



*Could U.S. Hospitals Go The
Way Of U. S. Airlines?
A “Darth Vader” Scenario*

**Stuart Altman, David Shactman
and Efrat Elat**

Presentation to Hospital Payment Symposium

Washington, DC

July 15, 2005

*What Will The Future Hospital
Look Like In a More
Competitive, Price Responsive
and Efficient Health System*

What Have We Learned From The Airline Experience

- Old, Established Companies Do Not Always Survive, e.g. *Eastern, Pan Am, TWA*
- Workers and Owners of “Legacy” Companies Are Big Losers
- Some Population Centers Saw Big Reductions In Services---
- **But**
- Prices Can Be Substantially Reduced
- New Entrants Can Bring Added Efficiencies To The Industry

Who Are The Potential *Losers* In A “Market Oriented” Health System

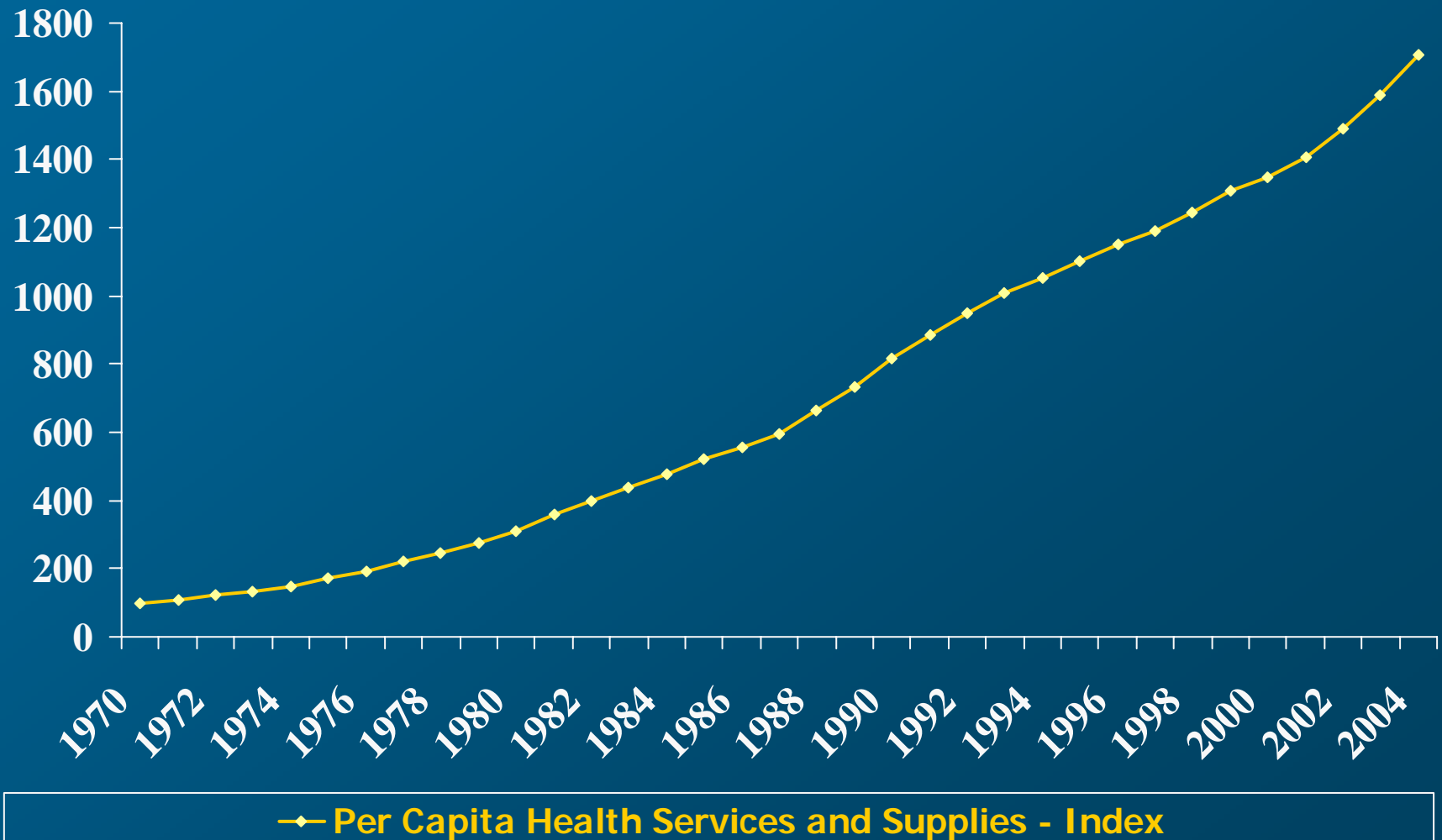
- Sick Patients With Complex Illnesses
- Patients Whose Treatments Are More Expensive Than Payments, e.g.
 - Burn Patients
 - Psychiatric Patients
 - Chronic Medical Conditions
- Uninsured and Medicaid Patients
- Long-Time Workers In Big (Expensive) Health Systems
- Education and Research Costs

