

Improving Health Care Quality and Cost State of Washington

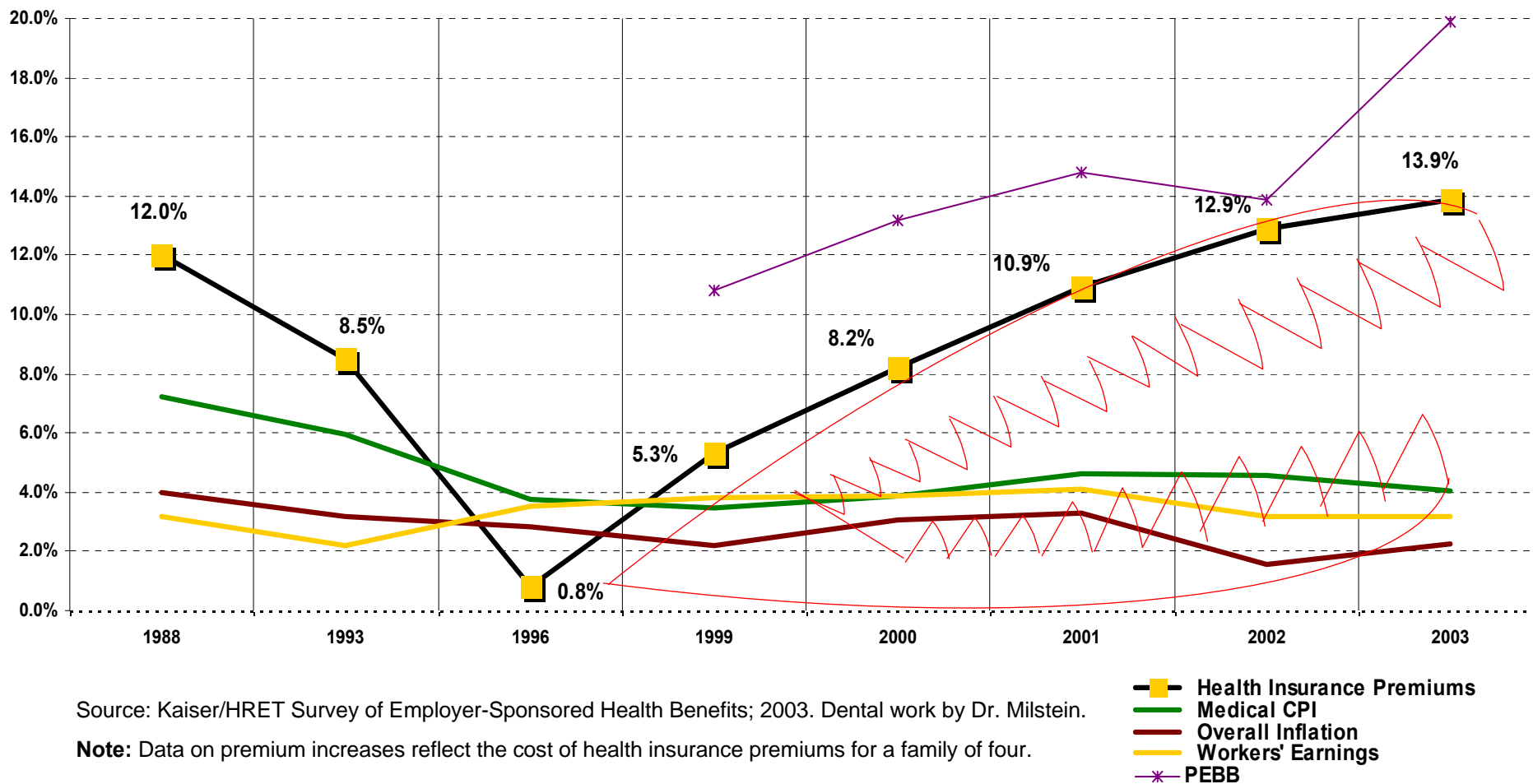
August 2005



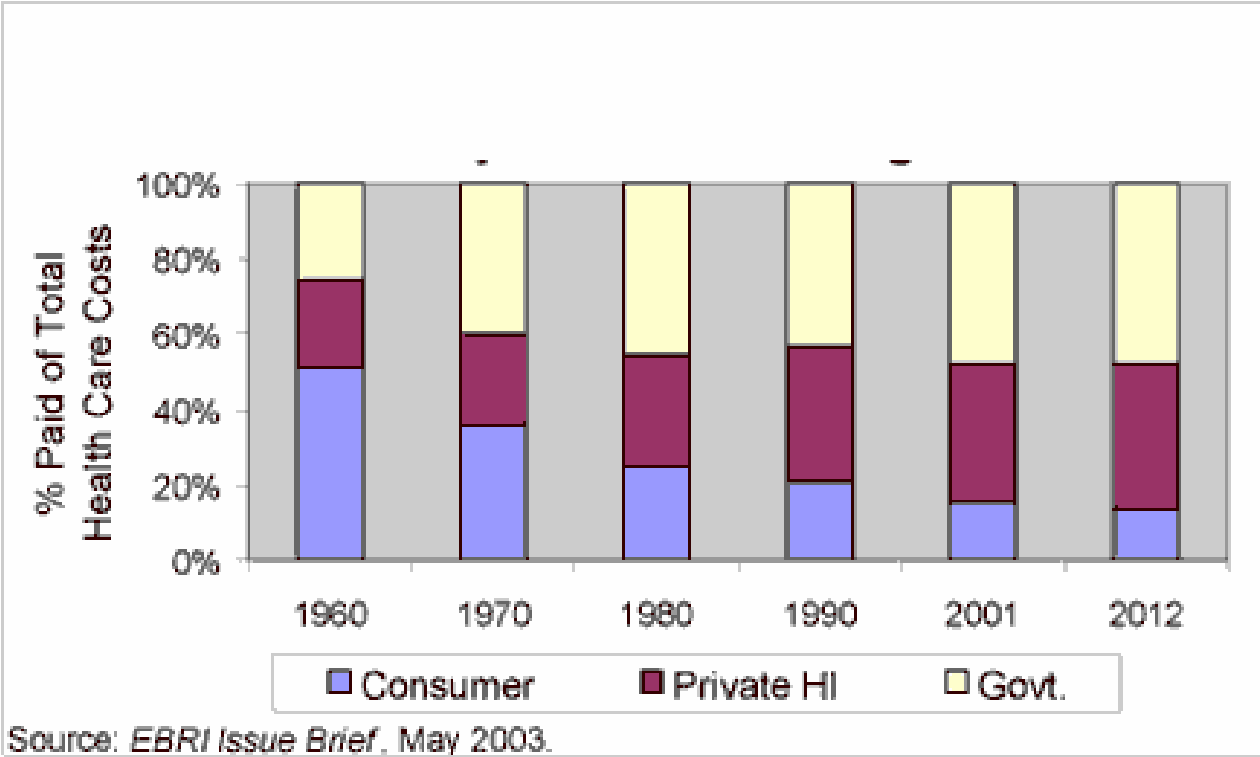
Governor's Work Group on Health Care Quality and Cost—Project Scope

- **A coordinated, statewide approach to corralling health care costs**
 - Reduce rate of health care cost growth for State government
 - Reduce rate of health care cost growth for businesses in the State
- **Look at everything possible that can:**
 - Improve quality
 - Lower costs
 - Increase access
- **Make specific recommendations that:**
 - Can be implemented under current law
 - Call for legislation next session
 - Can be advocated by the Governor—changes in the broader system and federal government
- **Charge:**
 - Do not cut the number of people covered by State programs
 - Take risks
 - Be innovative
 - Develop public-private partnerships

