Making Cent$ of Health Care Costs

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Blue Cross and Blue Shield of Texas

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Our Purpose
To do everything in our power to stand with our members in sickness and in health.

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Agenda

- Growing health care costs
- Challenges for members and employers
- Creating solutions
State of U.S. Health Care

**Overall Health Care Ranking**

- **U.K.**
- **SWITZERLAND**
- **SWEDEN**
- **AUSTRALIA**
- **GERMANY**
- **THE NETHERLANDS**
- **NEW ZEALAND**
- **NORWAY**
- **FRANCE**
- **CANADA**

**Percentage of GDP Spent on Health Care**

Average: 10.4%


Health Care Spending

Health-Care Spending as Percent of GDP

Source: OECD

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After Adjusting for Wealth

Per capita health care spending, 2006
$ at PPP*

2006 R²=0.88

Per capita GDP
$ 50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
0

United States
Spending above ESAW**

Poland
Czech Republic
South Korea
Spain
Finland

Iceland
Canada
Austria
Germany
France

Portugal

* Purchasing power parity.
** Estimated Spending According to Wealth.
Source: Organisation for Economic Co-operation and Development (OECD)

McKinsey Global Institute
Ninety Percent of U.S. Healthcare Dollar Spent Directly on Care

- Hospital Care: 39¢
- Physician/Clinical Services: 22¢
- Prescription Drugs*: 21¢
- Dental Services: 6¢
- Other Medical: 2¢
- Government and Insurance Administration*: 10¢

*Includes prescription drugs administered in a clinical setting.

*Includes both governmental administrative costs for programs such as Medicare and Medicaid, and the administrative costs of private insurance.

Sources: National Health Expenditure Data, Centers for Medicare and Medicaid Services
Agency for Healthcare Research and Quality (AHRQ)
IMS Institute
Personal Health Care by Category
(Source of Expense) 1960 - 2012

Source: Centers for Medicare & Medicaid Services, National Health Expenditures, 2014 release. CCF InfoGraphic Data
Factors Impacting Cost of Care

- Provider Selection
- Payment Models
- Utilization Management
- Case Management
- Disease Management
- Wellness Programs

Trend Line

- Government Payment Cost Shift
- Increase in Provider Charges
- Increase in Utilization
- Advances in Technology
- Legislative Mandates
- Poor Lifestyle Choices

FFS
MORE THAN 50% OF THE WORLD LIVES WITH CHRONIC DISEASE

Source: Center for Managing Chronic Disease, University of Michigan
Many costs are driven by behavior

- **Obesity** – 25% of all Americans got NO exercise in the last month

- **Diabetes** – A non compliant diabetic costs $11,000 more per year than a compliant one

- **Smoking** – $170 Billion per year
But the US is not as sick as Europe

Disease prevalence in the United States is lower than in peer countries for most high-cost medical conditions

<table>
<thead>
<tr>
<th>Disease Condition</th>
<th>US Health Care Expenditures by Disease Condition* ($ billion)</th>
<th>Disease Prevalence: United States vs. Peer Countries** US Prevalence = Peer Counties at 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heart conditions</td>
<td>76.5</td>
<td>95, 106, 105</td>
</tr>
<tr>
<td>Trauma-related disorders</td>
<td>72.5</td>
<td></td>
</tr>
<tr>
<td>Cancer</td>
<td>69.7</td>
<td>98, 105</td>
</tr>
<tr>
<td>Mental disorders</td>
<td>56.0</td>
<td>67, 77</td>
</tr>
<tr>
<td>COPD***, asthma</td>
<td>53.8</td>
<td>67, 86</td>
</tr>
<tr>
<td>Hypertension</td>
<td>42.3</td>
<td>77, 91</td>
</tr>
<tr>
<td>Diabetes mellitus</td>
<td>34.3</td>
<td>86, 97</td>
</tr>
<tr>
<td>Osteoarthritis/other joint disorders</td>
<td>34.2</td>
<td>91, 97</td>
</tr>
<tr>
<td>Back problems</td>
<td>32.5</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>288.5</td>
<td></td>
</tr>
</tbody>
</table>

* Includes 35 of 60 medical conditions surveyed by US Medical Expenditure Panel Survey; the costs of these diseases represent 35 percent of total US health expenditures.

