



Health Care Innovation in the Context of Rising Health Care Costs

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Overview

- I. Why Costs Matter
- II. Canary in the Coal Mine
- III. Challenges
- IV. Opportunity for Public and Private Sector Collaboration

Why Costs Matter

- Scope of Challenge
- Opportunity Costs
- International Comparisons

Federal Challenge

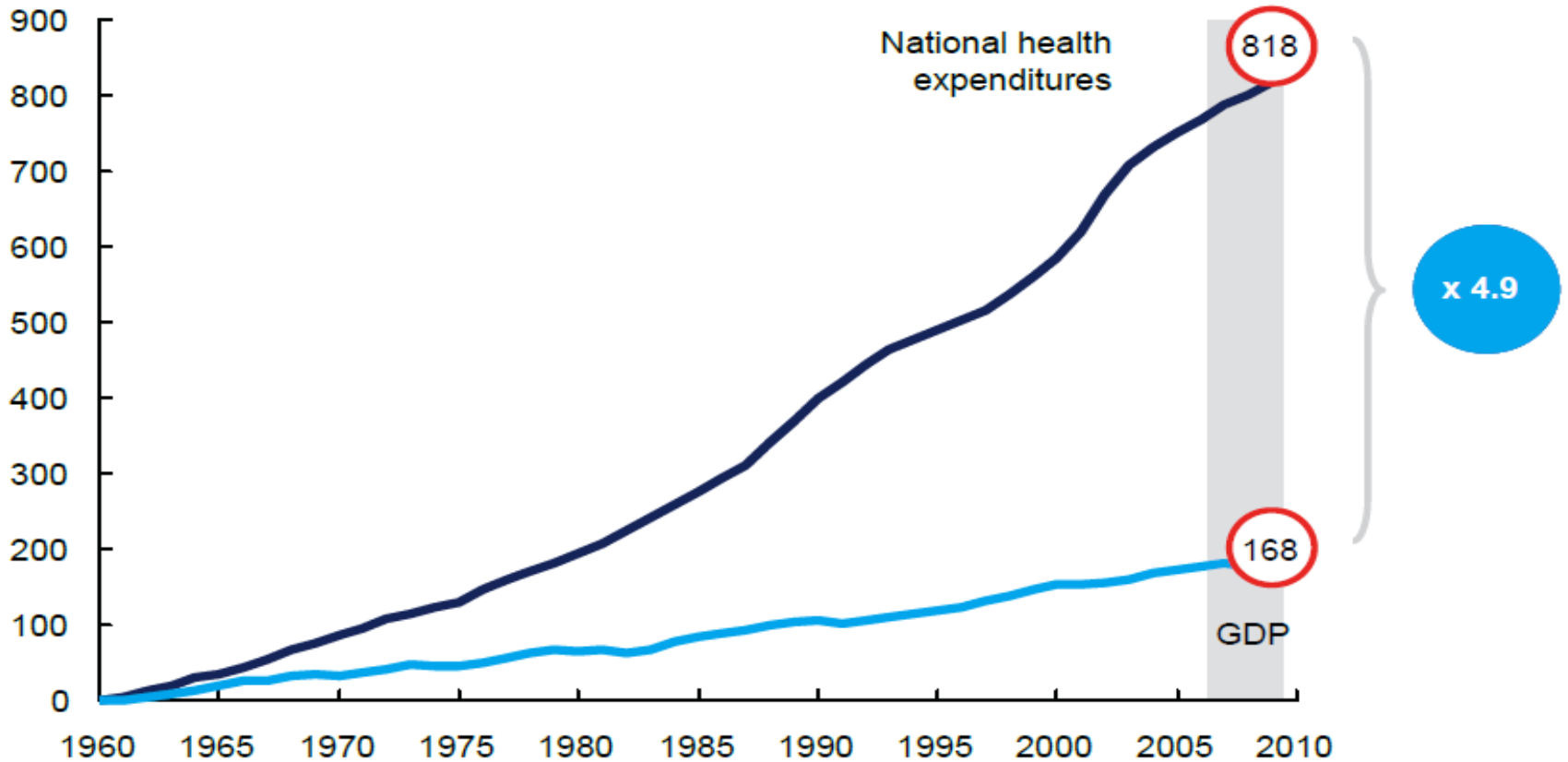
Exhibit 3

Adjusting for inflation and population growth, spending on health care has grown nearly 5 times as much as GDP since 1960

