

Fixing Health Care – The Role of Public & Private Sector Leadership

Center for Nonprofit and Public Leadership

10th Annual Public Leadership Dinner

A close-up photograph of a hand holding a glowing, translucent globe. The globe shows the continents of North and South America. In the background, a person's face is visible, looking towards the camera. The lighting is soft and focused on the hand and globe.

Leonard D. Schaeffer
Judge Widney Professor, USC
Regents' Lecturer, UC Berkeley 2006

April 7, 2008
International House
UC Berkeley



Agenda

- ▶ **Health Care Economics**
- ▶ **Questions re: Value**
- ▶ **Federal Deficit / Politics**
- ▶ **Health Care's Challenges**
- ▶ **Leadership & Management Required**

Spending More, Performing Worse

- **McKinsey study:** U.S. spends \$526 B more on health care than peer OECD countries after adjusting for wealth
- **Additional spending related to both volume and price**
 - Higher input costs due largely to prices
 - Higher delivery process costs due to system structure and complexity
 - Higher intermediation costs due to regulatory structure and complexity
- **U.S. spends \$6,102 / person— > 2x OECD avg. of \$2,552, yet compared to 30 OECD countries:**
 - 16% of Americans uninsured
 - U.S. ranks 22nd in life expectancy
 - U.S. ranks 26th in infant mortality rate

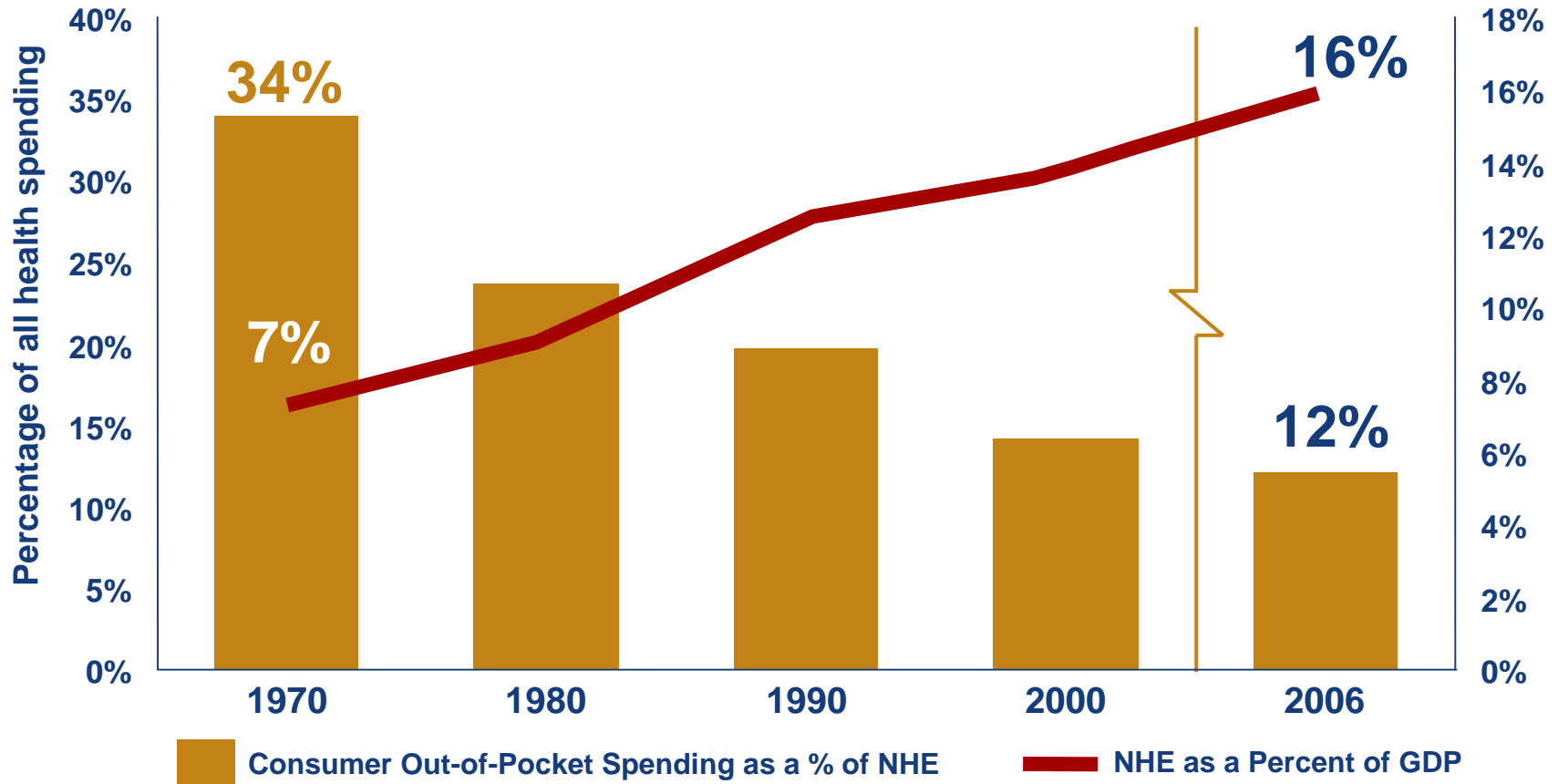
The U.S. ranked **last** among six industrialized nations on **safety & coordination of care measures** according to Commonwealth Fund

* Durable medical devices, hospital disposable supplies, blood products, hospital equipment, etc.

