What The U.S. Must Do To Slow Growth In Spending and Prevent a "Meltdown" of The Healthcare System?

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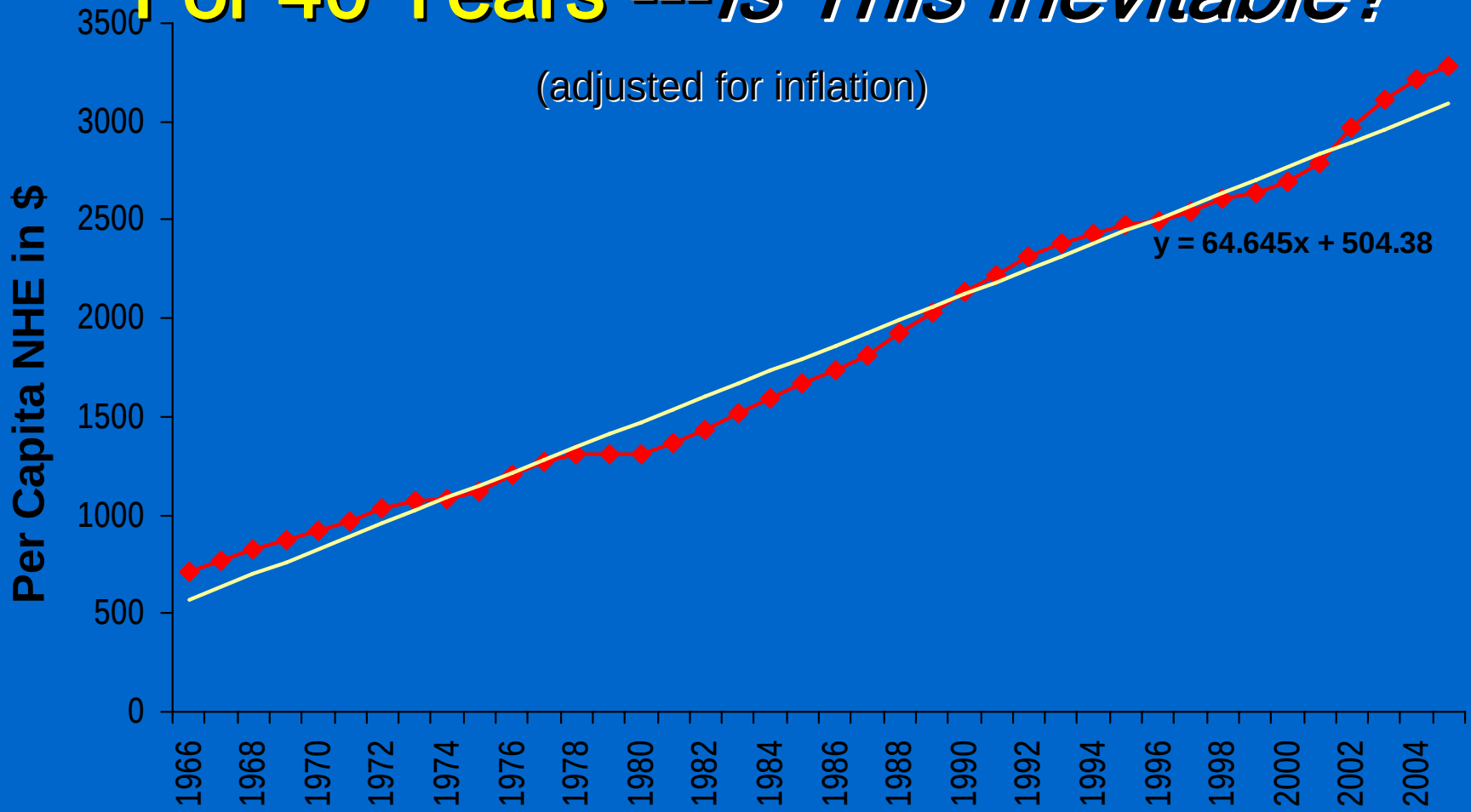
