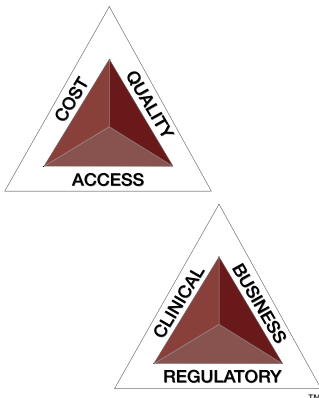


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Mission Statement

American Health & Drug Benefits is founded on the concept that health and drug benefits have undergone a transformation: the economic value of a drug is of equal importance to clinical outcomes as it is to serving as the basis for securing coverage in formularies and drug benefit designs. Benefit designs are greatly affected by numerous clinical, business, and policy conditions.

This publication provides benefit design decision makers the integrated industry information they require to devise formularies and drug benefit designs that stand up to today's special healthcare delivery and business needs.

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Results-driven Healthcare: Addressing the Staggering Cost of Poor Performance

Kip Piper, MA, CHE

Serious and costly performance problems riddle the \$2.4-trillion US healthcare system. Because of overuse, underuse, and misuse of healthcare, researchers estimate that roughly 30% of healthcare costs are generated by poor quality.^{1,2} Therefore, poor-quality medical care will cost about \$720 billion in 2008.^{1,2}

Poor quality also reduces productivity. For every dollar of healthcare spending caused by poor quality, poor care costs an estimated 50 cents in lost productivity. When applied to the \$822 billion in care provided through employer-sponsored insurance, this translates to an additional \$123 billion in costs.³

A recent study by the Health Research Institute at PricewaterhouseCoopers (PwC) estimates that wasteful healthcare spending costs \$1.2 trillion annually.⁴ Analyzing findings from a wealth of published studies, the PwC researchers looked at the cost of waste from inappropriate clinical care and overt errors, individual behaviors leading to costly health problems, and antiquated operational processes that add costs, without providing any value.⁴

Making matters worse, research on the care patients receive from physicians, hospitals, and other providers paints a frustrating, even scary, picture. For example, studies conducted by the RAND Corporation show that Americans receive clinically inadequate or inappropriate care at shockingly high rates. Specifically, RAND's research shows that acute care for insured adults is appropriate only 53.5% of the time, on average. In other words, about 46% of acute care is clinically incorrect. Similarly, about 43.9% of chronic care and 45.1% of preventive care is inappropriate according to accepted medical standards.⁵ Children receive 68% of recommended care for acute medical problems, 53% of recommended care for chronic medical conditions, and 41% of recommended preventive care.^{6,7}

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The bottom line is that the delivery of health-related care—whether for adults or for children—is inappropriate or unnecessary about half of the time. Basically, it's a coin flip.

Root Causes of Poor Quality, High Costs

Ultimately, three immutable principles of economics and life explain the underlying causes of this poor performance.

Price is what you pay, but value is what you get.

Taking a page from Warren Buffett's "play book," buyers of health benefits must focus on value, not price. Price is an important part of the equation, but it is meaningless if you do not know the value of what you are receiving for that price. Unfortunately, in healthcare we obsess on unit prices. In no other marketplace or domain of life do Americans—corporations, consumers, federal and state policymakers, news media—pay so much attention to price and so little to value.

You get what you pay for. Today, we pay for quantity, not quality. Poor performers are sustained and rewarded. The best performers are financially penalized and professionally demoralized. The consequences are all too obvious.

You can't fix what you can't see. In sharp contrast to virtually every other industry, healthcare is quite opaque. American healthcare is full of decision makers—consumers, physicians, and other providers, health plans, public officials—who lack the information they need to make decisions.

Five Steps to Higher Performance

The problems are daunting but solvable. To improve the quality and cost-effectiveness of healthcare delivery, purchasers and payors must tightly focus on strategies to expect, measure, disclose, reward, and support results, as outlined below:

1. *Expect results*

- Set actionable performance expectations for healthcare providers, particularly physicians, clinics, hospitals, pharmacies, and long-term care providers.

- Ensure that performance expectations are clear, decision relevant, reasonably achievable by highlight competent providers, and consistent with evidence-based medicine.

2. Measure results

- Rigorously measure clinical and economic performance compared with expectations.
- Use consensus-endorsed measures, such as those adopted by the National Quality Forum.
- However, don't let the perfect be the enemy of the good, or analysis be the enemy of action.

3. Disclose results

- Publicly report the clinical and economic performance.
- Ensure that reporting of performance is frequent and timely.
- Use reader-friendly formats that support the differing decision-making needs of consumers, providers, health plans, purchasers (employers, Medicare, Medicaid), and the media.

4. Reward results

- Directly align coverage, reimbursement, cost sharing, market share, contracting, utilization management, and other key policies with performance expectations.
- Specifically, reward higher performance through monetary incentives (eg, pay-for-performance), greater market share, public recognition, and regulatory flexibility.
- Reward positive consumer behaviors through incentives such as differential copays (eg, low or zero copay to see the best physicians, very high copay to see poor quality physicians).

5. Support results

- Support the infrastructure and processes essential to results-driven healthcare. These include:
- Evidence-based coverage and value-based benefit designs.
- Patient-centered care, including stronger physician-patient communication, referrals, and genuine follow-up.
- Chronic care management.
- Modern health information technology, including electronic medical records, e-prescribing, and e-lab results.
- Comparative effectiveness research.
- Health services research to build our knowledge base on costs, quality, and access.

- Education and training of physicians, patients, and family caregivers. ■

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Unmanaged Moment

