

Health Care Cost Strategies

Working Meeting for Consumer Advocates

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Topics

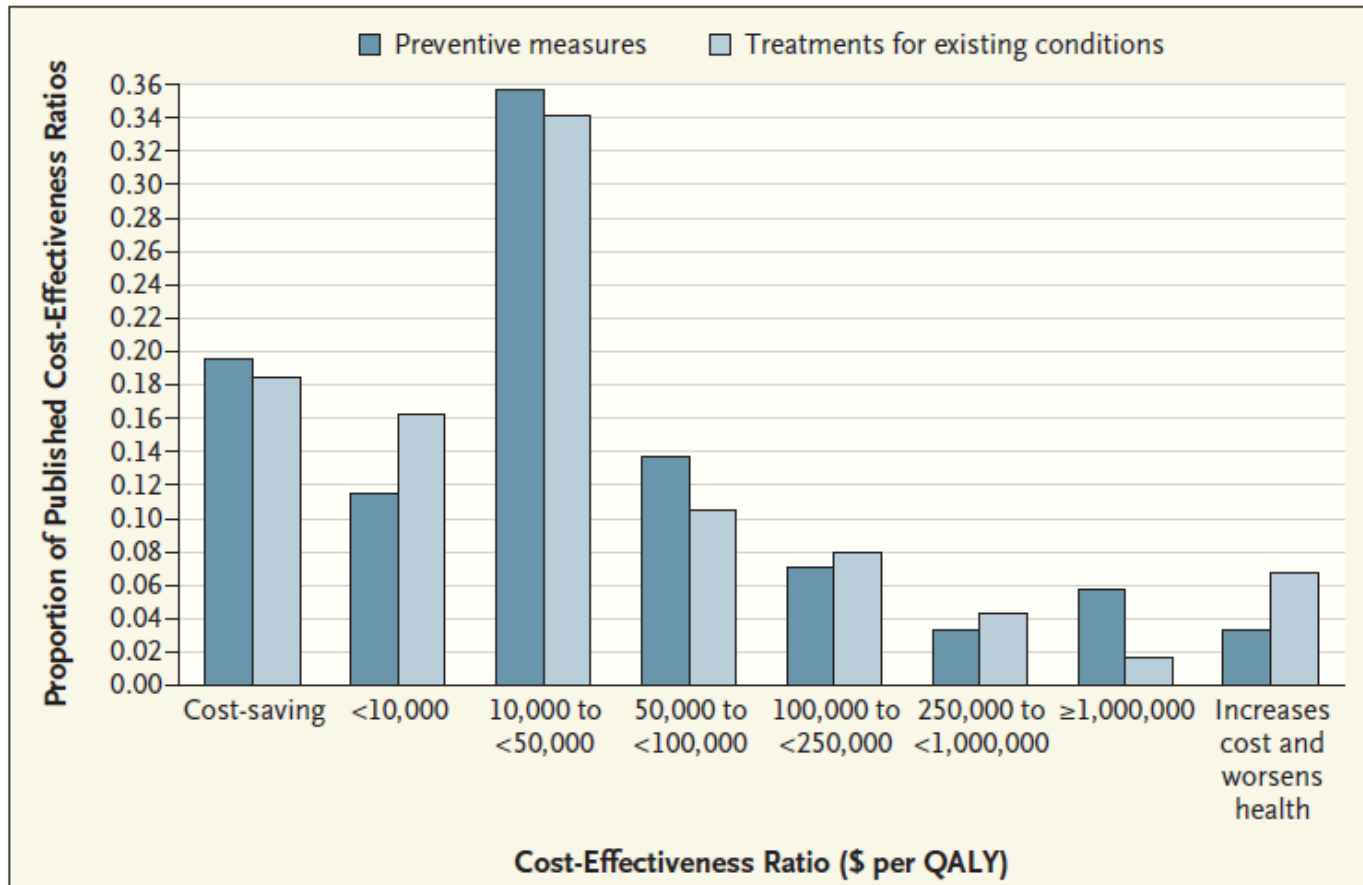
- ▲ Cost-effectiveness analysis
- ▲ Prevention vs. treatment
- ▲ Reference pricing: knees and hips
- ▲ Medical tourism

Cost-Effectiveness Analysis

- ▲ Which types of health spending provide the most bang for the buck?
- ▲ Cost-effectiveness analysis seeks to answer this question by estimating what it costs to add a year of life for different types of health interventions.
- ▲ This is summarized as cost per quality-adjusted life year (cost per QALY).
- ▲ All else equal, it makes sense to reduce health spending in areas where the cost per QALY is very high.
- ▲ The Cost Effectiveness Analysis Registry, founded by Peter Neumann and Josh Cohen at Tufts, contains cost per QALY estimates for thousands of health spending interventions.