Cost Pressures—No End in Sight

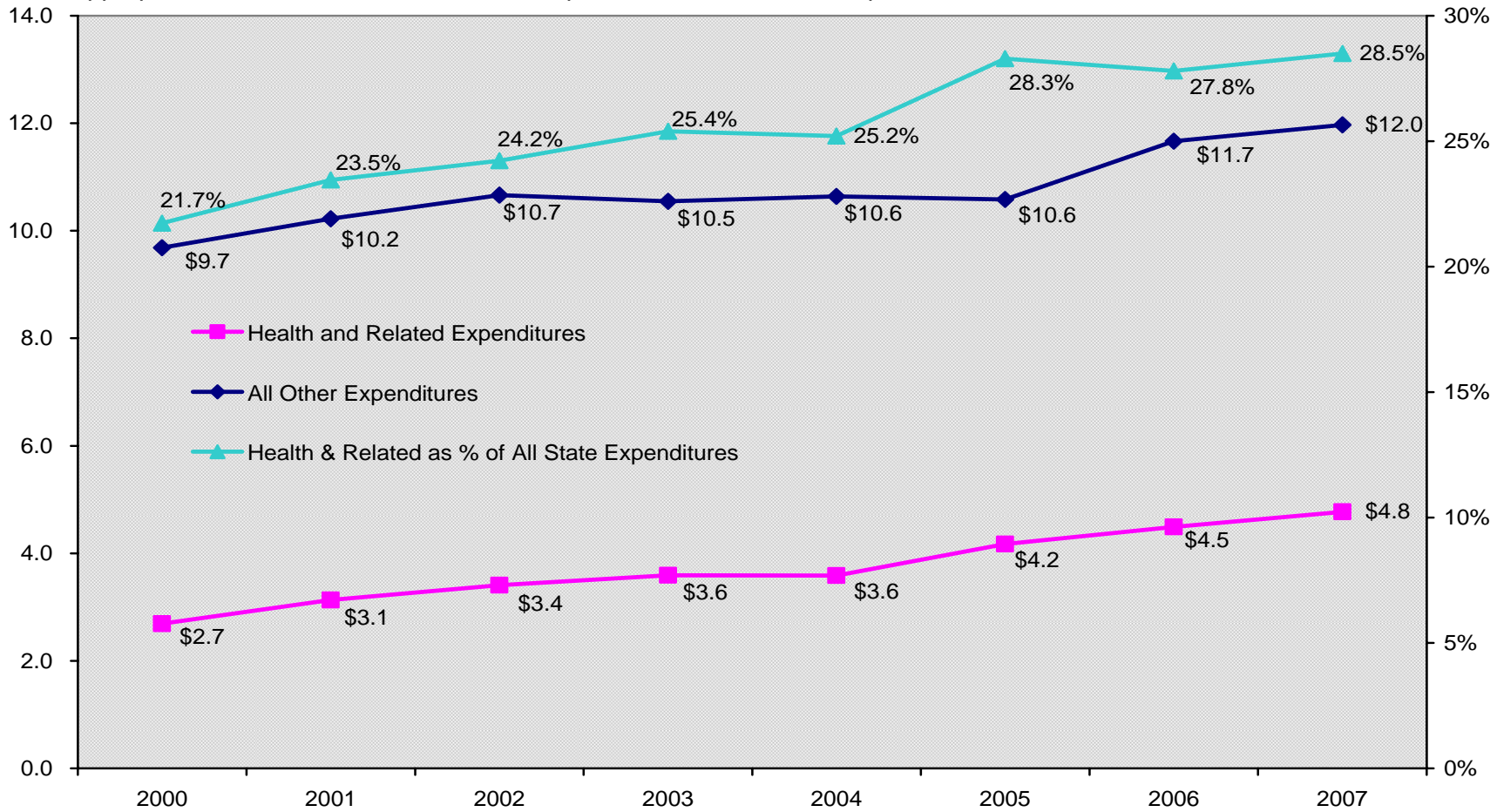


Employer and Government Share Is Increasing



Health and Related Costs*

appropriated state dollars in billions and as percent of all state fund expenditures

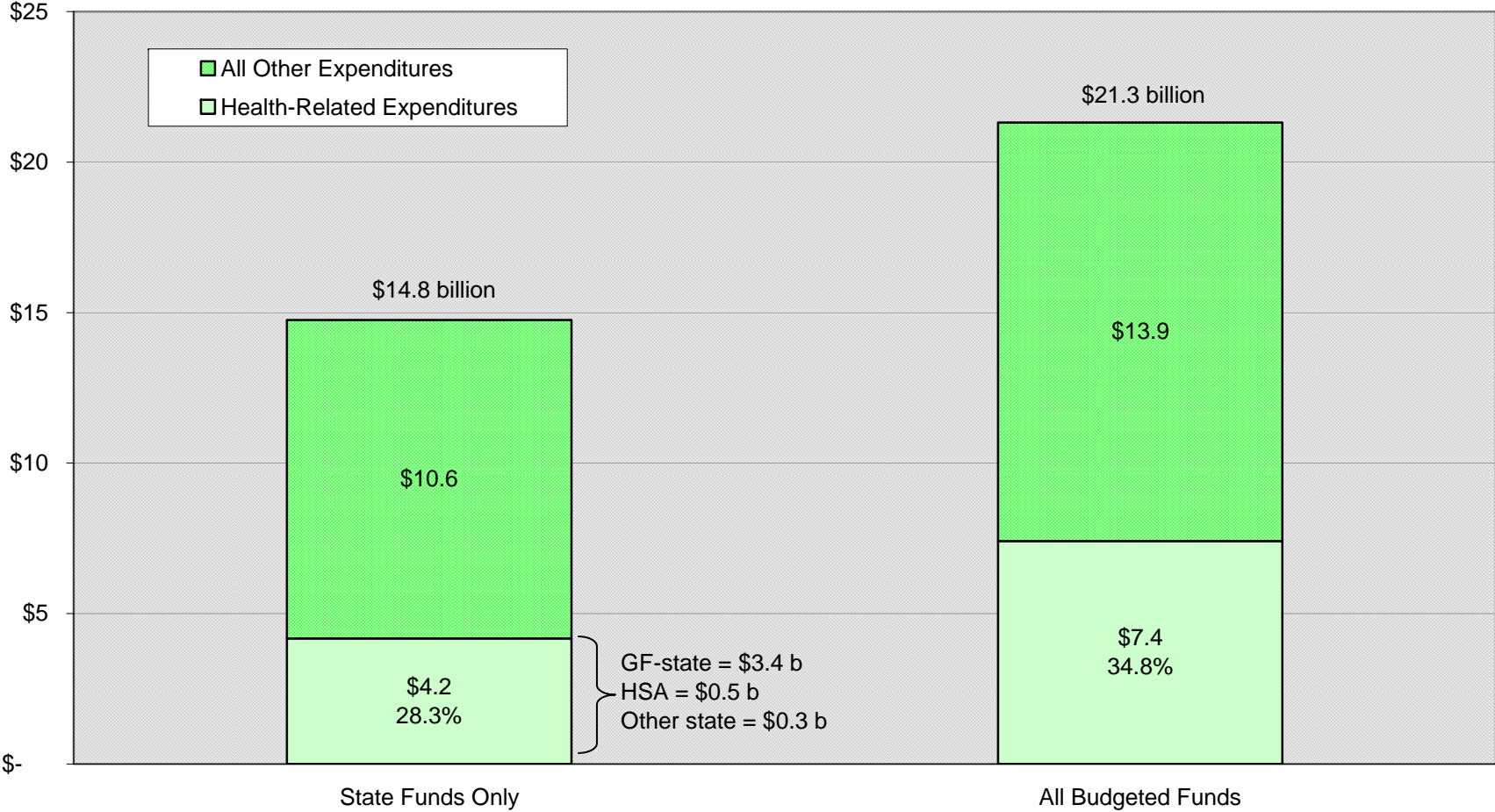


*Includes direct health costs such as Medicaid, Basic Health, public health; plus long-term, institutional, and behavioral health costs.

Source: State of Washington Office of Financial Management (July 2005)

State Health Costs

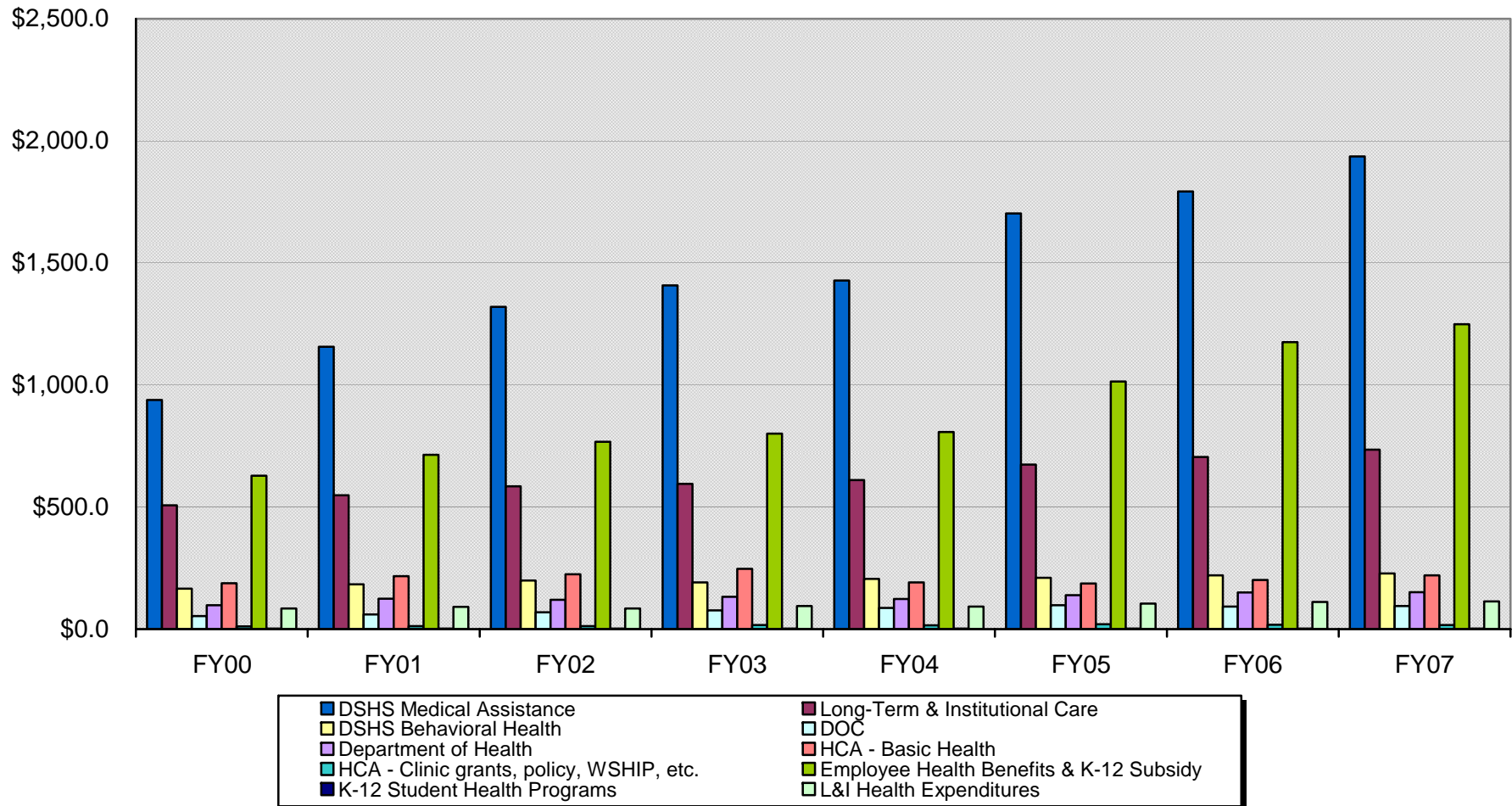
dollars in billions - includes direct health programs, public health, institutional care, and behavioral health



