

# The Four R's --

**Reengineer, Repackage, Reprice  
and Re-activate --**

**A Strategy to Reduce Health Care  
Costs in America**

**Alliance of CEOs**

*George C. Halvorson  
Chairman and CEO  
Nov. 11, 2011*

U.S. Health Care generates  
\$2.8 trillion in annual revenues.

Health care is the fastest growing  
segment of our economy.

**By itself, the American Health Care Expenditure Level is larger than the total economies of all but five countries -- including the United States: Only China, Japan, India, and Germany have total economies larger than U.S. health care all by itself.**

Source : CIA Source book, 2009 est. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>

**Average family premium  
in the U.S. -- \$16,000**

**Minimum wage for a full-time worker in the U.S. --  
\$14,000**

**Complete salary and benefits  
for a Systems Engineer in  
Bangalore, India -- \$12,000**

**We need health care reform  
in America because  
we need much more  
affordable care.**

## **Four Key Components of Basic Reform**

**1) Coverage**

**2) Care**

**3) Cost**

**4) Health**



**We need to focus our  
attention on achieving  
affordability by making care  
better and smarter.**

**There is more than enough  
money in American health  
care now -- it is not efficiently  
and effectively used.**

**We should reengineer and  
reprice care to get increases  
in care costs down to CPI  
in four years.**

**Agriculture used to involve  
thirty percent of our workforce and food  
consumed forty percent of a family's cash flow.**

**Now agriculture involves less than two percent  
of the work force and consumes less than ten  
percent of the average family budget.**

**We can't get to CPI cost  
increase levels in one year or  
with one change in practice.**

-- But --

We can get there in several years if we reengineer care, make care safer, connect care, reprice care, computerize care data, and regulate a few key pieces of care.

## Kaiser Permanente

- 1) Vertically Integrated (All Major Care Components)
- 2) Prepaid
- 3) Relevant Size
  - 8.8 million members
  - 180,000 workers
  - \$45 billion in revenue

## **Kaiser Permanente**

- 1) Fully electronic care support**
- 2) Ten million medical records**
- 3) Thirty million electronic contacts**
- 4) Largest electronic medical library for care support**



## **KP Current Electronic Medical Library**

- 1) Medical Journals / Papers / Text Books / Research Resources
- 2) Key Protocols
- 3) Best Practices
- 4) Real Time Access – Point of Care
- 5) Instantaneous Revision
- 6) Order Tests / Prescribe Drugs
- 7) Patient Information Print Outs
- 8) Continuous Improvement (6<sup>th</sup> Generation)

(Only Kaiser Permanente physicians have this tool kit.)

## **Basic Premise --**

**1) All / All / All**

**2) Make The Right Thing Easy To Do**

## **Success Levels --**

- HIMMS Wins (35 “Stage Seven” Awards)**
- HEDIS Wins (21 Best In Country Scores)**
- Leapfrog Group Wins (16 Hospitals)**
- System Availability Uptime Institute Wins (6)**
- JP Power -- Best Health Plan for Service**
- HIMSS Organizational Davies Award**

## **Success Levels (cont'd) – (“Star Wars”)**

**-- 459 Health Plans Were Rated by Medicare --**

- ✓ Nine Health Plans received five stars**
- ✓ Five Kaiser Permanente regions won five stars and the other three Kaiser Permanente regions received 4.5 stars.**

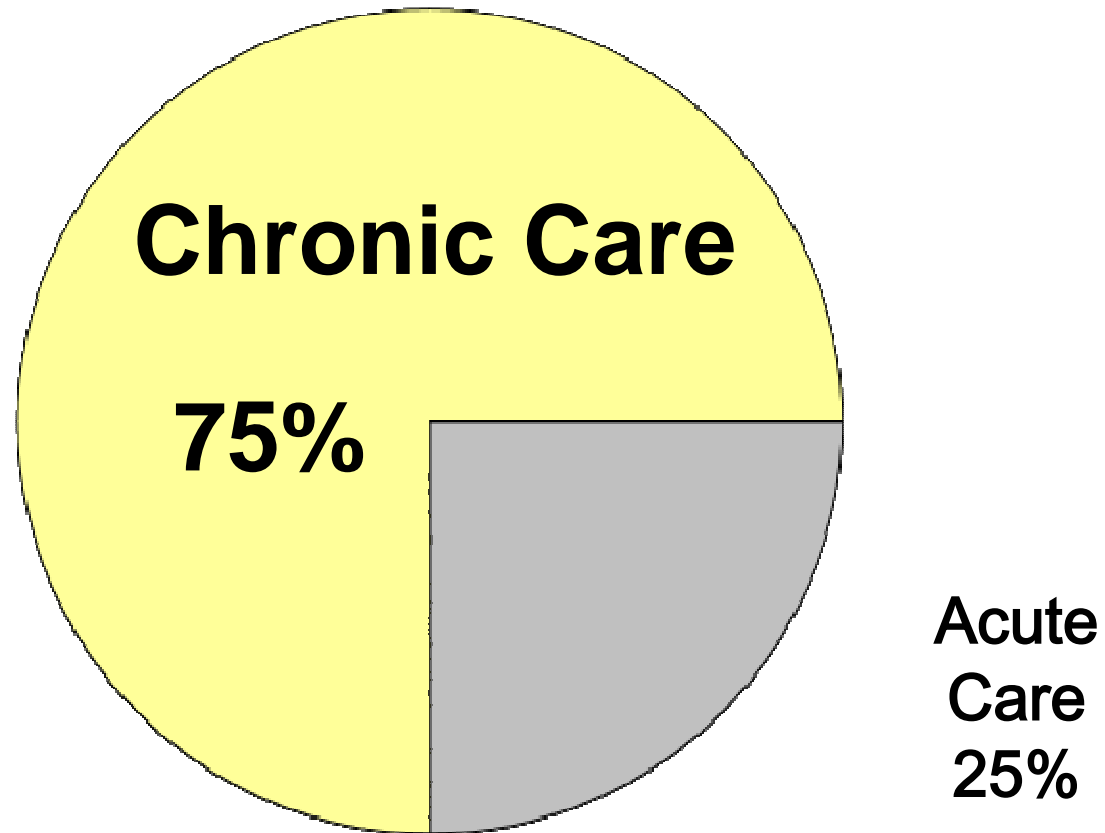
**(Service, Quality, Satisfaction Levels and Process Functionality)**