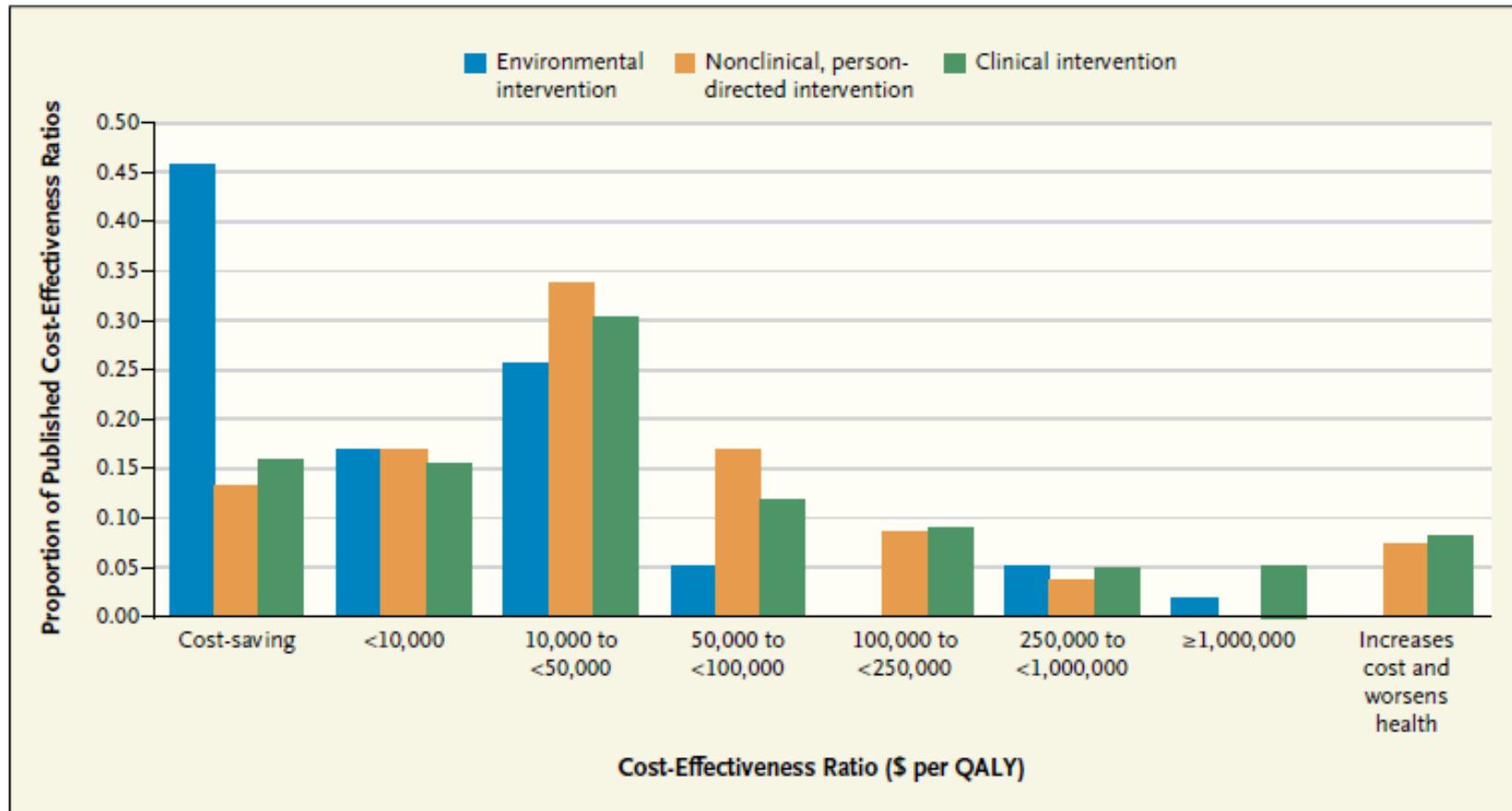
<https://research.tufts-nemc.org/cear4/>

Prevention Versus Treatment



Cohen and Neumann showed that prevention was no more likely than treatment to be cost saving. But this was mostly clinical prevention. *New England Journal of Medicine*, February 2008.