Cumulative, real, per capita growth in national health expenditures vs. GDP

Percent growth since 1960

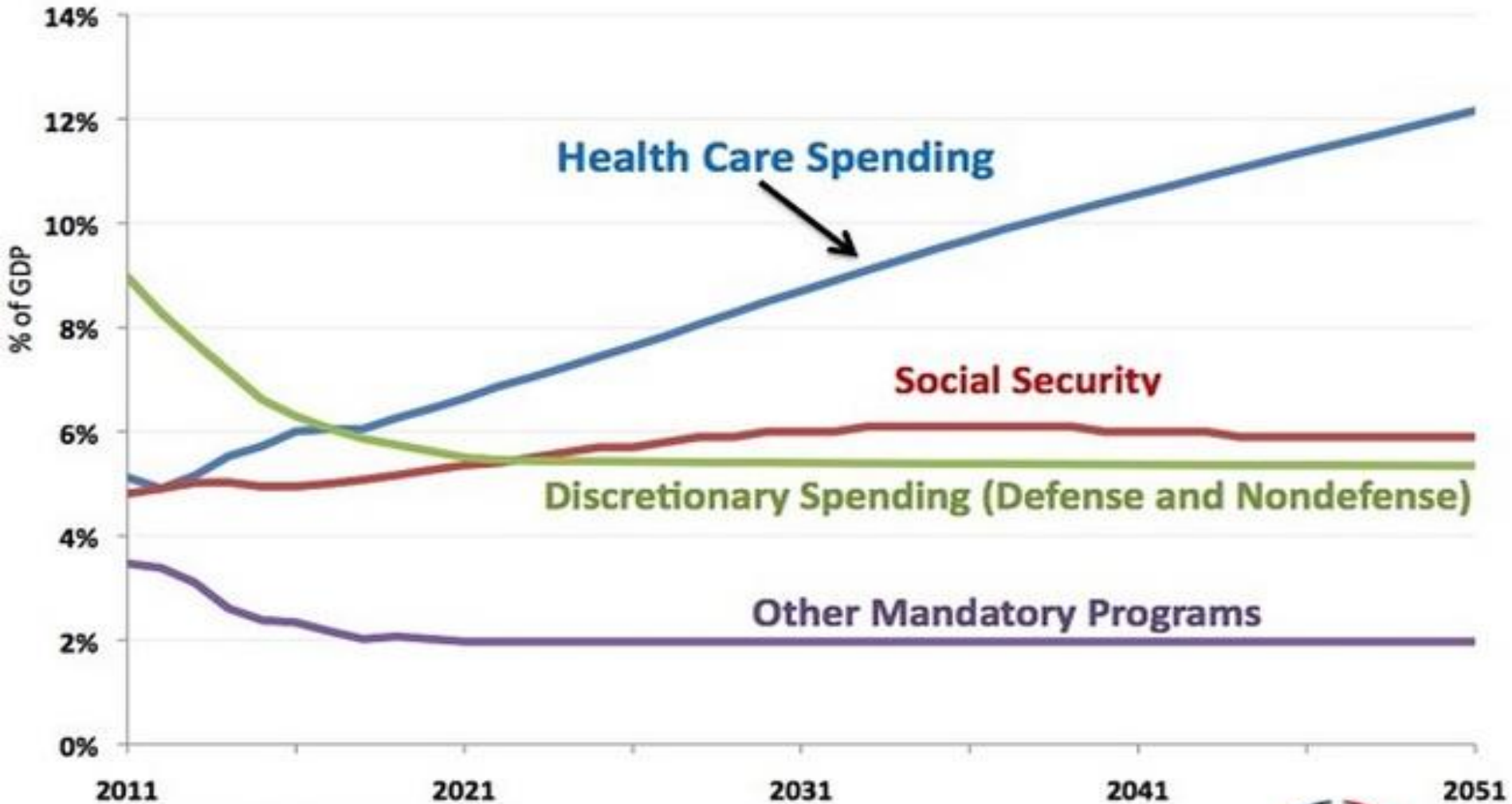
Focus of this report
(2006-2009)



SOURCE: Centers for Medicare & Medicaid Services; McKinsey analysis

Federal Challenge

HEALTH CARE COSTS ARE THE PRIMARY DRIVER OF THE DEBT

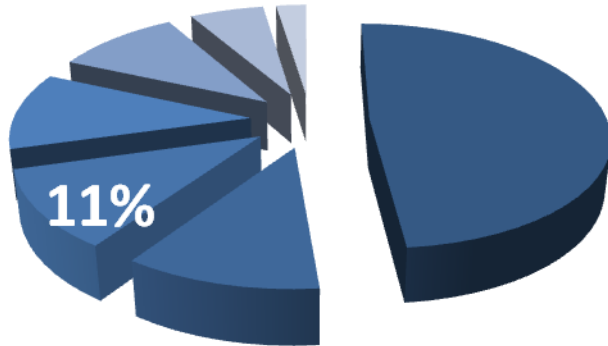


Source: Congressional Budget Office (August 2011)

State Challenge

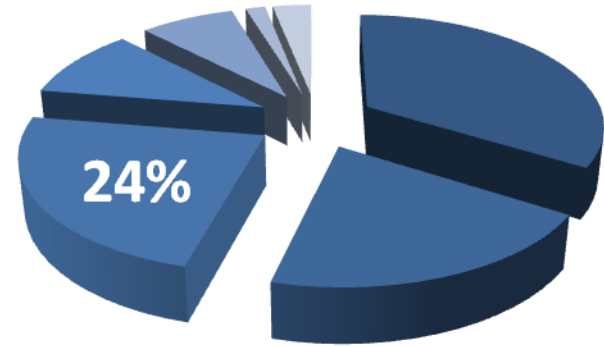
Medicaid Spending as Percentage of Total Spending, 1987 vs. 2011

State Spending, FY1987



- All Other
- Elementary & Secondary Education
- Medicaid
- Higher Education
- Transportation
- Public Assistance
- Corrections