Source: State of Washington Office of Financial Management (July 2005)

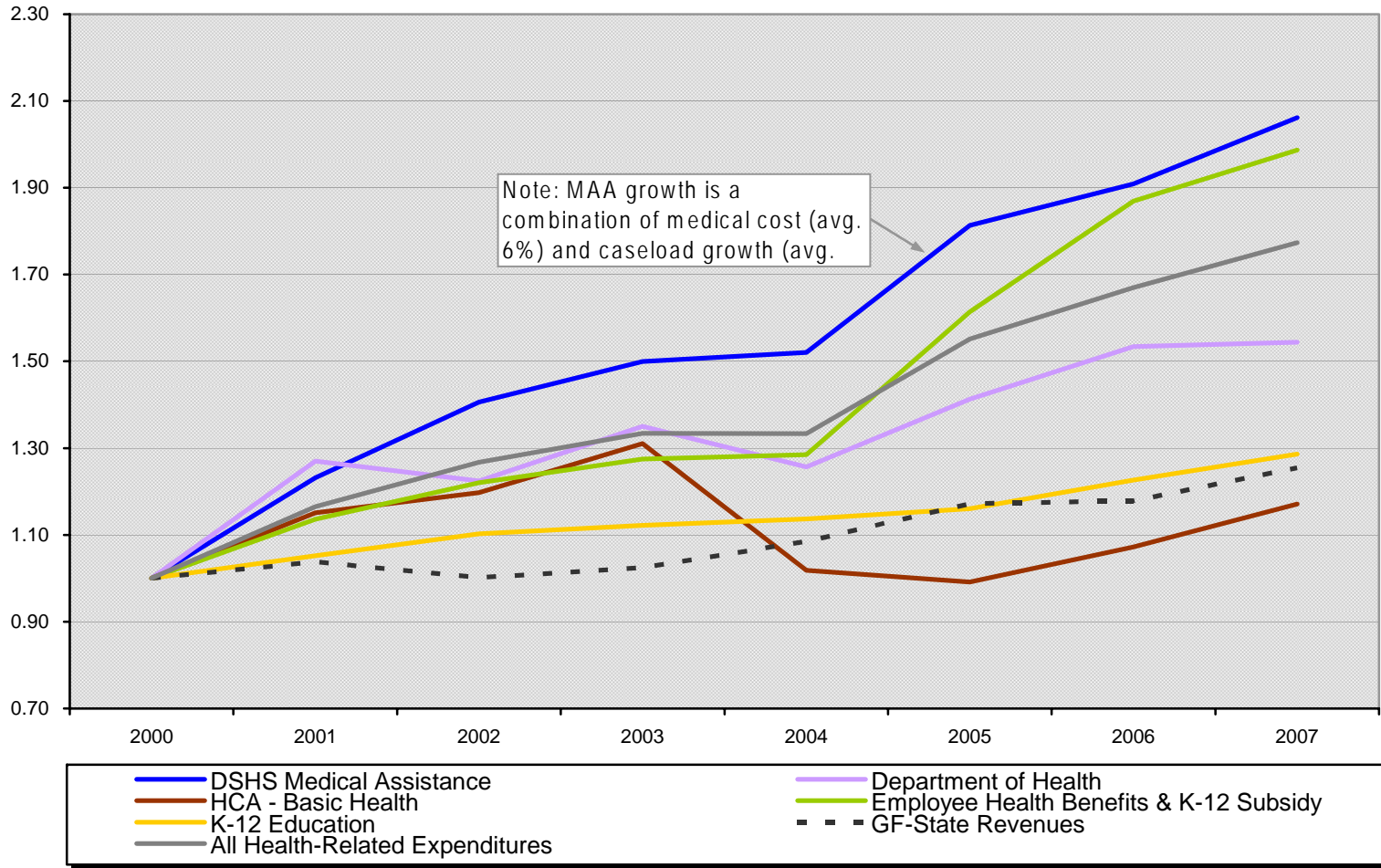
Washington State Health Expenditures

dollars in millions • appropriated state funds • actuals FY00-FY04, budget FY05-FY07



Source: State of Washington Office of Financial Management (July 2005)

Growth in Selected Costs versus Growth in General Fund-State Revenue



Source: State of Washington Office of Financial Management (July 2005)

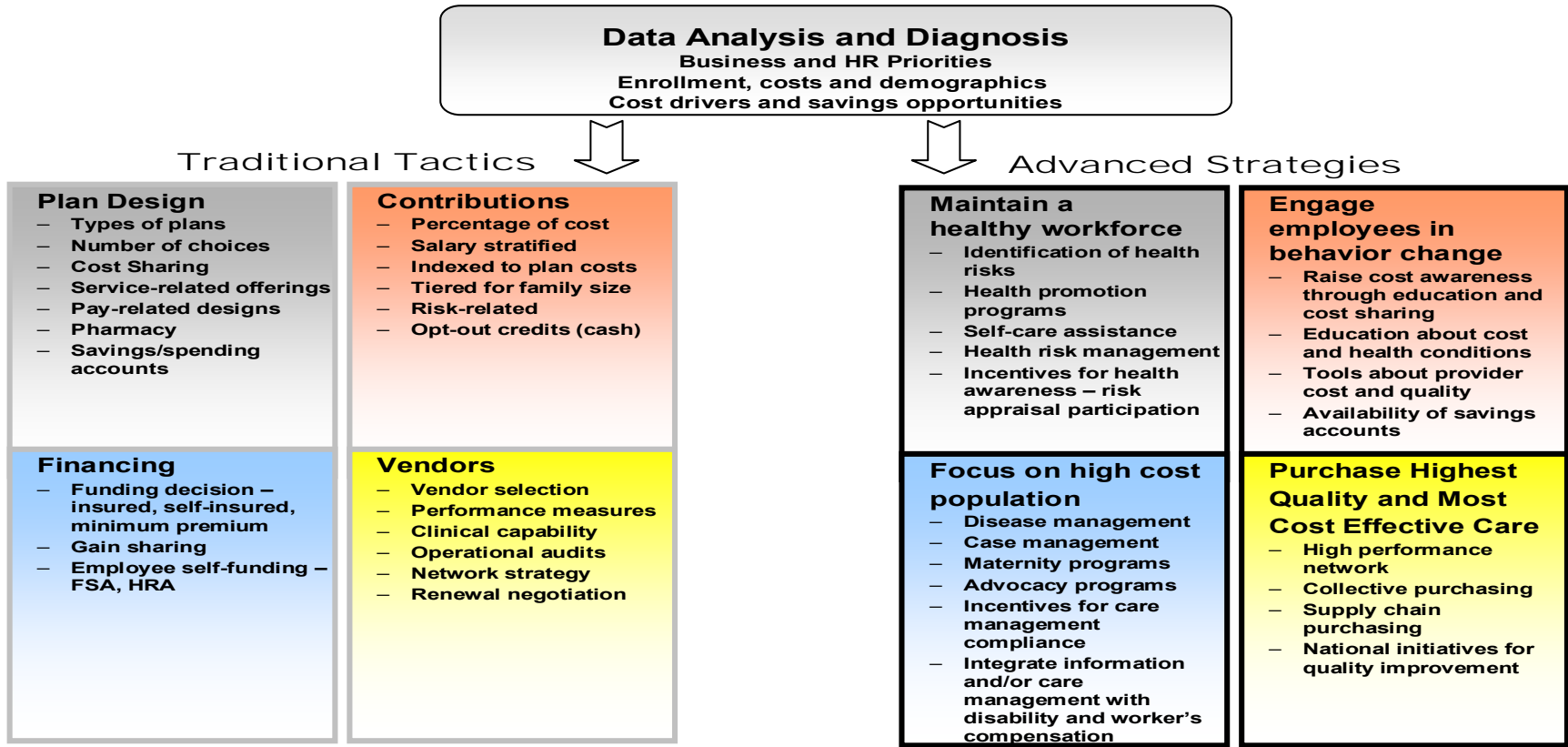
The Problem

To this scene, Halvorson and Isham bring to bear unusually powerful and well-informed insight into the causes of these problems, combined with great clarity of exposition. The causes they describe are many and complex. Their list includes:

