

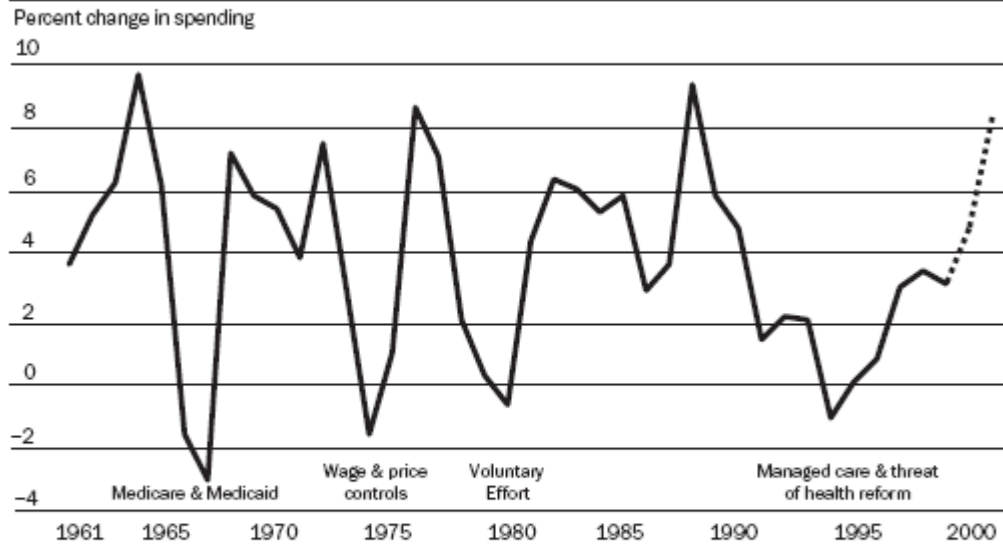
Health Care Costs: Drivers & Responses



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Kaiser Permanente
Oregon Health Policy Commission
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“The Sad History of Health Care Cost Containment...”

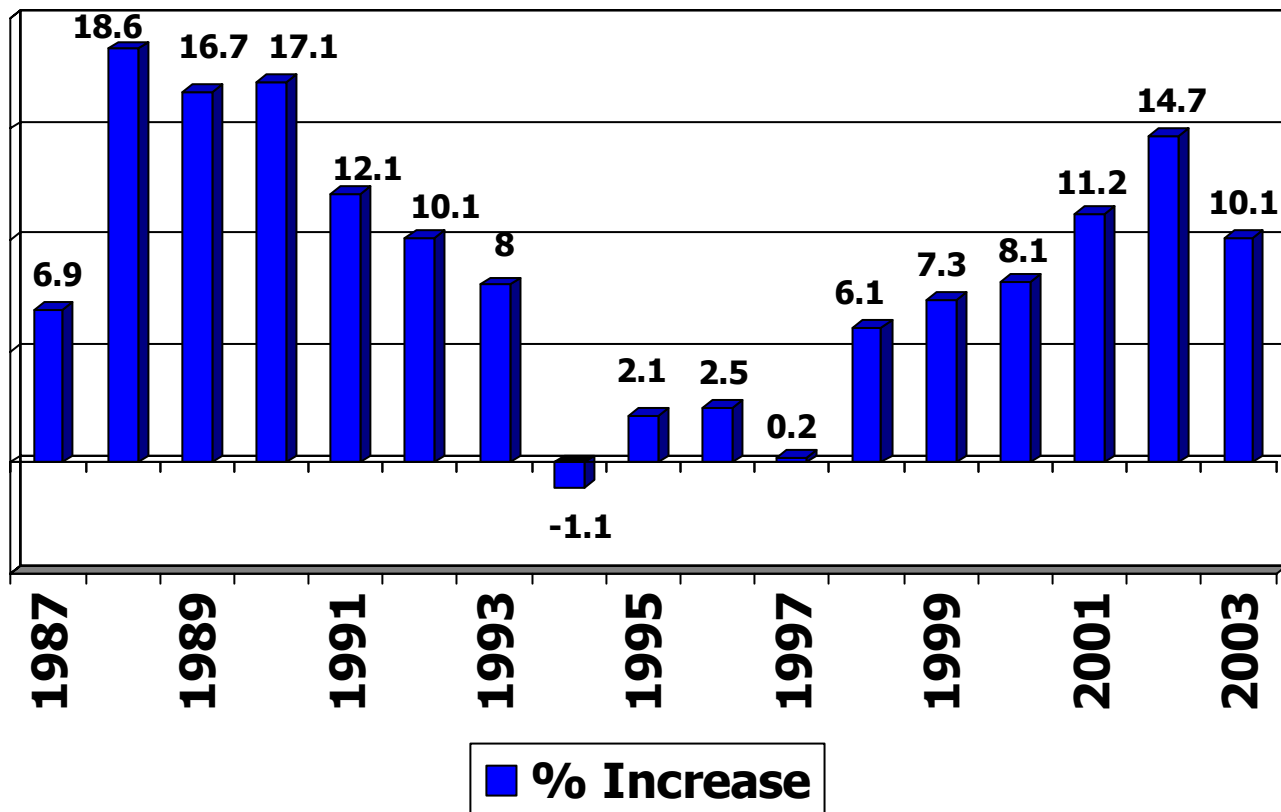
EXHIBIT 1
Annual Change In Private Health Spending Per Capita (Adjusted For Inflation),
1961-2001



SOURCES: Henry J. Kaiser Family Foundation analysis. Private health expenditures per capita, 1960-1999, are from the Centers for Medicare and Medicaid Services (CMS). Change in private spending per capita, 2000-2001, is estimated based on average premium increases for employer-sponsored coverage from the Kaiser/HRET Survey of Employer-Sponsored Health Benefits.

