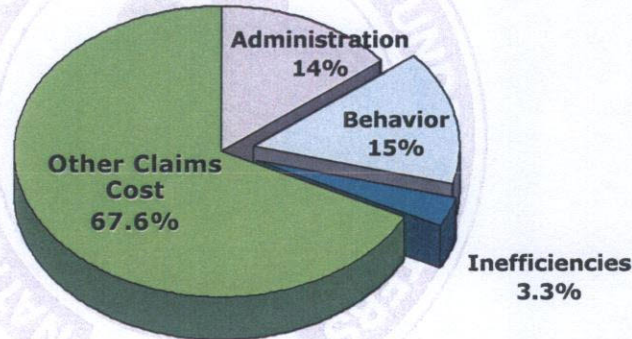


Constraining Medical Costs

How Much Can Private Insurance Costs Be Affected?



National Institute of Medicine, Report on Medical Errors, November 1999

Inefficiency in the system is another area to reduce costs. Duplication of procedures, overuse of high-end procedures in situations where they add little value, and the inconsistent focus on quality outcomes when providing treatment are examples of unnecessary medical spending. Both patients and the provider community should focus on identifying less expensive but equally effective alternatives. According to a report by the National Committee for Quality Assurance, "The U.S. health care system is saddled with an anachronistic payment systems that rewards quantity, not quality, of care. This contributes to widespread variations in the way health care is delivered – from failure to deliver needed care, to huge numbers of unnecessary procedures that drive up costs and endanger patients."

Preventable mistakes are a significant problem. The November 1999 report of the national Institute of Medicine (IOM) indicated that as many as 44,000 to 98,000 people die in hospitals each year as the result of medical errors. These medical errors are not only tragic, they also carry a strong financial consequence. IOM estimates that medical errors cost Americans approximately \$37.6 billion each year, of which about half of those (\$17 billion) were considered truly "preventable." About \$8.5 billion is spent annually for direct payments for preventable errors. Unnecessary medical treatments and prescriptions are also costing the U.S. health care system billions of dollars each year. For example, 25% of physician visits (costing \$11.4 billion annually) and 55% of emergency room visits (costing \$14.7 billion annually) are unnecessary, according to American Institute for Preventive Medicine.

What this means is that by working on many of these system inefficiencies we could reduce health insurance premiums by another 3.3%. So how could we make a difference?

Constraining Medical Costs System Inefficiencies: Solutions

- Improve system inefficiencies in doctor and medical facilities

Pay For Performance

Best Practice Guidelines

Evidence-Based Medicine

System Inefficiencies Recommendations:

• Provide incentives for doctors and medical facilities to improve system inefficiencies and eliminate errors through pay for performance, best-practice guidelines and support for evidence-based medicine.

• Create federal standards for interoperable electronic medical record technology to help unify the health care system, reduce errors and improve patient satisfaction. Advances in health IT will enable true collaboration between doctors and patients as consumers make more informed choices and doctors become more involved in their care. In the long run, improved technology will also provide better information to track public health problems and advance clinical research.

Constraining Medical Costs System Inefficiencies: Solutions

- Federal standards for interoperable electronic medical records

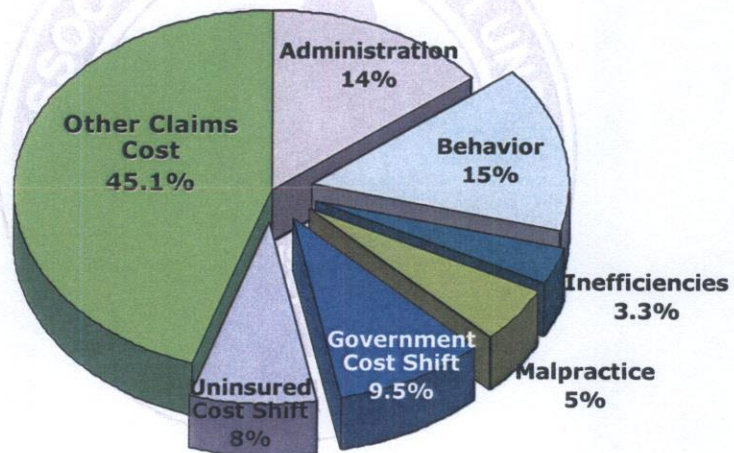
Unify The System

Reduce Errors

Improve Patient Satisfaction
Of The Entire System

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It is amazing to look at this graph and realize how little of private insurance premiums actually goes to the necessary utilization of health care by the person covered by the insurance policy - or rather how much of the premium is *absolutely required* when you look at the pieces of the pie that are siphoning off resources.

Somewhere around 50% of premium dollar could be recaptured. Premium taxes take about 4.2%, attorneys 5%, government programs 9.5% and people without insurance 8%. Over one-fourth of our premium dollar (26.7%) goes to premium dippers.

Single-payer proponents like to blame insurance companies for the problem, and certainly they have their role in the solution. But, as you can see, there are many things that can be done to significantly reduce the cost of health insurance. We have identified 40% of the premium that could be reduced with effective health care reform. We probably couldn't achieve the full 40%, but don't you think if we achieved one-fourth or one-third that we would make a huge difference in the so-called health care crisis, making access to all achievable?