- many costly medical miracles
- free access to which everyone feels entitled
- an unsafe, error-prone system that, as often as not, fails to deliver effective and appropriate care
- a widespread belief in entitlement to unproven experimental care and care of very low marginal value compared to its extra cost
- a failure to do proper evaluations of new technologies before general use
- irresponsible politicians who pass laws mandating the coverage of extremely costly but unevaluated treatments (some of which turn out to be worthless or harmful)
- local care monopolies created by mergers of most of the hospitals or most of the doctors in town in a single specialty
- a system that creates cost-unconscious demand for new drugs, permitting drug companies to charge ten times the price for the new drug that is only marginally better than the old one
- high, rising, and unrealistic patient expectations
- serious shortages of nurses and other technically trained personnel, the solution to which will have to include large pay increases
- the relaxation of managed care cost controls forced by the anti-managed care backlash and its accompanying lawsuits.

Alain Enthoven, Forward to **Epidemic of Care**

Large Employer Health Care Strategies



Source: Mercer Human Resource Consulting

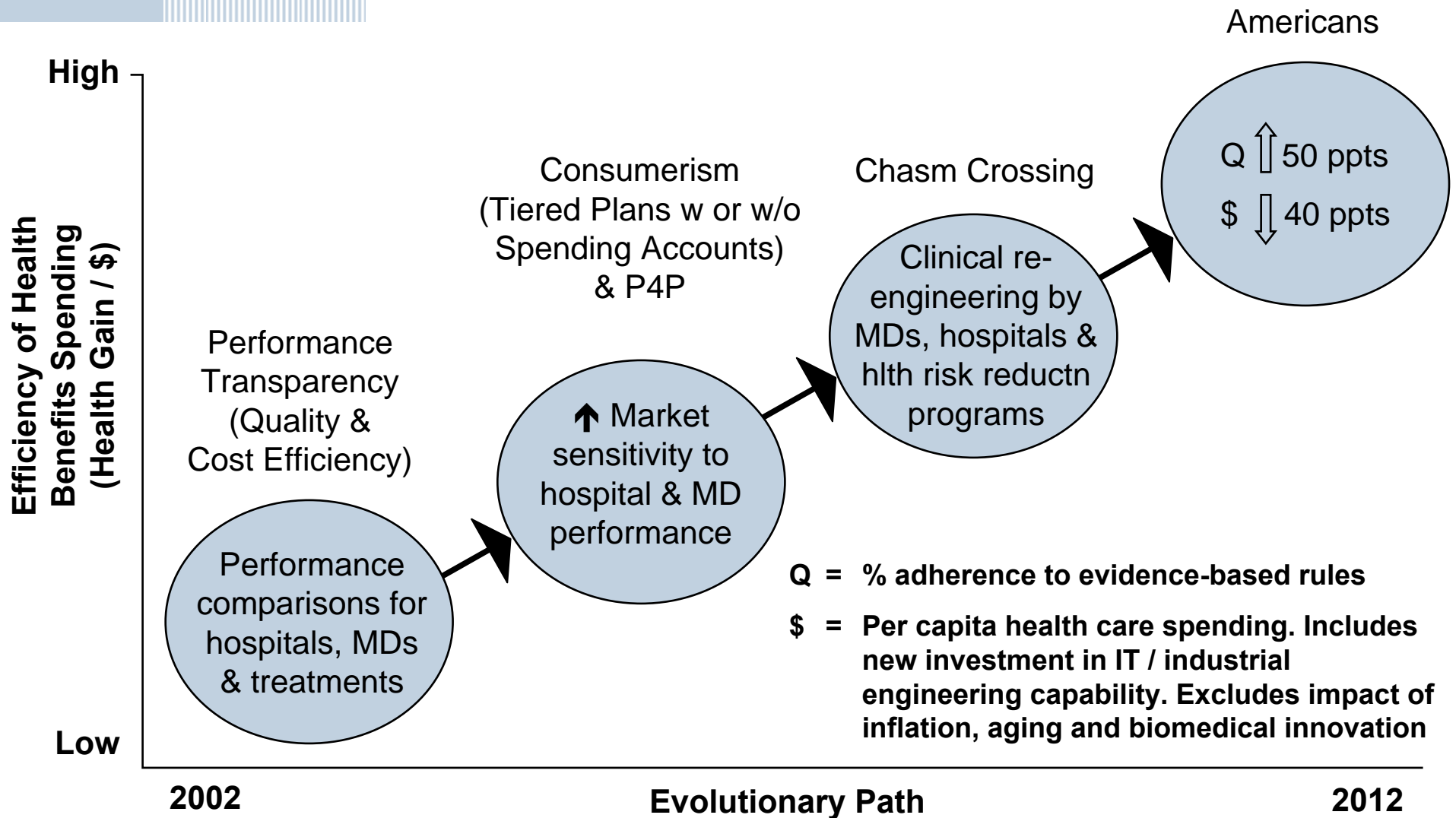


*Alternatives to Medical Impoverishment,
Uninsurance, and Service Rationing:*

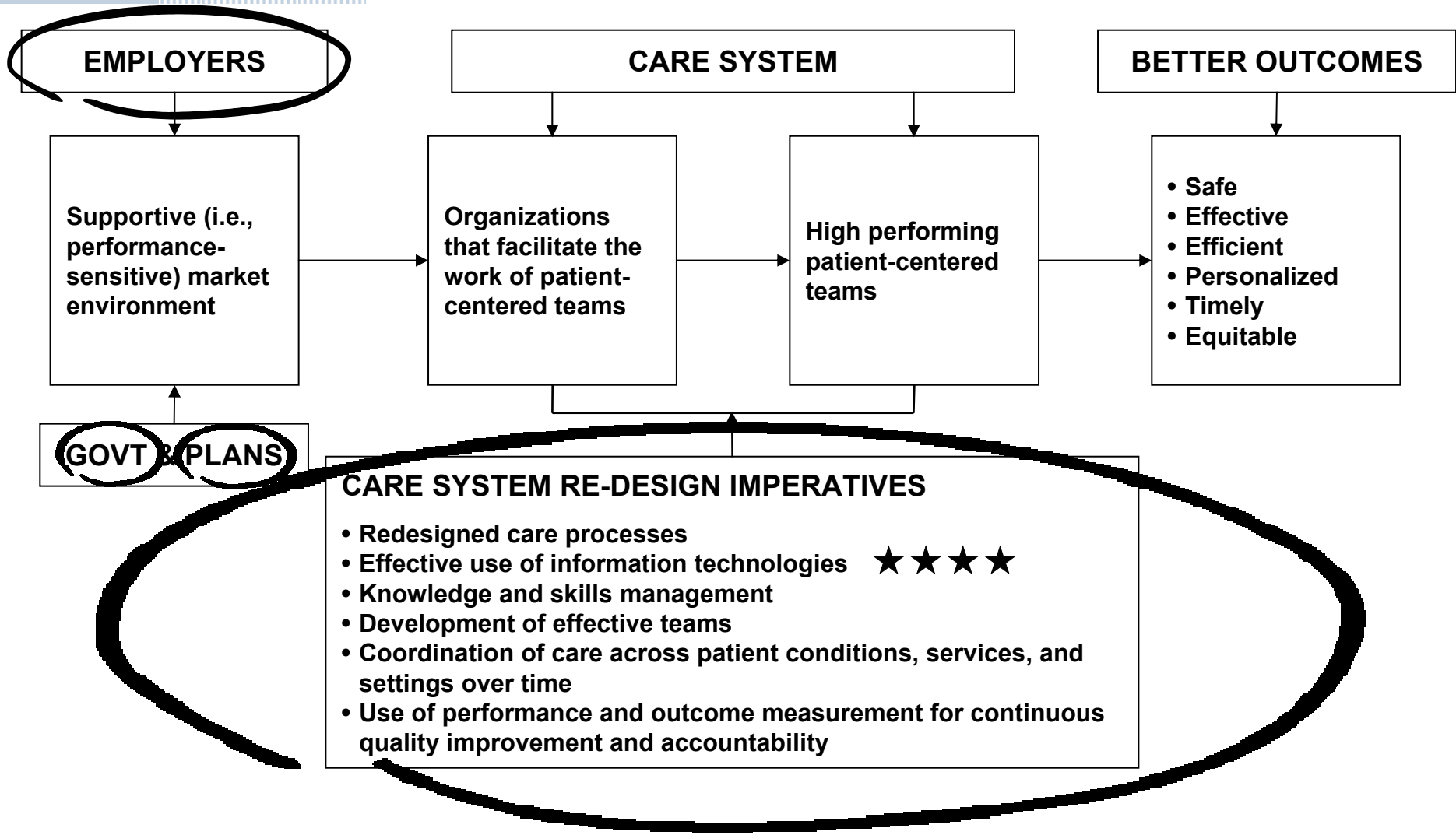
- A. Slow the growth rate of payable provider prices (not rated)**
- B. Incentivize greater beneficiary stewardship of care spending ★** (Consumer Incentives, Small Business Supports)
- C. Reduce intensity of services, especially for “flat-of-curve” care ★★** (Less Unnecessary Utilization)
- D. Improve health industry’s production efficiency ★★★** (IT, Safety, Prevention, Disease Management, Collaboration, Medicaid Innovation Waivers)