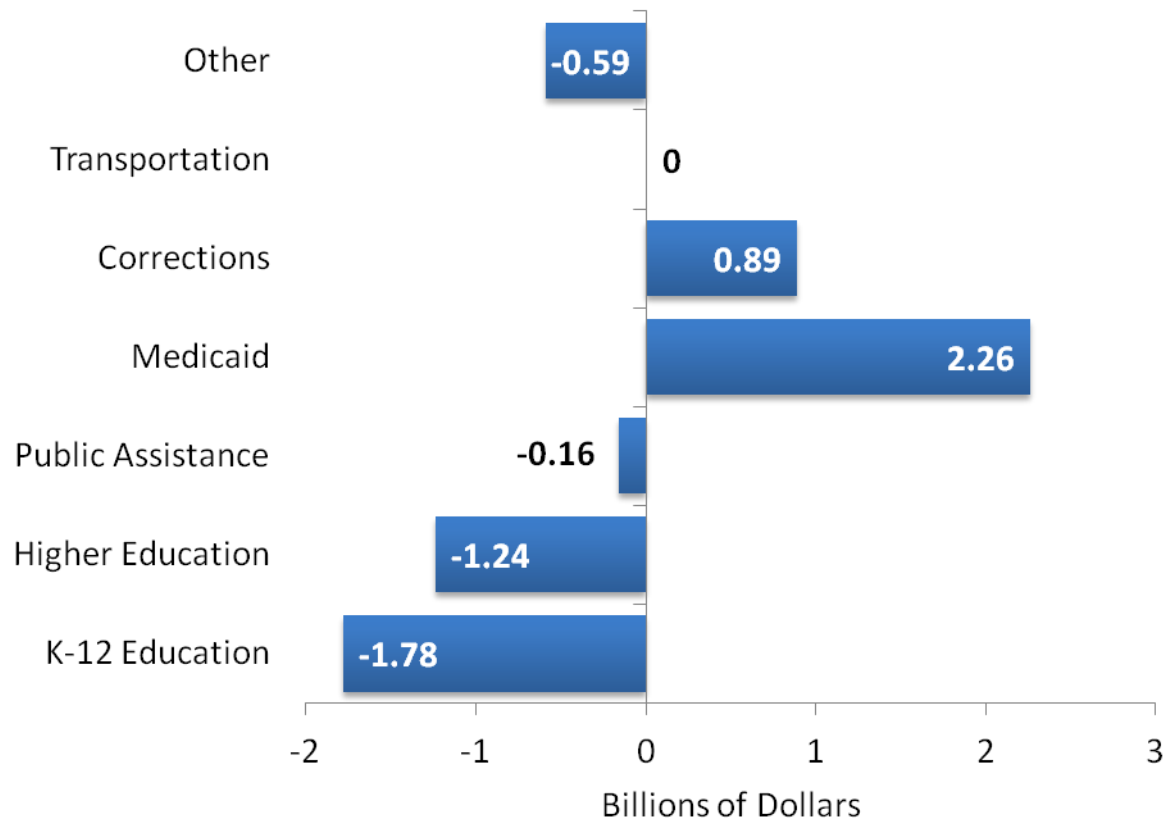
State Spending, FY2011



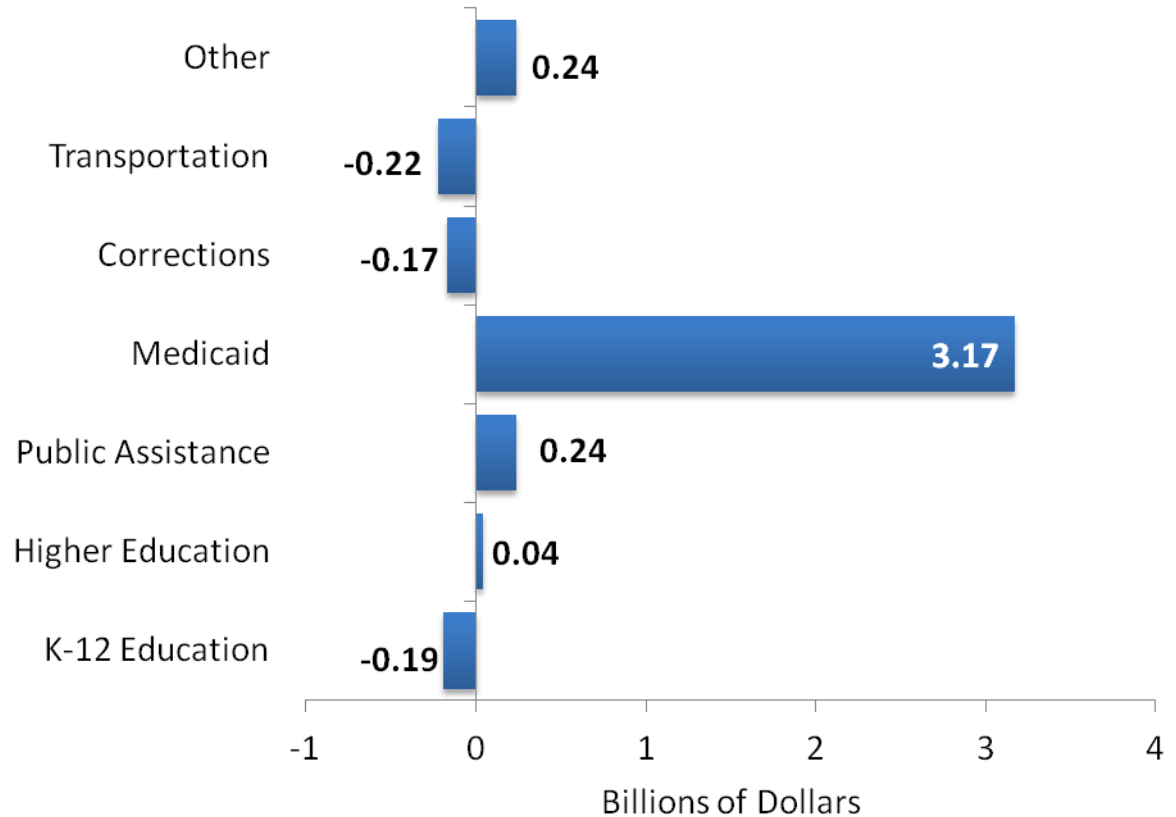
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State Challenge