Source: McKinsey Global Institute analysis; \$526 B is US spending above peer OECD before adjustment for US spending below the long-term care spending pattern of peer OECD nations.

Employers Shoulder the Burden

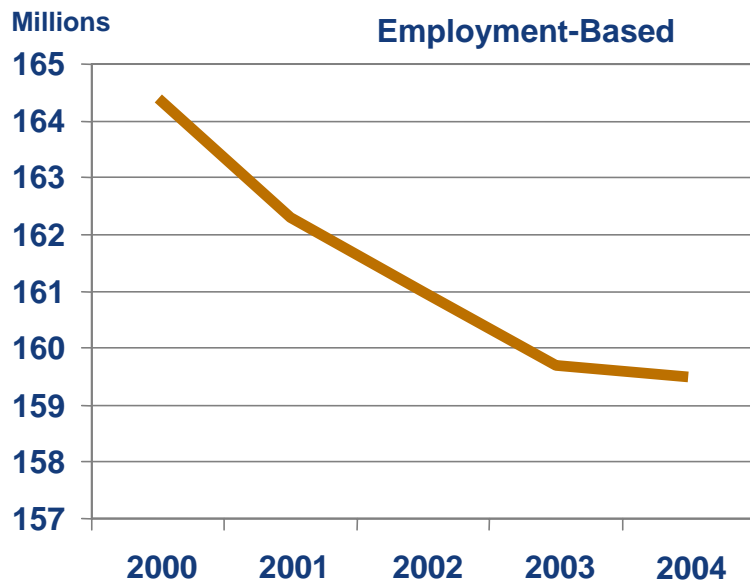
The percentage of health care costs paid by consumers has dropped dramatically since 1970



Marketplace Shifting

Employer Coverage Eroding

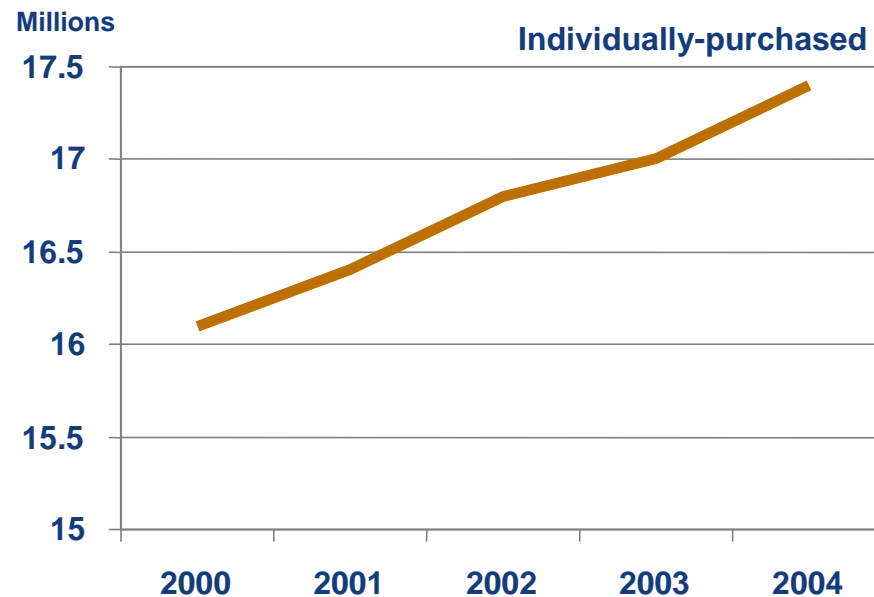
Employment-based coverage peaked in 2000



Coverage fell by almost 5 million

Individual Market Growth

Individual market absorbed some leaving group coverage



Coverage increased 1.3 million



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Questions Re: Value

- **Hospital Care**
- **Evidence-Based Care**
- **Variation & Affordability**

Health care consumes **16%** of the GDP, but independent research confirms **we don't know what we're getting for our money.**

Hospital Care

Using Medicare claims data, investigators found:

- Where people live, who treats them, and in what hospital – not their illness – determines how much care is given and how much money is spent
- Hospitals providing more care for one condition have similar patterns for other conditions
- Level of care intensity likely to apply to commercially insured patients