*Do Americans Want To Slow
The Growth In Their Use of
Health Services?*

Or

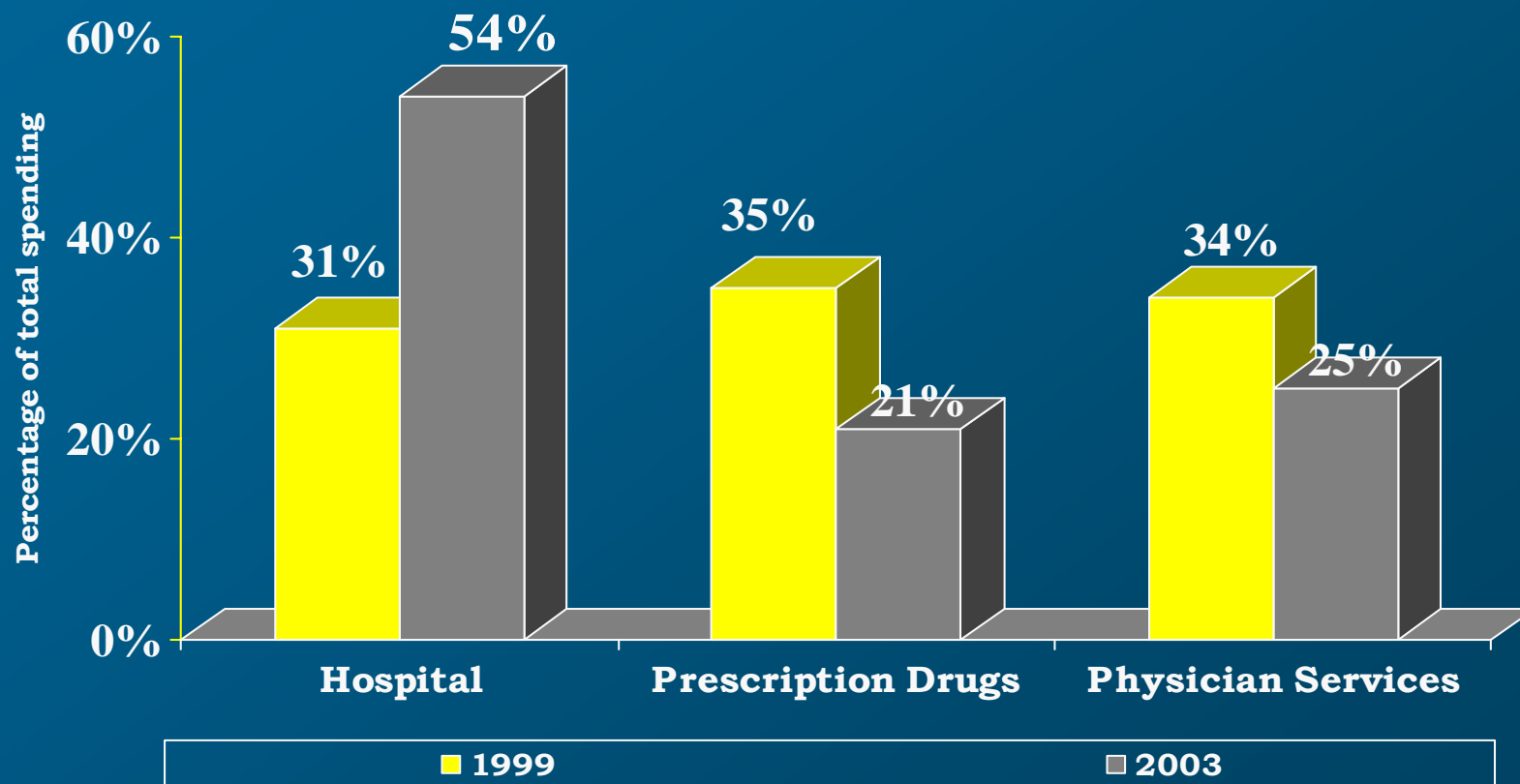
**Do They Just Want To Have
More For Less!**

U.S. Health Expenditures Keeps Rising!



Spending Growth for Privately Insured Dominated by Hospital Services*

Percentage of Yearly Medical Spending Increase



Source: Milliman USA Health Cost Index, in Strunk, Gabel and Ginsburg, 2001, Center for Studying Health System Change 2002

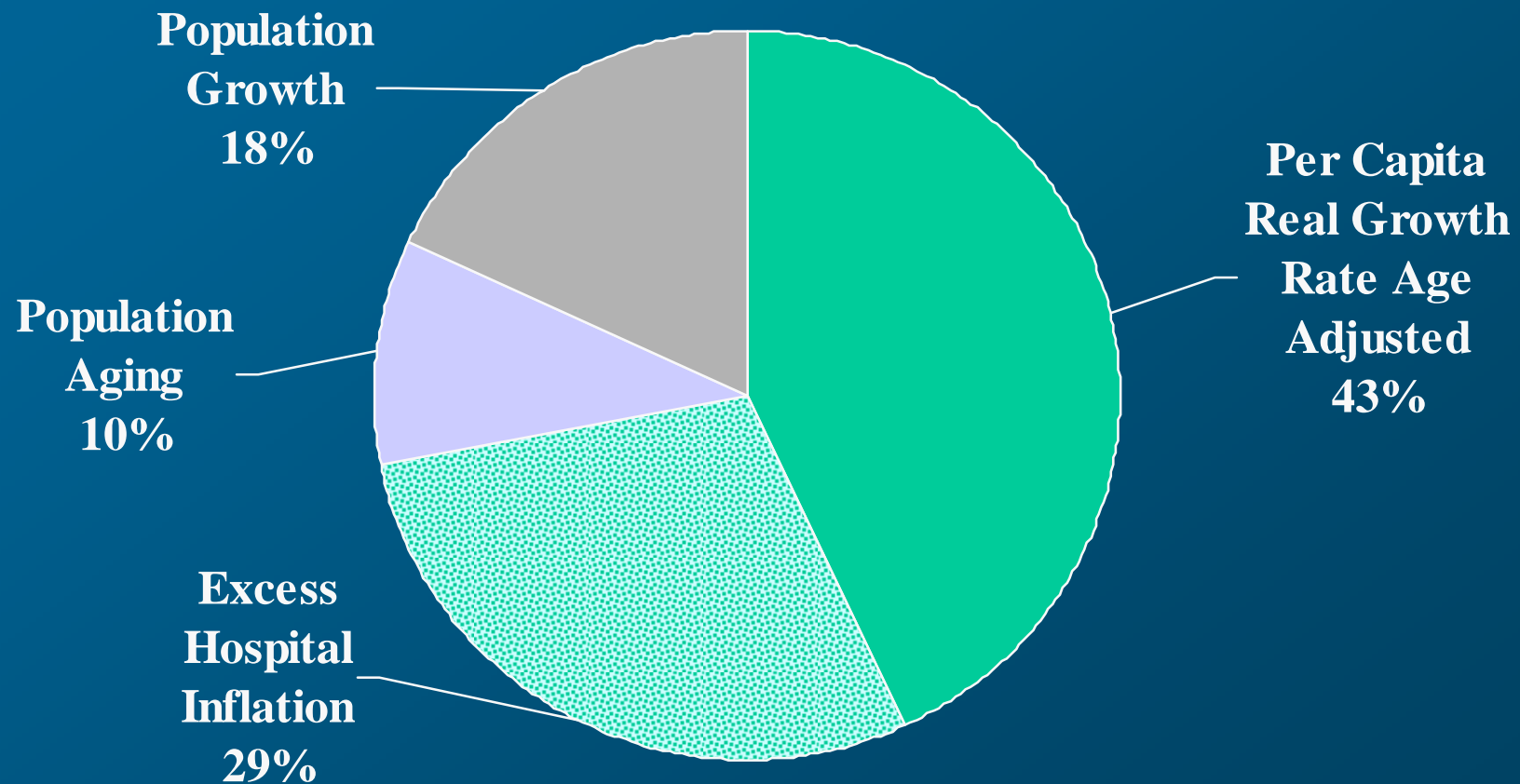
Factors Influencing Hospital Spending

(Annual Percentage Change)