Crowd Out of State Budgets Due to Medicaid Increases—California



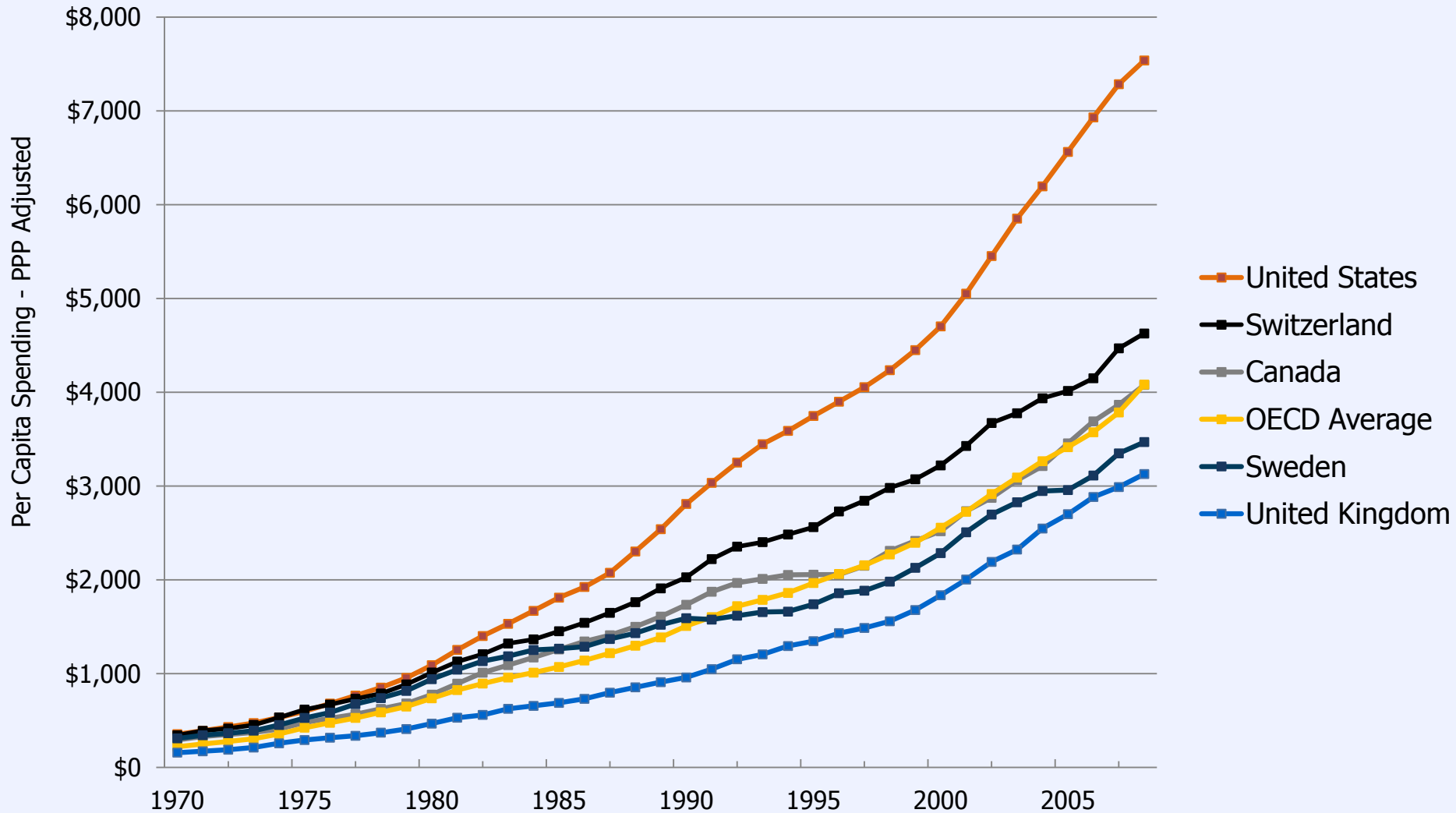
State Challenge Crowd Out of State Budgets Due to Medicaid Increases—New York



2012 State Budgets—Fiscal Enacted Program Area Adjustments by Value (billions of \$)
Source: National Association of State Budget Officers, Fall 2011 Fiscal Survey of the States

International Position

Competitor Comparison: Per Capita Health Expenditures



Source: Organisation for Economic Co-operation and Development (2010), "OECD Health Data", *OECD Health Statistics* (database). doi: 10.1787/data-00350-en (Accessed on 14 February 2011).

