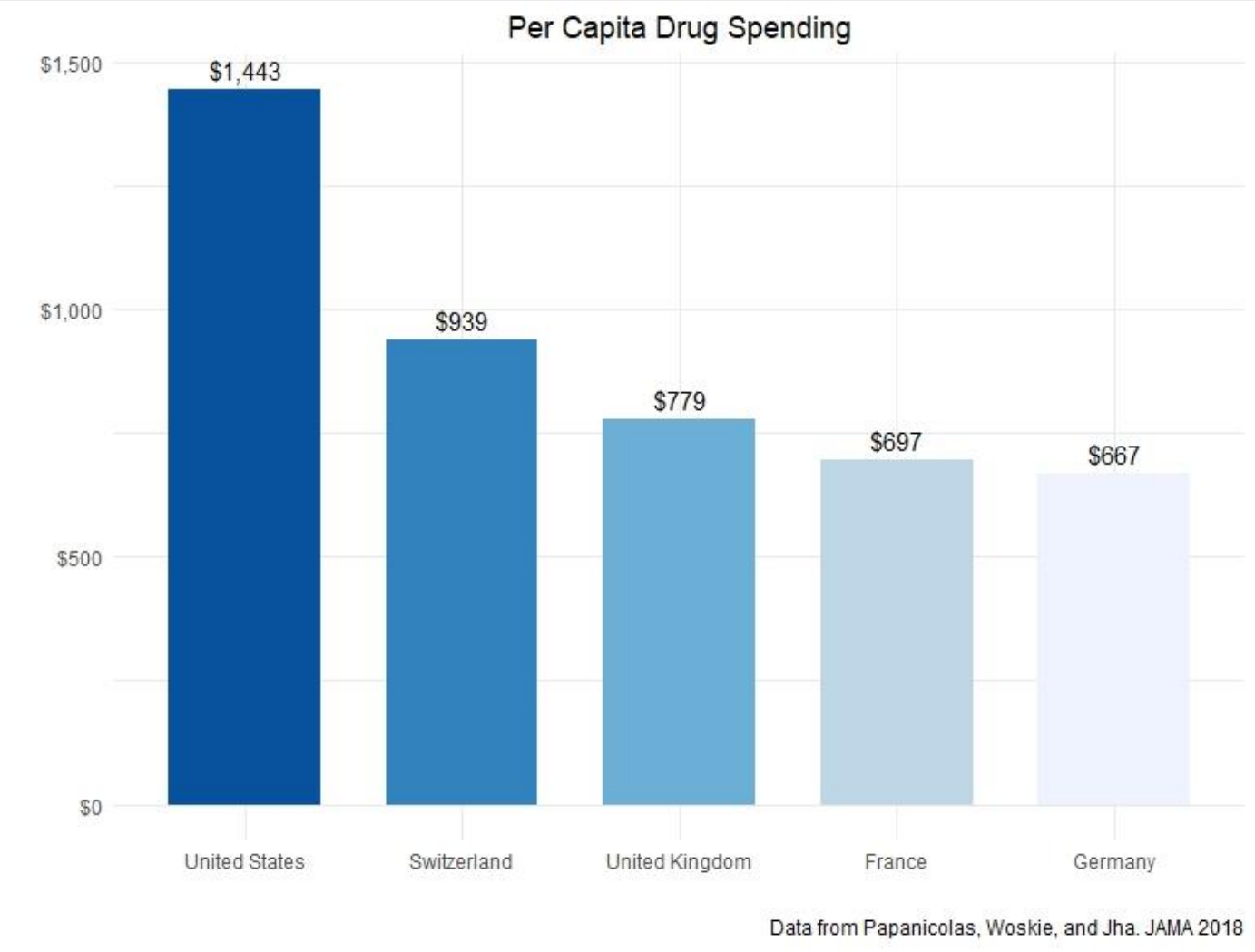
Additional Information:
Worldwide; IQVIA (Midas Quantum); 2015 to Q3 2017