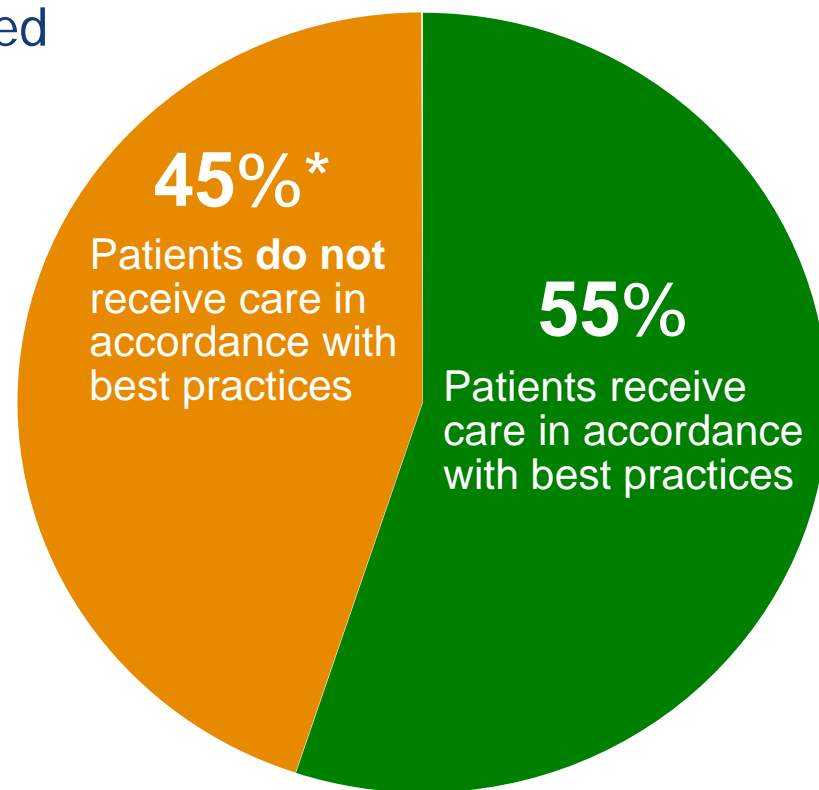
Dartmouth research
shows: **More care
and higher
spending does
not result in
better outcomes.**

Evidence-based Care

Percent of Recommended Care Received

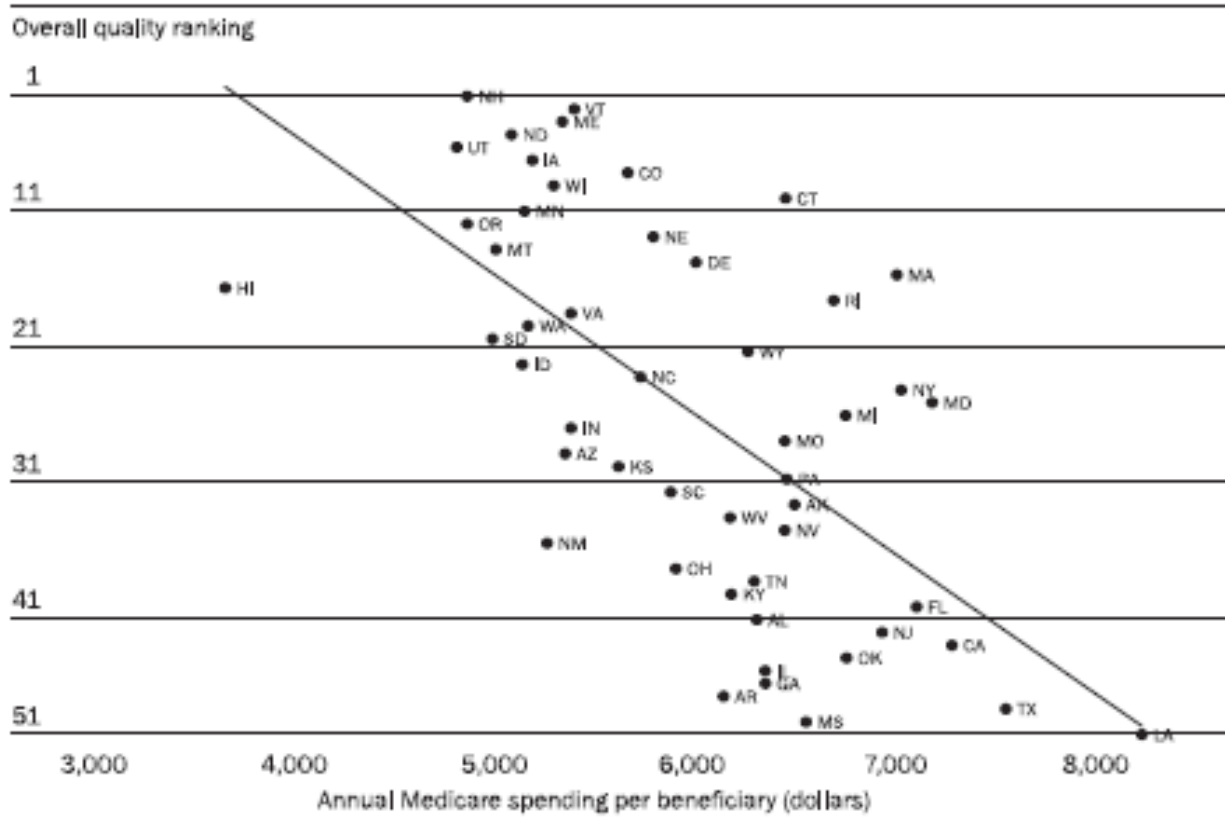
64.7%	Hypertension
63.9%	Congestive Heart Failure
53.9%	Colorectal cancer
53.5%	Asthma
45.4%	Diabetes
39.0%	Pneumonia
22.8%	Hip Fracture

"Nearly one-half of physician care is not based on best practices."



* Even worse for children: A 2007 RAND study found 53.5% of children do not receive appropriate care

Variation and Affordability



“Higher spending is associated with lower quality of care.”