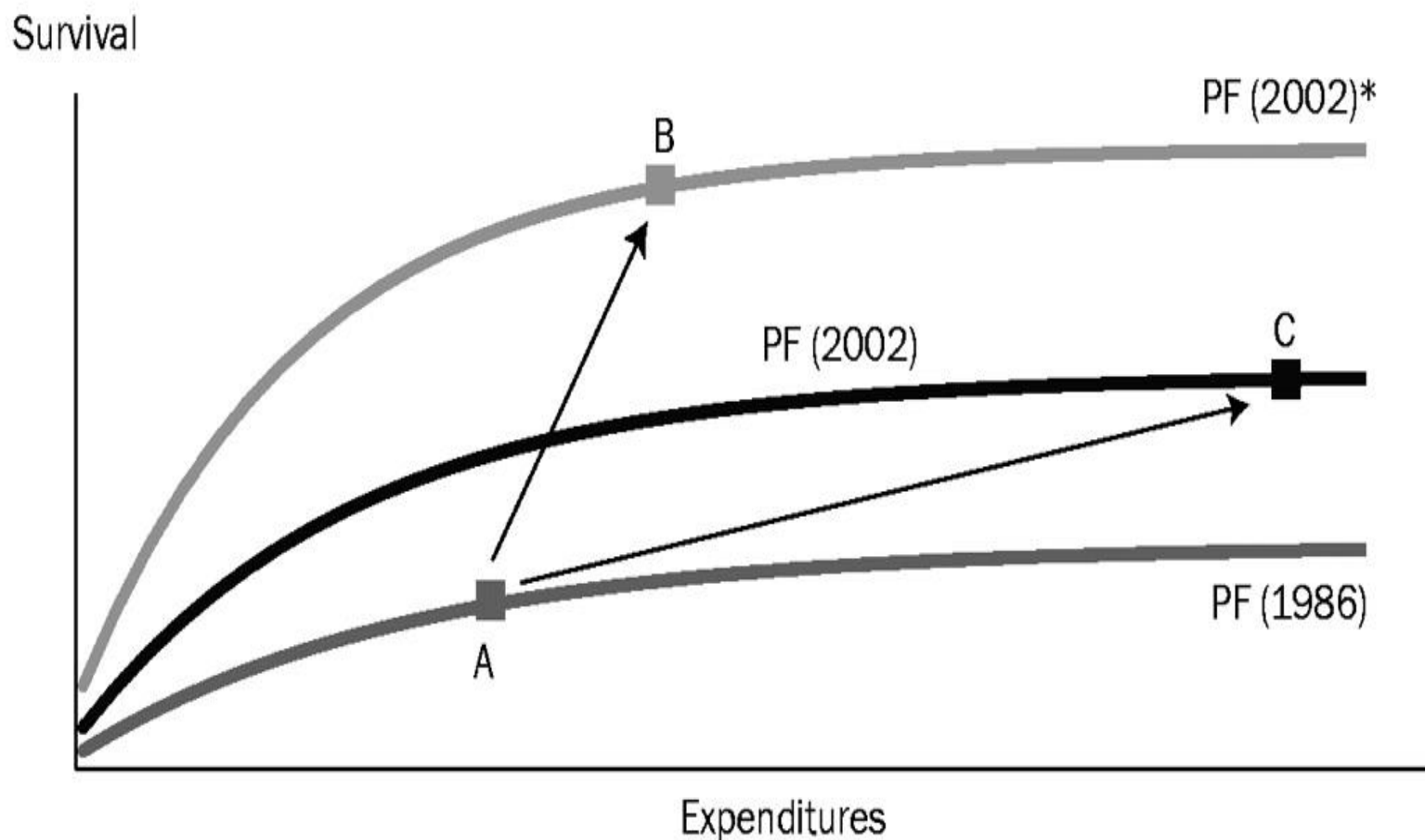
Notes: Data from Australia and Japan are 2007 data. Figures for Belgium, Canada, Netherlands, Norway and Switzerland, are OECD estimates. Numbers are PPP adjusted. Break in series: CAN(1995); SWE(1993, 2001); SWI(1995); UK (1997). Numbers are PPP adjusted. Estimates for Canada and Switzerland in 2008.

Canary in Coal Mine

- Inadequate Framing
- What's Lacking
- On the Ground Perspective

EXHIBIT 6

Technological Change In The Treatment Of Heart Attacks: A Graphical Analysis



SOURCE: Authors' original work.

NOTES: PF denotes a constrained production function; see text.