statista

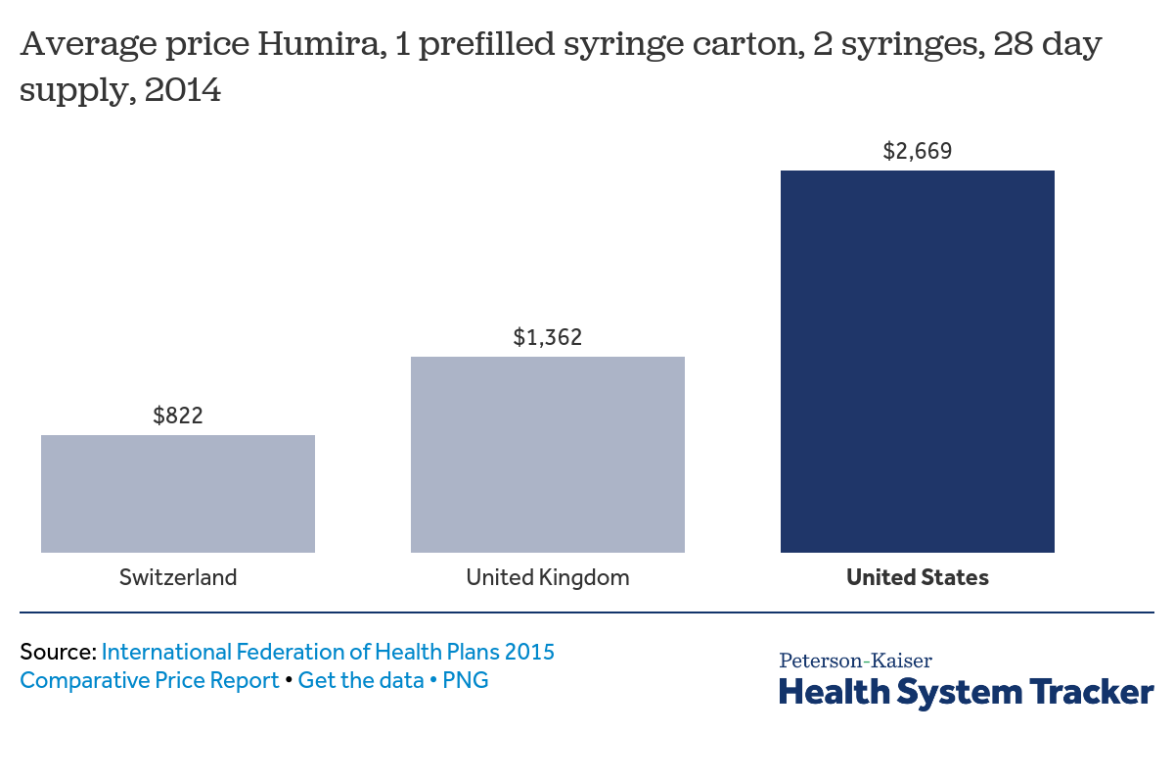
Per Capita Pharmaceutical Spending



Source: OECD

High Drug Prices: Humira

- Humira, the best-selling prescription drug in the world.
  - 2012 $19,000/year
  - 2014 $32,000/year
  - 2018 $38,000/year