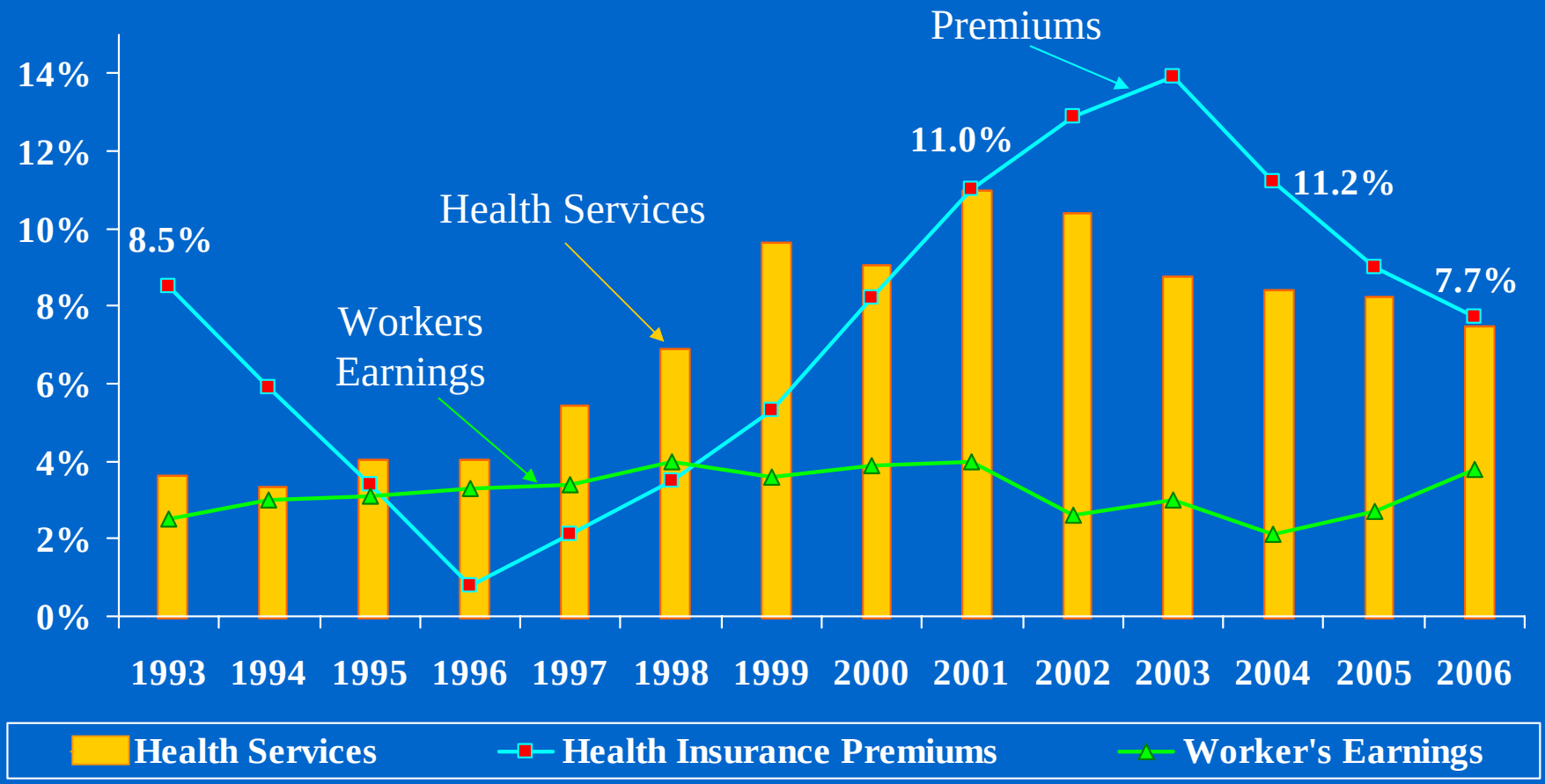
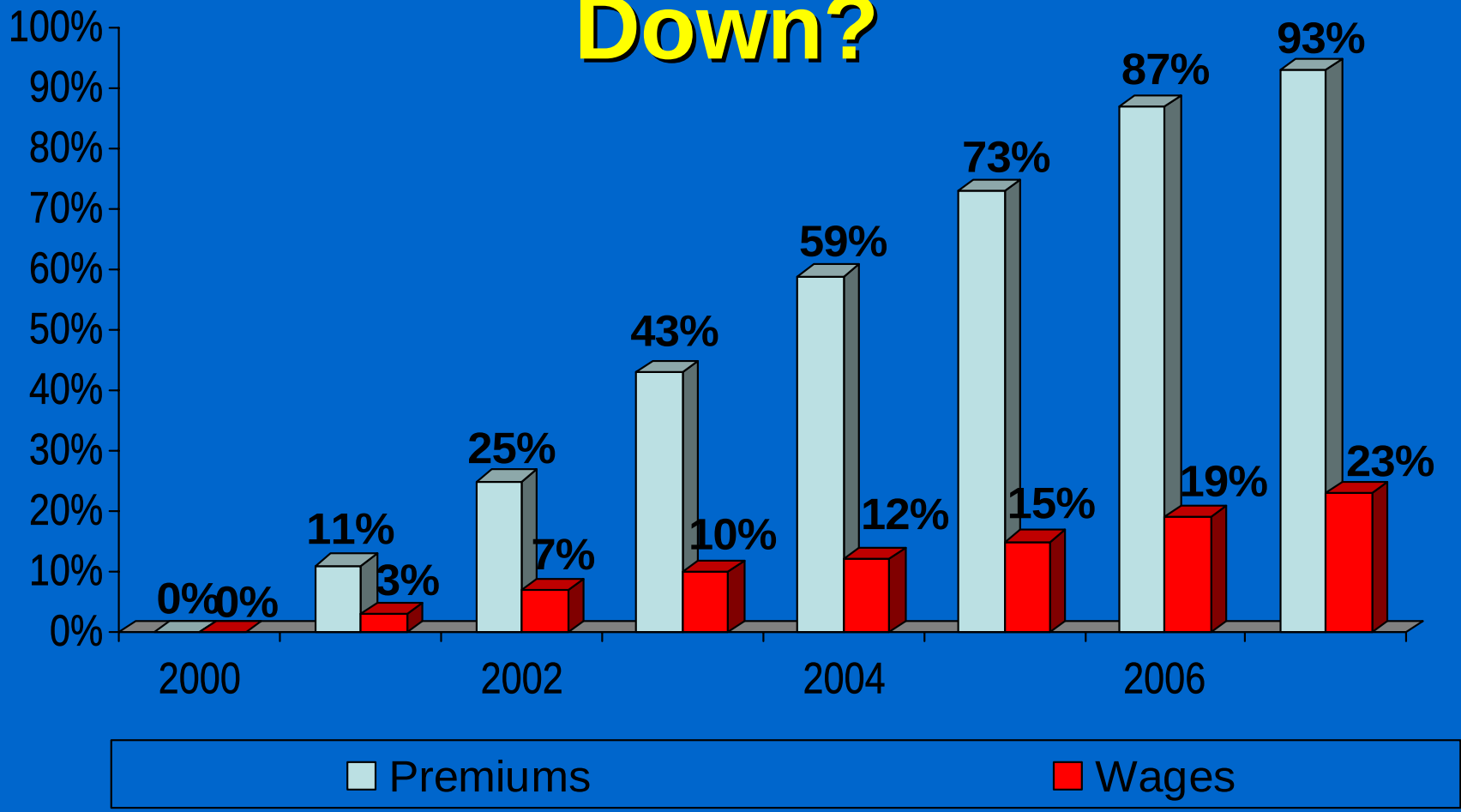
Per Capita Growth In Health Expenditures Has Been Growing at 2% Above Inflation For 40 Years ---*Is This Inevitable?*