Community-based Prevention Versus Clinical Care



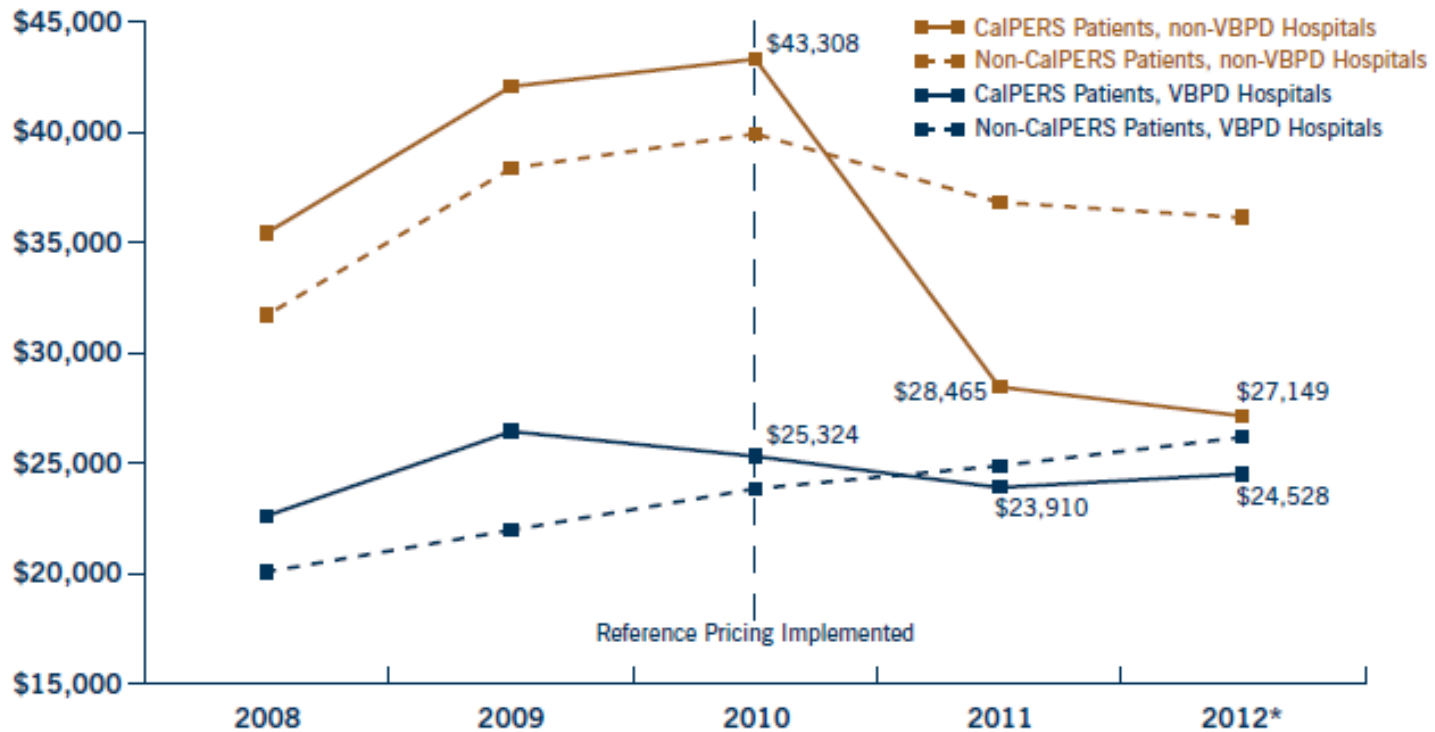
Chokshi and Farley showed that community-based prevention was much more likely to be cost saving than clinical care. *New England Journal of Medicine*, July 2012.

Reference Pricing

- ▲ Under reference pricing, the insurer sets a maximum price it will pay for a given service (the reference price)
- ▲ The price is set high enough to ensure that there are sufficient providers whose prices are below the limit but is generally well below what is charged by the most expensive providers.
- ▲ Enrollees are free to choose any provider but if the price is above the reference price, they must pay all of the difference.
- ▲ This strategy works best for a very well-defined service that has relatively small variation in quality.

Reference Pricing: Knees and Hips

Figure 1. Average Prices for Knee and Hip Replacement Surgery Before and After the Implementation of Reference Pricing



The price charged by high-cost hospitals dropped from 43 thousand dollars to 28 thousand dollars within a year of implementation of reference pricing. [James Robinson, Expert Voices in Health Care Policy, NICHM, October 2013.]