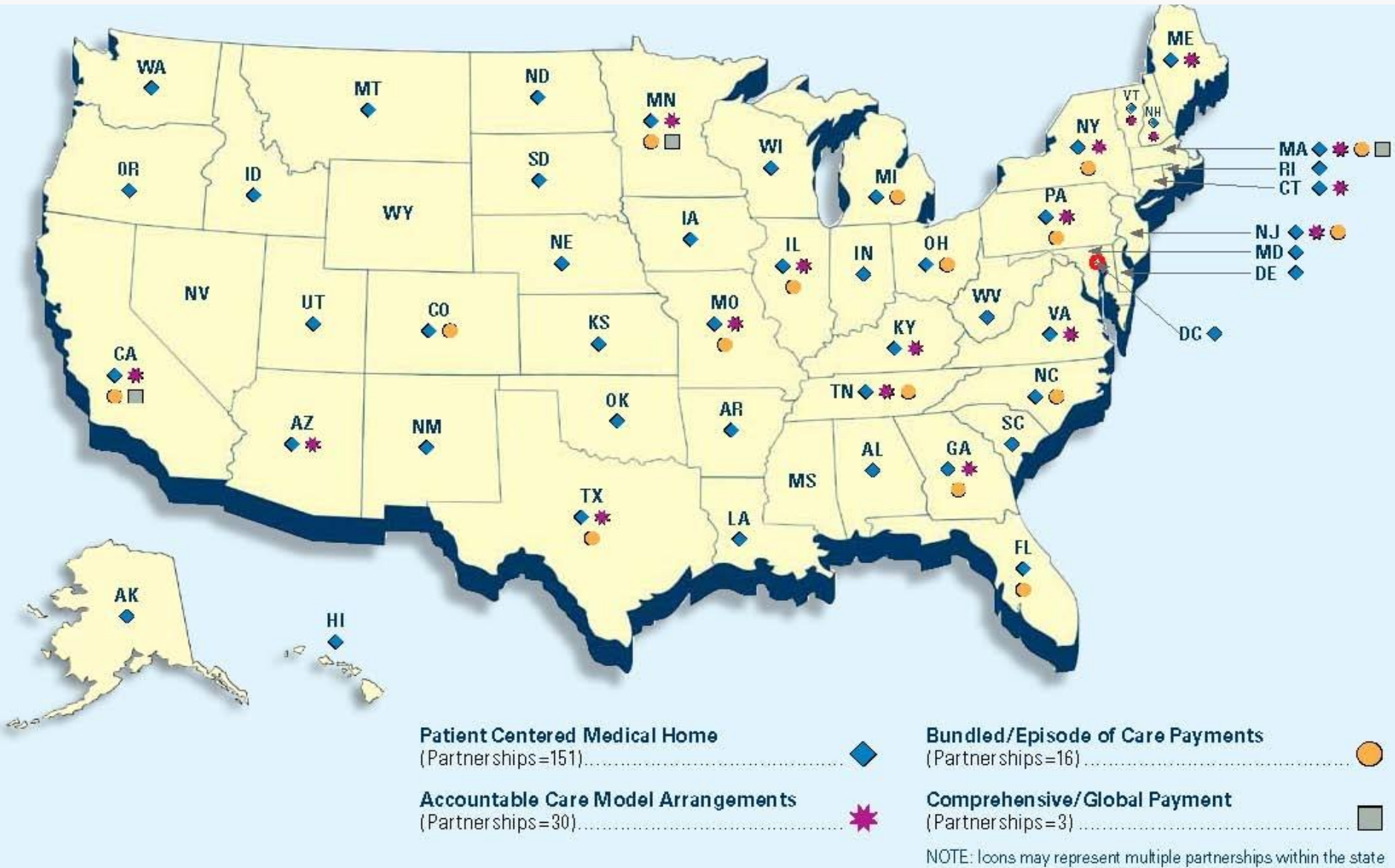
Jonathan Skinner, Dartmouth

HealthAffairs

What Is Private Sector Doing?

- Collaboration
- Re-Engineering Payment Models
 - New Design
 - Quality and Cost of Care Goals
 - Improved Performance Assessment
 - Patient Centered / Population Focused
- Unleashing Patients
- Leveraging Technology

Alternative Delivery and Payment Models: Private Sector Initiatives



*The map is current as of August 2011. As new programs are identified the map will be updated accordingly.

Challenges We Face

- Politics of Issue
- Trifecta of Change
- Creating Value-Based Regulatory Structure
- Unintended Consequences Coming in 2014