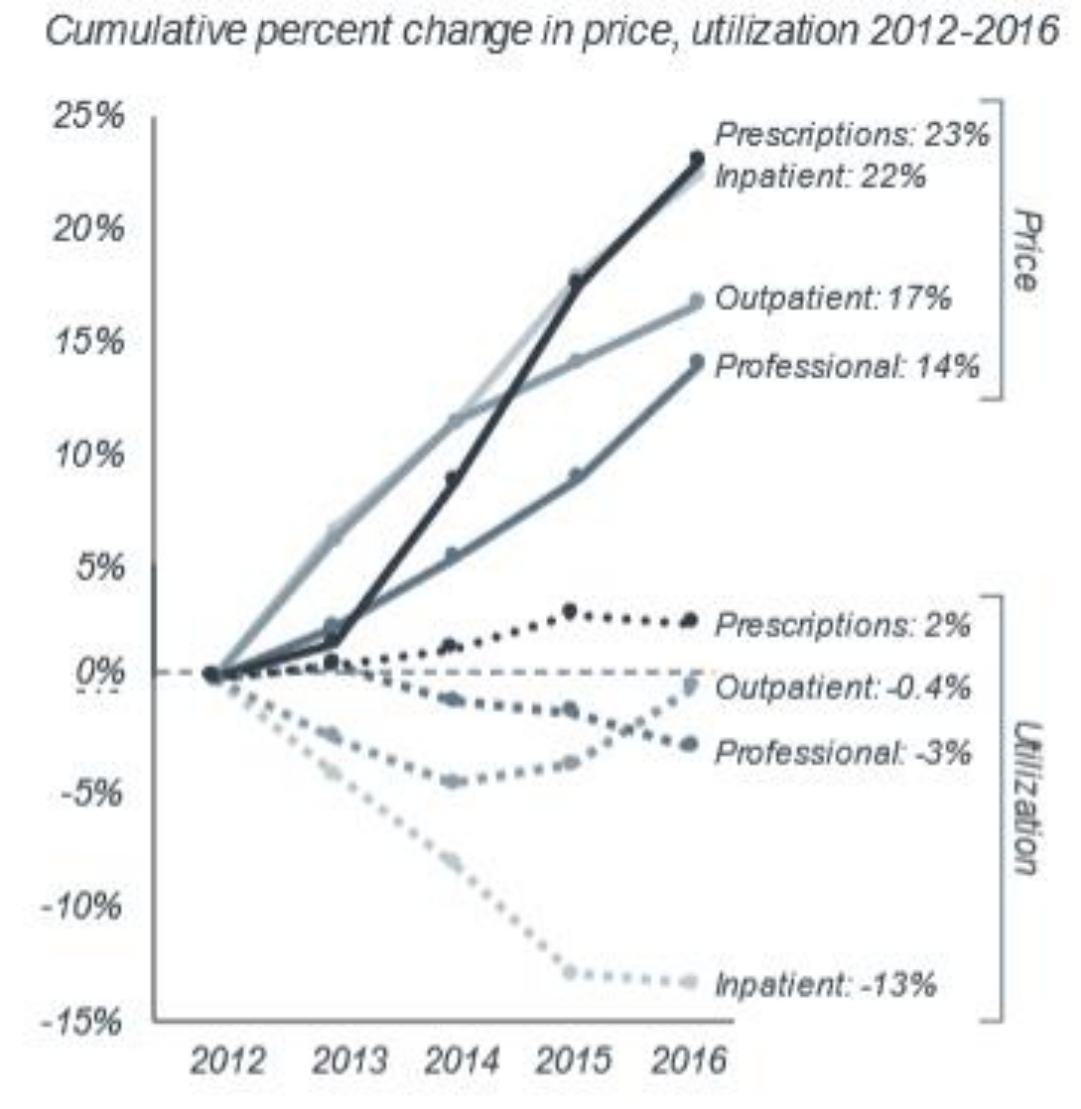
Drug Prices

- Bringing US drug spending down to Swiss levels—from $1443 to $939—is a savings of $504 per American.

- Drug price negotiation based on CEA or international reference pricing can save $163 billion.