Source: Strunk, Ginsburg, & Cookson "Health Affairs (Web Addition) June 2005

Factors Affecting Real Annual Growth Rate in Hospital Expenditures 2000-2012



Sources: Authors' calculations based on Medical Expenditure Panel Survey 1997-1999; U.S. Census Bureau, Statistical Abstract of the United States, 2000, 2002; Levit et. al., "Trends in U.S. Health Care Spending 2001," Health Affairs, January/February, 2003.

**Therefore---Most of The
Increase In Hospital Spending
Not Related to Growth or
Aging of the Population**

We Want More Services

And

Hospital Are Charging More for Care

**It's The Use and Cost of New
Technology !**

Advances in Technology Require Large Capital Investments

"Traditional" Technology		Contemporary Technology		Next Round Technology
X-Ray Machine \$175,00	➔	CAT Scanner \$1,000,000	➔	CT Functional Imaging with PET \$2,300,000
Open Surgery Instrument Set \$10,000	➔	Laparoscopic Surgery Set \$15,000	➔	Robotic Surgical Device \$1,000,00
Scalpel \$20	➔	Electrocautery 12,000	➔	Harmonic Scalpel \$30,000

New Technologies Can Add Billions To The Cost Of Caring...

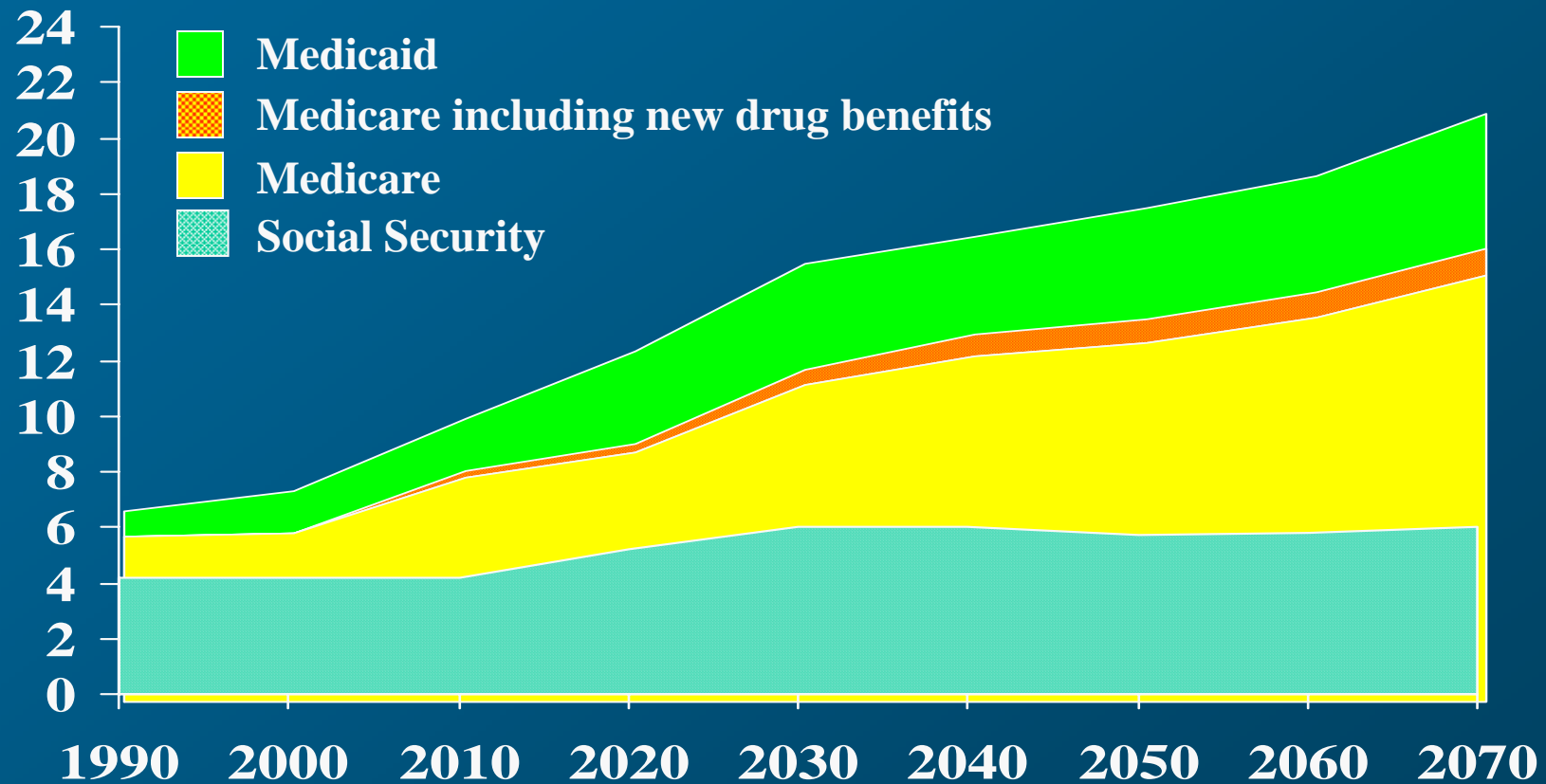
Projected Annual Costs of Recent Technology Related Medicare Coverage Expansions

Technology	Medicare Costs
Drug-eluting coronary stents	\$2-4 B
ICD for sudden death prophylaxis	\$1-3 B
PET for Alzheimer's disease	\$1 B
Verteporfin for macular degeneration	\$750 M
Left-ventricular assist devices	\$1-7 B

Source: Adapted from Neumann PJ. Medicare National Coverage Decisions: How is CMS Doing? Presented at National Health Policy Conference. February 2005.