## **Care Improvement Performance Successes**

- Fewer heart attacks**
- Fewer asthma complications**
- Fewer broken bones**
- Shift change error reduction**
- Zero reportable pressure ulcers**
- Sepsis deaths cut in half**

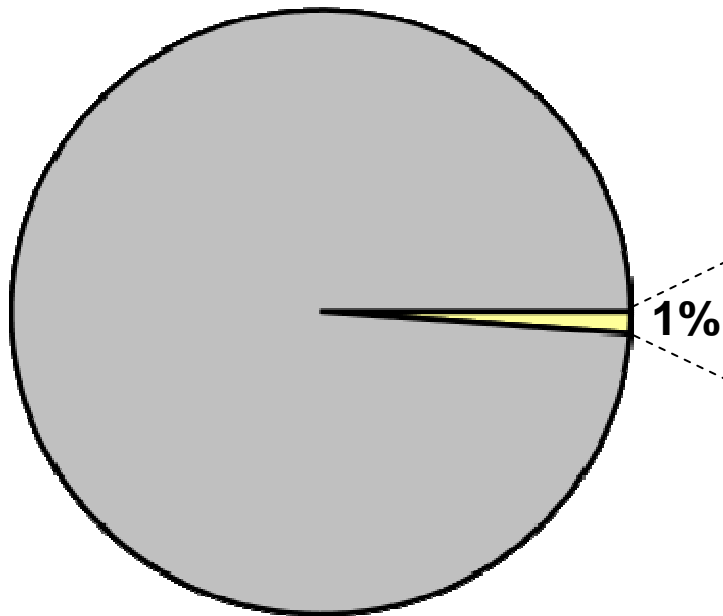
**(Care can be reengineered)**

# Major Cost Drivers For The Country

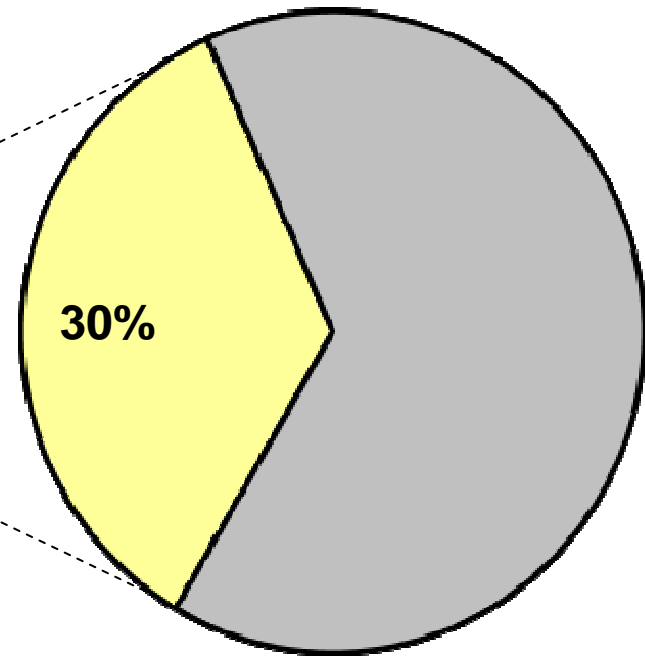


# Cost Distribution of Care

Population



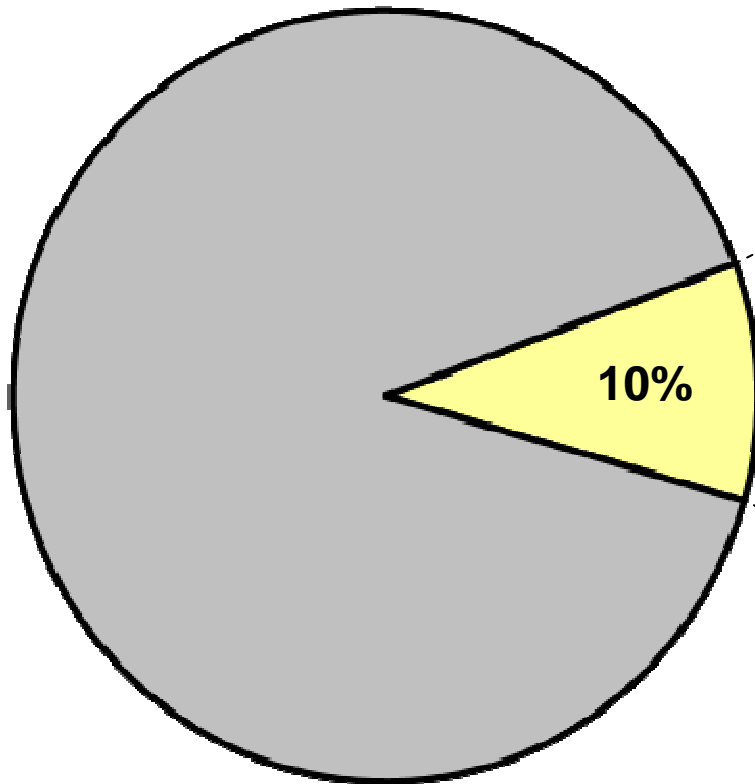
Cost



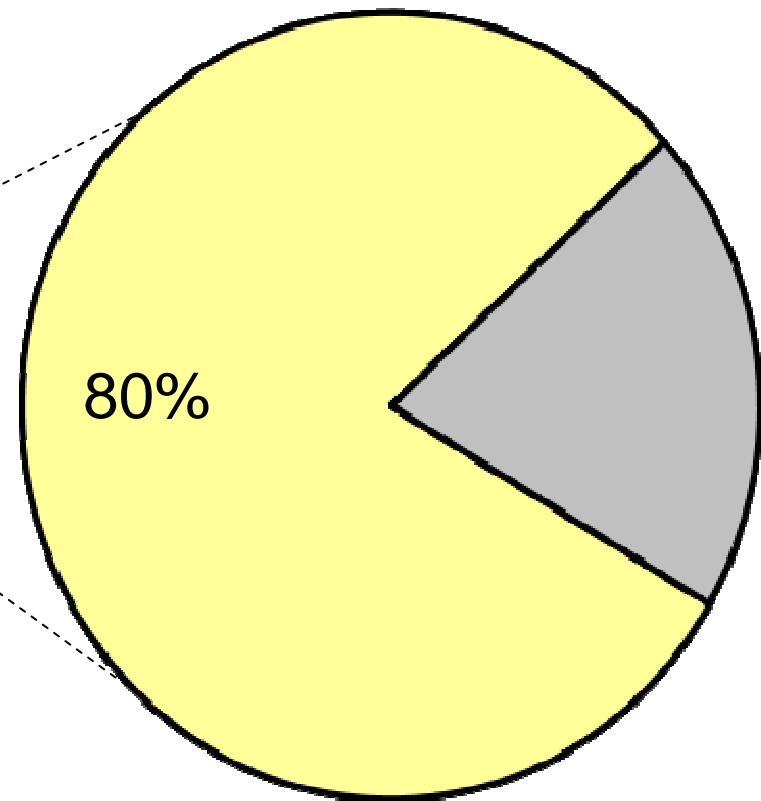
-- Costs are not evenly distributed --

## Huge Opportunity for Focus

U.S. Population



U.S. Care Costs



Care improvement should focus on high leverage interventions and high impact preventions.



**Chronic care is a  
team sport.**

# **Teams Need --**

**1) Identity**

**2) Function**

**3) Captains**

**4) Connectivity and Tools**

**(Medical Homes -- ACO's -- Basic Care Teams)**

## **We Need The Right Payment Model --**

**Prepayment and package prices can empower and enable both process engineering and continuous improvement / reengineering.**

## **Fee For Service As a Payment Model** **(Traditional Payment Mechanism)**

- 1) Perverse incentives**
- 2) Focus on process vs. outcomes**
- 3) Rewards entire categories of errors, bad care and mistakes**
- 4) Cripples innovation and process redesign and process improvement**

## **Packaged Payments Allows Innovation and Process Engineering to Happen**

**KP does nine key things to reduce  
broken bones by roughly half --  
six of the nine KP steps are not billable  
for either Medicare or Commercial  
Insurance**

Reengineering has huge  
upside potential for reducing  
the costs of care.

**-- Fifteen Million E-Visits**

**-- Twenty Million Follow-up Lab Visits**

Thirty-five million visits that would  
be individually billed in a  
non-connected, fee-for-service  
care environment.

(Patients love e-visits)



## **Fee-For-Service Issues**

- 1.7 million hospital infections**
- Sepsis as number one cause of death**
- Growing pressure ulcers**
- 1.9 million medication errors**

**(Fee-For-Service Payment Models Reward  
Caregivers for those deficiencies)**

## **Reengineering Wins --**

- Sepsis deaths reduced by half**
- Pressure Ulcers reduced by half**
- Shift change error rate reduced by half**