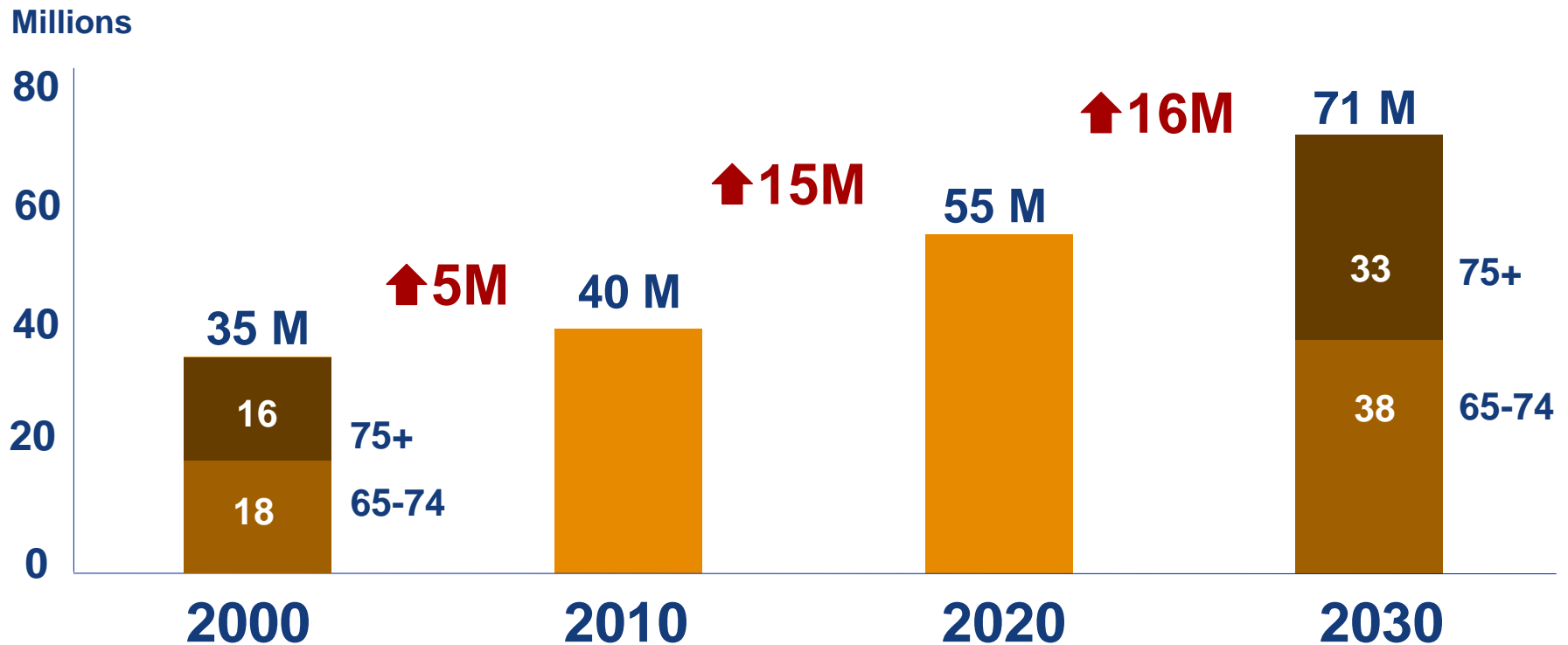
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Aging Population Important Cost Driver Through 2030...