Then There Is Medicare!

Medicare In Combination With Social Security and Medicaid Will Use Twice The Proportion of Our National Income by 2030!

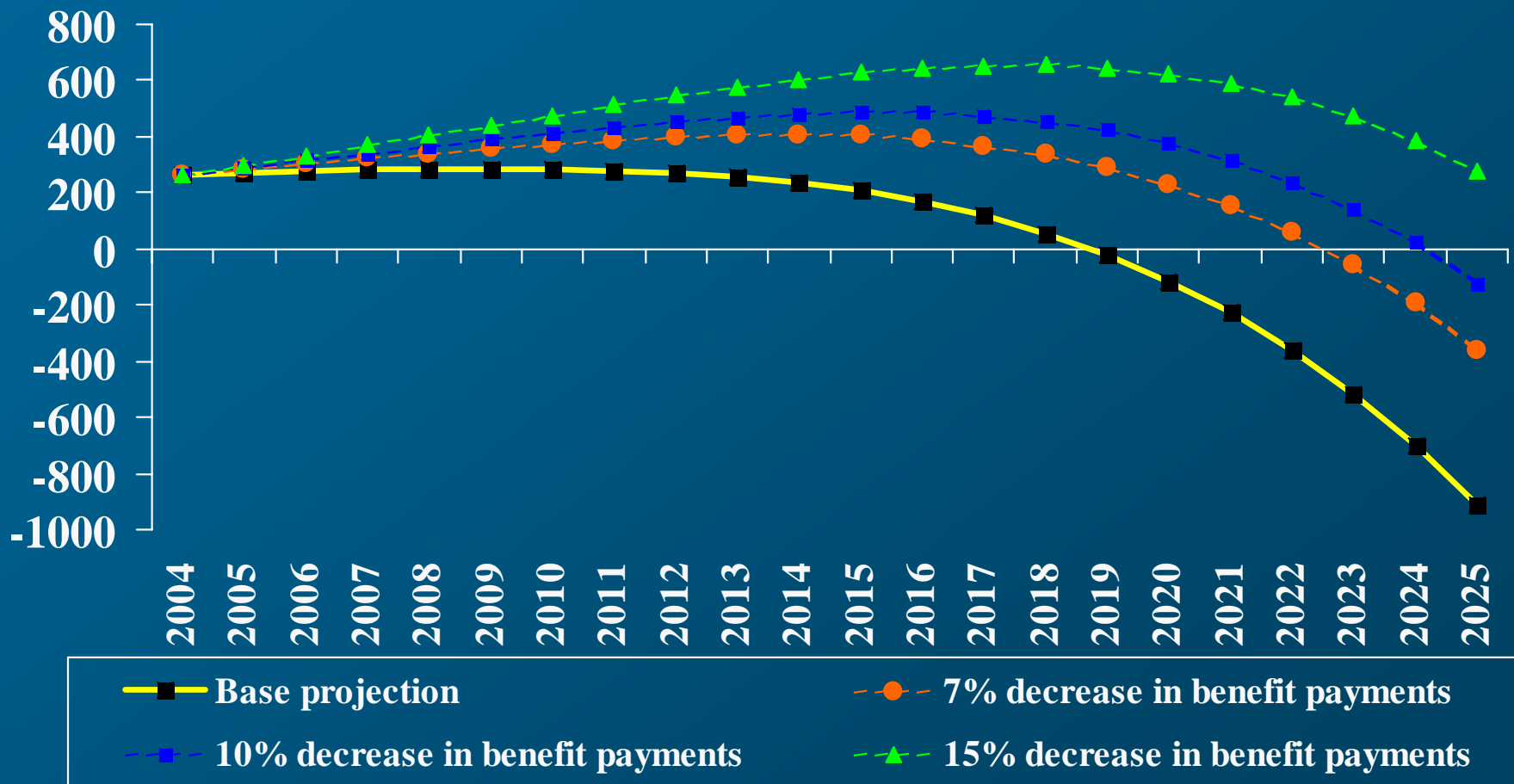


Source: C. Eugene Steuerle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003. Based on data from the Congressional Budget Office, "A 125-Year Picture of the Federal Government's Share of the Economy, 1950-2075," July 3, 2002, table 2.