Health Insurance Premium Growth Now Equals Underlying Health Expenses --- *Both Are Significantly Higher Than Wage Growth?*

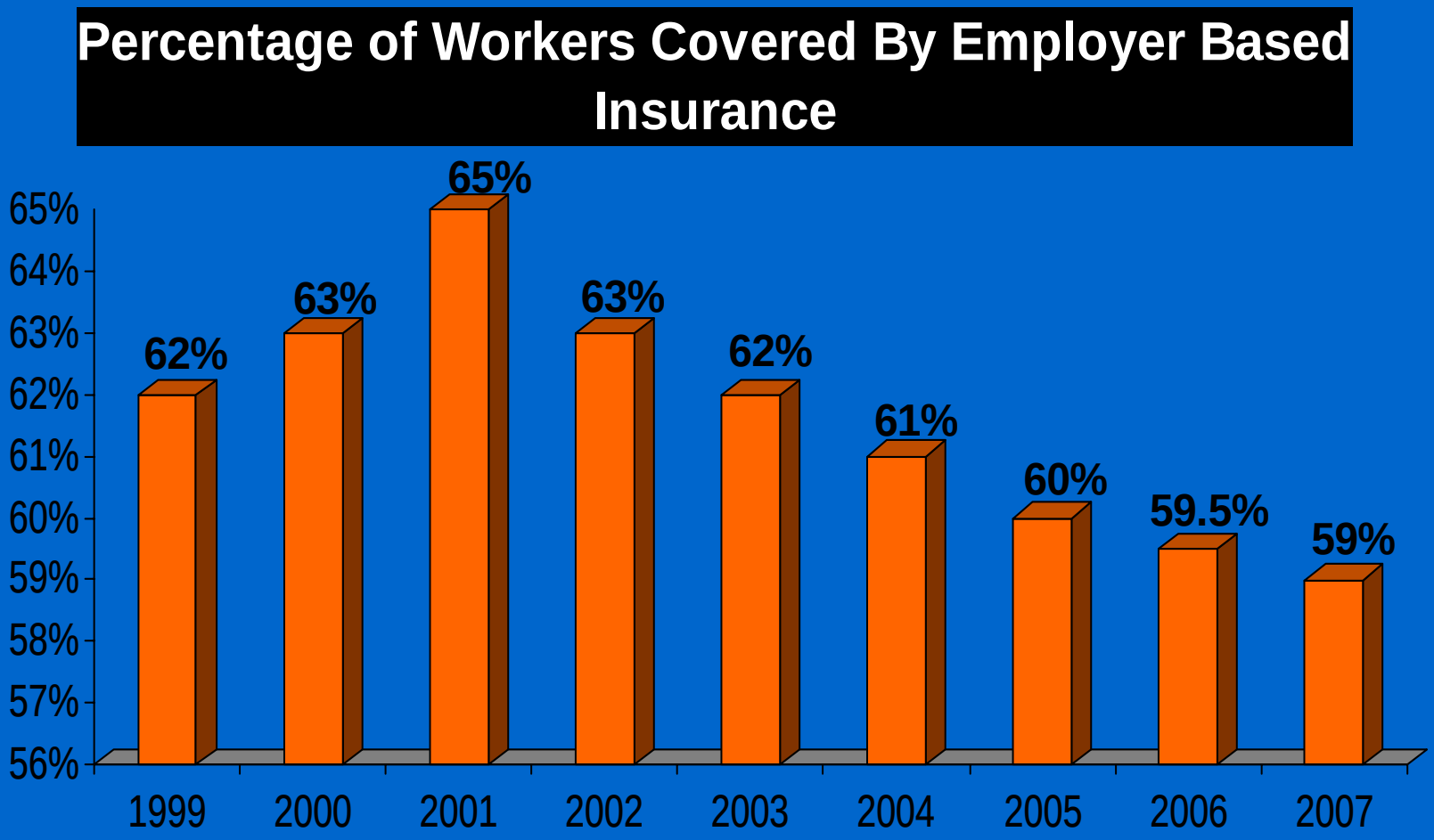


How Much Larger Can Gap Between Premium and Wage Growth Before System Melts Down?