Hospital Inefficiency

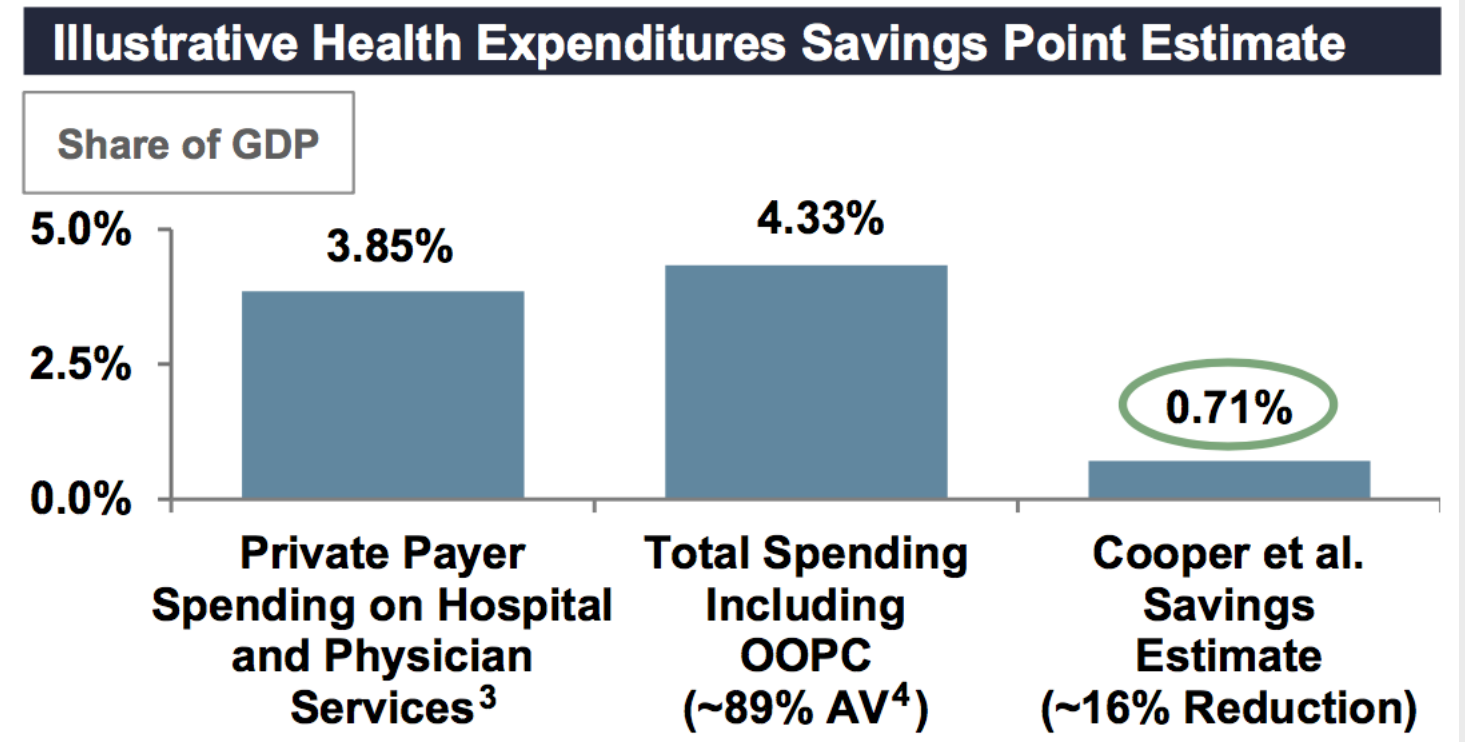
Cost growth is due to prices



Price Caps on Hospitals

- There are many proposals to cap hospital prices for private insurance to 140% or 125% of Medicare.

- Savings:



Price Caps on Hospitals

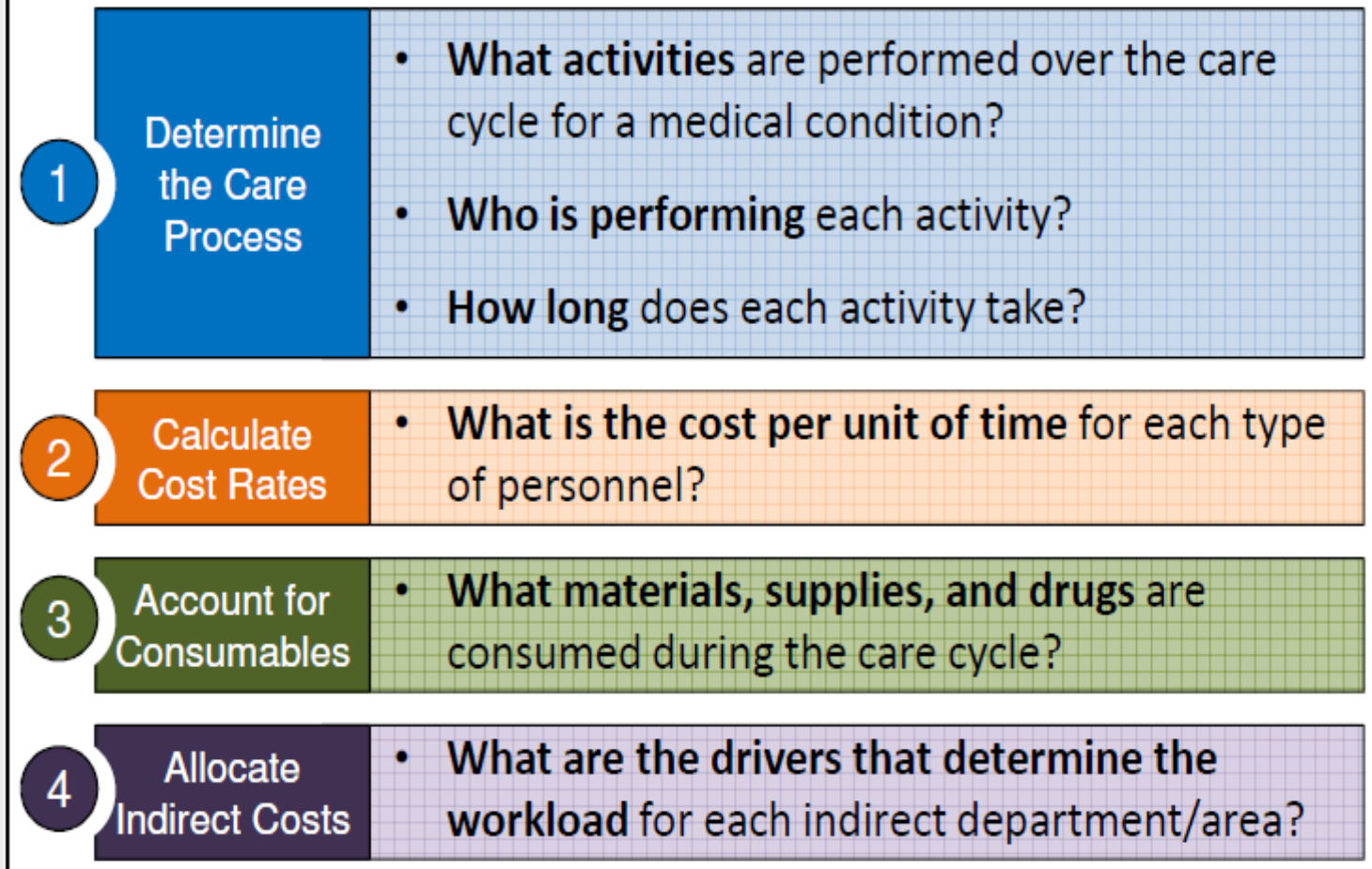
- Capping hospital prices at 125% of Medicare means:
- Savings of 16% of private inpatient hospital spending, or $73 billion.
- That amounts a savings to Americans in private insurance of
  $405 per privately insured Americans

