Changing the Debate on Healthcare Costs in the US:
The Triple Solution for Lower Cost, Better Quality Healthcare

Overview

Rising healthcare costs rank high on the list of concerns for most Americans. As costs increase, some employers are asking employees to shoulder a larger share. The political response to rising costs tends to focus on the components of care – cutting reimbursement, price controls, and limits on access for patients in public programs. Though chronic diseases are increasingly preventable and largely treatable, they account for the vast majority of healthcare spending. Little attention is directed at curbing healthcare costs by addressing chronic disease itself. To make a significant impact in both healthcare costs and the quality of care provided, reform efforts must focus on how to best limit the growth and burden of chronic disease.

Background

The structural incentives and historic design of our current healthcare model are not well suited for the prevention and management of chronic diseases. The system developed to address acute episodes of illness, such as infectious diseases. As such, it relied upon patients to seek care only when they became sick – a fever or worsening cough, for example -- followed by a diagnosis and short course of treatment by a physician. Doctors were then and are now reimbursed for addressing the immediate healthcare need presented. With acute ailments, there is limited need for preventive care and, other than routine vaccinations for some populations, provider reimbursement for such efforts is limited.

Today's greatest healthcare problems are more often chronic conditions, which require ongoing, patient-centered management. While hospitalization for an acute illness may be the most effective and appropriate intervention, hospitalization for a chronic disease may represent a failure to optimize care. Yet, physician and hospital care comprise 65 percent of the direct medical costs for people with chronic conditions. We invest too little in preventing chronic diseases or in preventing the complications that follow.[1]

Rising Costs: Between 2000 and 2005

- Overall healthcare spending grew by 38%.
- Medicare spending grew by 42%.
- Medicaid spending grew an average of 9.5% a year.

Sources: NCHS, National Healthcare Expenditures: Kaiser Family Foundation

Traditional approaches to controlling costs have focused on the prices of healthcare products and services. Specifically, policymakers often attempt to manage healthcare costs through various forms of reimbursement limits, price controls, and access restrictions. Employers similarly attempt to pass on greater costs to employees through higher copayments, increased premium sharing, caps on benefits, and limits on access.

The reality is that $3 of every $4 spent on healthcare in the US goes to treating people with chronic diseases.[2] To make any significant difference in managing healthcare spending, efforts must focus on the true driver of healthcare costs: chronic disease itself. Government, insurers, employers, providers, and communities must work together to realign the healthcare system to motivate people to stay healthy, to reward providers for preventing disease and limiting complications, and to encourage innovation of new and better treatments. By investing in health, we can both improve health and reduce healthcare costs.

75% of total healthcare costs are spent to treat the 45% of Americans who have at least one chronic condition.

Source: CDC

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[1] Adapted from, "Barriers to Chronic Disease Care in the United States of America: The Case of Diabetes and its Consequences," A report by Yale University Schools of Public Health and Medicine and the Institute for Alternative Futures (Nov. 2005).

[2] CDC, "Chronic Disease Overview: Costs of Chronic Disease," available at http://www.cdc.gov/nccdphp/overview.htm, accessed October 20, 2006.

Chronic Diseases Are Driving Healthcare Costs

- 45% of Americans have at least one chronic disease, and that number is growing.
  - 20M people in the US have diabetes. By 2025, 50M will have diabetes.
  - In 1995, no state had an obesity rate >20%. By 2005, all but 4 states had obesity rates >20%.
  - 3 out of 4 Medicare beneficiaries have at least one chronic disease, and over half have two or more.
- $3 of every $4 spent on healthcare goes to treating people with chronic diseases.
  - Heart disease and stroke cost approximately $400B/year.
  - About 95% of Medicare spending and 80% of Medicaid spending goes toward treating chronic diseases.
  - Ten percent of Medicare beneficiaries account for more than 60% of Medicare spending. Less than 8% of Medicaid beneficiaries account for more than 65% of Medicaid spending.
- Prescription drugs account for about 10 cents of every $1 spent on healthcare.

Sources: CDC; Institute for Alternative Futures; American Heart Association; Congressional Budget Office; Kaiser Family Foundation; CMS.