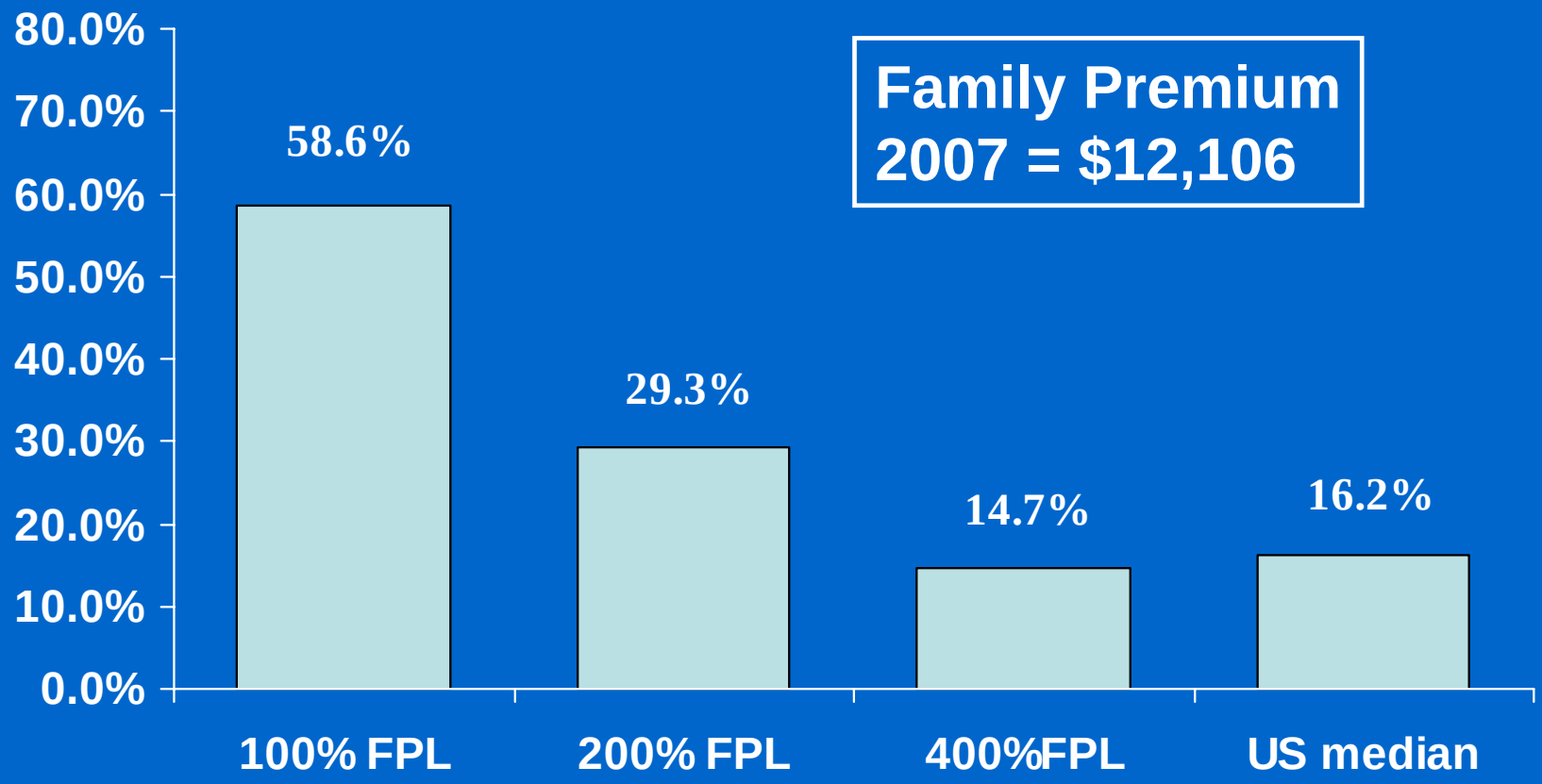
Not Surprising--- Much Faster Growth In Premiums Is Leading To A Decline In Percentage of Workers Covered By Employer Based Coverage and an Increase in the Uninsured!