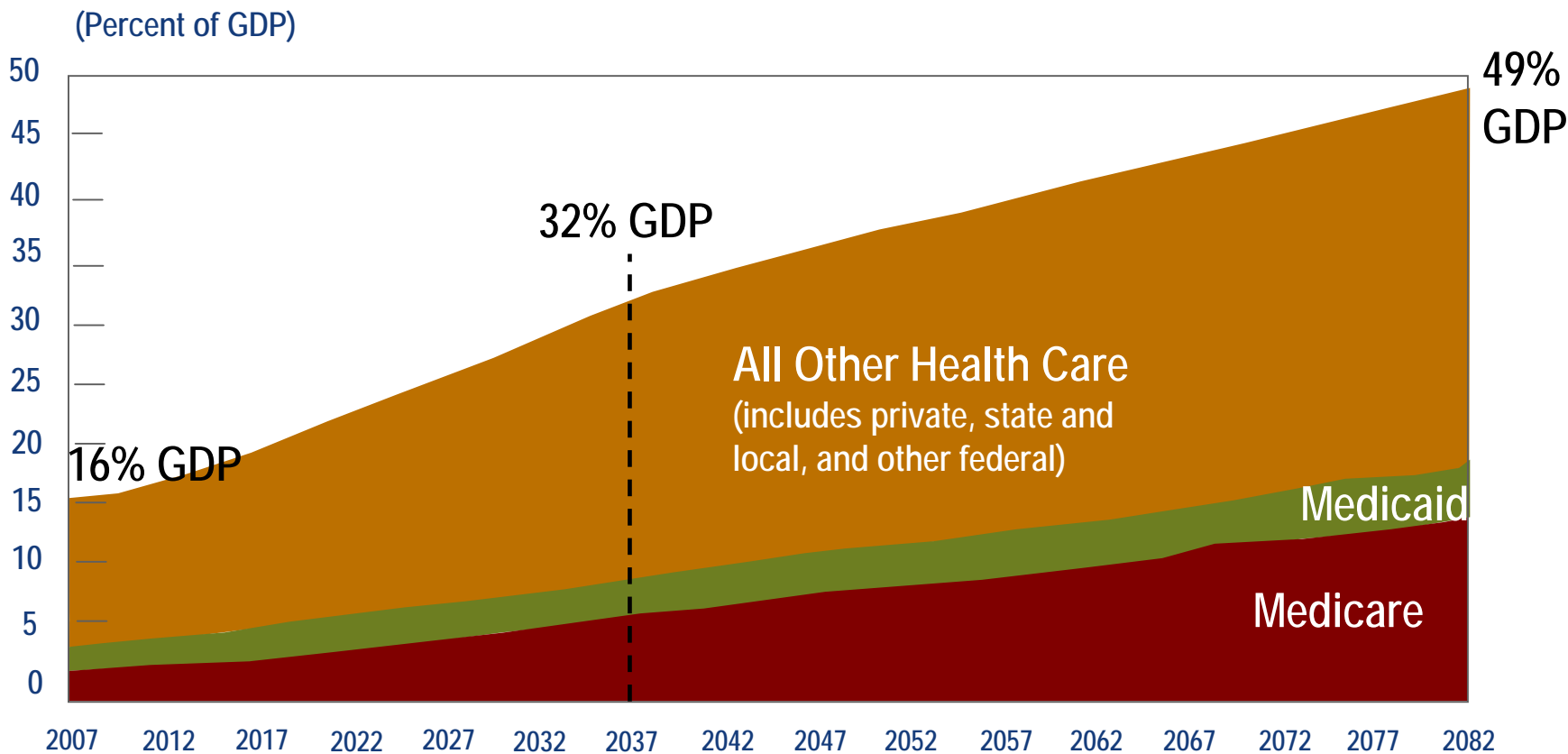
Elderly population will double in next 25 years

Projected U.S. Population, 65+ Years of Age, 2000-2030



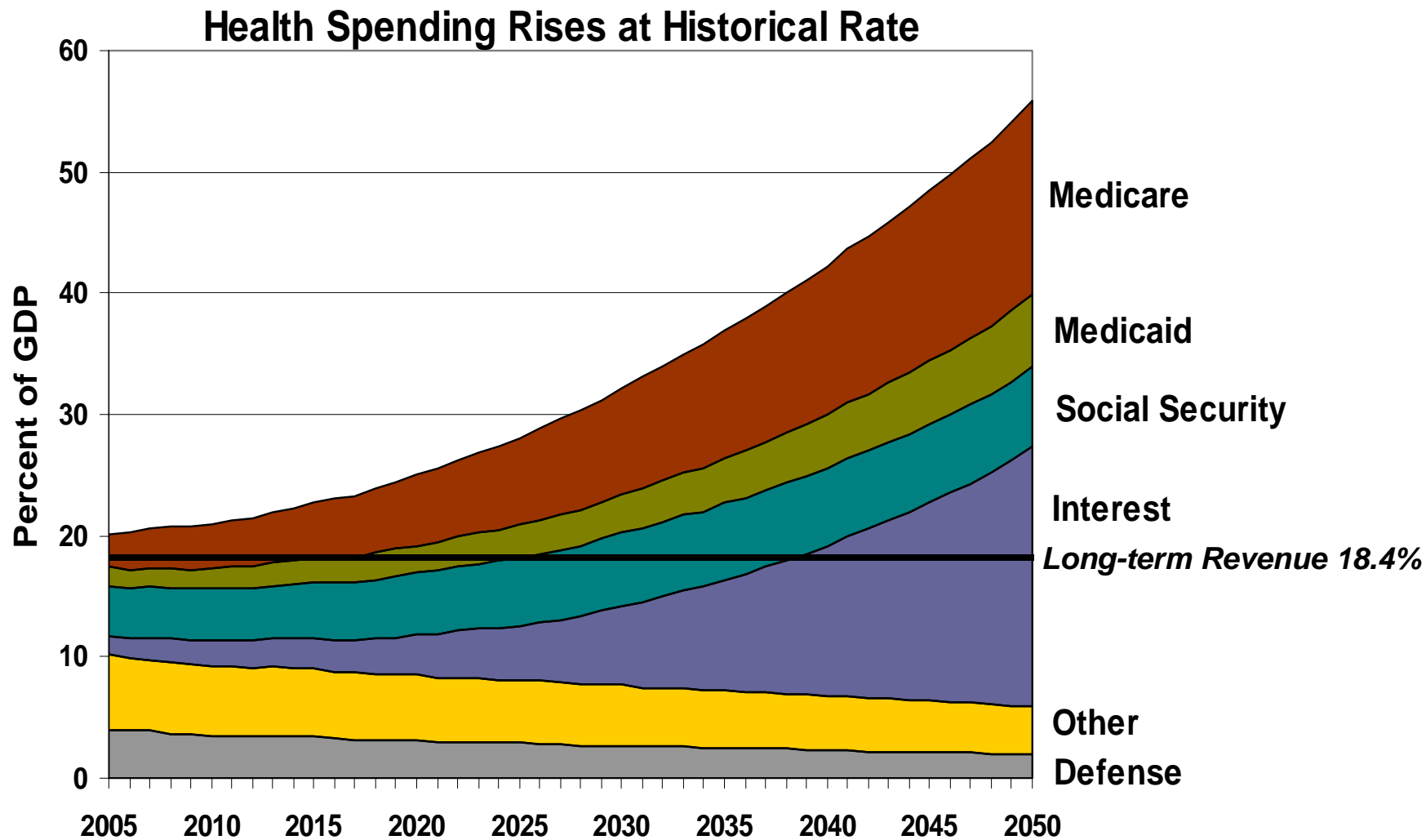
Long-Term, Rising Health Care Costs Significant Threat To Economy