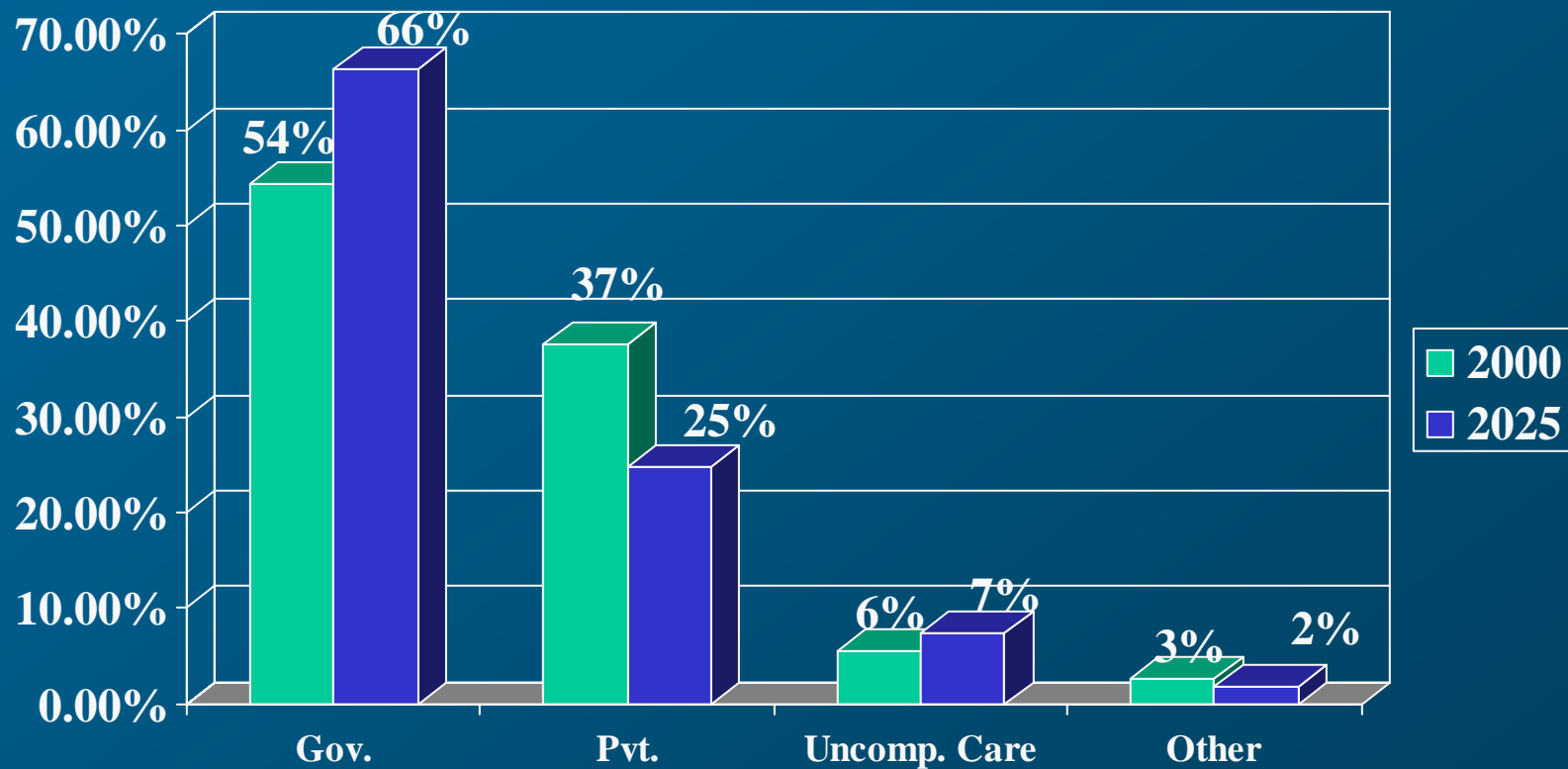
**Will Government Control
Spending By Cutting Back On
Payments To Providers----**



Impact of Changes in HI Total benefit Payments on HI Fund Exhaustion Date



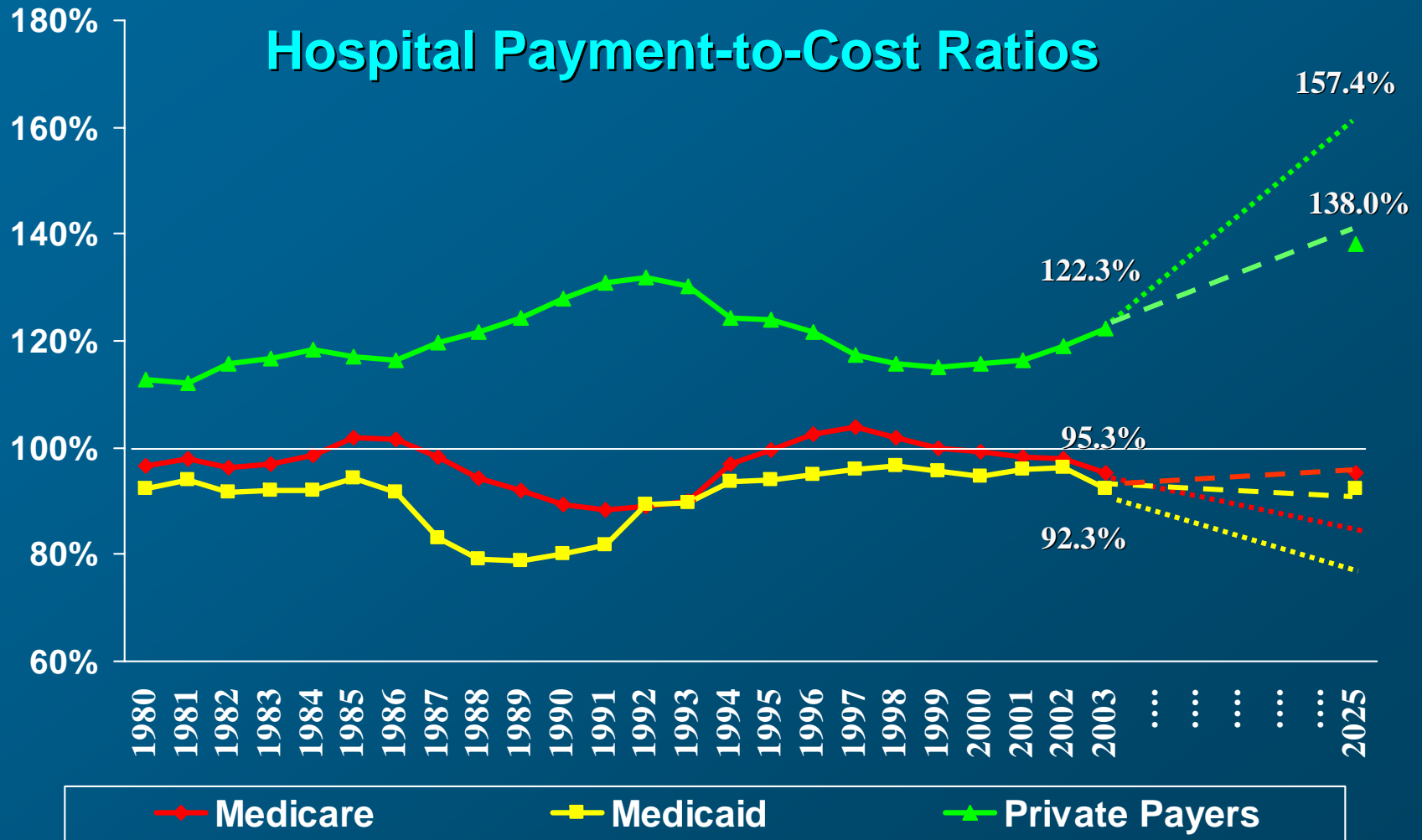
Proportion of Hospital Expenses Attributable To Government Patients Will Grow



*What Would A Tylenol Pill
Given In Hospital Cost In 2025
at The Projected Payment To
Cost Rates?*

So Much For Price Transparency!