** Peer countries are France, Germany, Italy, Spain, and the United Kingdom.

*** Chronic Obstructive Pulmonary Disease.

Source: Medical Expenditure Panel Survey, 2005; Decision Resources 2006; McKinsey Global Institute analysis

Lower relative disease prevalence in the United States represents an estimated $57 billion to $70 billion in medical cost savings.
U.S. SPECIALTY DRUG SPENDING WILL QUADRUPLE BY 2020.

Projected specialty drug spending from 2012 to 2020.
Spending amounts in US$ billions.

$87.1  
2012

$192.2  
2016  
↑ 121% INCREASE FROM 2012

$401.7  
2020  
↑ 109% INCREASE FROM 2016

Source: PwC Health Research Institute, Medical cost trend: Behind the numbers 2015, June 2014, analysis based on data from CVS Caremark
OECD Expenditure on Pharmaceuticals

10.1. Expenditure on pharmaceuticals per capita, 2013 (or nearest year)

1. Includes medical non-durables (resulting in an over-estimation of around 5-10%).
2. Excludes spending on over-the-counter medicines.

Costly new specialty drugs are a major driver of increased health spending

Express Scripts drug spending growth trend by therapy class, 2006 - 2014

- Specialty Drug Trend
- Traditional Drug Trend
- Overall Drug Trend

The Impact of Hospital Consolidation

Robert Wood Johnson Foundation Study

Key Findings:
• Hospital consolidation generally results in higher prices
• Hospital competition improves quality of care
• Physician-hospital consolidation has not led to either improved quality or reduced costs
Are these ERs or Urgent Care Centers? The answer matters.
Explosion of Free-Standing ERs

50% of the USA’s Free-standing ERs are in Texas

75% Overlap in services between FSEDs and UCC

10X Service Costs are 10X that of Urgent Care

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## Average Cost to Treat (per claim)

<table>
<thead>
<tr>
<th>Diagnosis</th>
<th>Hospital ER</th>
<th>Freestanding ER</th>
<th>Urgent Care Clinic</th>
<th>Retail Clinic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headache</td>
<td>$2,214</td>
<td>$2,472</td>
<td>$170</td>
<td>$80</td>
</tr>
<tr>
<td>Urinary Tract Infection, Site</td>
<td>$1,987</td>
<td>$1,579</td>
<td>$151</td>
<td>$66</td>
</tr>
<tr>
<td>Other and unspecified, Site</td>
<td>$2,527</td>
<td>$2,729</td>
<td>$158</td>
<td>$77</td>
</tr>
<tr>
<td>Acute Bronchitis</td>
<td>$1,298</td>
<td>$1,611</td>
<td>$175</td>
<td>$77</td>
</tr>
<tr>
<td>Acute Upper Respiratory Infection</td>
<td>$872</td>
<td>$1,127</td>
<td>$162</td>
<td>$82</td>
</tr>
<tr>
<td>Dizziness and Giddiness</td>
<td>$2,696</td>
<td>$3,026</td>
<td>$167</td>
<td>$70</td>
</tr>
<tr>
<td>Acute Pharyngitis</td>
<td>$888</td>
<td>$1,331</td>
<td>$166</td>
<td>$86</td>
</tr>
<tr>
<td>Nausea with Vomiting</td>
<td>$2,257</td>
<td>$2,126</td>
<td>$169</td>
<td>$77</td>
</tr>
<tr>
<td>Unspecified Essential Hypertension</td>
<td>$1,872</td>
<td>$2,024</td>
<td>$142</td>
<td>$63</td>
</tr>
<tr>
<td>Lumbago</td>
<td>$1,482</td>
<td>$1,814</td>
<td>$159</td>
<td>$66</td>
</tr>
</tbody>
</table>
Increase in Free-Standing ERs

Data shows 2012-2016.
FSERs are Located in Affluent Areas

Source: Texas Department of Health Services and Census Bureau

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SHOP AROUND: IT COULD SAVE YOU THOUSANDS

COST OF HIP REPLACEMENT SURGERY

LOS ANGELES-LONG BEACH
- MIN: $17K
- MAX: $46K

+1.7x

HOUSTON
- MIN: $18K
- MAX: $45K

+1.5x

MINNEAPOLIS-ST. PAUL
- MIN: $19K
- MAX: $45K

+1.4x

Source: Blue Cross and Blue Shield Association
Transparency Tools: Cost Estimator

MRI (without and with Contrast) Neck Spine

Estimated cost to you: $508—$1,411
Expected cost to your employer: $0—$3,060

Cost Overview

Cost Estimate for MRI (without and with Contrast) Neck Spine

Total cost: $1,732
$864 Your estimated cost
$868 Your employer's expected cost

See breakdown of your cost
Price Transparency For MRIs
Increased Use Of Less Costly Providers And Triggered Provider Competition