Projected Spending on Health Care as a Percentage of Gross Domestic Product (GDP)

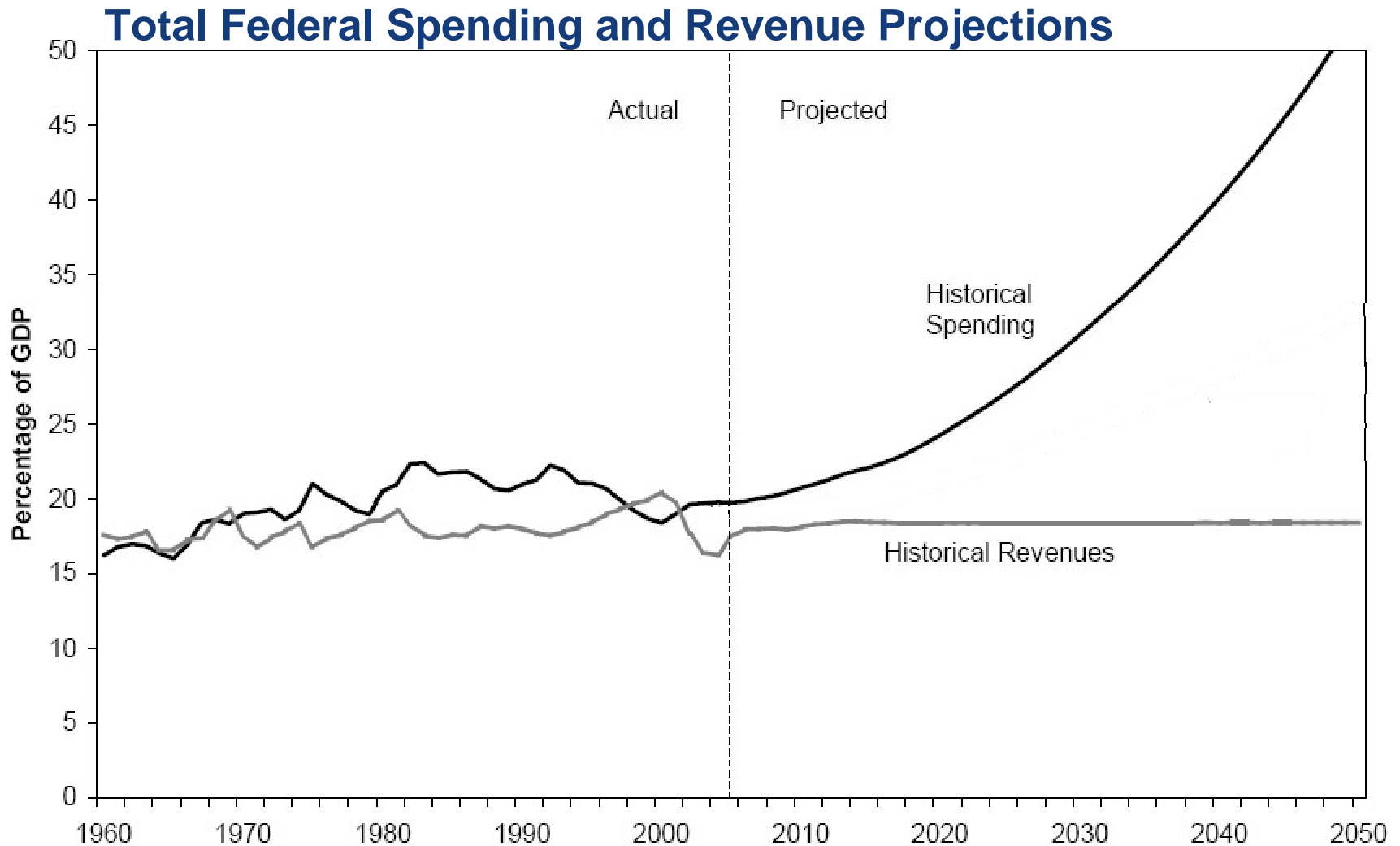


Source: The Long-Term Outlook for Health Care Spending, November 2007, Congressional Budget Office
Note: Amounts for Medicare are net of beneficiaries' premiums. Amounts for Medicaid are federal spending only.