Can Private Insurance Payments Continue To Pay For The Shortfall In Government Payments



Source: 2005 TrendWatch Chartbook, AHA and the Lewin Group.

If “Business as Usual” Becomes Unsustainable

- **Hospitals Will Be Forced To Cut Costs**
 - Could Become More Efficient and Provide More for Less, Or
 - Reduce Quality and Quantity of Services
- **Provide Less To Those That Pay Less**
 - Some Institution will Provide Different Services to Different Populations
 - Other Institutions Will Only Focus on Better Paying Patients

Market Forces Are Already At Work to Change “Business as Usual”

Will They Work?

And

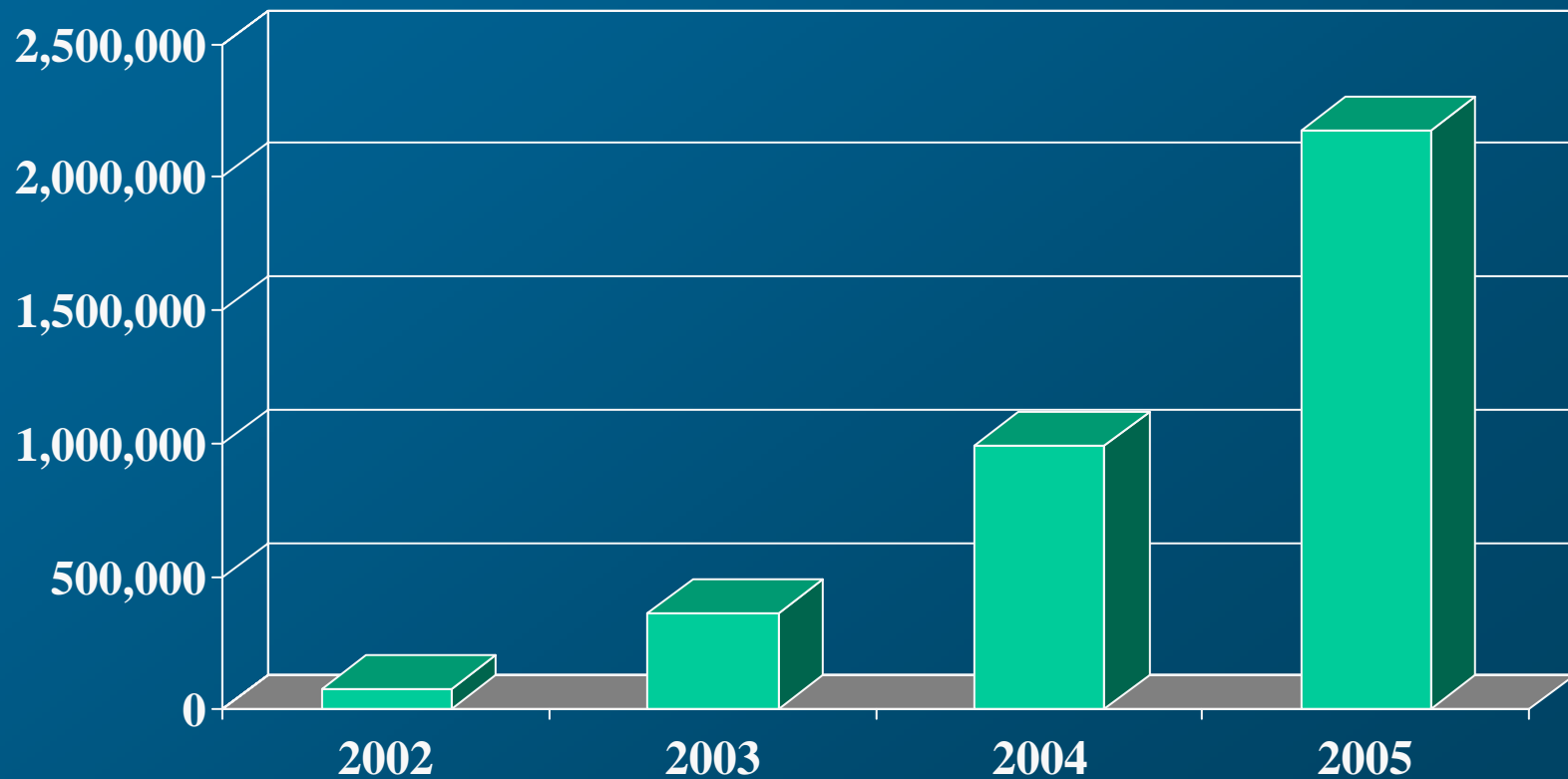
Will We Like The Results?

Growth in Deductible Amounts For Covered Workers by Plan Type*

	1993	2004	Percent Increase
Conventional single	\$222	\$444	86.5%
Conventional family	495	861	73.9%
PPO Preferred Provider	170	287	68.8%
PPO non-preferred provider	289	558	93.1%