NOTES: Real change in spending is calculated using the Consumer Price Index (CPI-U) all items, average annual change for 1961-2000 and July-to-July change for 2001. This analysis was inspired by an analysis done by Jeff Merrill and Richard Wassermann more than fifteen years ago. See J.C. Merrill and R.J. Wassermann, "Growth in National Expenditures: Additional Analyses," *Health Affairs* (Winter 1985): 91-98.

Mercer's 2003 National Survey





Increase in Average Total Health Benefit Cost per EE ('03 vs. '02)

National 500+ = 10.2%

West 500+ = 11.8%

OR/SW WA 500+ = 12.2%

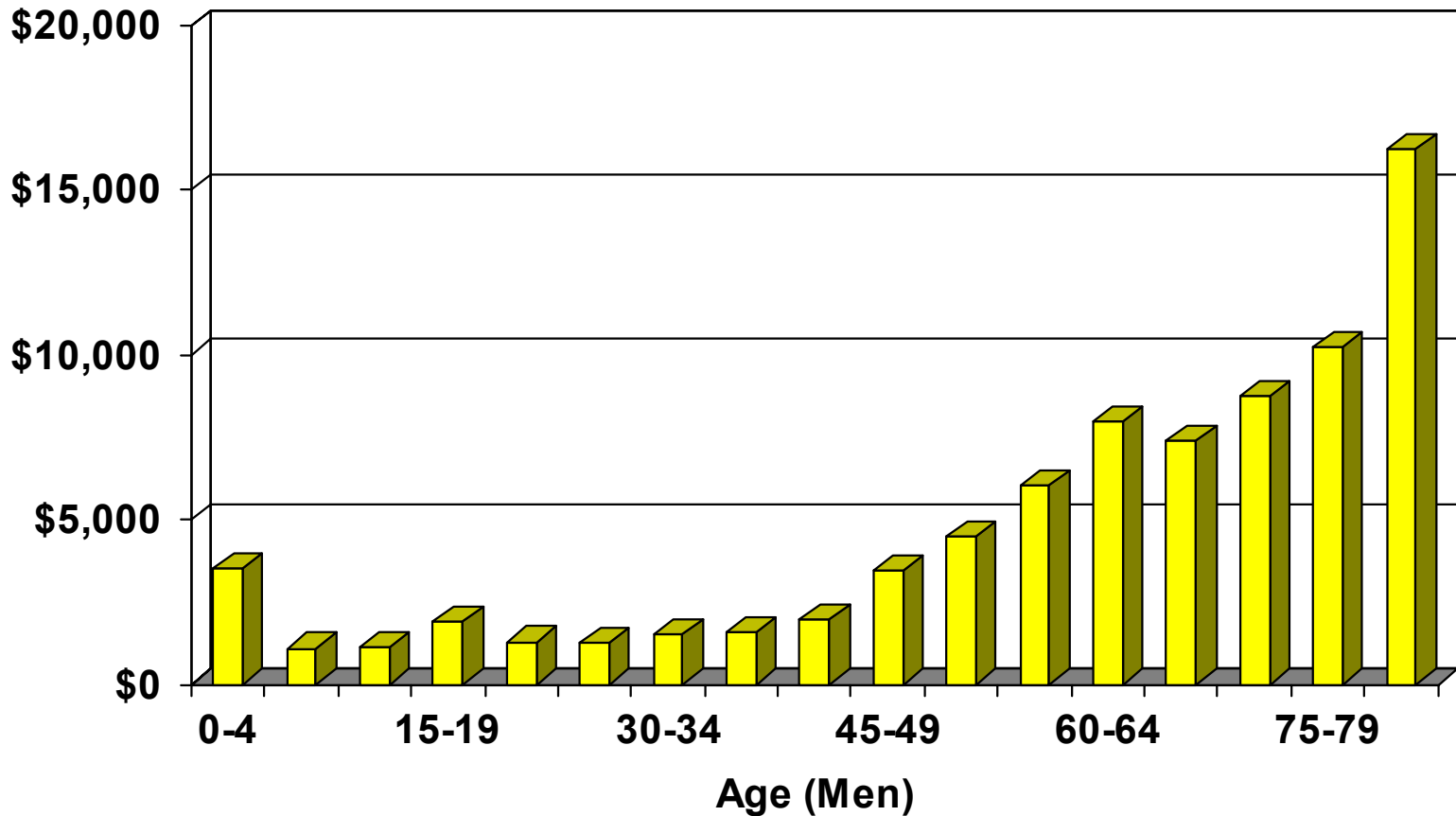


Cost Driver #1

- **Aging Population**

- Not Just a Medicare Issue! The work force is aging.
- And, Oregon is “older” than the national average