Health Programs & Interest Rise; Other & Defense Spending Decline



Federal Deficit Will Explode



Federal Politics

- Medicare goes broke in 2019
- Last “rational” discussion: 2008 – 2012 elections

2010 – 2016

- ↓ reimbursements
- ↑ income test premiums & deductibles
- ↑ eligibility age
- ↓ benefits (especially Medicaid)
- ↑ Medicare taxes

2016 – 2024

- slash reimbursements
- raise premiums & deductibles
- graduate Medicare taxes
- cut benefits
- health care wage & price controls
- raise taxes



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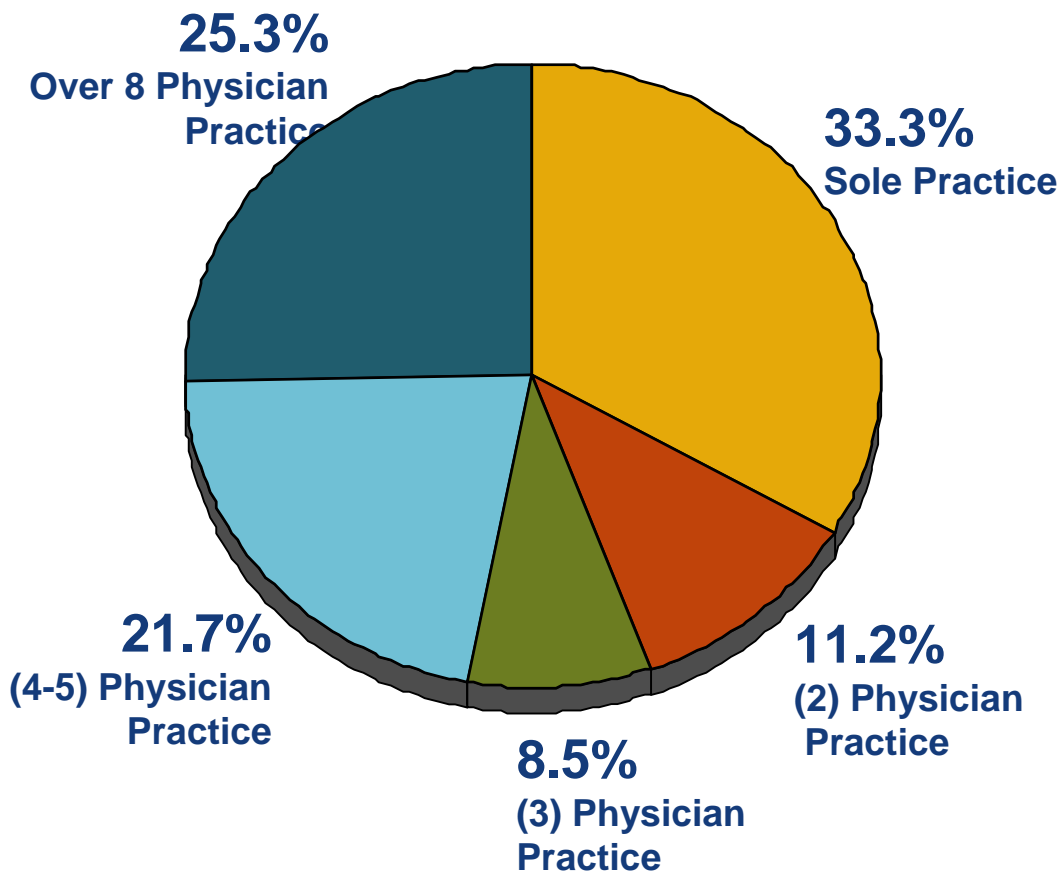
Health Care's Challenges

Public, nonprofit & private leadership must address the barriers to system change:

- 1. Provider Behavior Difficult to Change**
- 2. Efficiency Can Reduce Profitability**
- 3. Consumers Demand Costly Technology**
- 4. Social Values Outpace Policy**
- 5. Elected Officials Poorly Informed – Fear “Third Rail”**
- 6. Ideology Instead of Pragmatism**

1. Provider Behavior Difficult to Change

Distribution of Physicians by Practice Size, 2001



- **Physicians are neither leaders nor managers, but “individual contributors” who defend their autonomy**
- **Disconnected and isolated, “quality improvement has not permeated the culture of professional medicine”¹**
- **System is out-of- sync with the growing number of people with chronic illnesses**

Source: 1999 AMA Socioeconomic Monitoring Systems Survey (percentages may not sum to 100 due to rounding); excludes physicians in institutional settings)

1 Audet et al.; “Measure, Learn and Improve: Physicians’ Involvement in Quality Improvement,” *Health Affairs*, May/June 2005

1. *System as a Whole* is Leaderless, Poorly Managed & Unaccountable

- Physicians & institutional managers optimize own situation; thus sub-optimizing patient experience and the broader system
- No incentives to coordinate care across providers and service settings
- Volume rewarded— not quality care or good outcomes
- HIT Adoption— needed to connect all players— is slow because most data sources fear HIT will “hurt” them
- Stakeholders view h.c. reform as zero-sum game; options deemed acceptable if they either:
 - Maximize “resources for me”
 - Result in no change for system