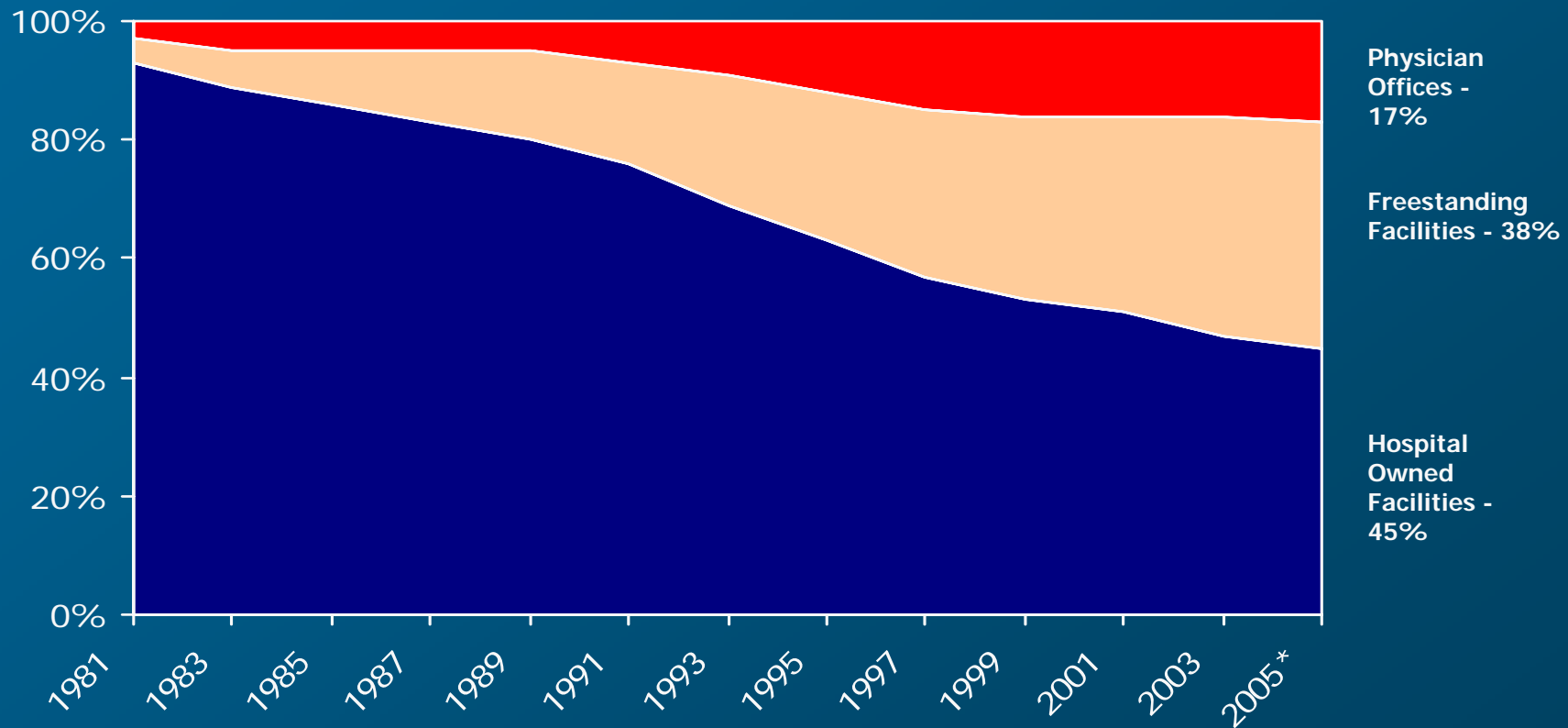
Source: Kaiser Family Foundation Report

Estimated Number of High Deductible Health Plan Enrollees



**And Then There is The
growing Number of Limited
Service Healthcare Delivery
Alternatives**

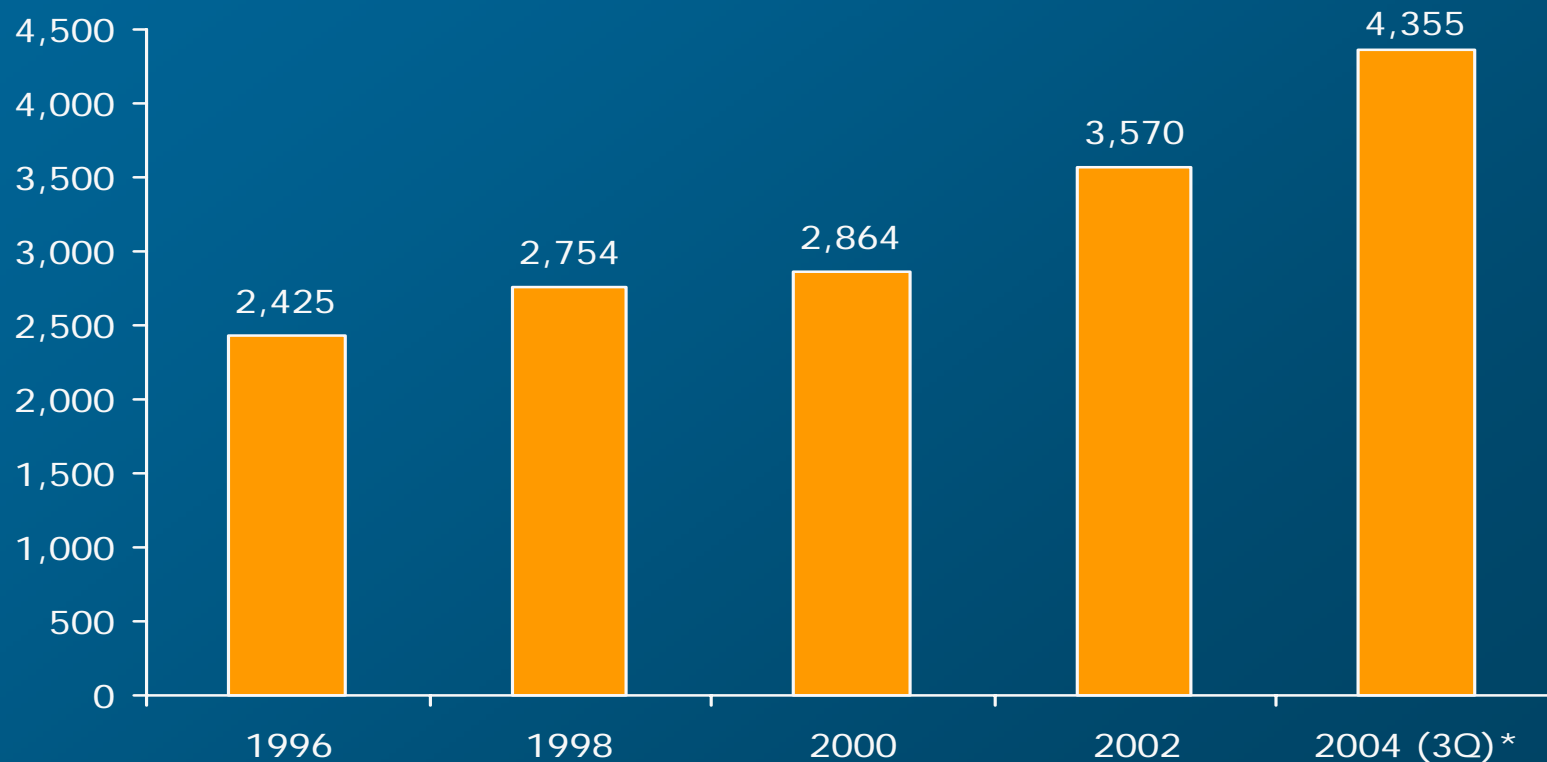
Percent of Outpatient Surgeries by Facility Type 1981 – 2005



Source: Verispan's Diagnostic Imaging Center Profiling Solution, 2004.