Relationship Between Age and Annual Health Costs



Source: Watson Wyatt 1995



Cost Driver #2

■ **Medical Technology**

- Rx, imaging, acute disease treatment, non-invasive procedures, diagnostics, etc.
- “Safe & efficacious”
- “Flat of the curve” medicine (Fuchs)
- Lag time to learn appropriate use (building the evidence base)
- Cultural fixation on technology



Cost Driver #3

- **Change in Market Power**
 - Providers flee risk sharing
 - Managed care “backlash” by providers
 - Sellers Market
 - “Excess” hospital beds gone
 - Shortage in selective specialties



Cost Driver #4

- **Work Force Shortages**
 - Nurses
 - Technicians/therapists
 - Dental hygienists/assistants
 - Selective medical specialties



Cost Driver #5

■ Health Insurance

- "...shielded patients from much of the cost at the point of service." (Altman)
- From insuring against random/unexpected events to pre-payment of routine services
- From major med policies to comprehensive benefits with POS co-pays



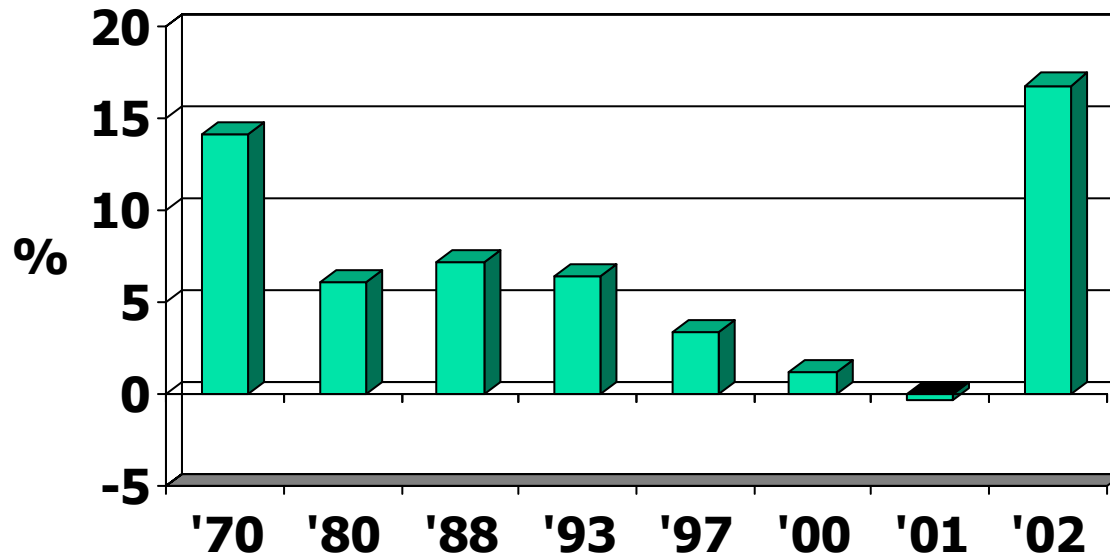
Cost Driver #6

- **Capital Spending**

- Replacement equipment & facilities
- Expansion of capacity (~ 40%) over next decade to meet needs of aging population
- Information technology

Construction Spending

**Average Annual Growth from
Prior Year Shown**





Cost Driver #7

- **Government Policy**
 - Medicare & Medicaid payment policy (cost shift)
 - Declining OHP enrollment (uncompensated care)
 - New regulation
 - HIPAA
 - Tax Policy



Cost Driver #8

- **Primitive Systems of Care**
 - Acute care model for chronic care future
 - Paper vs. Electrons
 - Over-use, Under-use and Misuse
 - Inefficient “hand offs”
 - Barrier to “embedded standards” and rapid implementation of best practices



Cost Driver #9

- **Medical-Legal Environment**
 - Patient Safety
 - Oregon Patient Safety Commission
 - Defensive Medicine
 - Medical Liability Insurance Crisis



Response #1

- **Employer Sponsored Coverage**
 - Increased cost sharing
 - Premiums, deductibles, co-insurance
 - New Products
 - CDHPs, HSAs, HRAs
 - Disease Management
 - Diabetes, asthma, etc.
 - Moving toward defined contributions



Response #2

- **Individual Coverage**

- Increased cost sharing
 - Premiums, deductibles, co-insurance
- New Products
 - CDHPs, HSAs, HRAs

Roles & Responsibilities for Controlling Future Costs

Cost Driver	Purchasers	Insurers & Providers	Govt
<i>New & expensive technologies</i>	Incentives for cost-consciousness	Utilization management	Technology assessment
<i>Avoidable illnesses</i>	Comprehensive benefits	Disease management	Clinical guidelines
<i>Systemic inefficiencies</i>	Quality standards	Reengineering the delivery system	Health planning / determination of need