A Triple Solution to Lower Cost, Higher Quality Healthcare

To manage healthcare costs effectively and improve the quality of care and health outcomes, we must focus our attention and resources on three areas:

1) Prevention (particularly addressing critical issues around obesity and tobacco use),
2) Intervention (managing chronic disease to avoid costly complications), and
3) Innovation (developing new treatments for costly unmet medical needs, like Alzheimer's disease and stroke).

Prevention

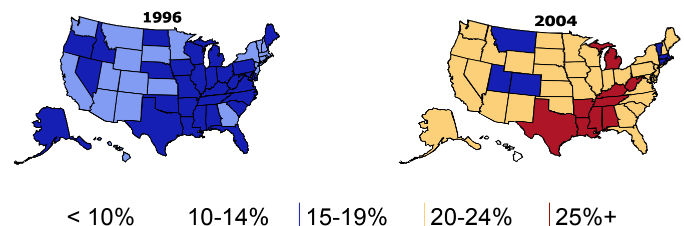
The first key to lowering healthcare costs is preventing people from getting sick. According to the CDC, "chronic diseases—such as cardiovascular disease (primarily heart disease and stroke), cancer, and diabetes—are among the most prevalent, costly, and preventable of all health problems." Yet, prevention accounts for only three percent of healthcare spending.[3] Lowering the prevalence of just a few key high-cost diseases a modest amount could have a significant impact overall.

Better lifestyle habits can help prevent 80% of heart disease and 90% of type-2 diabetes.

Dr. Walter Willett, Harvard School of Public Health

For example, two leading, preventable causes of chronic disease are obesity and tobacco use. Obesity rates in the US among adults and youth have grown dramatically, and some leading health economists attribute almost 30 percent of the growth in healthcare spending during 1987-2001 to obesity.[4] Smoking prevalence in the US has remained stagnant at 21 percent despite public goals to reduce prevalence to 12 percent by 2010.

US Obesity Rates



< 10% 10-14% 15-19% 20-24% 25%+

Source: CDC

Vaccines present another critical avenue of prevention. Vaccines have long been a public health staple in helping to prevent acute disease,

[3] See CDC, www.cdc.gov/mmwr/preview/mmwrhtml/00017286.htm
[4] Thorpe K., et al., "Trends: The Impact of Obesity on Rising Healthcare Costs ," Health Affairs, web exclusive, October 20, 2004.

and, as our understanding of chronic diseases expands, vaccines have become an exciting potential tool in chronic disease prevention.

To effectively lower costs, incentives in the healthcare system must focus on keeping people well rather than treating people after they get sick. Support for programs that encourage active lifestyles, healthy choices, smoking cessation, cancer screenings, vaccination, and other preventive measures will go a long way to lowering costs overall. Organizations that appreciate the importance of prevention are implementing programs and changing public policy to enhance prevention efforts. One of the premier examples is the CEO Roundtable on Cancer which awards certifications to employers who adopt aggressive cancer prevention and management initiatives. Specifically, employers act to reduce the risk of cancer, enable early diagnosis, facilitate better access to best-available treatments, and hasten the discovery of novel and more effective diagnostic tools and anti-cancer therapies.[5]

Intervention

Even with increased prevention efforts, people will get sick. When they do, ensuring that they receive and adhere to appropriate treatment to minimize the potential for more costly complications can lower healthcare costs. We have the tools and knowledge to manage many chronic diseases and greatly reduce many of their severe, costly co-morbidities. We, however, often do a poor job of using the tools and knowledge effectively and consistently. For example, despite the ability to treat type-2 diabetes effectively, an estimated two out of three Americans with type-2 diabetes are not in control of their blood sugar.[6]

A number of disease management programs, such as the widely publicized "Asheville Project," show that effective intervention and management of diabetes and other chronic diseases can lower healthcare costs and improve health. In the "Asheville Project," for example, annual direct healthcare costs for participating employees decreased by more than 34 percent, blood glucose and cholesterol levels improved, and the city estimates it achieved about $18,000 in annual productivity gains as absenteeism on average dropped by half.[7]

The Devastation of Diabetes

Today, 20 million Americans have diabetes. By 2025, 50 million people may have it.

Every day in the US, diabetes causes an estimated:

- 225 lower limb amputations
- 33-66 people to lose their eyesight
- 117 people to start therapy for end-stage kidney disease.

Sources: American Diabetes Association; Institute for Alternative Futures.

