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Healthcare Reform: An Economist's Perspective

### HEALTHCARE REFORM: AN ECONOMIST'S PERSPECTIVE

You are listening to ReachMD, the Channel for Medical Professionals. Welcome to Heart Matters where leading cardiology experts explore the latest trends, technologies, and clinical developments in cardiology practice. Your host for Heart Matters is Dr. Jack Lewin, Chief Executive Officer of the American College of Cardiology.

Health system reform in the United States; it's an issue we have been talking about for years, but an area with vast room for improvement. What changes are taking place in our health care system today and what are the fundamental elements necessary for future reforms? Our guest today is Dr. Uwe Reinhardt, the James Madison Professor of Political Economy and a Professor of Economics and Public Affairs at Princeton University. Dr. Reinhardt is recognized as one of our nation's leading authorities on healthcare economics.

#### DR. JACK LEWIN:

Welcome Dr. Reinhardt.

#### DR. UWE REINHARDT:

Hi Dr. Lewin, how are you?

#### DR. JACK LEWIN:

I am well, thanks. This is quite a tumultuous time in this country. Changes are obviously coming. What do you say the biggest challenges facing our healthcare system and its stakeholders would be?

#### DR. UWE REINHARDT:

Well, the system itself and the new president is challenged in my view by the following economics. We for people under 65 rely on the employment-based system to pay for health insurance and the premium has to come out of what we account them as called the gross

wage based, which you think of as the total debits the business makes to payroll expense. In other words it's the gross-gross number out of which come employer contributions, employee contributions, taxes, social security taxes of both parties. It's what we call the price of labor. Now that has been growing and only 3% in the last decade and is likely to grow even more slowly in the next decade ahead. Yet the Milliman Medical Index, which adds together what employers contribute to the premium, what employees contribute to the premium, and the out of pocket expenses. You add these three components, they say it now costs for an average family of 4 in America \$15,600 for healthcare, so that is a second factor. The third one you need to know is that 50% of the American families have an income of \$45,000 or less, 50%. The income distribution is highly skewed such that the top 20% of income earners gets 60% of all the income, so you put these three things together. Now take two earners - one works at home depot, the other one is a sales clerk; let their wage base be 50,000 now. Let it grow at 3% for a decade that will be 68,000 a decade from now, but the health insurance, which has been growing at 8% to 9% will grow from \$15,000 to about \$36,000 in 2018 and what that means is that 53% of the wage base would be chewed up just by health insurance. What is left the other 45% would have to pay social security taxes, income taxes, pensions, all of that and you know that would not compute. The net effect will be that unless we do something, the number of uninsured is going to really grow in the coming decade more than before. It will probably reach 55-60 million people who are really uninsured not even under insured. That's the challenge to the American people.

**DR. JACK LEWIN:**

Well that is a big challenge. We are going to have to get to the good news pretty soon, but you know you spoke on about the distance between the delivery system and the payment system, so what do you think the new president and the new congress will need to do in terms of this whole financing difficulty to shape up the system and maybe even ensure that both you know evidence based and cost effective care, may be even cost effective administration comes into the mix?

**DR. UWE REINHARDT:**

Oh yeah, I mean yeah there are these two components - the one is we do have to deliver a good quality care to the American people more cheaply. Now the reason why we know this can be done is two fold, one you elude it to we are spending roughly 25% of total health spending in just administration. We were just at Johns Hopkins University and Dr. William Brody, the president said Johns Hopkins Health System deals with 700 distinct managed care contracts, insurance contract each with different rules, different prices, etc. I serve on a board of the Dukes Health System. I believe we have something in the order of 900 billing clerks for our system. That list has to change. There is no way you can justify this kind of expenditure to the average hardworking American taxpayer or premium payer, so the challenge here is on the private insurance industry to streamline the administrative cost. It should not cost that much to bill for Duke and it should not cost them so much to market health insurance policies. Medicare also, the Medicare rules are so arcane that every hospital has to have a compliance officer with 3 or 4 people with a hotline. I am up in Canada at the moment; they do not have this, they do not fear to go to jail everyday because of some Medicare rule they broke. So Medicare too has to look in the mirror and say - can we somehow decriminalize the administration of Medicare and make this simpler for people like other countries do. So that would save probably together you are talking at least, supposing you it cut in half, that will save you 10%-12% of health spending, which is something like 150 billion dollars.

**DR. JACK LEWIN:**

You have made that point so many times, this is one of the principal differences between us and the other developed nations in terms of our healthcare spending and yet it seems never to be on the agenda?

**DR. UWE REINHARDT:**

No that's the thing, I mean evidenced based medicine we got to configure at any day in watching all over the map, but no one ever

challenges the AHIP, for example, on evidence-based administration. Do you actually need all these different rules and these policies; can't you have a standard policy with a standard billing form?

**DR. JACK LEWIN:**

What do you see as working in the current system in terms of moving to higher quality cost effective care or just-just a monitor?