## **3 R's of Direct Cost Mitigation**

- 1) Reengineer
- 2) Regulate
- 3) Reprice

**We need business model  
changes to accomplish all  
three of those agendas.**

**America Needs a New Business Model for  
Care That Creates --**

- A) Safety**
- B) Better Care**
- C) Better Outcomes**
- D) Better Prices**

## **Business Model Cash Flow Enhancements**

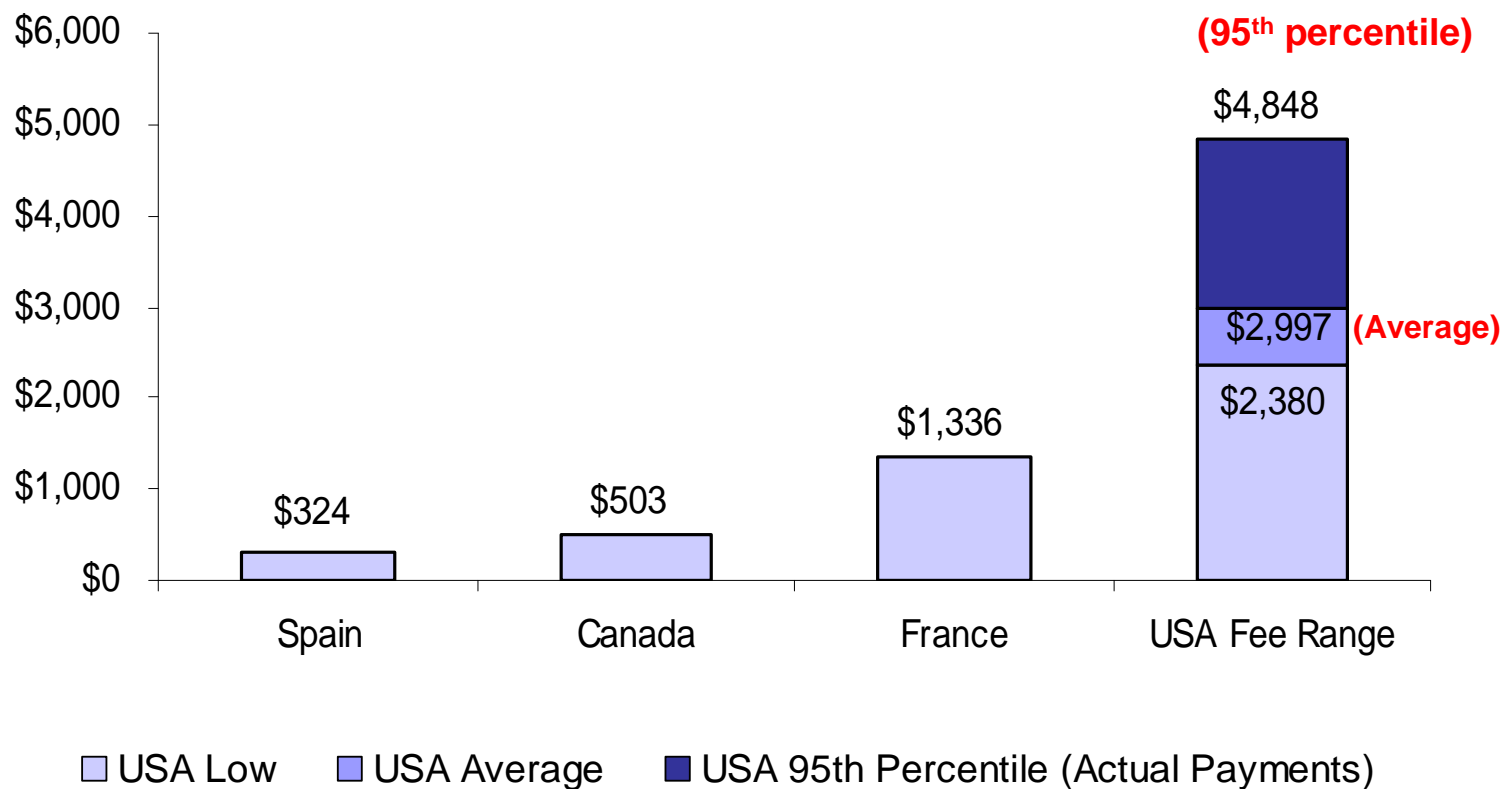
