

## The Cost of Medical Care

### A Challenge & Business Opportunity

Medical costs have risen to such an extent it's causing hardship for all parties: consumers/patients, payers and providers.

Medical costs are expected to rise faster than any other economic sector, inflation or GDP – doubling within the next 10 years.

Rising medical care costs will have a very large negative impact on business, state and national economies, and our overall well being.

The best win-win-win solution is to improve the efficiency of the health care delivery system.

We can turn the challenge of controlling medical costs into business opportunities.

# **Educating The Next Generation**

## **Of Medical Cost Managers**

### **Why Southern Oregon University**

- Can build upon the present strengths in education, workplace health, computer sciences, communications and management.
- Low capital resource requirements required to develop programs.
- SOU's size and independence for the medical care sector allows it to move more rapidly in the development of new programs in this area.
- The President and Advisory Board members have significant experience in the health care sector.
- Excellent relationship with local businesses, especially the medical care delivery system.
- Further opens the door for collaboration with all businesses in the Rogue Valley, especially the largest economic sector – health care.
- Rogue Valley is an excellent place for development of new businesses focused on managing medical costs because
  1. Good infrastructure is available (good libraries and call centers in Southern Oregon).
  2. Businesses can start small and are easily scalable.
  3. Location is less important in implementation and growth.
  4. Physicians are overworked and leaving Southern Oregon.
  5. It's a good place to pilot new programs, especially community-based ones.
  6. These are environmentally clean businesses.

# The Cost of Medical Care

## A Challenge & Business Opportunity

### Medical Costs

Nationwide

1.7 trillion per year

15% of GDP as compared to 10% for other DCs

Oregon University System 23 billion annually

5 times Oregon State budget for K-16

Jackson County

1 billion per year

### Medical Cost Increases (at present trend)

Nationwide

Cumulative increase in five years: 3 trillion dollars (1.7 to 2.7)

In ten years becomes 27% of GDP

Oregon University System Over 2 billion increase next year

5 times the effect Measure 30 would have had

Jackson County

100 million increase next year

Reaches 2.0 billion in inflation-adjust dollars in ten years.

**Hypothesis 1: Unless we limit the rate of rise of medical care costs, we will have greater negative impacts on our economic well being which, in turn, will erode quality of medical care as well. For example:**

1. Health benefits now are 30% to 40% of salary of lower paid workers
2. Health benefits would rise to more than 70% in 10 years
3. More businesses drop health insurance, and
4. Less coverage and fewer people covered under government programs
5. More cost shifting to those with coverage
6. Even more rapid rise in premiums.

**Hypothesis 2: The best win-win-win solution is to improve the efficiency of the medical care delivery system.**

In theory: it's always true that an increase in efficiency (or productivity) will maintain or improve outcomes while decreasing costs.

In practice: the IOM estimated last year that, through improved efficiencies, there could be a 40% decrease in cost without decreasing health outcomes.

The money impact, if accomplished today:

600 billion dollars saved per year nationwide

8 billion dollars saved per year in Oregon University System 400 million dollars saved in Jackson County.

**Hypothesis 3: We can turn lemons into lemonade**

By encouraging the growth and development of businesses that are focused on improving the efficiency of the medical care delivery system, we will not only decrease medical care costs for the public and private sectors, we will be creating jobs in the largest and fastest growing economic sector.

Nationwide annual savings of 400 billion could be accomplished by spending 200 billion to save 600 billion (assuming a 3:1 ROI from these efforts).

In Oregon alone we could get net savings of 5.3 billion by spending 2.7 billion to save 8 billion.

And, if Oregon becomes a leader in the growth and development of these businesses, we would be able to very effectively compete in a growing nationwide marketplace for these types of services.

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# Ten Steps Affecting Medical Care Utilization

## **Pre-clinical Activities**

Lifestyle

Self-care of symptoms

Choice of entry point

## **Intro-clinical Activities**

Use of resources

Clinical accuracy

Request for return visits

## **Post-clinical Activities**

Purchasing drugs and medical equipment

Following recommended treatment (compliance)

Lifestyle changes specific to treatment

Preclinical activities for other organ systems

## MANAGING MEDICAL COSTS IS GOOD BUSINESS

Although statewide economic development is very complex, in the long run it depends on starting and growing existing businesses, one at a time. And, to do so, there are some simple tenets that apply.

1. Successful businesses solve problems for their customers.
2. The larger the economic sector the greater the potential.
3. New fields of endeavor have greater opportunity for growth.
4. Early entry into new fields multiples the potential.