Increasing Hospital Efficiency

1. Time-motion studies

2. Performance measurement and feedback

Time-Driven Activity-Based Costing (TDABC)



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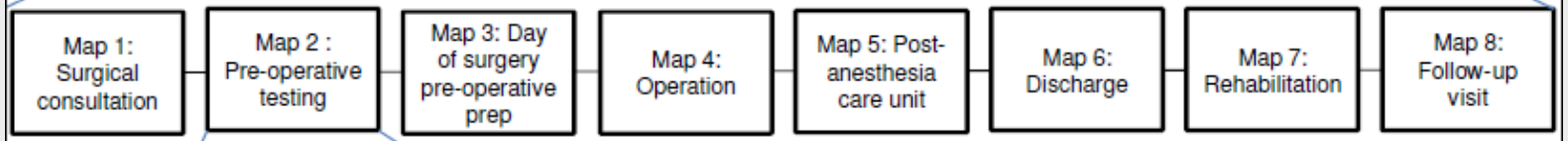
Determining the care processes over complete cycles of care

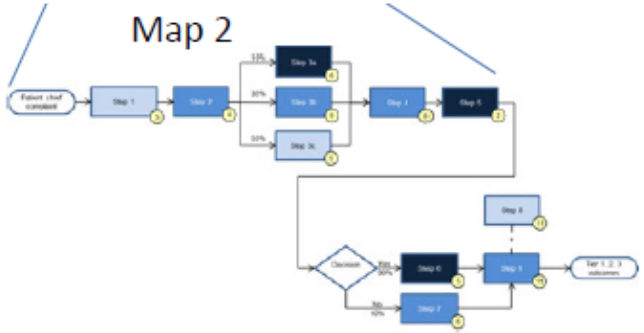
Level 1: Overall care cycle

Source: Tim Ferris at Partners Healthcare

Level 2: Study care cycle



Level 3: Process maps



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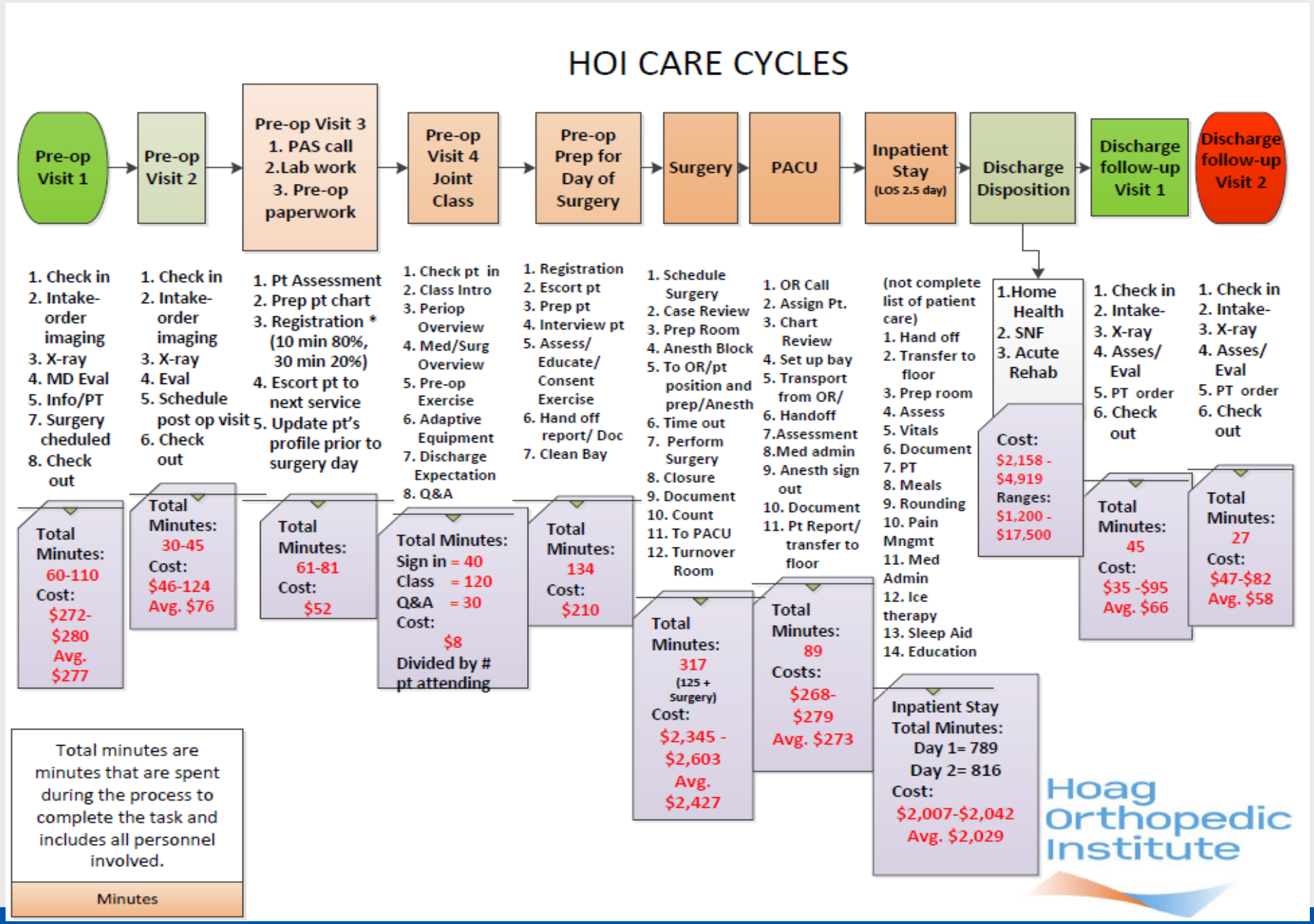
HOI CARE CYCLES