Note: Linkage to Governor's 9 priorities are mapped within parentheses. “Other ideas” – evidence-based medicine, dissemination of quality info and improved agency coordination – also link primarily to option D.

A Near-Term Vision that Benefits All Stakeholders

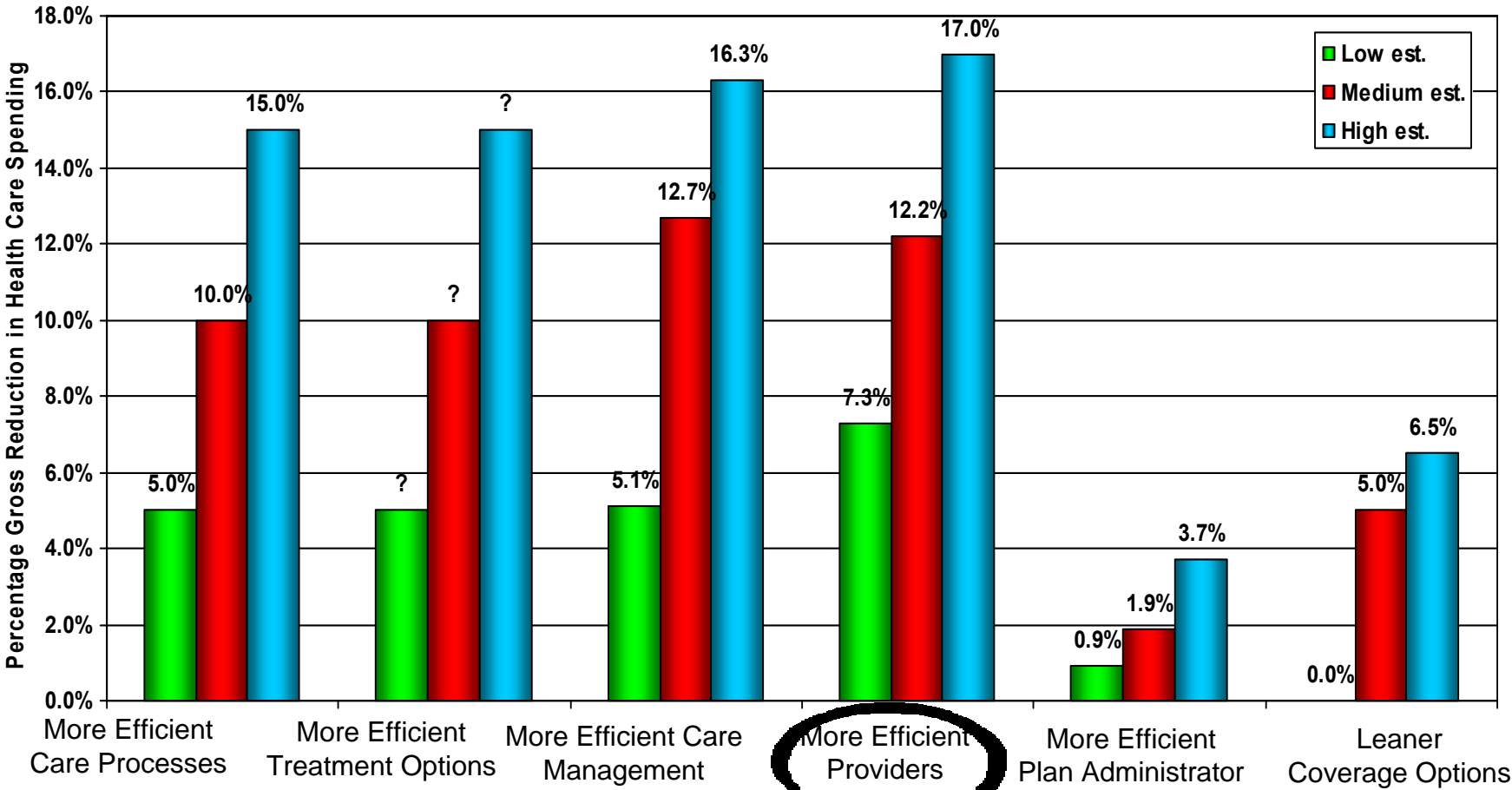


A Similar Vision from the Institute of Medicine



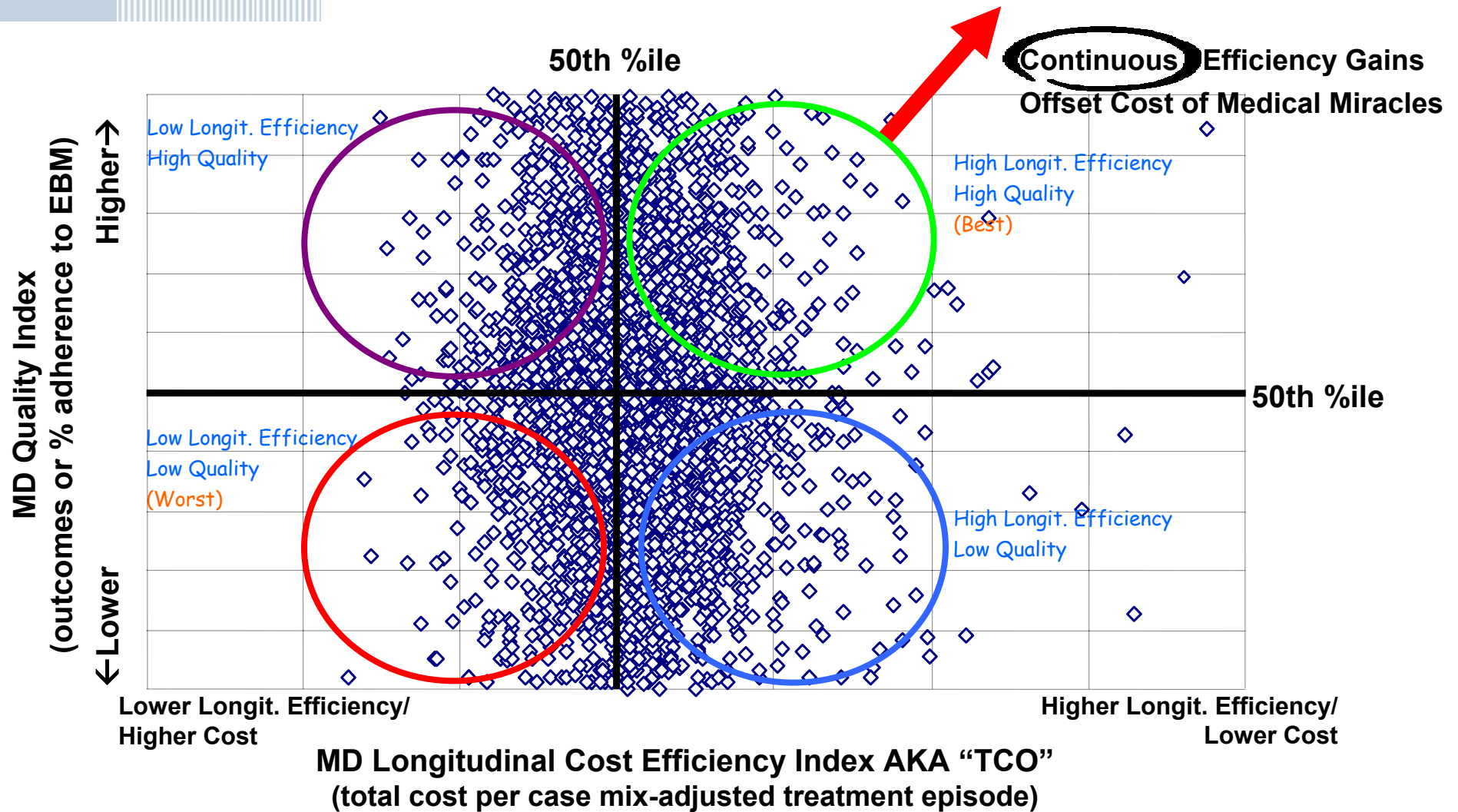
Less Flat-of Curve Care & More Production Efficiency: Specific Vehicles and Their Yields