- 1) Prepayment
- 2) Packages of care
- 3) French model of price-relevant benefit design
- 4) Focus on team care – value based benefit design that steers patients with co-morbidities to team care.

**We very much need to look at  
care prices in America.**

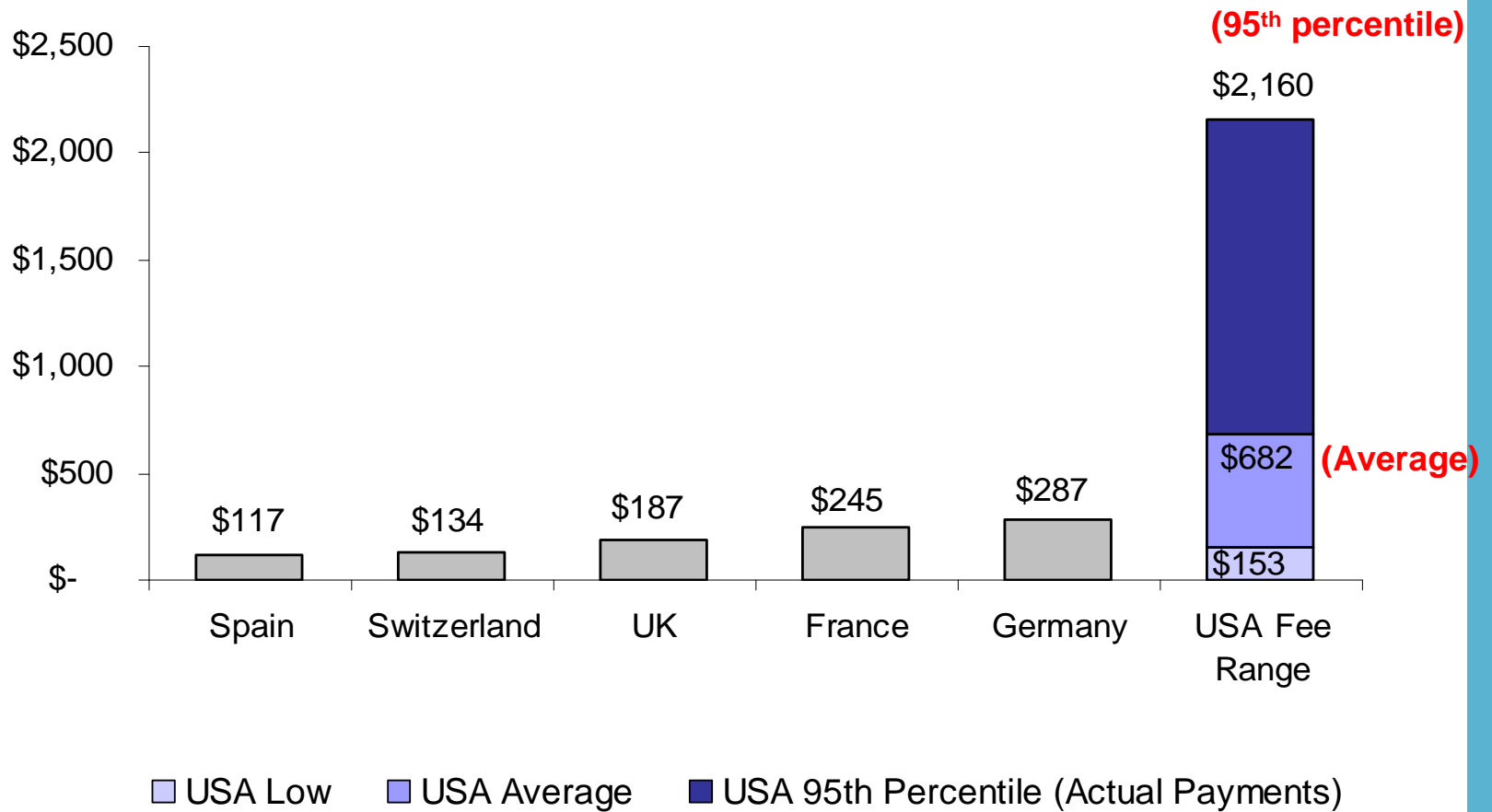
**We have the highest unit prices for care in the world.**