Has The Meltdown Begun???



2007 Health Premium as Percentage of Family Income

Income Based on Family of Four

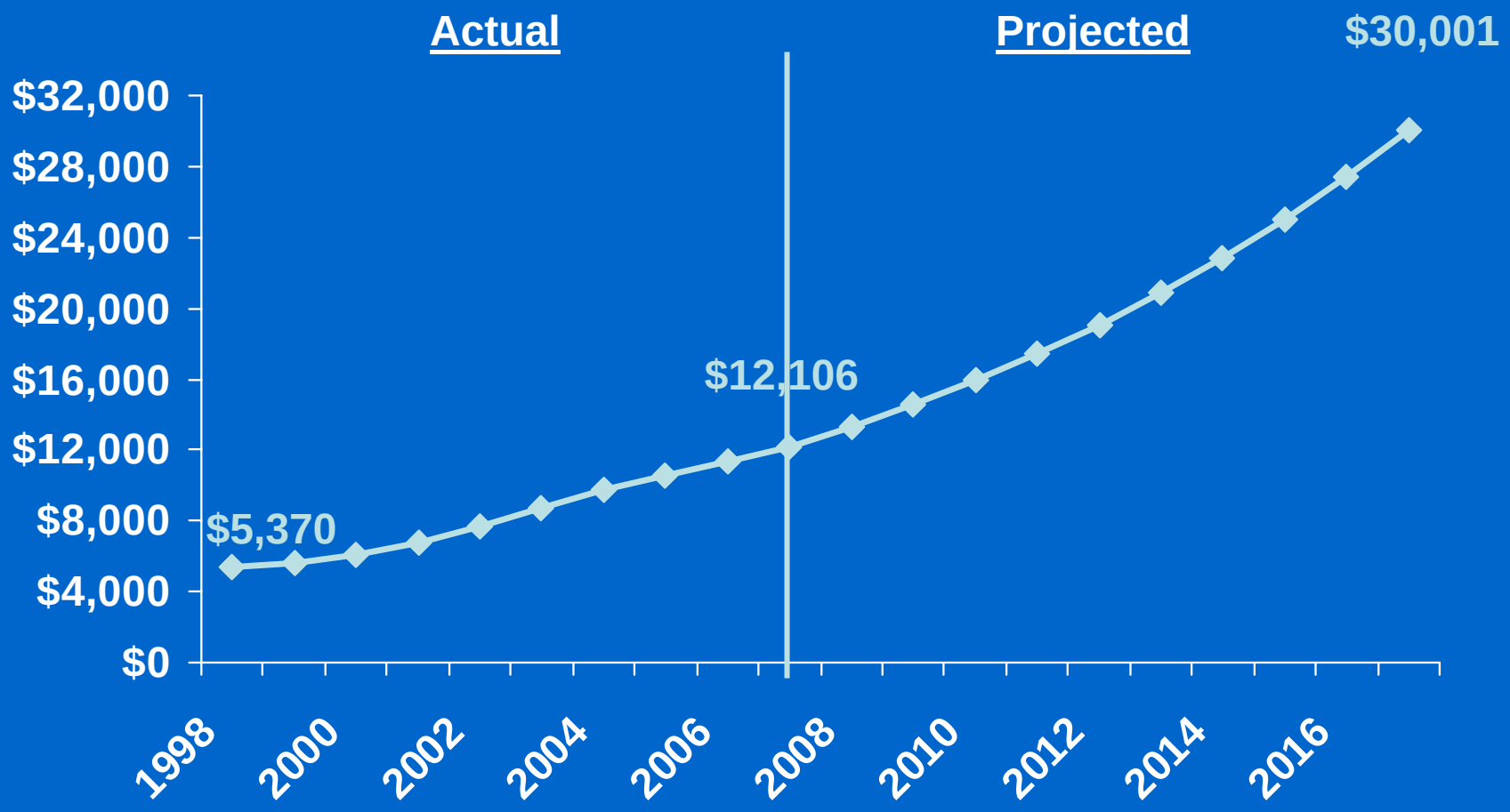


Source: Calculations based on data from Kaiser Family Foundation and US Census Bureau.

What Would Happen if Wage Growth and Premium Growth Stayed Constant for the next 10Years?

