



US Health Care Industry Update 2011 Largest US Industry Continues Growth Despite Recession

In the first week of 2011 updated news for US healthcare industry came out. The Office of the Actuary, Centers for Medicare and Medicaid Services, in Baltimore, Maryland released their annual report on the cost of healthcare in the US for 2009 reporting and their projections for the next 10 years. The report in brief said two things¹:

In 2009, US health care spending grew 4.0 percent—a historically low rate of annual increase—to \$2.5 trillion USD, or \$8,086 USD per person. Despite the slower growth, the share of the gross domestic product devoted to health spending increased to 17.6 percent in 2009 from 16.6 percent in 2008. The growth rate of health spending continued to outpace the growth of the overall economy, which experienced its largest drop since 1938. The recession contributed to slower growth in private health insurance spending and out-of-pocket spending by consumers, as well as a reduction in capital investments by health care providers. The recession also placed increased burdens on households, businesses, and governments, which meant that fewer financial resources were available to pay for health care. Declining federal revenues and strong growth in federal health spending increased the health spending share of total federal revenue from 37.6 percent in 2008 to 54.2 percent in 2009.²

Health care accounted for—a record 17.6 percent of the total economic output in 2009, the report said. The economy contracted while health spending continued to grow.³

To put this in perspective and underscore the fascination over healthcare costs in the US, it is important to understand the industry in terms of numbers – both large and small. The figure of \$8,086 USD spent in healthcare per person cited above exceeds the total per capita GDP of China⁴, India⁵, Pakistan⁶ and Egypt⁷ combined. In fact, if the US healthcare industry were itself a sovereign nation it would rank as the 117th largest GDP, just before Peru.

During the past 45+ years⁸ individual healthcare cost in the US has been increasing its share of GDP and from 5.7% in 1966 to 17.6% in 2009 to estimates of 50% in 2082. While this is 70+ years in the future, this is the actual path of current healthcare costs and why something must change now. In the 20 years I have been in healthcare, I have seen the industry go from under \$1 trillion USD to the current \$2.7 trillion USD now estimated for 2011. It has been an amazing ride that has only just begun.

¹ <http://www.nytimes.com/2011/01/06/health/06health.html>

² <http://content.healthaffairs.org/content/30/1/11.abstract>

³ http://www.upi.com/Health_News/2011/01/06/Health-spending-growth-slowest-in-decades/UPI-81411294290426/

⁴ <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

⁵ <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>

⁶ <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

⁷ <https://www.cia.gov/library/publications/the-world-factbook/geos/eg.html>

⁸ <http://www.census.gov/compendia/statab/2011/tables/11s0130.pdf>

In September 2008, I delivered a key-note speech at the National Investment Bankers Association in Chicago where I quoted a respected physician leader in saying,

***“...the heart of the problem is the basic nature of the system—the way insurance is paid and the way doctors are paid. The system is fragmented, providers are paid on a piecework basis, and there's no overall accountability.”*⁹**

Until the U.S. changes the incentives or changes the dynamics, the problem will only worsen. The first path for change is technology followed closely by compensation methods for providers. On a per employee basis, the healthcare industry spends less per employee on information technology than every other major industry in the US, excluding food services. Healthcare spends a mere \$3,700 USD per employee per year while all other US industries spend an average that is double that - about \$7,000 USD per employee.

Once the US healthcare system, consisting of providers (*physicians and hospitals*), payers (*HMOs, commercial insurance companies and Medicare/Medicaid*) and consumers (*patients*), achieves widespread implementation of Electronic Healthcare Records (EHR) technology will we be able to truly interconnect providers, payers and users to generate better and lower cost healthcare. The implementation of EHR technology is planned to be accomplished later this decade; however, the technology must address more than simply transferring paper records to electronic media. To bring effective and lasting reduction in healthcare cost this technology must embrace the need to interconnect providers, payers and patients through systems that emphasize the patient and not the record through more than simplistic file transfer protocols. The EHR of the future must ensure patient privacy, HIPAA-compliance and exceed present protocols by providing the ability to manage the patient and not just manipulate the records.