Estimated Static Savings From Linking Beneficiaries With More Efficient Options



Source: 2002 Mercer Report to Business Roundtable

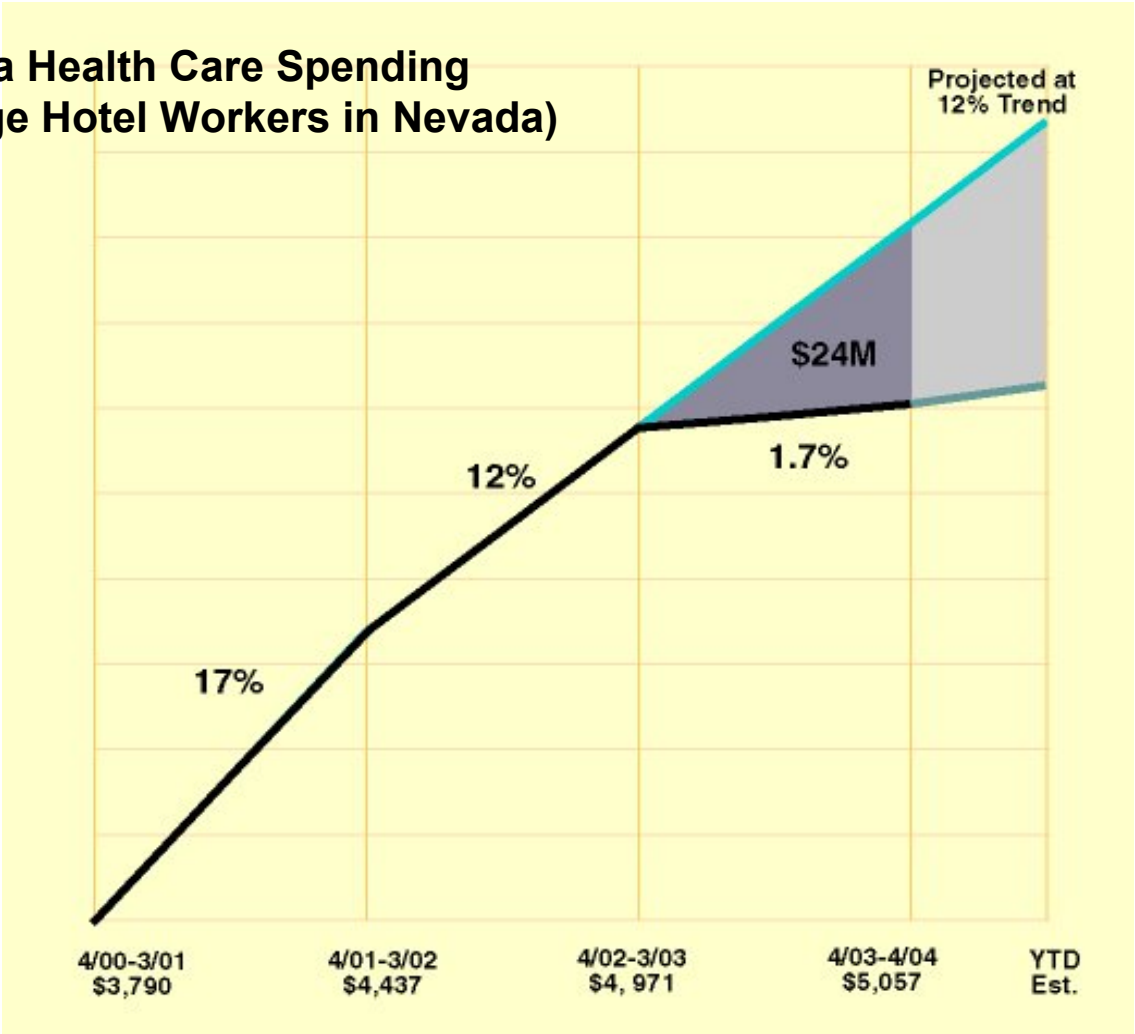
Incentivizing Robust Re-Engineering of Health "Production" is the Only Infinite Method of Stabilizing Health Care Spending




Adapted from Regence Blue Shield

Outswimming the Shark for 12 Months Primarily Via Use of More Efficient MDs Who Use Less "Flat-of-Curve" Care

**Per Capita Health Care Spending
(Low Wage Hotel Workers in Nevada)**




Source: Arnie Milstein, M.D., Mercer Human Resource Consulting



Governor's Work Group on Health Care Quality and Cost

Goals

1. Reduce State's health care cost
Trend to no more than the State
of Washington's revenue trend
2. Improve the quality and cost-
efficiency of health care services
3. Improve the health of Washington
residents
4. Increase the number of insured
Washington residents by
improving the affordability of
health care



Governor's Work Group on Health Care Quality and Cost

Key Strategies

1. Purchase high quality and cost-efficient care
2. Create an improved market for buying health care
3. Focus on the high health care cost population
4. Support health promotion and health education of State beneficiaries
5. Increase the insured population

Governor's Work Group on Health Care Quality and Cost

Initiatives

- Improve PEBB procurement to improve quality and cost.
- Medicaid Cost Containment
- Centralized, collaborative, evidenced based set system to set priorities and determine what the State will pay for.
- Effectively manage the 'High Opportunity' populations insured or sponsored by the State – 5%-50% population
- Promote the transparency of health plan and provider performance.
- Reduce the impact of State administrative impacts on providers
- Improve the insurance market for small employers and individuals
- Prevention and Wellness for State Employees and Beneficiaries
- Encourage technology improvements in patient/provider information
- Explore the creation of an Institute for Clinical Performance Improvement

Key Messages

- **Quality problems and Variability are driving Health care costs– this can't continue**
 - **State revenue growth is 4%, health care growth trends are 10%**
 - Health care cost increases take away from education and other priorities
 - Rising health care costs are negatively impacting jobs, wages and employer provided coverage
 - As we pay more for health care, cuts hurt safety nets like clinics and Basic Health
 - **We're spending more on health care, but the population is less healthy**
 - Children born today face a lower life expectancy than you or I
 - Increases in diabetes, obesity, heart disease
 - **Significant Quality issues drive increased costs**
 - RAND: Americans get evidence-based care only 55% of the time
 - IOM: up to 98,000 Americans die each year due to avoidable medical errors
 - NCQA: up to 79,000 Americans die each year due to quality gaps
 - CDC: 2 million patients acquire infections in the hospital each year => 90,000 die

Key Messages

Priority Actions to Achieve the Goals

- In State purchasing of health care we can be a force for higher quality and lower costs
- We need to create an improved market for health care
 - We will use State purchasing and collaborative efforts to promote transparency of health plan and provider performance
 - We will promote the use of electronic medical records
- We will develop programs to ensure appropriate utilization by clients of State programs who are high cost patients
 - 5% of the population is responsible for 50% of the costs—we need to be sure their treatment is appropriate, high-quality and cost-effective
- We will provide effective prevention and wellness programs for clients of State funded health care programs

Key Messages on the Current Health Care Situation (continued)

Priority Actions to Achieve the Goals (continued)

- We will reduce the number of uninsured residents by making health care more affordable
 - Make the health care market place more affordable for employers
 - Restructure insurance regulations to better address quality and cost-efficient health care
 - Develop small business assistance strategies