# Physician Fees: Normal Delivery (US\$)

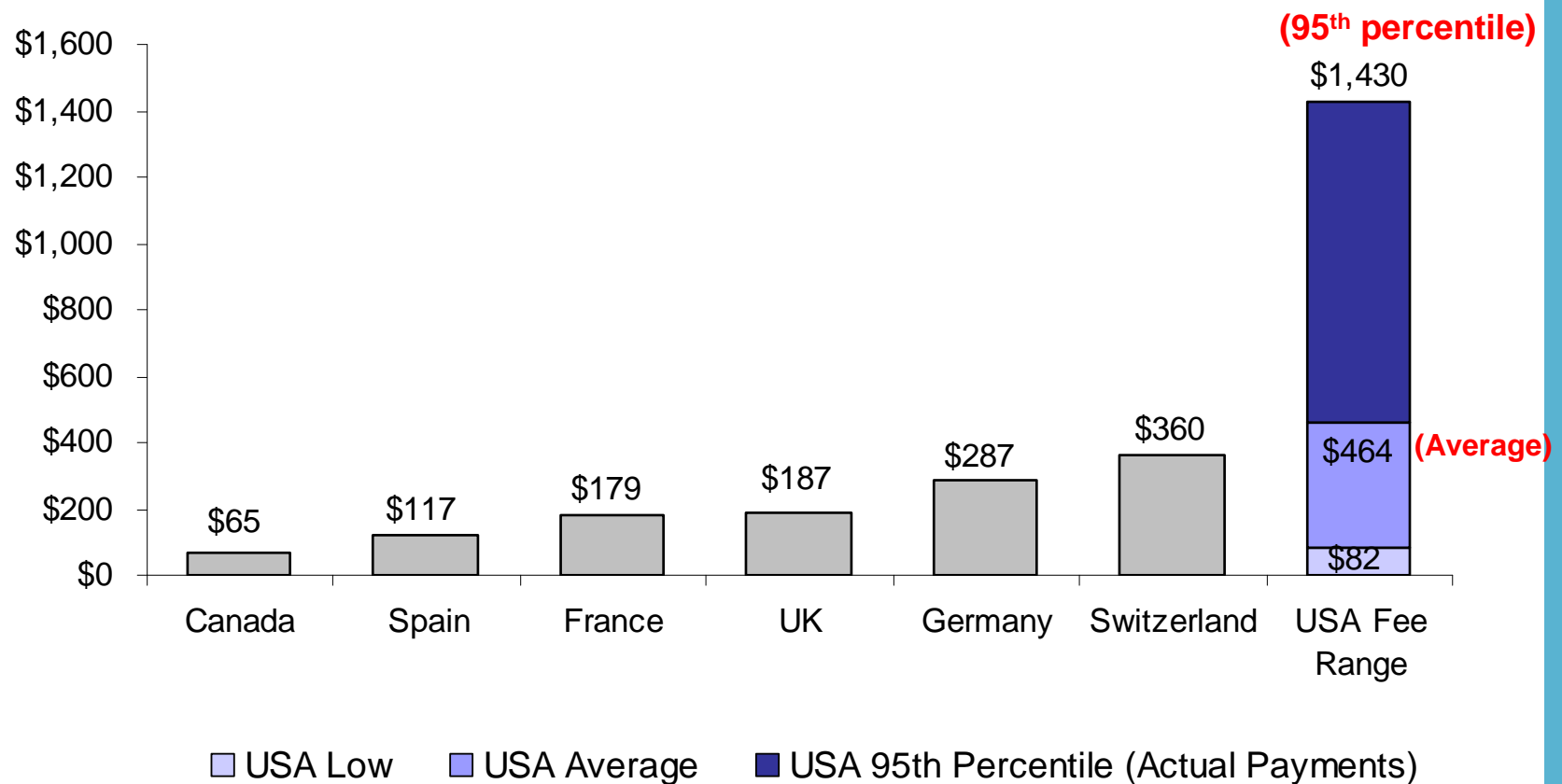


# Scans and Imaging Fees: Angiogram (US\$)



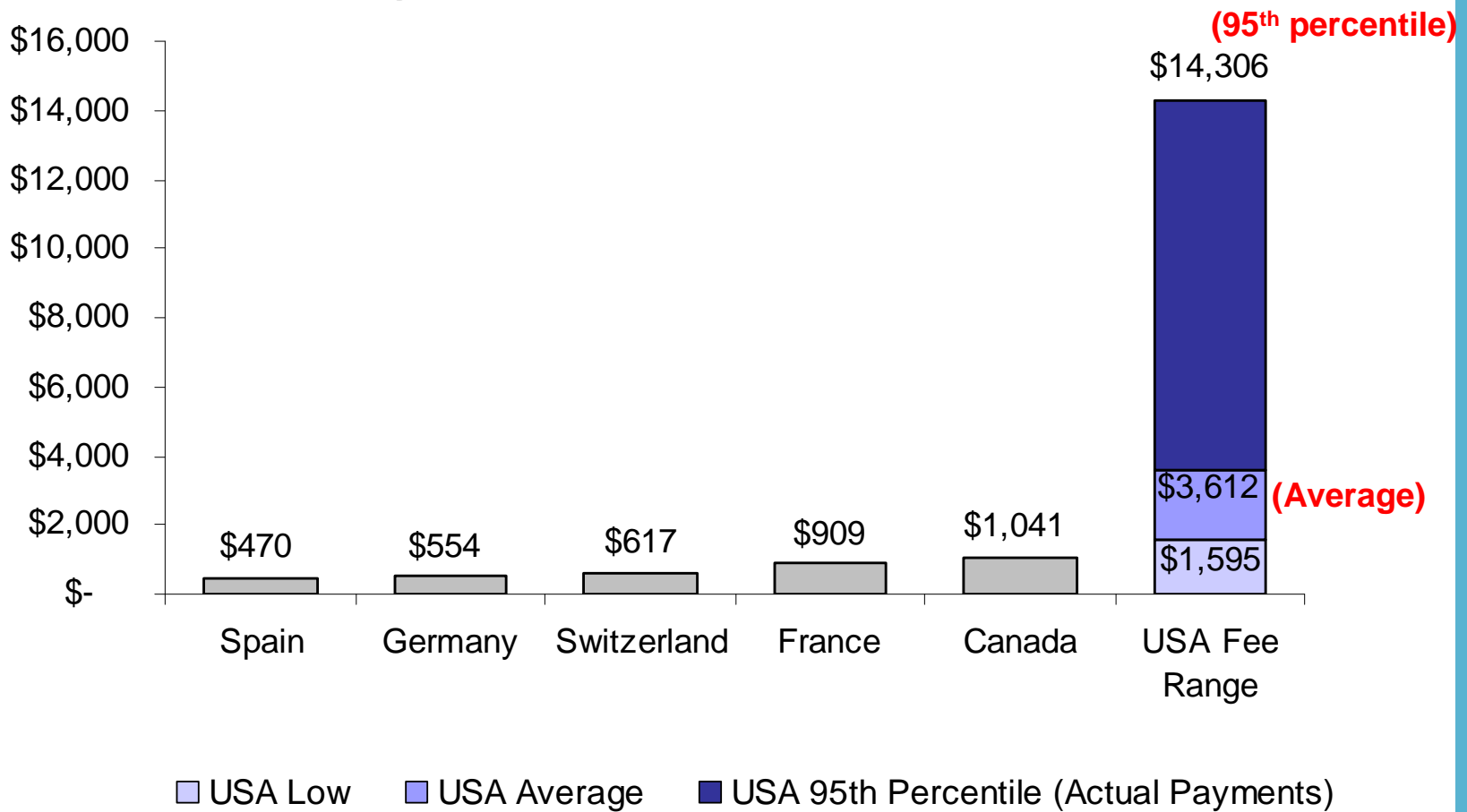
# Scans and Imaging Fees:

## CT Scan: Head (US\$)

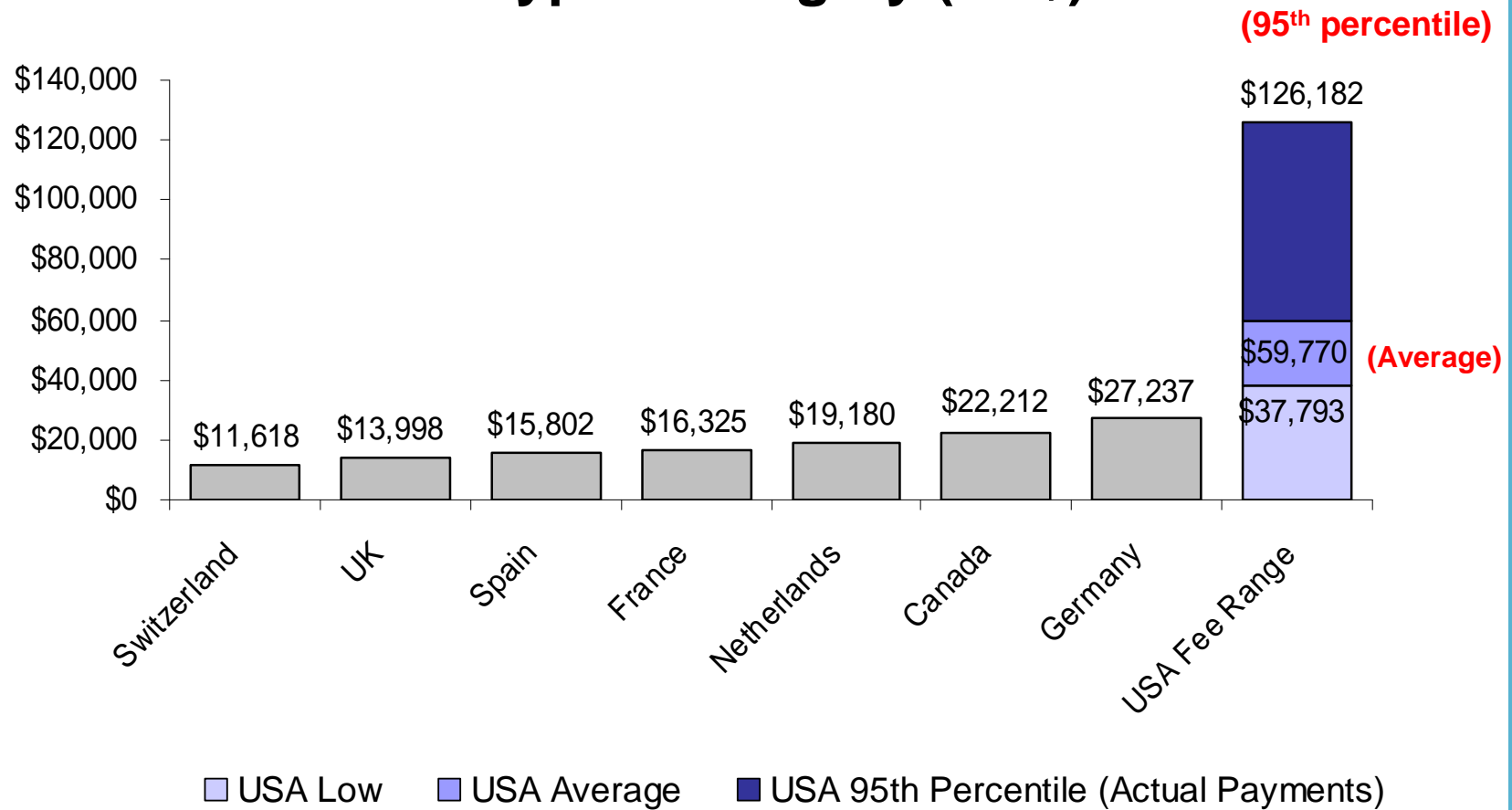


# Hospital Charges:

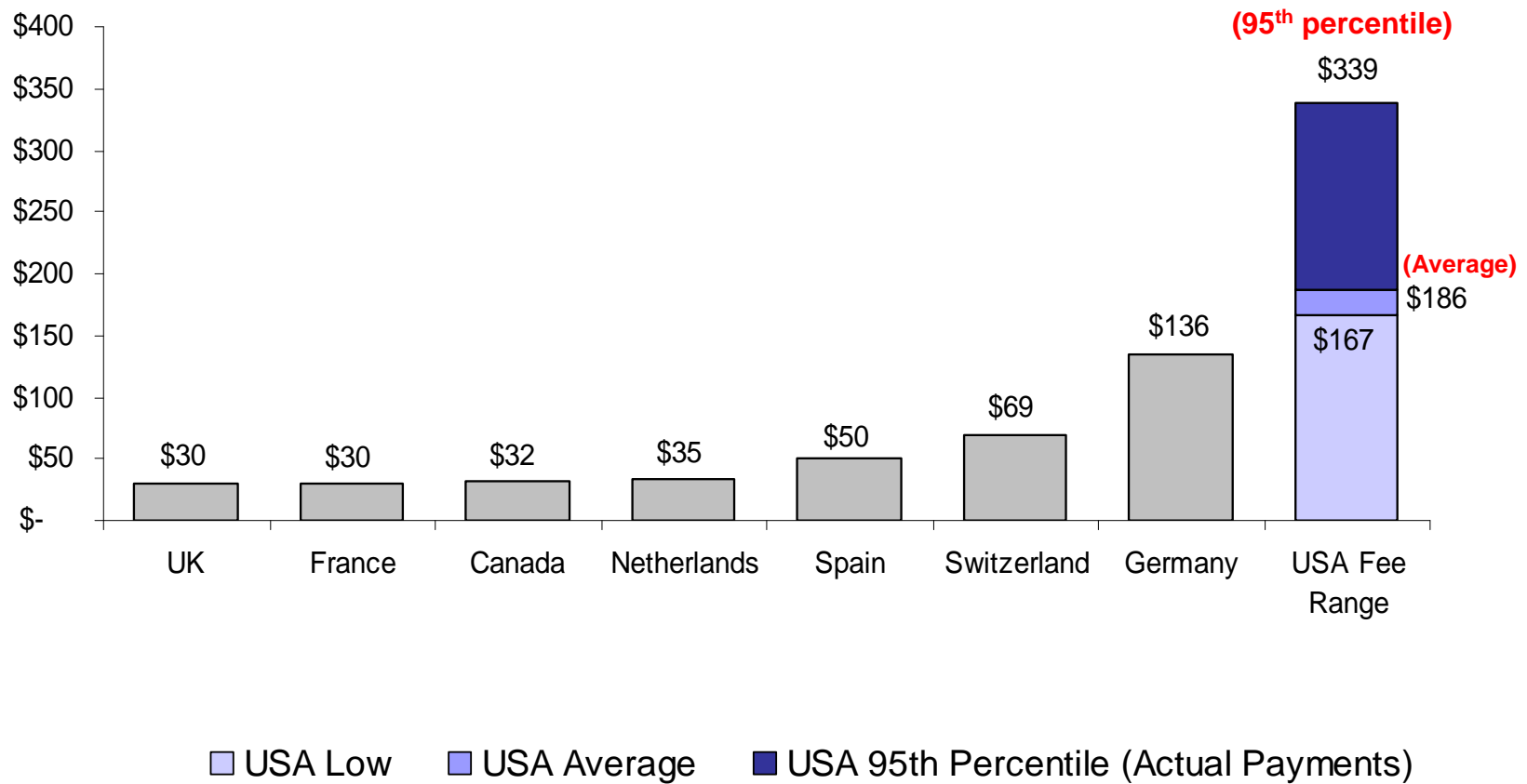
## Average Cost Per Hospital Day (US\$)