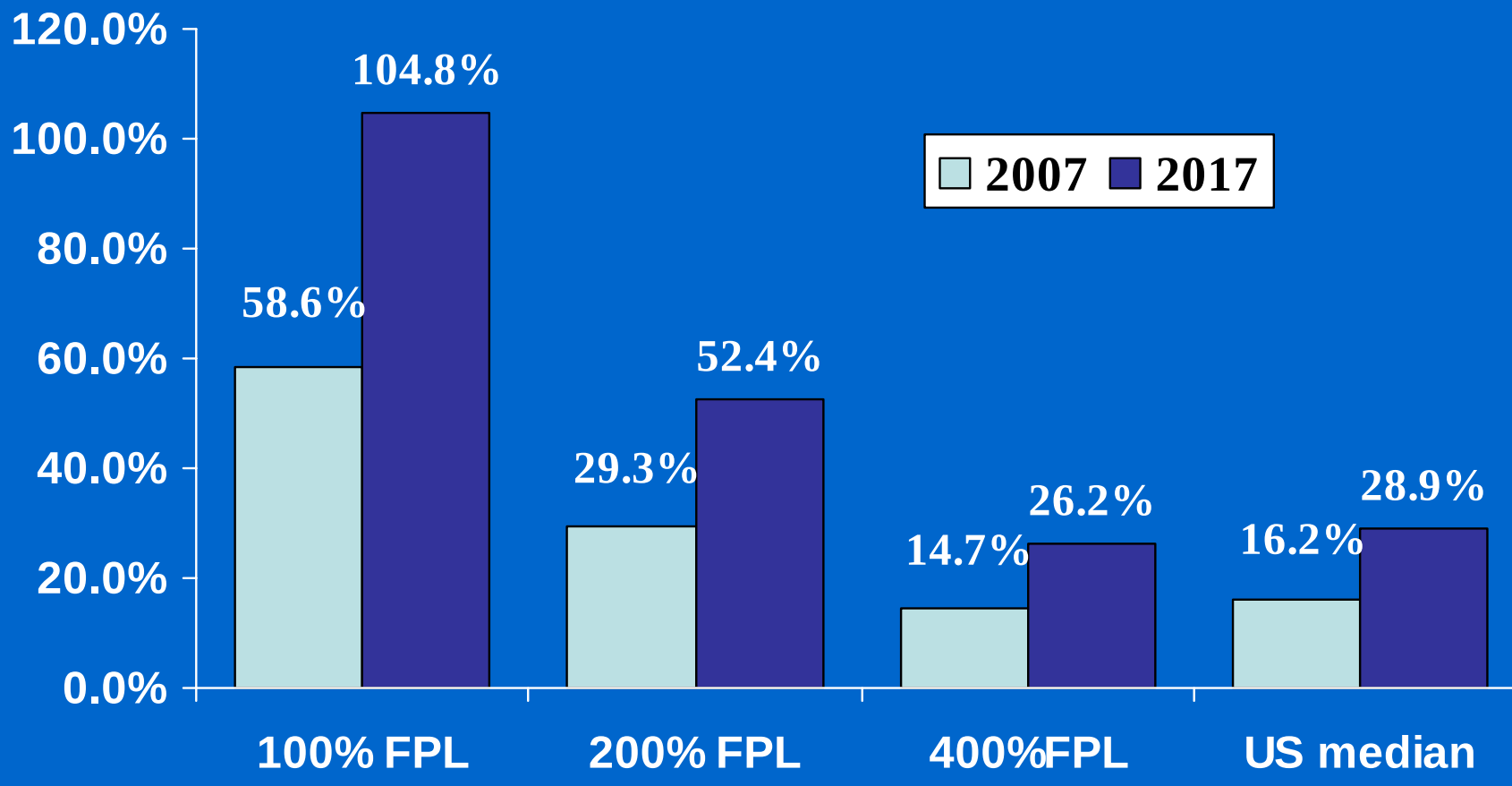
Growth in Family Premium

Projection Based on Historical Annual Growth of 9.5%



Source: Kaiser Family Foundation and author's calculations.