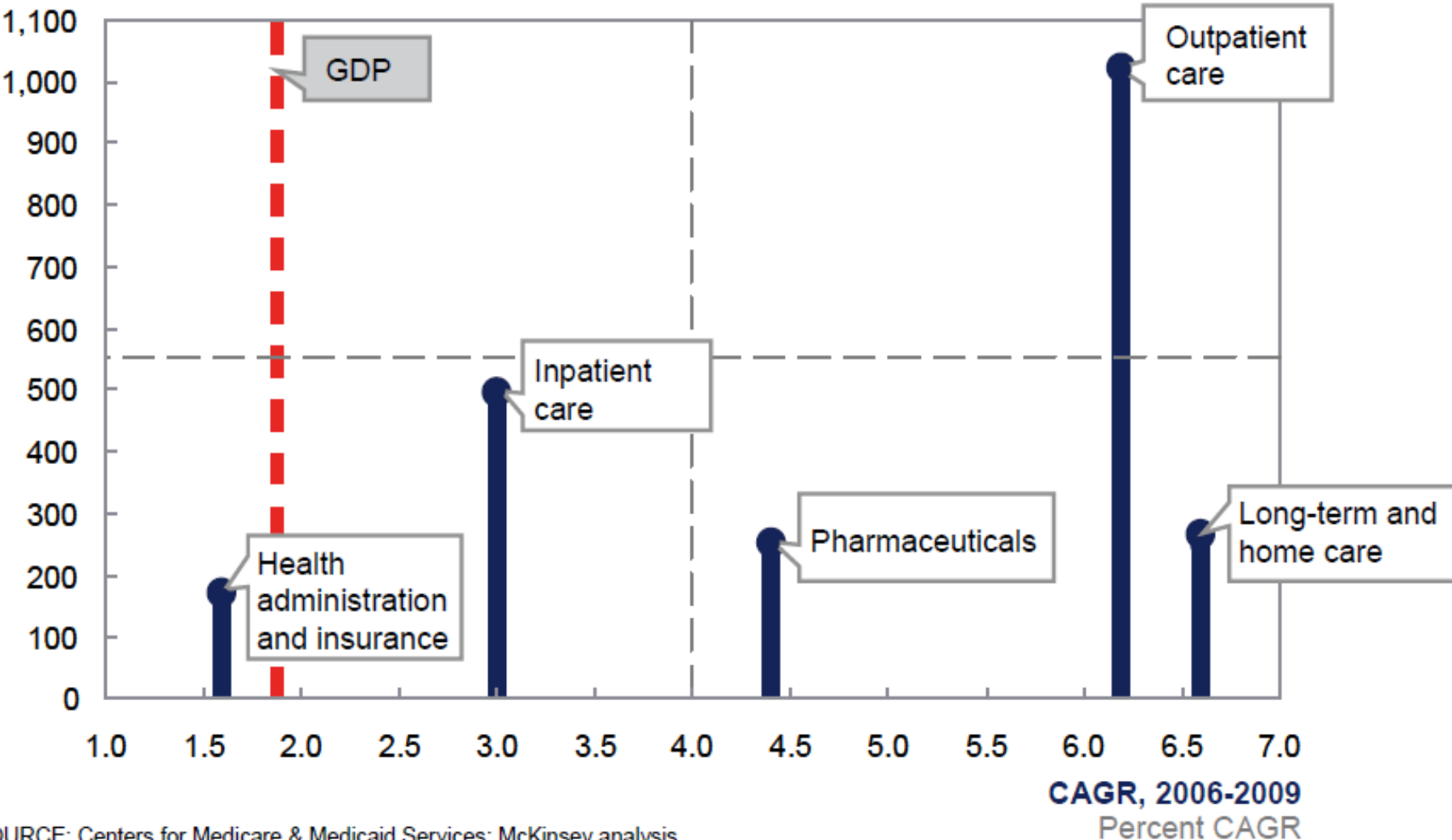
Provision in ACA

- Support CER by establishing a non-profit Patient-Centered Outcomes Research Institute to fund research that compares the clinical effectiveness of treatments (*Sec. 6301 of ACA*)
 - Identify national research priorities and research agenda
 - Fund research that assists patients and clinicians in making informed, evidence-based health decisions

Exhibit 4

Every spending category grew faster than GDP between 2006-2009 except for health administration and insurance

