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# President's Page

## US Health Care vs The World: Cost

### Part II

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Last month, I wrote about the recently released Commonwealth Fund study that compared the US healthcare system to that of 10 other industrialized countries. The study concluded that, according to its quality indicators, the US healthcare system ranked last. A critical examination of this study reveals flaws in its methodology and bias in data chosen as quality indicators; these errors cast doubt on the study's conclusion. The study also found the US healthcare system to be too expensive. On the surface, it is shocking that the US per capita healthcare expenditures are so much greater than in other countries. The United States spent \$2.7 trillion in 2011 (the year reported in the study), or \$8,508 per capita, compared to \$5,669 for the next highest country reviewed (Norway). Although total cost lowered our rankings in this study, many other factors should be considered.

#### Aging Population

For instance, the population of Americans over age 65 is our fastest growing demographic. This represents more than 40 million people (or 13 percent of the population), and that number is expected to double in the next 25 years. This increase is

due to longer life expectancy and the aging of the populous baby boomers. According to UN statistics, the population of people age 65+ across the world is increasing and, on average, is rising faster in the United States than in Europe. With advanced age comes more chronic disease and increased healthcare cost. When looked at by age, the United States spent \$18,424 per person (Health Affairs, May 2014) on older citizens. In a sense, cost increases are a product of our healthcare success.

#### Social Factors

Other factors that are not specifically a flaw of the healthcare system contribute to the high cost of US healthcare. For example, obesity rates in this country are the highest in the world. According to the Organization for Economic Cooperation and Development, almost 28 percent of adults and 17 percent of children are obese. Social factors such as dietary trends, decreased physical activity levels, and increased automobile dependence correlate with the rising obesity rates in the United States as compared to Europe. Treatment of obesity and its sequelae, such as cardiovascular disease and diabetes, have significant effects on our healthcare spending, as do other social factors including higher rates of violent crime, motor vehicle accidents, and drug and alcohol abuse. None of these are associated with flaws in the healthcare system itself.

#### Malpractice Litigation

One cannot assess the cost of US healthcare without considering the effects of medical malpractice litigation. Many people consider this to be central to high US healthcare costs. For one, there is a mentality in this country that with any negative outcome, someone must be to blame and someone must pay. An estimated 85,000 to 100,000 malpractice suits are filed annually. A 2011 study in the New England Journal

of Medicine reported that 75 percent of physicians in low-risk specialties and 100 percent in high-risk will be sued during their careers. Although 80 percent of claims are dropped or result in no payment, a study published in 2012 in the New England Journal of Medicine found an average cost of more than \$23,000 to defend a suit that doesn't go to trial; that cost skyrockets if the case goes to court. Fear of lawsuits has led physicians to order tests and treatments solely to guard against what might be criticized in retrospect — so-called defensive medicine. According to a Gallup poll, one in four healthcare dollars (or \$650 billion to \$850 billion) is spent annually on defensive medicine. The US system does little to deter improper claims. By contrast, in Canada, the United Kingdom and most of Europe, trial costs are lower (a med-mal trial in Canada costs 10 percent of a trial in this country), awards are substantially lower, judges have more leeway in directing a jury trial, and the loser of the suit is responsible for the legal fees of the winner. This has kept litigation in check in those countries.

In Texas, we were fortunate to have enacted tort reform in 2003. This significantly has decreased unwarranted malpractice lawsuits and cut malpractice insurance premiums in half. Unfortunately, change has been slower in the practice of defensive medicine. According to a 2012 survey published in Health Affairs, more than 70 percent of Texas physicians report they have not changed their defensive medicine practices since the enactment of tort reform. National reforms are needed to repair our malpractice system in order to change the litigious climate and curb defensive medicine practices. Unfortunately, the Affordable Care Act ignored this issue. This is an area in which we can learn from the Canadian and European systems, but change will be difficult due to the politically influential and well-financed trial attorney lobby.

## Waste, Fraud and Abuse

Improper insurance payments play a role in the high cost of US healthcare, including fraud (knowingly cheating), abuse (bending rules or carelessness), and waste (unnecessary or ineffective care). The Center for Medicare and Medicaid Services estimated that in 2011, \$98 billion was wasted on improper payments for Medicare and Medicaid. Improper payments generally are believed to make up 10 percent to 15 percent of all CMS payments. When we think of Medicare/Medicaid fraud, we tend to think of the perpetrator as a healthcare provider. But this type of fraud is so lucrative that it has drawn criminals at all levels, including Russian and Nigerian mobs and home-grown crime syndicates. Private insurance companies fare better, with about 1 percent to 1.5 percent of payments being “improper” and resulting in rising premiums. In an attempt to clamp down on this huge monetary waste, CMS is moving away from the “pay and chase” model because recovery efforts are expensive and the money usually is long gone by the time they catch up to the criminal. Rapidly changing and overly complex rules (for example, ICD-10) put even the physician walking the straight and narrow at risk of accusation of waste and abuse. (I covered some of this in my July 2014 President’s Page.)