Home Health Assumption

- Total of 10 visits. 9 visits, in addition to initial assessment
- Cost is $135/visit
- **Average Cost $1,350**

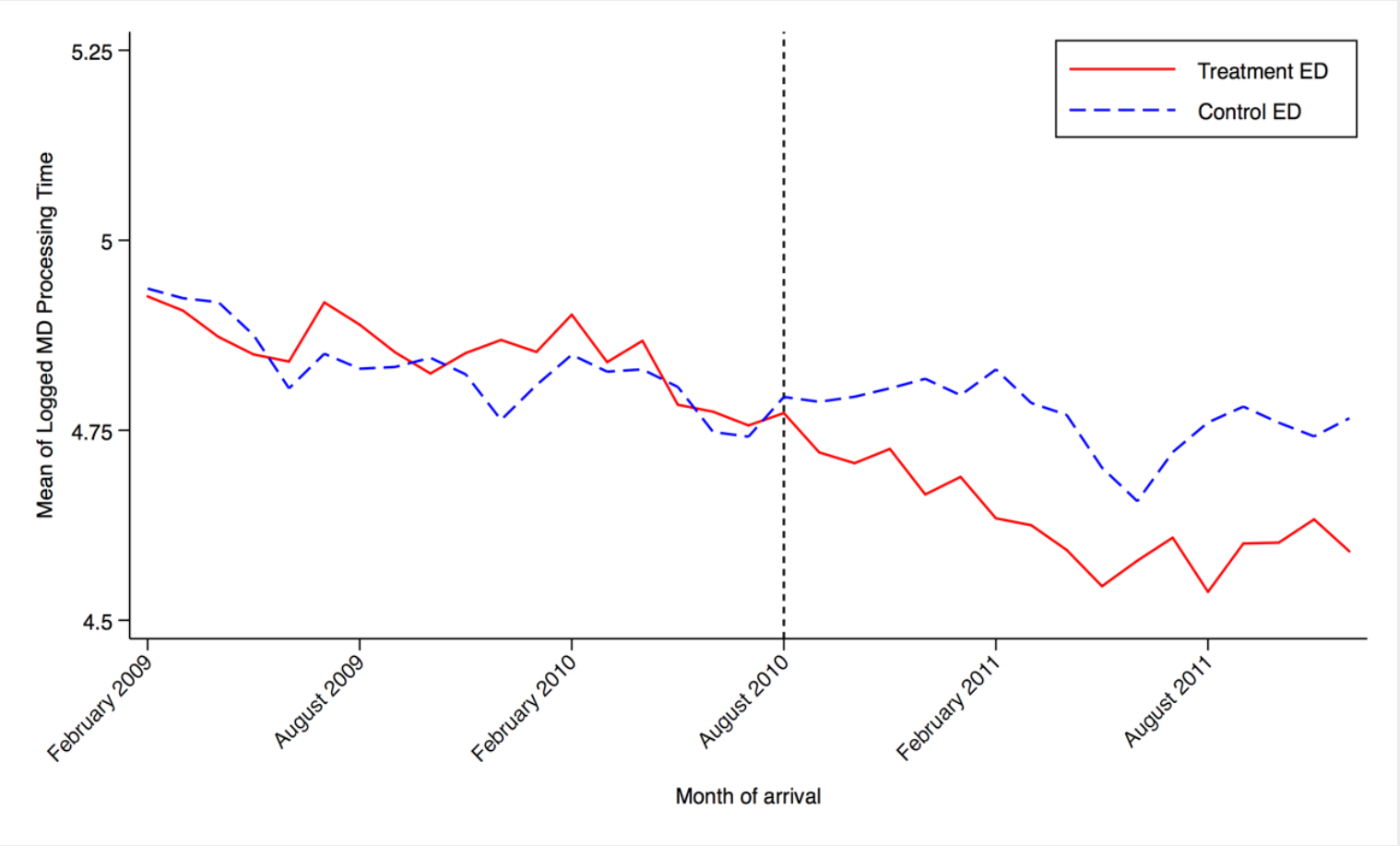
Skilled Nursing Facility Assumption

- Average LOS is 7 days
- Cost is $650/day
- **Average Cost $4,550**

Acute Rehab Assumption

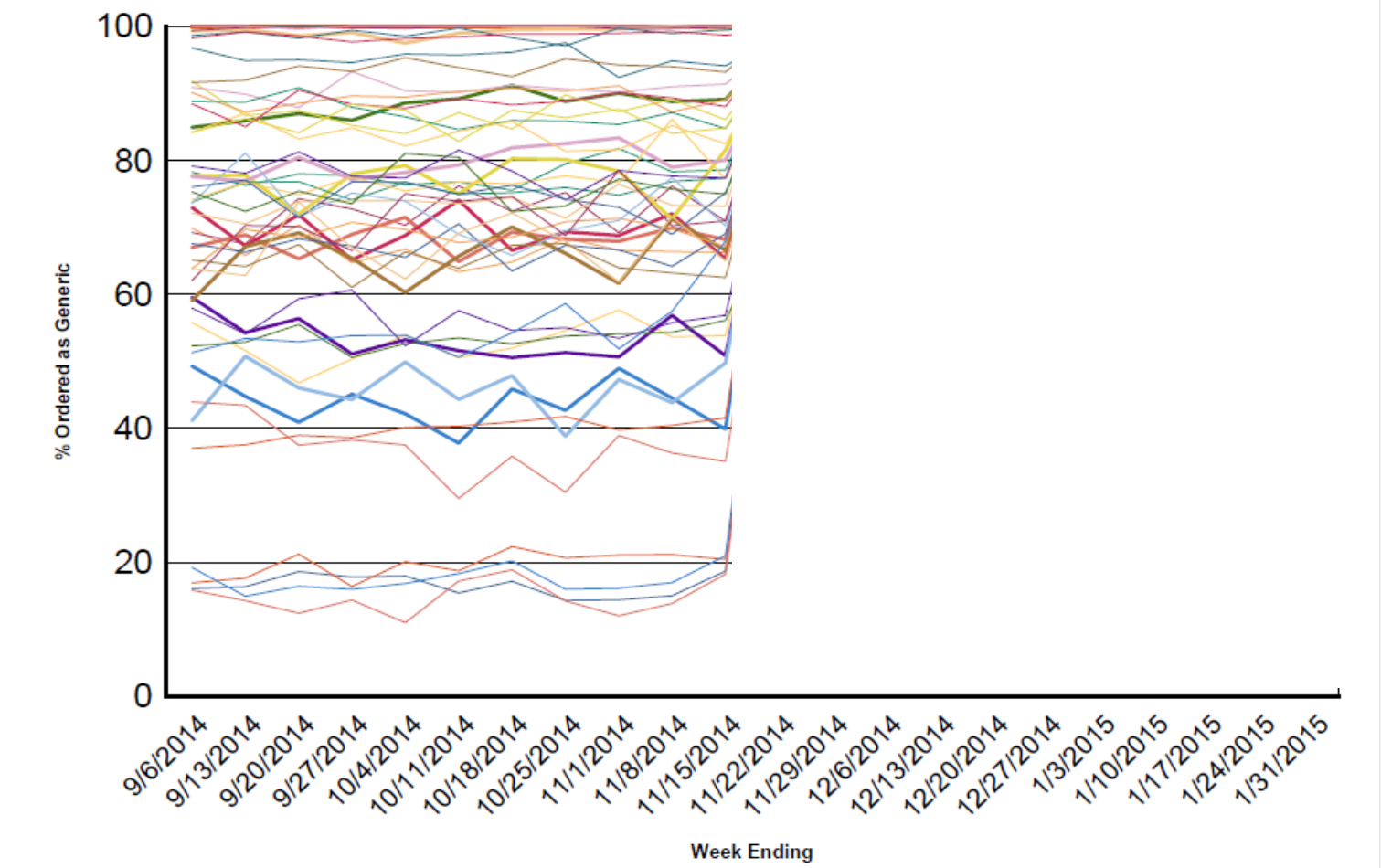
- Average LOS is 8.7 days
- Cost varies/day, median cost $1,653/day
- **Average Cost $14,381**

Performance Measurement



Source: Hummy Song, Wharton

Performance Measurement



Performance Measurement

"We are using physicians' names. The opportunity is here for physicians to go down the hallway to their colleague, who is showing up better than they are, and have that conversation…you start to see changes in performance because of these conversations."