# Total Hospital and Physician Costs: Bypass Surgery (US\$)



# Drug Prices: Nexium (US\$)



# How Important Are Fee Levels To The Total Cost Of Care in the U.S.?

-- Compare Canada to the U.S.  
-- If we delivered all of the care we deliver today in this country -- every single visit, scan, prescription, surgery, medical procedure and hospital admission -- and if we simply repriced each piece of American care at Canadian levels -- we would drop our percentage of the GDP spent on care...

From roughly 18%  
--To less than -- 12%

**We cannot continue to ignore prices and fees as a cost driver for care in this country.**

## **French Model**

- 1) Prices are relevant.**
- 2) High priced vendor choices by patients don't increase premiums for other patients.**
- 3) Consumers get 1<sup>st</sup> dollar coverage for key services.**



**Premiums Are Now The Average Cost of Care**

## **ACA Loss Ratio Law**

(Focus will shift to provider costs and prices)

## **Fee Horror Stories Now Relevant --**

- \$30,000 Ultrasounds**
- \$27,000 ER Activation Fees**
- \$25,000 Delivery Fees**
- Proctological Exam-- \$400 to \$4,000**

## Payer Backlash Beginning --

# Ultrasound at \$59,490 Spurs Aetna Outrage in Suit Naming Doctors

[Aetna Inc. \(AET\)](#) is suing six New Jersey doctors over medical bills it calls “unconscionable,” including \$56,980 for a bedside consultation and \$59,490 for an ultrasound that typically costs \$74.

## **\$10 drug now \$1500 after FDA grants monopoly**

“A progesterone hormone injection, used to prevent preterm labor, used to be \$10 a shot. Now that the FDA has assigned an exclusive right to create the easily-made formula to one company, KV Pharmaceuticals, the price has risen to \$1500.”

**We need to buy packages  
of care at an affordable price  
(including prepayment for a complete  
package of care).**

**Or**

**We need to put fees in front  
of consumers at  
the point of care and make them  
relevant to the patient.**

- Package prices allow providers to reengineer.
- Price relevance brings prices down.

## Lasik Eye Surgery

\$2,000 per eye

## Lasik Eye Surgery

\$2,000 per eye



\$1,500 per eye



## Lasik Eye Surgery

\$2,000 per eye



\$1,500 per eye



\$1,000 per eye



\$500 per eye

## **Care Was Reengineered**

- New anesthetic**
- New portable eye laser**
- New recovery setting**
- Better diagnostic scanner**
- Leaner staffing model**
- Better care and better care measurement**

## **Other Business Model Evolution Wins**

**-- Heart Transplants**

**-- Ninety-Day Guarantees**

## **Fees Are a Huge Opportunity Area**

- 1) All invented**
- 2) No inherent legitimacy for any fee**
- 3) Huge variation today**
- 4) Untapped resource for cost mitigation**
- 5) Major fees are invisible to consumer**

## **Next Steps**

- Private buyers should coordinate safety agenda with CMS**
- Prepayment wherever possible**
- Packaged care for appropriate services**
- Channel patients to team care**
- Full data on process, outcomes, and cost**
- Cap cost shift**

**We also need to improve health.**

**Chronic care drives nearly eighty percent of total care costs in the U.S.  
(over half for the world)**

**Chronic care needs are created  
by individual behaviors --  
food intake, weight, smoking  
and physical inactivity.**

**We need to help people  
eat better (and less) and  
become physically active.**



**Physical activity is easier to achieve than weight loss. Activity creates positive neurochemicals instead of negative neurochemicals -- so it is much easier to both improve activity levels and sustain them over time than it is to lose weight and keep it off.**

**Fit Beats Fat**

## **Benefits of Walking**

### **Daily Walking has huge value**

- **Prevents and manages diabetes**
- **Prevents heart disease and strokes**
- **Prevents and treats depression and anxiety**
- **Helps manage asthma**
- **Lowers the rate of some cancers**

**A Moderate Amount of Walking Has a Huge Impact**

**Walking 30 minutes a day,  
five days a week can cut new  
cases of diabetes in half.  
(Losing ten pounds as well can  
cut the rate of new diabetics by  
nearly two thirds.)**

# Two Fifteens Will Do The Trick

**The best news is we can achieve the 30 minutes  
a day in two 15-minute time periods**

- It doesn't have to be a continuous half hour. --**
- We can achieve health goals with two 15's. --**

**[www.everybodywalk.org](http://www.everybodywalk.org)**

**From a purely  
practical perspective --**

**Walking is our best hope  
and our best strategy.**

**Walking is the best, most accessible, and most likely to succeed health improvement option for most people.**

## **We Need Affordable Health Care**

- 1) Better care**
- 2) Price competitive care**
- 3) Buying care by the package and not by the piece**
- 4) Proactive prevention to reduce the need for care**
  - Walking is a great next step.**



**Be well**

**[www.everybodywalk.org](http://www.everybodywalk.org)**