Medical Tourism: Knees and Hips

Medical tourism involves obtaining care in a foreign country. This may be the ultimate form of competition in health care.

“Very leery” of going to a developing country like India or Thailand, which both draw so-called medical tourists, he ultimately chose to have his hip replaced in 2007 at a private hospital outside Brussels for **\$13,660**. That price included not only a hip joint, made by Warsaw-based [Zimmer Holdings](#), but also all doctors’ fees, operating room charges, crutches, medicine, a hospital room for five days, a week in rehab and a round-trip ticket from America.*

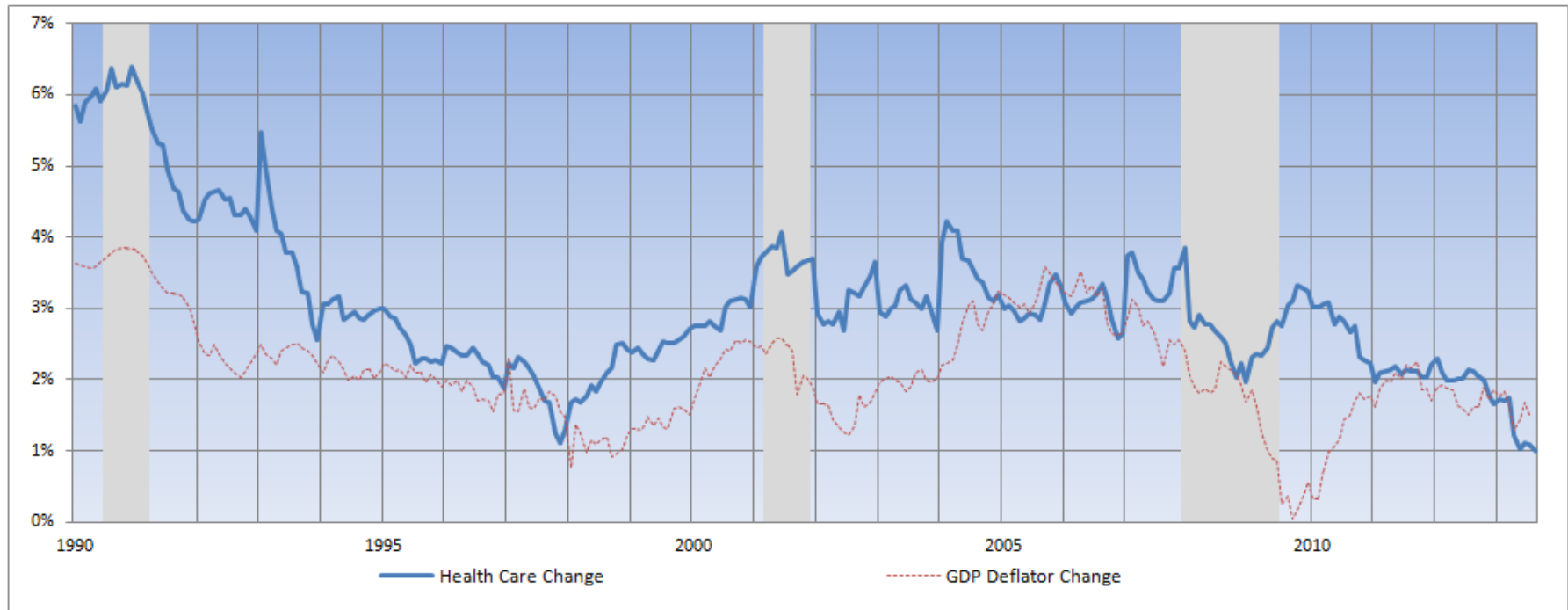
* Elizabeth Rosenthal, New York Times, August 3, 2013

Medical Tourism: Open Heart Surgeries

[Narayana Health in Bangalore](#), India, uses the focused-factory approach to perform open-heart surgeries for \$3,000, versus \$75,000 to \$150,000 in the United States. The total number of open-heart surgeries performed in the United States is about 550,000 — six times India's — but this volume is spread across too many hospitals. The same can be said of other procedures that might lend themselves to mass or [lean production](#).*

* <http://blogs.hbr.org/2013/10/why-cant-u-s-health-care-costs-be-cut-in-half/>

BONUS SLIDES: Trends in Health Care Price Inflation



Source: *Altarum Center for Sustainable Health Spending Monthly Price Brief*

Health care price inflation normally exceeds economy-wide inflation but 2013 has seen a reversal of this trend

BONUS SLIDES: Trends in Health Care Price Inflation