Health Insurance Premium as Percentage of Family Income



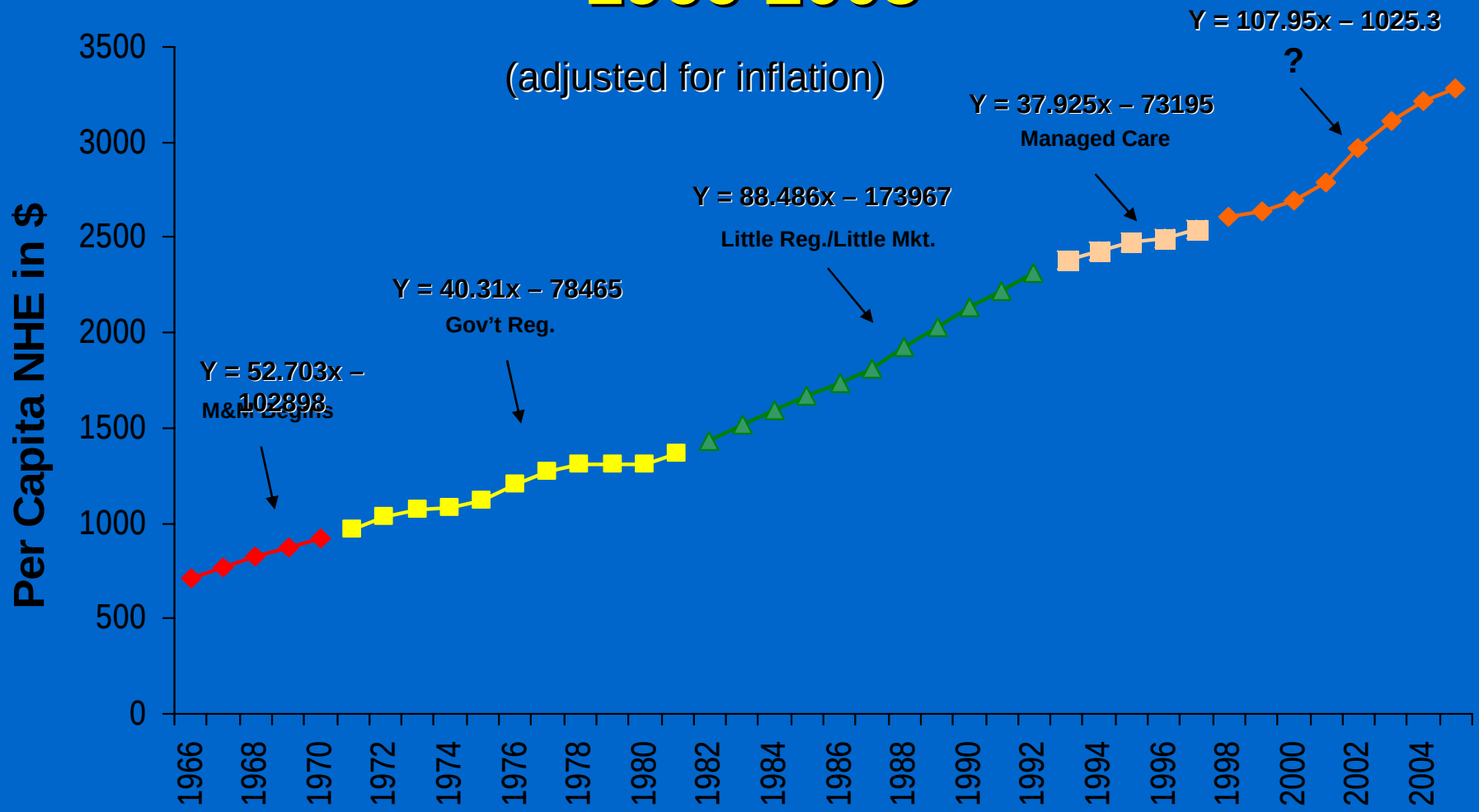
Source: Calculations based on data from Kaiser Family Foundation and US Census Bureau.

Limiting Growth in Healthcare Spending Is Not Easy!

But We Were More Successful In Previous Decades!

Why?

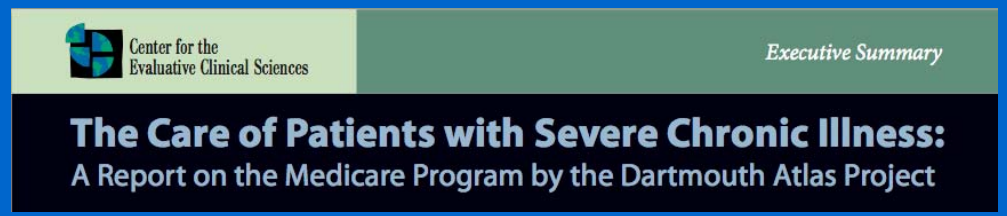
Growth In Per Capita National Health Expenditure 1966-2005



Differences in spending: largely due to differences in volume

	Cedars Sinai	Saint Elizabeth's	MGH	Baystate	Cooley Dickinson	Cleveland Clinic
Part B spending*	$19,427	$12,292	$10,316	$9,519	$8,840	$6,490
Hospital days	23.1	18.8	17.7	11.7	12.1	14.6
Physician visits	71.3	43.3	42.0	32.4	26.2	32.1
Primary care visits	16.1	25.4	19.3	16.1	15.0	12.9
Medical specialist visits	51.0	14.5	19.5	12.3	8.0	15.0