2. Efficiency Can Reduce Profitability

Aetna - Virginia Mason Medical Center “High Performance Network” Experience

Current Treatment Plan: Low Back Pain	Average Commercial Reimbursement	Estimated Total Cost	Net Margin
Primary Care	\$ 230	\$ 260	\$(30)
Neurosurgery Consultation	175	215	(40)
Physiatry Consultation	325	365	(40)
MRI Imaging	900	400	500
Physical Therapy	660	960	(300)
Total	2,290	2,200	90
Redesigned Treatment Plan: Low Back Pain	Average Commercial Reimbursement	Estimated Total Cost	Net Margin
Primary Care	\$77	\$87	\$(10)
Spine Clinic	400	415	(15)
Physical Therapy	330	460	(150)
Total	807	962	(175)

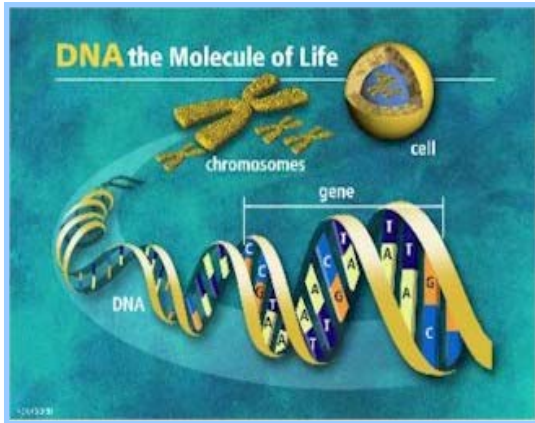
- Spine clinic created for same day access
- Evaluations performed more quickly
- Faster evaluations reduced unprofitable physical therapy
- MRIs reduced for noncomplicated patients
- Avg. commercial payment per episode resulted in \$175 loss

Note: Reimbursement costs at 2005 rates

Source: Issue Brief No. 112, July 2007, “Distorted Payment System Undermines Business Case for Health Quality and Efficiency Gains.”
Center for Studying Health System Change; Source data: Virginia Mason Medical Center

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3. Consumers Demand Costly Technology



Technology drives use & costs, and expands need for hospital services



- New procedures / machines added to older technology, rather than replacing it
- Utilization of new and old technology increasing
- More tests are performed to cover acquisition costs
- Direct-to-Consumer advertising increases drug spend
- New medical technology, including drugs, used for broader populations and unapproved uses

4. Social Values Outpace Policy

- **Changing definitions of health & wellness**
 - Alcoholism, Drug abuse, Obesity
- **What is an insurable event?**
 - E.D.
- **Will Government assess value?**
 - Comparison with alternative therapies
 - Real-world effectiveness

5. Elected Officials Poorly Informed— Fear “Third Rail”

- **Health care is confusing and complex, impacting different constituencies in different ways**
- **Presence of non-profits, for-profits and public entities complicates understanding and politics**
- **Self-interested stakeholders advocate narrowly; see no benefit in system improvement**
- **Funding warnings “trigger” lip service not legislative action**
- **The devil is in the details**

6. Ideology Instead of Pragmatism

- Two approaches dominate debate on h.c. reform¹

1. Market strategy proponents:

- Insurance market and tax reform
- Competition and consumer choice
- HIT & Transparency

2. Regulatory strategy proponents:

- Government control of costs / spending caps
- Leveraging federal programs
- Establishing best practices

- A pure market system or pure regulated system is unlikely in our country
- Pragmatic, blended policy most viable solution



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Leadership & Management Required

**To fix the American
health care system,
we need leaders
and managers**

A Typology of Leadership

- Administrators
- Managers
- Leaders
- Symbolic Leaders

Administrators

- Provide “oversight”
i.e. watch others do work
- Stove top model

Managers

- Effective managers change the physical reality of how the organization operates to achieve pre-established goals
- Managers develop specific strategies to achieve goals and monitor the process of implementing them through plans and budgets
- The organization operates consistent with the values displayed in managers' behaviors

Leaders

- Leaders have a strategic vision of the future and influence others to take action in support of their vision
- Leaders:
 - Articulate their vision of the future
 - Define the mission of their organization
 - Establish clear, time-specific, quantifiable goals
 - Inspire others to achieve their goals

Leaders, continued

- **Successful leaders** carefully communicate their vision and provide specific guidance as to who is responsible for achieving specific goals
 - *i.e., they tell people what they are supposed to achieve but usually let them figure out how to do it*
- “Hands on” leadership is management
- Leaders are necessary when it’s too big to manage

Symbolic Leaders

- **Symbolic leaders** inspire and motivate others to act not by giving specific orders, but by embodying certain traits or calling for a desired state
- Symbolic leaders are necessary when the challenge seems overwhelming or the solution is too complicated to articulate

LDS's Leadership Lessons

In both public & private organizations...

- Youth is an asset
- Difficult to establish new behaviors because organizational culture deeply entrenched
- High performance requires accountability, control, goals & measurement
- Communication must be a priority

Specific to public organizations...

- Public and nonprofit entities *can* lead change
- In government, you're dead in 24 months

Conclusion

- The *consequences* of rising health care costs are everyone's issue
- The problem is not that Medicare, Medicaid and Social Security are unsustainable, it is *continuing to do nothing* about “the nation's core fiscal challenge”¹
- Soon, budget hawks and national security experts will join forces to cut health spending, thus determining health policy for the nation

Leadership & management in both public and private sector organizations required to...



Shape the Future