Employers and other payers have used similar strategies and achieved success in both reducing healthcare costs and improving the health of employees for chronic diseases including asthma and heart failure as well as diabetes.[8] To showcase the success these programs offer, GSK is working with the American Pharmacist Association Foundation to take the Asheville project to ten other cities around the US through the "Diabetes 10 Cities Challenge."

While most agree that helping people manage chronic diseases to avoid costly complications makes sense, how best to achieve those results is a challenge, particularly within a system that

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[5] CEO Roundtable on Cancer, www.ceoroundtableoncancer.org.

[6] "State of Diabetes In America," American Association of Endocrinologists. See: www.stateofdiabetes.com.

[7] Cranor C, et al., "The Asheville Project: Long Term Clinical and Economic Outcomes of a Community Pharmacy Diabetes Care Program," J Am Pharm Assoc. 2003;43:173-84 (available at http://www.ncpharmacists.org/associations/4188/files/NCCPCfour.pdf, accessed October 20, 2006).

[8] See, e.g., Bunting B & Cranor C, "The Asheville Project: Long Term Clinical, Economic, and Humanistic Outcomes of a Community Pharmacy Asthma Care Program," J Am Phar Assoc. 2006;46:133-47 (available at http://www.ncpharmacists.org/associations/4188/files/ashevilleProjCarole.pdf, accessed October 20, 2006) (asthma); APhA, "Beyond Asheville," Pharmacy Times Supplement (June 2005) (other employers – diabetes); Whellan D, et al., "The Benefit of Implementing a Heart Failure Disease Management Program," Archives of Internal Medicine, 2001;161:2223-2228 (heart failure program).

aligns incentives toward treating complications instead of avoiding them. Providing clear evidence that programs like the Asheville project both work and can be replicated is key to convincing public and private payers that healthcare costs are containable in a system aligned toward early and aggressive intervention.

Innovation

Prevention and intervention will lower the cost of chronic disease, but payers and policymakers can still impose price controls and other disincentives to innovation unless they understand innovation's important role in lowering healthcare costs over the long-term. Innovation in disease prevention holds tremendous promise in reducing the prevalence of some chronic diseases and their associated costs. For example, the recent developments of vaccines to prevent cervical cancer are an exciting step forward. New developments to help patients with chronic disease comply with required treatment can also reduce disease burden and lower costs. Many people with chronic diseases have more than one disease, so new treatments that lessen patients' effort to manage their health effectively are essential.

While many chronic diseases can be managed more effectively, better treatments are still needed to meet the needs of patients with diseases that have very few, if any, effective prevention measures or treatment alternatives. Alzheimer's disease is one of the best examples of a costly and devastating unmet medical need.

Today, Alzheimer's costs more than $100 billion a year**,** and as society ages, the incidence of Alzheimer's is expected to triple or quadruple over the next 30-40 years.[9] While there are several drugs on the market designed to treat the symptoms of Alzheimer's, and close to 50 in clinical development, available treatments are limited and no effective prevention measure currently exists. A breakthrough for Alzheimer's disease holds tremendous potential. According to the Alzheimer's Association, delaying the onset of Alzheimer's disease by just five years could cut the number of people developing Alzheimer's in half. Other data have shown that effective interventions for moderately to severely impaired patients that delay admissions to nursing homes by just one month could save more than $1 billion a year.[10]

Research-based pharmaceutical companies have numerous research projects underway that hold the potential to improve health and greatly reduce healthcare costs. We are working to increase awareness of the need to strike a prudent balance between controlling healthcare costs and supporting investment to ensure continued innovation in healthcare.

Conclusion

Current healthcare spending places a tremendous strain on the system and on individuals. The projected growth of chronic disease will overwhelm the system unless decisive, strategic efforts are taken to reduce the anticipated prevalence of chronic diseases and improve the way we currently manage them. The "Triple Solution" to rising healthcare costs has the potential to fuel meaningful changes in the thinking of patients, providers, policymakers, and payers.

[9] Alzheimer's Association, Statistics, (available at www.alz.org/AboutAD/statistics.asp. accessed October 20, 2006).
[10] Leon, Cheng, and Neumann, "Alzheimer's Disease Care: Costs and Potential Savings," Health Affairs, 17(6);206-16 (1998).