*2005 values are estimated based upon current trends.

Number of Freestanding Ambulatory Care Surgery Centers Has Almost Doubled In 8 Years



Source: Verispan's Diagnostic Imaging Center Profiling Solution, 2004.

*2004 values are currently available only through the 3rd Quarter

**But Let's Be Careful: *If We
Push Too Hard For An
“Efficient” Health Care System
There Could Be Big Losers!***

Most At Risk In A Market Oriented Health System

**The Estimated \$50 Billion of Care
Provided To The Uninsured**

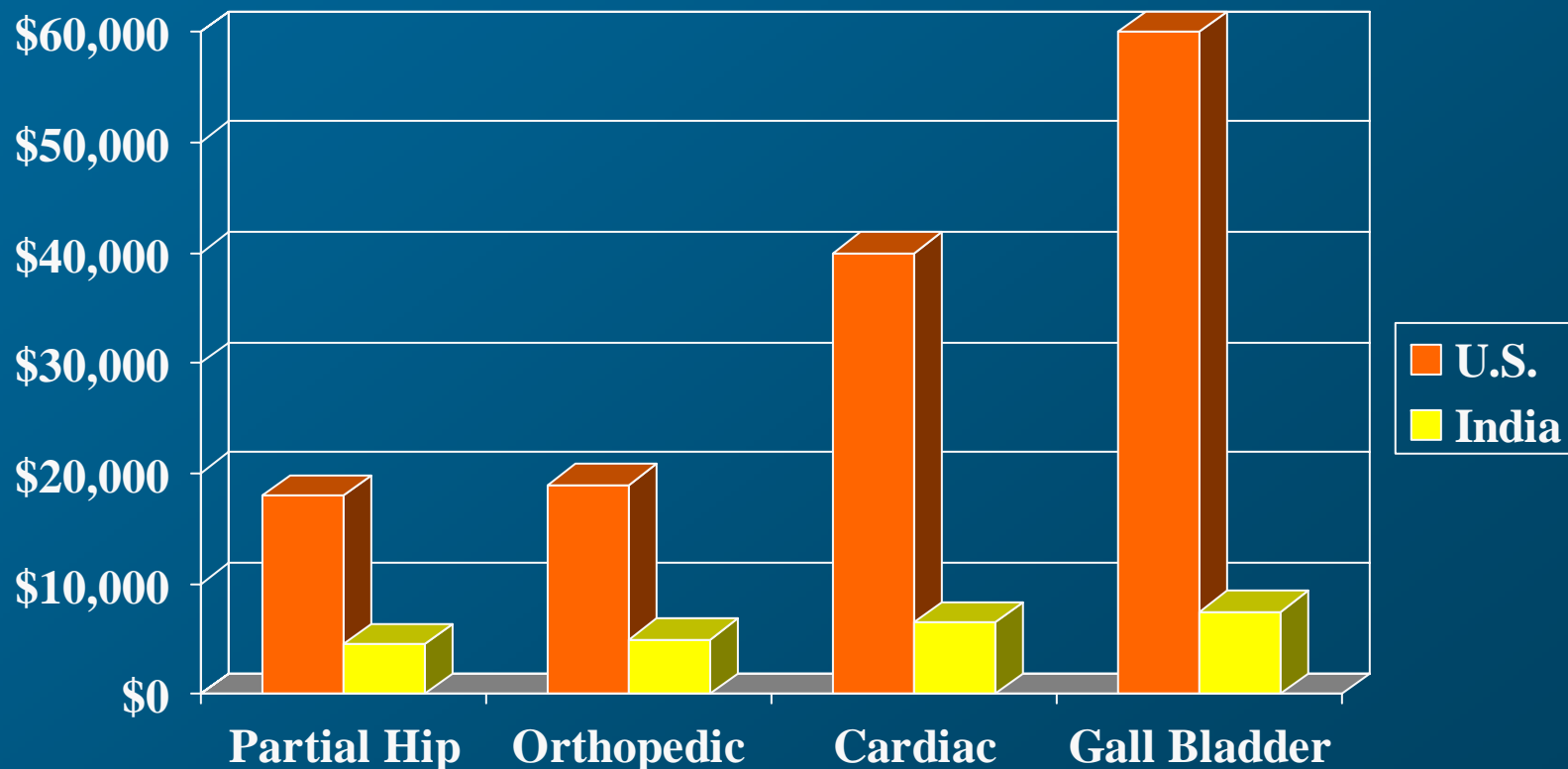
And

**The Open Ended Availability of
Hospital Services To Medicaid
Patients**

How Much Could Market Competition Change The Health Care System???

*How About A Quick Trip To India
for Open Heart Surgery----*

Medical Tourism: Cost Comparisons Between Indian and U. S. Hospital Services



The World Really Is Flat!

The New Reality of Working In The Airline Industry

“The annual salaries of pilots used to start at \$25,000 for a newly hired first officer and range up to \$250,000 for a captain with 25 years seniority. However, the trend is that the big paychecks are retiring with the captains earning them. With the current market situation it is expected the senior salary in the future will be around \$100,000.”

“Oh no,---this can’t happen in healthcare--- what will they pay future presidents of hospital associations and, more importantly, speakers at healthcare conferences.”

Uwe Reinhardt

Could The U.S. Health Delivery System *Really* Go The Way of Our Airline System?

Not Possible---*Health Care Is Not Airline Travel,----* **Or Is It?**