## Innovation Costs

Another area with significant bearing on healthcare costs in this country is the cost of innovation. Let’s take pharmaceuticals as an example. The United States develops more than half of all drugs approved worldwide. We lead the way in most important subcategories, such as innovation of drugs with unique mechanisms (vs modification of already known compounds called “me-too’s”), drugs for unmet medical needs, and almost all biotech-related drugs. The average direct cost to bring a new drug to market is \$1.3 billion. However, a high risk is inherent in pharmaceutical development and only one in 10 drugs developed actually makes it to market. Because of this, most industry experts believe the cost of the failures must be considered when determining the actual cost of drug development (cost of all drugs developed/drugs that make it to market). This makes the cost of a successful drug

development more like \$4 billion to \$12 billion. Shockingly, we are the only major country that allows drug prices to be set by the marketplace. In the UK, Canada and Europe, the prices are regulated (and limited) by their governments. In other words, our prescription drug spending subsidizes the rest of the world, and not just the developing world. The Congressional Budget Office reports that the “average prices for prescription drugs in the United States are 50 percent to 100 percent higher than in other industrialized nations.” The ACA is attempting to lower drug prices by exhibiting increasing control over the pharmaceutical industry. Although this may save US citizens on their prescription costs, it will inhibit drug innovation.

## Out-of-Pocket Costs

Despite countries having government-run universal coverage, the consumer often faces significant out-of-pocket expenses. According to the Organisation for Economic Cooperation and Development, a source of financial data in the CWF study, the United States has one of the lowest out-of-pocket costs for health care in the world. In this country, the out-of-pocket proportion of total healthcare expenditures is 13 percent; the average in the industrialized world is 20 percent, and every country evaluated in the study was higher than the United States. Yet, because of shortcomings in their systems, Europeans are turning more and more to private insurance and private pay to supplement health care provided by the government. In the UK, 6 million British citizens spend \$14.5 billion to purchase private health insurance despite paying \$3,500 annually for every man, woman and child, according to Stanford’s Hoover Institute. This trend is seen in other study countries, as well. Sweden, considered one of the most successful socialized healthcare systems, costs about \$20,000/household annually in taxes. Yet 12 percent of Swedes bought additional private insurance in 2013 because of treatment backlogs in the government system.

## Tax Increases

Another consideration is the increase in overall taxes when government gets in the middle of health care. According to a 2012

KPMG report, the United States is in the middle of the pack for personal income tax rates, ranking 55 among 114 countries with “advanced economies.” In addition to a lower income tax, overall taxes in the United States are lower because we don’t have a national sales tax (value-added tax) as seen across Europe. Comparing taxes by country is best done by looking at the proportion of all taxes to the overall economy or gross domestic product. US federal taxes are 27.3 percent of GDP; the average among all industrialized countries is 36.2 percent. In all countries reviewed in the CWF study, taxes, as a proportion of GDP, were well above the US average. In other words, citizens will pay the tab for health care one way or another. The added bureaucracy and waste which is seen when government gets in the mix is significant in considering cost. We already have seen significant tax increases related to the ACA, and with further maturation of this law, US taxes are anticipated to catch up to European levels by 2020.

## Conclusion

There is little doubt that the US healthcare system is expensive and appears to be much more costly than in its peer countries. However, looking superficially can be deceptive and lead to false conclusions. This can lead to solutions that are ineffective and, in the case of something as complex as health care, result in unintended consequences such as paradoxical lowering of quality, increasing cost and stifling of innovation. Let’s face it — health care is an incredibly intricate system with innumerable interrelated parts. How our current path through the Affordable Care Act will affect overall cost of our health care remains to be seen. Canada and Europe have struggled with “socialized” medicine for 40 years, and it is far from a panacea. Yet, this is the path the ACA appears to be nudging us down. I have great concerns that the ACA will be detrimental to both the cost and quality of US health care. But I return to the same conclusion I reached last month: Our system is in need of real improvements. But real improvement only comes with real, honest, reliable data and not pseudo-scientific, opinion papers with a political agenda. **DMJ**