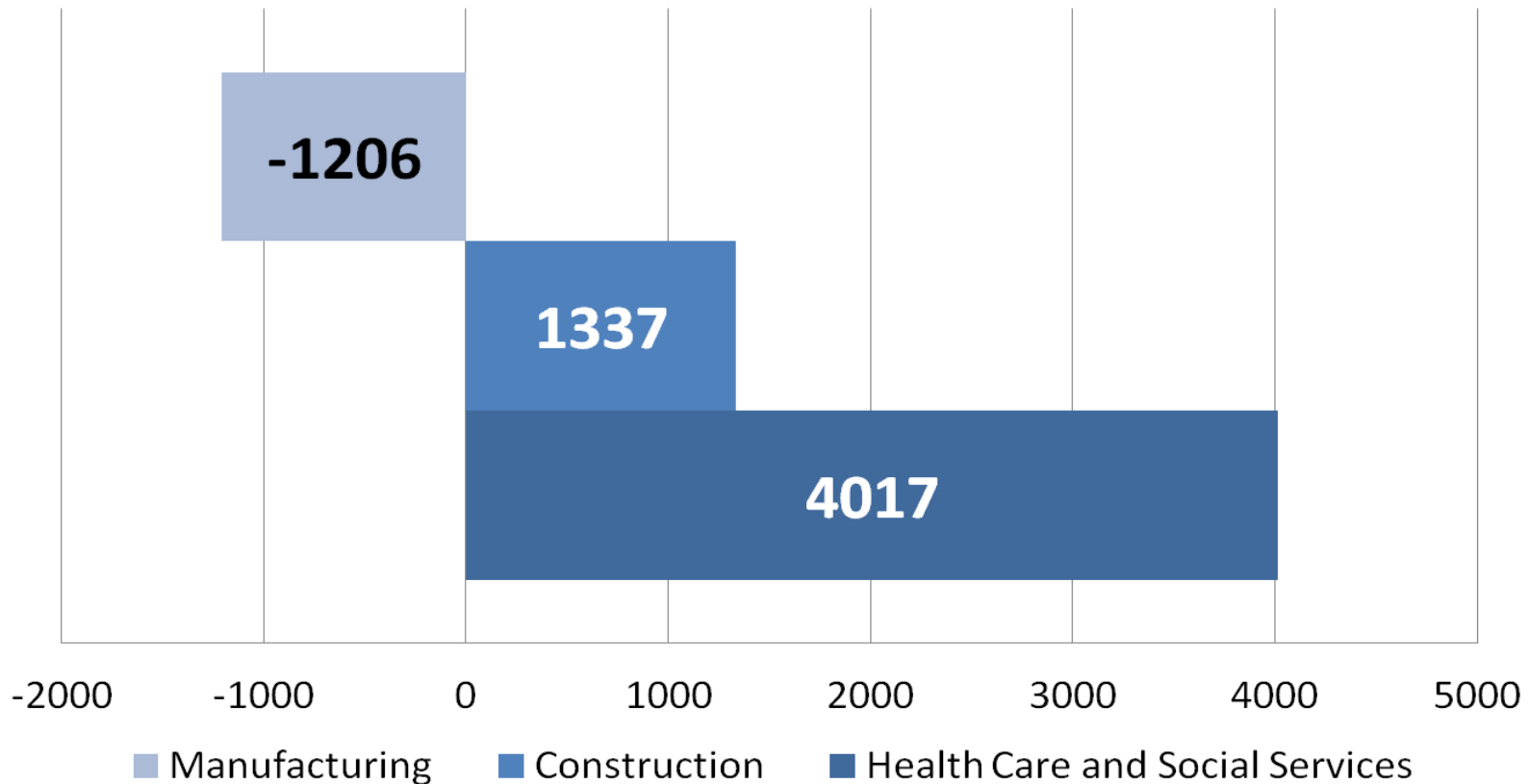
Spending, 2009
USD billions



SOURCE: Centers for Medicare & Medicaid Services; McKinsey analysis

Where Are The Jobs Coming From?

Industry Job Growth 2008-2018



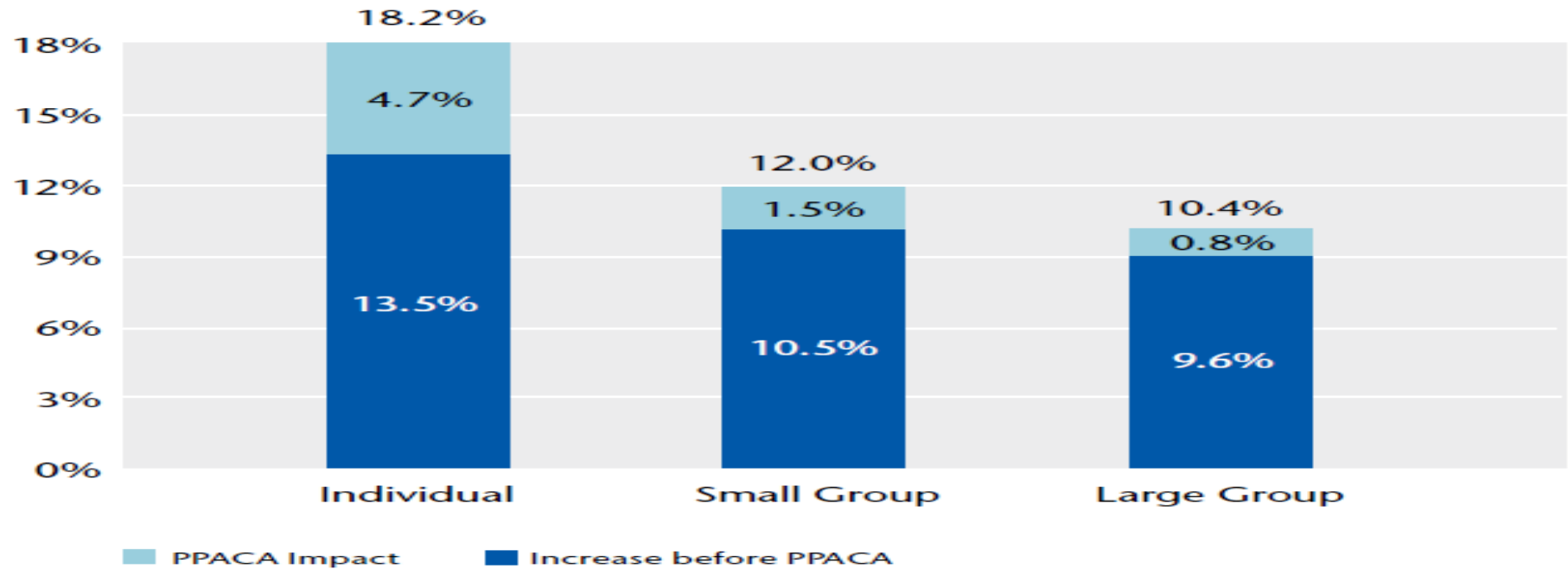
Issues on the Ground

- Hospitals are highly concentrated in 80% of metropolitan statistical areas, Capps and Dranove, *Market Concentration of Hospitals* (2011).
 - In 2009 1/2 new doctors hired by hospitals, Gold, *Hospitals Lure Doctors Away from Private Practice*, NPR (2010).
 - Health Care Organizations engaged in 35-40% more construction projects in 2011 than 2009, Gamble, *Becker's Hospital Review* (2011).
 - From 2008 through November 2011, hospitals borrowed \$144 billion through public bond market, Conte and Fabregas, *Medical Building Boom Increasing Americans' Health Care Costs*, PITTSBURGH TRIBUNE-REVIEW (2011).
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Context Setting

Differential Impact of ACA

Illustrative Total Cost Increases by Line of Business Including PPACA Impact*



*Exhibit 10 shows illustrative total cost increases based on 2010 increases by line of business prior to PPACA from Exhibit 7 and projected first-year impacts of PPACA (2011 PPACA impacts). Full data was not reported on all trend components by line of business for 2011, with information on the impact of estimated covered population changes being the most difficult for plans to report. As a result, illustrative examples are shown. These examples represent total projected cost increases if core trend, deductible leveraging, and covered population impacts remain constant from 2010 to 2011. Exhibit 12 shows total reported 2011 trend projections blended across all lines of business.

Opportunity for Public and Private Sector Collaboration

- Shifting Conversation to Value
- Creating Innovation that Promotes Effectiveness and Efficiency
- Establishing Regulatory Context that Promotes Same Goals
- Align Public and Private Sector Activity