Adjusted Cost Per Magnetic Resonance Imaging (MRI) Scan In Intervention And Reference Groups, 2010 And 2012

- Expected cost
- Intervention group
- Reference group

Adjusted cost per test ($): 800, 900, 1,000, 1,100, 1,200

2010 - 2012

$220 (net impact)
Patient Engagement is Necessary

THE HIGH COST OF CHRONIC DISEASES

$128 BILLION¹
ARTHITIS & RELATED CONDITIONS

$147 BILLION²
OBESITY

$157 BILLION³
CANCER

$315.4 BILLION³
HEART DISEASE AND STROKE

Source: Centers for Disease Control and Prevention

¹ 2003
² 2006
³ 2010
Incentives are necessary
Redefining Value in Health Care

VALUE = QUALITY + COST

QUALITY:
- Achieve better outcomes
- Increase safety
- Improve satisfaction

COST $:
- Reduce avoidable medical spending
- Decrease total cost of care
Value Creation in New Models

**Continuum of Payment Models**

- Fee-for-Service
- Pay for Performance
- Bridges to Excellence
- Our Medical Home Approaches: EMH & IMH
- Episodes of Care
- Accountable Care Organization
- HMO Global Payment

Provider Accountability (cost & quality)
Hospital A

$2,000 per member per year;
Attracts 500 XYZ employees

Total costs = $2,000 x 500 = $1 M

New ACO to cut 10% costs

Hospital B

$1,000 per member per year;
Attracts 500 XYZ employees

Total costs = $1,000 x 500 = $0.5 M

Total Cost $1.5M

Total Cost $1.64M

$1,800 per member per year;
Attracts 800 members

Total costs = $1,800 x 800 = $1.44 M

$1,000 per member per year;
Attracts 200 XYZ employees

Total costs = $1,000 x 200 = $0.2 M

Beware of ACOs in Name Only
Zooming in on an individual physician provides insight into who that physician connects with and how the efficiency of their connections impacts their efficiency.

<table>
<thead>
<tr>
<th>Node Color</th>
<th>Efficiency</th>
<th>Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>High</td>
<td>75% - 100%</td>
</tr>
<tr>
<td>Yellow</td>
<td>Med-High</td>
<td>50% - 75%</td>
</tr>
<tr>
<td>Orange</td>
<td>Med-Low</td>
<td>25% - 50%</td>
</tr>
<tr>
<td>Red</td>
<td>Low</td>
<td>0% - 25%</td>
</tr>
</tbody>
</table>
Our Accountable Care Organizations

**Midland**
- Integrated ACO*

**El Paso**
- National ICN, Inc. (Tenet)

**Kerrville**
- Hill Country Accountable Care Organization, LLC*

**San Antonio**
- Christus Connected Care Network*
- Integrated ACO*
- National ICN, Inc. (Tenet)
- RGV ACO Health Providers, LLC*
- UPSA ACO, LLC

**Lubbock**
- Covenant Health Partners*

**Dallas/Ft. Worth**
- Catalyst Health Network
- National ICN, Inc. (Tenet)
- Patient Physician Network Holding Company LLC.*
- Premier PHC Physician Group, Inc.*
- Texas Health Resources (THR)
- TXCIN
- USMD Physician Services*

**East Texas**
- Christus Connected Care Network*
- East Texas Regional Accountable Care Collaborative, LLC

**Houston**
- Houston Regional Accountable Care Organization, LLC
- Memorial Hermann Accountable Care Organization
- National ICN, Inc. (Tenet)
- Platinum Physician Associates
- PracticeEdge Alliance ACO LLC.
- Renaissance Physician Organization
- Village Practice Management
- The University of Texas Medical Branch at Galveston*

**Laredo**
- Seven Flags ACO LLC*

**Rio Grande Valley**
- National ICN, Inc. (Tenet)
- Osler Medical Group ACO, LLC*
- RGV ACO Health Providers, LLC*
- Valley Organized Physicians, LLC*

* Denotes new ACOs
Welcome to Physician-Led Accountable Care

The Future of Independent Medicine
Key Takeaways

• Health care costs are growing, and we must work together to keep health care affordable.

• Employers and consumers carry the weight of a heavy portion of health care costs.

• Creative solutions include increasing cost transparency and moving toward fee-for-value reimbursement.