~ Dr. Bernadette Loftus

Kaiser Mid-Atlantic

Administrative Savings

Billing and Insurance Related Costs estimated by National Academy

Category	Total Spending	Total Excess Costs	33% Savings of Excess Costs
Total spending on billing and insurance related cost	$496 billion	$248 billion	$82 billion
Spending by private insurance companies	$158 billion	$104 billion	$34 billion
Spending by Medicare and Medicaid	$56 billion		
Spending by physicians, hospitals and others	$282 billion	$141 billion	$46 billion

Physician Payment and Practice Changes

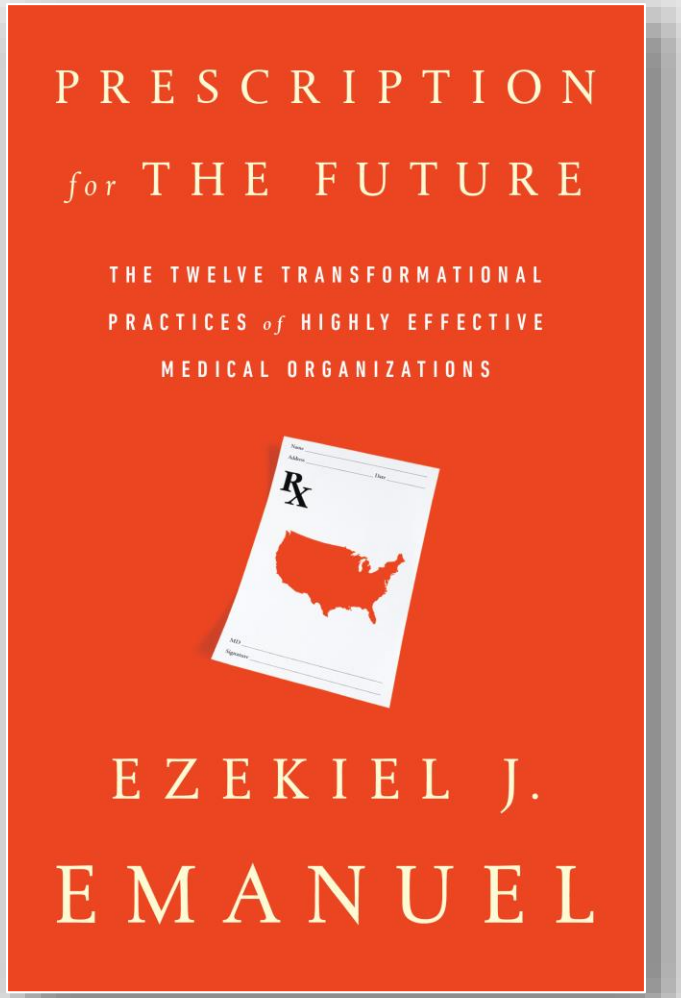
- Ultimately, physicians order tests and treatments
- Physicians need to practice better to reduce:
  - Unnecessary services—PET/CT for early stage breast cancer
  - Inefficiently delivered services—using clinically equivalent but more expensive care

Payment and Practice Changes

- Capitation for oncologists: Remove any financial incentives for oncologists to prescribe chemotherapy.
- New bundles for orthopedists: Incentivize pain management instead of joint replacement
- Capitation with bonus: Incentivize PCPs to do hospital at home instead of hospital admission.
- New Bonuses for Limited Quality Measures: Bonus PCPs for hemoglobin A1c and BP control and provide care coordinators.

Timeline of Transformation

Conclusion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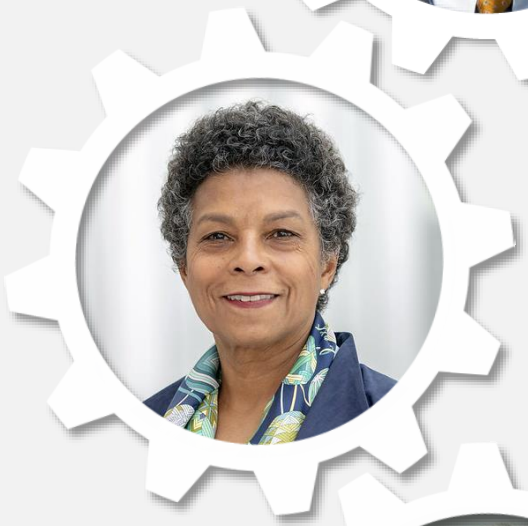

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