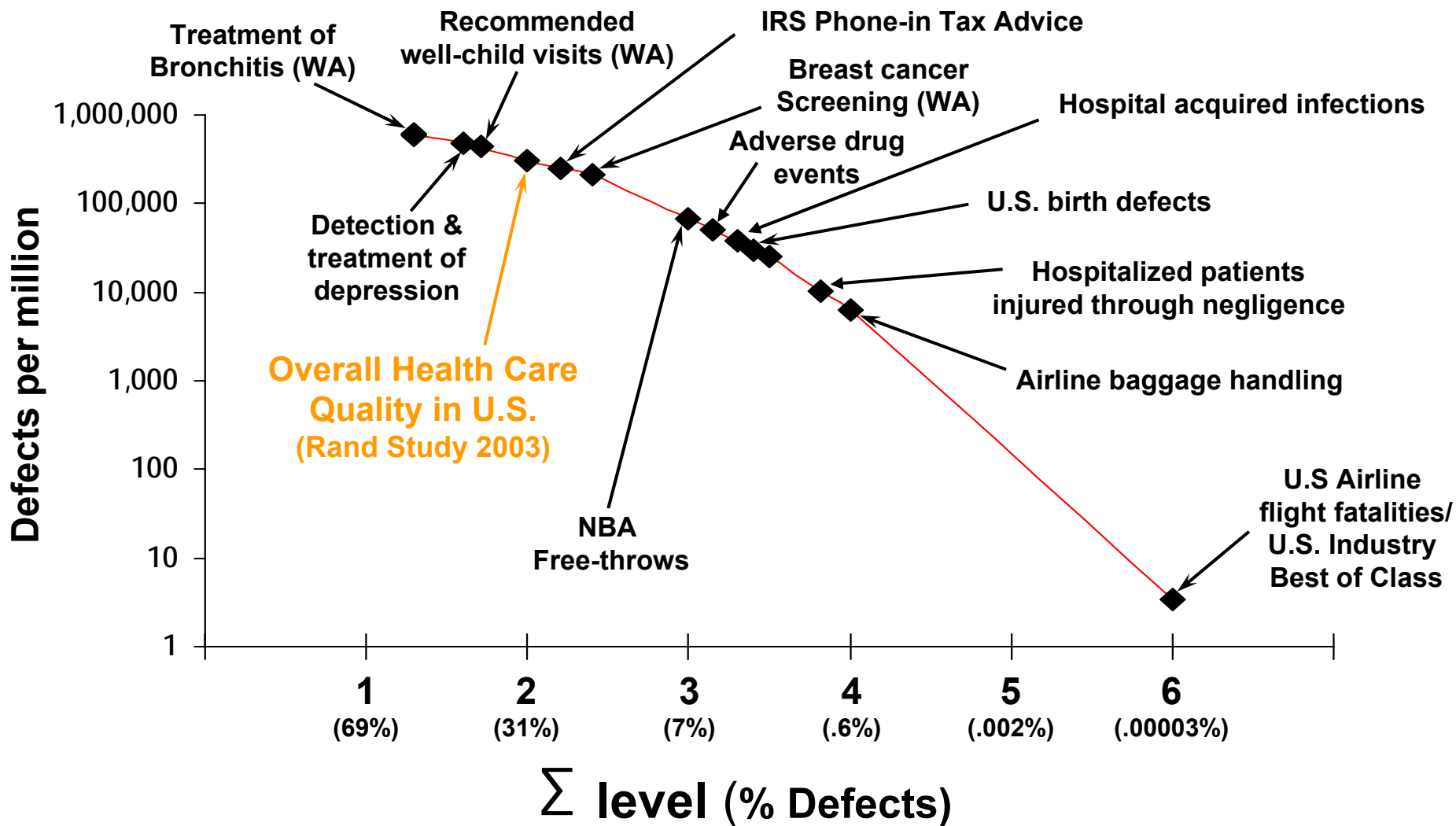
Next Steps

Action Items

1. Further refine work plan details and develop key strategies
2. Review approach and implications with key stakeholders
3. Plan the details of the Health Care Summit (scheduled for Fall / Winter 2005)
4. Develop a process to monitor progress and link to the legislative calendar

Health Care Quality Defects Occur at Alarming Rates

Sources: modified from C. Buck, GE; Dr. Sam Nussbaum, Wellpoint; Premera 2004 Quality Score Card; March of Dimes





What's Wrong? Quality Performance Is Too Low

- **RAND: Americans get evidence-based care only 55% of the time**
- **IOM: up to 98,000 Americans die each year due to avoidable medical errors**
- **NCQA: up to 79,000 Americans die each year due to quality gaps**
- **CDC: 2 million patients acquire infections in the hospital each year => 90,000 die**

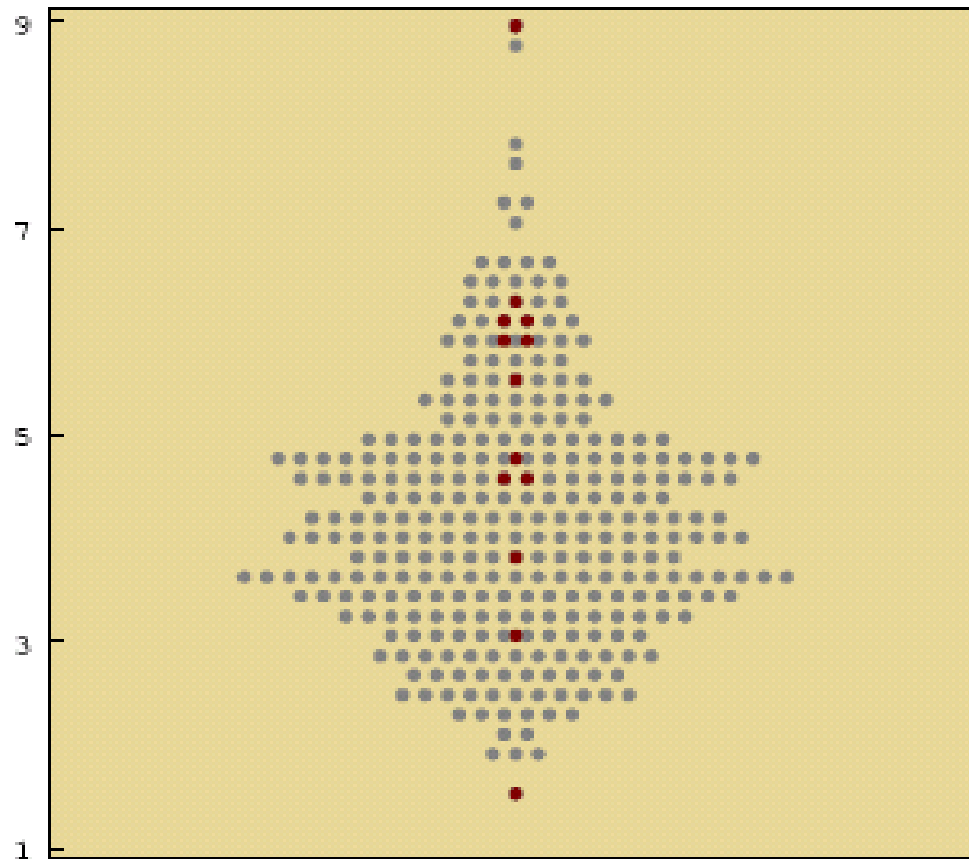
Preventing Complications and Premature Death

Patients get recommended care only half of the time; consequences are avoidable.

Condition	Shortfall in Care	Avoidable Toll
<i>Diabetes</i>	Average blood sugar not measured for 24%	2,600 blind; 29,000 kidney failure
<i>Hypertension</i>	< 65% received indicated care	68,000 deaths
<i>Heart Attack</i>	39% to 55% didn't receive needed medications	37,000 deaths
<i>Pneumonia</i>	36% of elderly didn't receive vaccine	10,000 deaths
<i>Colorectal Cancer</i>	62% not screened	9,600 deaths

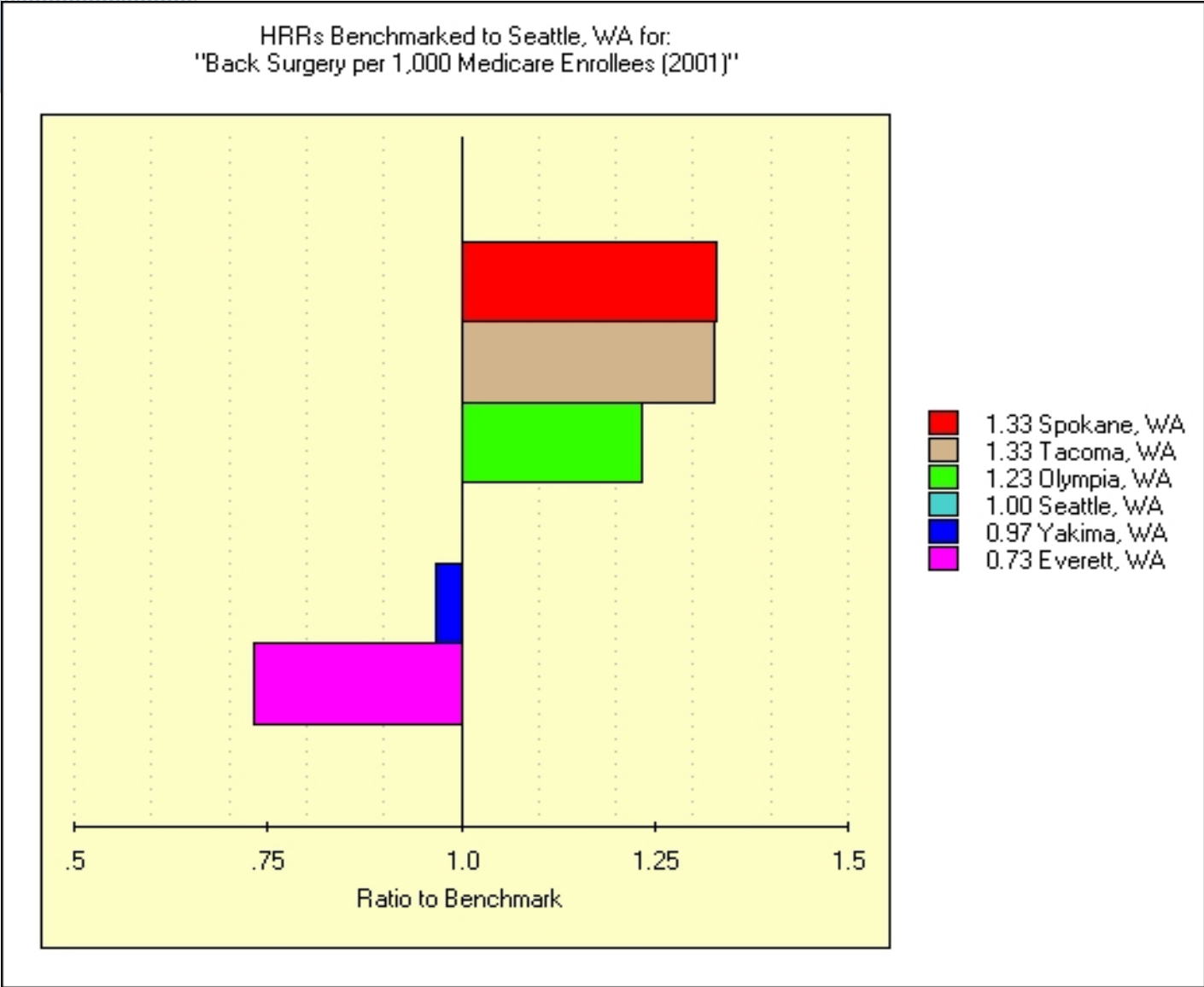
Source: Elizabeth McGlynn et al, RAND, 2004