**DR. UWE REINHARDT:**

We have in this country some really good high performance systems. The commonwealth fund under Dr. Karen Davis has for sometime run a commission on high performance system that think, James J. Mongan of Health Partners that heads it and they have identified; for example, Intermountain Healthcare or the Mayo Clinic. There are quite a few, what is the Geisinger in Pennsylvania, very high quality and reasonably low cost systems. We have them, almost anything great in healthcare does exist in America somewhere, but you need to take those systems and make them benchmarks for everyone else to follow, which is what the commonwealth fund has been trying to sort of turn to profession into, but for the medical profession I have a challenge too. Look at the Van Wert Data. He just got a Leonard award the Institute of Medicine for his pioneering research. Why would it cost on average twice as much per elderly in the Sunbelt than it cost in the wheat belt to give decent health care or as I had been quoted I had in the paper saying "how could the best healthcare in the world cost twice as much as the best healthcare in the world?" I was sort of made that flipping remark as I said "if you go to Texas they will tell you it's the best healthcare in the world and if you go to the Mayo Clinic they will claim that too and yet the cost is so different, but it's worse than that, Jack.

**DR. JACK LEWIN:**

I agree with you. I think that you know that the American College of Cardiology has developed much of tools, we have got registries and now we have got appropriate use criteria guidelines, standards, and all that sort of things you know that we are not measuring at least across in the inpatient and we are trying to get the outpatient data, is the goal for the next 2 years to try to get the best quality of care in the most effective cost efficiency. Do you think these tools can be used in the new healthcare system, you know we are on the right path with this or is there a better path we ought to take?

**DR. UWE REINHARDT:**

No, you are on the right path for the following reason: No one has yet invented a health policy that essentially represents a cram down of some stuff, people like me. I have a PhD, which means doctor who cannot help you. Cram down the stuff of MDs that has to come substantially from the MDs themselves, people who care like at that ACC meeting I attended not long ago with May you may recall and I was reheartened at the very sincere effort to actually figure out ways to deliver cost effective healthcare. Physicians at the very least have to sit at the table and participate in this, so I think what you are doing is exactly the right thing. You cannot and shouldn't sit there and wait for some HIQA experts to figure this out. Its not fair to them, its not fair to the docs, but together I think it can be done; for example when I chaired the commission on rationalizing New Jersey Health Care last year, and I asked Jack Weinberg to run me some numbers on what does it cost for Medicare patients in the last 2 years of life in various New Jersey Hospitals, a small state. Up in the northern part it costs 3 times as much, Medicare wrote 3 times the checks that it wrote in the southern part, and I then asked the hospital executive what is going on here. I mean that these people cannot be genetically different and they said while its the doctors, we don't have any control over what the doctors; some of them are high billers, they do everything imaginable and others are more conservative and I said while don't you guys have any control to even talk to these guys you know and they claim they don't have any power over the doctors, so I would say I hope to be speaking to the New Jersey Medical Association saying you know you guys have to step up to your social responsibility and clean this up. I mean, you know, either you are killing patients in the south; well of course they die anyhow, but you make them suffer in the south or they overdo it in the north, but you have to help the American people find a more cost effective

way clinically to deliver healthcare, quite aside from the administrative issue.

**DR. JACK LEWIN:**

Couldn't agree with you, moreover. I think that purity on the macro level is what the professional's responsibility is and there may be some other tools we got to fill in the next Clinical Decision Support to add to electronic medical records to get there, but want to ask you if you could help as we think through these things, we mentioned earlier the administrative cost issues and the differences here in this country in terms of high administrative cost as compared to international, what do you see in other countries, you have studied a lot of systems, what you think we should be working on here in the US from which we could get some good advice and some great examples of ways to improve the system elsewhere?

**DR. UWE REINHARDT:**

Well; for example, one trip might be worth making is to Denmark. Denmark is known as the European country that is most wired, that has the best health information technology in place, and you might look there what could we learn about IT from Denmark. You might look to the Dutch system who have been particularly innovative in sort of peer reviewed quality assurance. They actually do things like where every so often every 2 years 1 colleague sits in on another colleague's practice and watches that doctor practice and then they have quality circles where the doctors figure out what is the best way to do things, so instead of again having it cram down these initiatives come from doctors.

**DR. JACK LEWIN:**

We are going to take your challenge up and see what we can do in these regards and maybe put the profession back into the role of being a profession. We have been talking about the prospects for health system reform in the United States with Dr. Uwe Reinhardt. Thank you so much for being our guest today, Dr. Reinhardt.

**DR. UWE REINHARDT:**

Ah, it has been my pleasure, Jack.

You have been listening to Heart Matters on ReachMD, The Channel for Medical professionals. For more information on this week's show or to download a pod cast of this segment, please visit us at [www.reachmd.com](http://www.reachmd.com). Thank you for listening.