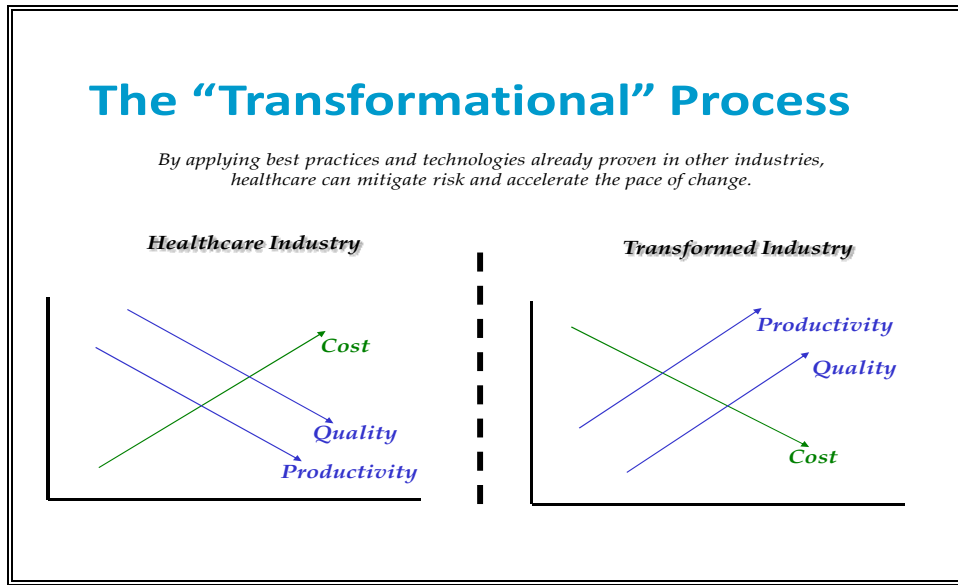
The US Government is funding the EHR adoption mandate with the distribution of \$27 billion USD in stimulus money to providers and hospitals. We see that trend both continuing and even accelerating as payers (*including commercial insurance companies*) begin to discriminate in favor of those providers that connect to the payers' EHR systems. Before this decade is over, we believe that private industry will spend 10x this cited federal stimulus money in a true modernization of the U.S. healthcare provider network. This will allow for real-time adjudication of medical claims that will dramatically reduce cost of billing, processing, payment and reporting of medical claims and accelerate payment to providers bringing additional cost reductions. Today healthcare spends cumulatively nearly 30% of its revenue in administration.^{10,11} This is one of the real core problems within healthcare; the administration and management leads to the creation of situations in which more healthcare does not equate to better healthcare.

⁹ Arnold Relman, M.D., former editor of the *New England Journal of Medicine*. *The AARP Bulletin*- March 2003

¹⁰ <http://www.nejm.org/doi/full/10.1056/NEJMsa022033>

¹¹ <http://www.chcf.org/~media/Files/PDF/Q/PDF%20QuickReferenceGuide09.pdf>

The reason why we say that more “expensive” healthcare is not necessarily better care is based on numerous studies. Though the US has the most expensive healthcare in the developed world, in the quantifiable measurement, we are very near the bottom in quality. It is evident that healthcare is at the beginning of an industry-wide transformation as almost every industry in the US has previously gone through. This transformation is where quality and efficiencies will improve as the costs of healthcare, on a per capita basis, will go down.



So what’s the hurry?

By the end of 2012, over 72 million baby boomers will begin their retirement and join Medicare. The increase in healthcare expenditures is guaranteed and baby boomers who have been transforming the US geographically, culturally, economically and even politically since 1946 are about to hit the most inefficient industry in the US head on. The additional news is that the federal government has begun to accept applications for registration¹² of EHR systems.

This is a long and documentation-intensive process.^{13 14} Few EHR systems have been approved, and very few providers have the systems in place to make it all work today. According to current rules, to qualify for reimbursement in 2011, all EHR systems must be in place for certification no later than September 30, 2011. We believe that as reported in the *Palm Beach Post* (“Government is nudging doctors and hospitals to make healthcare digital”), providers are only now beginning to do the research and get on “with the program.”¹⁵

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¹² http://www.cms.gov/EHRIncentivePrograms/20_RegistrationandAttestation.asp#TopOfPage

¹³ http://www.cms.gov/EHRIncentivePrograms/10_PathToPayment.asp#TopOfPage

¹⁴ http://www.cms.gov/EHRIncentivePrograms/downloads/eligibility_flow_chart.pdf

¹⁵ <http://www.palmbeachpost.com/health/government-is-nudging-doctors-and-hospitals-to-make-156457.html#postCommentForm>

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