Surgery for Back Pain



Bend, OR	9.0
Eugene, OR	6.2
Portland, OR	6.1
Salem, OR	5.9
Spokane, WA	5.8
Medford, OR	5.8
Tacoma, WA	5.4
Yakima, WA	4.6
Seattle, WA	4.5
Olympia, WA	4.5
Everett, WA	3.8
Anchorage, AK	3.0
Honolulu, HI	1.3

Back Surgery



Sample Process Reengineering in Dr's Office

An Initial "Rebuild" of an Ophthalmology Visit

- **Before** "we're doing everything we can think of... we need more money!"

Traditional model
1 assistant/MD
Staff poorly trained
2 rooms/MD



22 patients/day/MD
3 month wait for consult
Patient Satisfaction = 63%
Provider Satisfaction = 90%
\$60 per visit
\$22.31 per beneficiary/year

- **After** "we're doing what we didn't know about before... we need less money!"

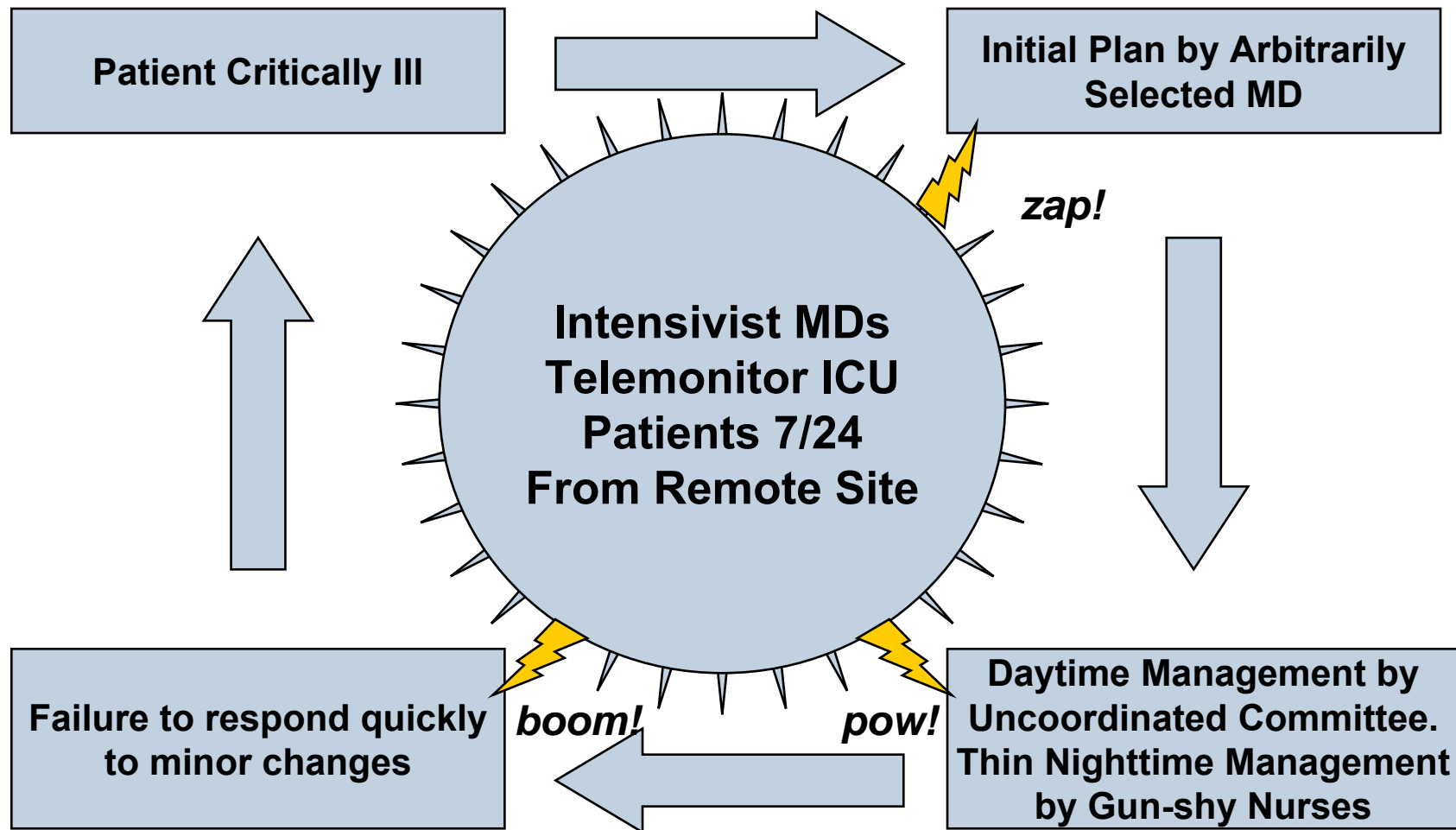
Engineered model
3 assistants/MD
Staff highly trained
4 rooms/MD



50 patients/day/MD
No wait for consult
Patient Satisfaction = 85%
Provider Satisfaction = 94%
\$43 per visit
\$14.91 per beneficiary/year

Sample Process Reengineering in Hospital

An Initial "Rebuild" of an ICU Stay



The Bottom Line: 54% reduction in mortality and 21% reduction in costs in average hospital. 20% and 20% in a "top" hospital.



Steven R. Hill, Administrator

Steve Hill was appointed Administrator of the Washington State Health Care Authority (HCA) in April 2005. A cabinet level agency, the HCA administers health-care benefits to more than 400,000 Washington residents through the Basic Health program for low-income residents, and the Public Employees Benefits Board (PEBB) program for state government workers and retirees. Combined, the two programs administer over \$1.2 billion in benefits annually. The HCA also administers the Community Health Services program that provides state funding to community clinics; the Prescription Drug Program (known as Rx Washington) designed to reduce state spending on drugs; and the Uniform Medical Plan, a preferred provider plan utilized by more than a third of PEBB enrollees.

In announcing his appointment, Governor Christine Gregoire named Hill to lead a team of public and private sector health-care leaders to make specific recommendations to contain health-care costs. The group will investigate effective uses of technology, consumer incentives, wellness promotion, and other avenues to reduce health care's increasing impact on the state's budget.

Hill retired from Weyerhaeuser Co. where, as senior vice president of human resources, he led wellness efforts for thousands of employees and worked to contain the company's health-care costs. He helped form, and served as president, of the Health Care Purchasers of Puget Sound, a group representing employers who sponsor health-care insurance. He also has served on the state's Hospital Rate Setting Commission.

A former Regent for Washington State University, Hill received a bachelor of science degree in forest management from the University of California at Berkeley in 1969. In 1971, he received a master of business administration degree from the University of California at Los Angeles. He is a member of the first class of the American Leadership Forum Chapter for Tacoma-Pierce County, and on the board of directors for the Seattle Symphony, Hilltop Artists in Residence, and the Washington Public Affairs Network (TVW). He was elected a member of the National Academy of Human Resources in the Class of 2000. In 1978, he was appointed a White House Fellow and served as a staff assistant in the Office of the Secretary, U.S. Department of Energy. He is past president and board member of the White House Fellows Association.

Hill lives in Tacoma, Washington with his wife Sandy. They have two adult daughters.