**last two years of life, all other measures are during last six months of life*



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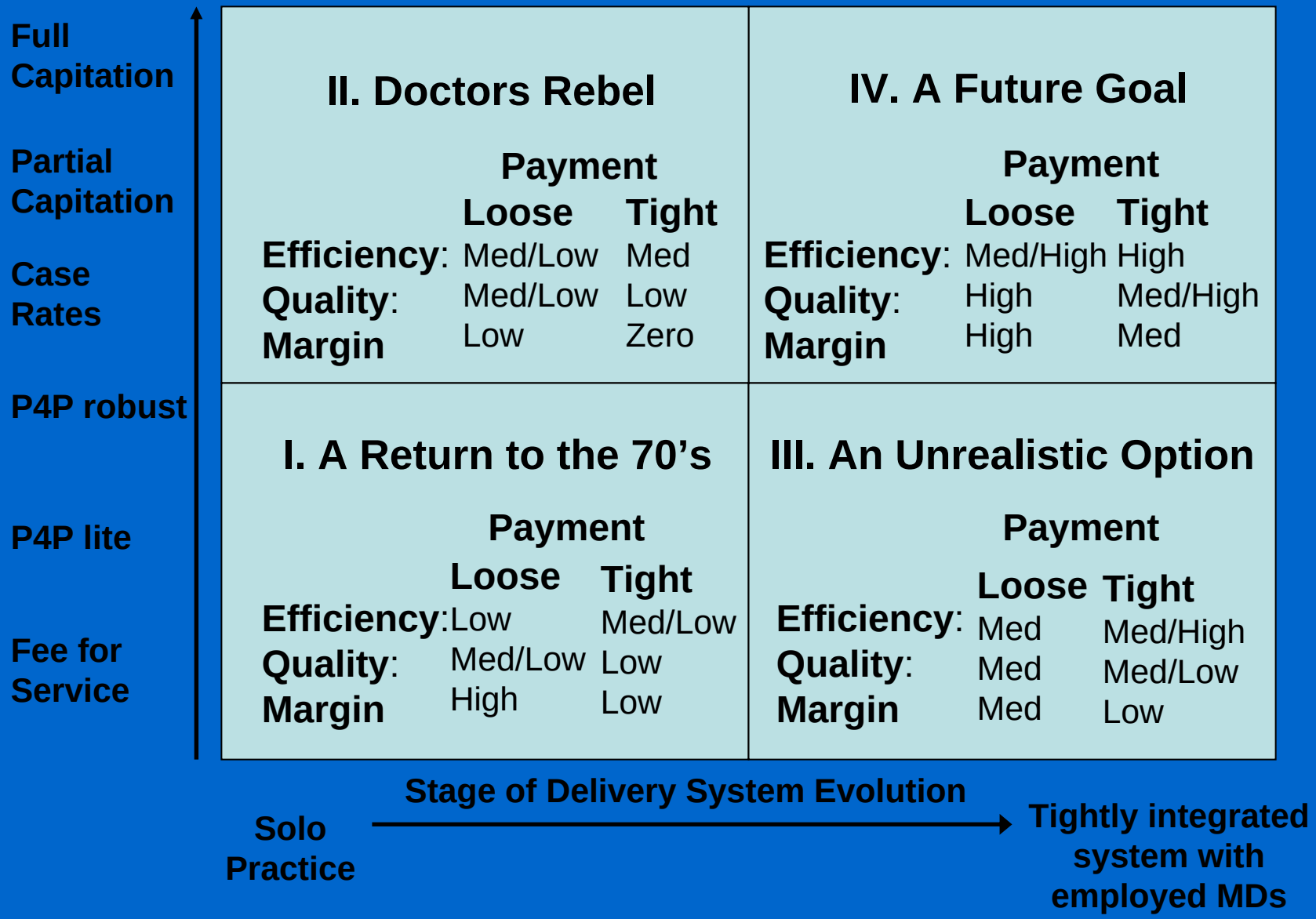
Commonwealth Fund ---
"Framework for a High Performance Health System"

Need to Deliver Care Through Healthcare Systems That Emphasize Coordination and Integration

Authors of The Commonwealth Fund Report Believe ---

"Improved safety and quality envision cooperative behavior between hospitals and physicians so as to make optimum use of expanded health IT, hospital P4P and chronic care management for the frail elderly and patients with severe chronic conditions"

Payment and Delivery System Options



Any Significant Restructuring of Healthcare Delivery System Will Require Reimbursement Systems That Supports Such Behavior----

Fee-for-Service System Needs to be Modified or Abandoned!

Current Fee-for-Service Payment System Encourages Aggressive Competition Not Collaboration Between Hospitals and Physicians

Why Competition Between Hospitals and Physicians Can Be Wasteful and Reduce The Quality of Care

- Major source of waste lies in unwarranted intensity of hospital and physician services particularly for patients in their last months of life
- Pattern of hospitals and physicians competing with each other to expand provision of selected specialty services such as imaging and certain tests and procedures, reflect distortions in pricing structures

Options For Changing Payment System

- **Bundled or Case Payments**
- **Significant Pay-for-Performance Add-On or Penalties**
- **Value-Based Payments**
- **Permit Wider Use of “Gain-sharing” Between Hospitals and Doctors**

Aligning Incentives Between Hospitals and Doctors

- The Importance of a Value-Based Payment System---
  - Allows Hospitals to Be Rewarded for More Appropriate and Cost Effective Care
  - Permits Hospitals to Share With Physicians The Benefits of Higher Valued Care
- Need Transparency and Elimination of Conflicts of Interest