For all of these reasons it's important to focus significant attention on the largest economic sector in the US (healthcare), to help solve a universal and growing problem (rapidly rising healthcare costs) by building business that apply recently developed services and technologies that help manage costs and to do this in a very timely manner.

### **Background**

Those dealing with economic development know all too well that job loss and the euphemism of a "jobless recovery" are harbingers of potentially dangerous economic times. Whether the job loss is because machines are cheaper than people, US corporations are directly sending jobs overseas, or foreign companies are better able to compete, the results are similar.

And, even for those of us living in regions of Oregon where there have been job gains during the last year, we need to look carefully at the statistics. For example, from September 2002 to September 2003 there was an increase of 430 private sector jobs in Jackson County. But further examination shows that during that same time period there was an increase of 430 jobs in health care along – meaning no net job gain in all other sectors combined.

Celebrating this 430 person increase in jobs is like the COO of a manufacturing plant celebrating that they increased the number of people required to treat plant injuries, but they had no net increase in all other segments of their operations.

The problem of rising health benefit costs (for businesses and our communities at large) is so important and the statistics concerning the level of the problem are so compelling that the background on which this position paper is based is almost common knowledge.

The national average cost of providing medical services is about \$6,000 per person. This translates into 1.7 trillion dollars per year for the U.S. and over 20 billion per year for Oregonians. Even in a moderate sized county in Southern Oregon – Jackson County – this average figure translates into close to 1 billion dollars every year.

Even more important is that medical costs have been rising faster than inflation for the last 20 years and now are rising at about six times the rate of inflation. Although some are projecting a slowing in this rate of rise over the next five years, almost all experts predict that the cost of medical care (in real dollars) will double within the next 10 years.

The overall cost of medical care (whether paid for directly by business-based health plans, taken out of individuals' pockets, or supported by taxes at all levels of government) is the fastest growing overhead cost for Oregon businesses as they individually and collectively compete with the rest of the country and the world.

Over the past twenty years there have been many efforts to control medical care costs, but most of these previous approaches have not been very effective. That's mainly because they do not address a core issue in the medical care delivery system – inefficiency.

In the health care continuum, from the development of symptoms through the treatment of chronic disease, there are 10 major steps in which decisions are made by patients and doctors. These decisions determine both cost and health outcomes. And a system's analysis of this process clearly demonstrates that there are huge opportunities to increase the ratio of effectiveness to cost at every step of the process.

The Institute of Medicine recently estimated that the health care delivery system could become 40 percent more efficient. This means that there is the potential to save over 600 billion dollars nationwide and 8 billion dollars in Oregon alone, without compromising health outcomes.

Each step of the health care delivery process could be an intervention point for a business to improve efficiency and lower cost for their customers (public or private organizations). From disease management programs to computerization of health care practices there is a high potential for a good return on investments, not only for these businesses but also for their customers.

Even savings on a more modest level is considerable and provides huge business opportunity for each market segment. Consider a service that costs one percent of medical costs but provides an ROI of 3. If this were applied nationwide, it would be a 14 billion dollar per year business that decreases net costs by 28 billion.

## **The Five P's**

For economic development to be successful it must build upon and, in turn, build and support the people and the infrastructures within our state. These have been divided into five categories (the 5 P's) by the Oregon Business Council and are good tests to apply to any new idea. The following summarizes how businesses that improve the efficiency of the health care delivery system pass these tests with flying colors.

### **P1. People – Workforce and Education**

For every 1 percent of nationwide medical costs spent on controlling costs, over 300,000 jobs (paying in excess of \$35,000) would be created. And since many of the services can be delivered electronically or telephonically, many of those jobs could be physically located in Oregon.

Whether the jobs are in businesses that sell computer technologies to improve patient care information flow or are services that provide telephone based information support to people with chronic diseases, the jobs are intellectually challenging and will depend on our ability to train employees.

Higher education, both within and outside of the health care professional schools, will be required to consolidate and expand course offerings to fit the needs of training for these new jobs. Expansion will not require significant capital expenditures and much can be done through distance learning, which will allow access to training in all our communities as well as selling our training services across the nation.

As an early and innovative leaders in this sector, our higher education institutions will set national standards, be centers of excellence for the entire country and, as such, will provide significantly increased out-of-state tuition revenue.

## **P2. Place – Quality of Life**

For most people in Oregon, especially for those of us who have recently moved here, the quality of life provided by the people and the place is the reason we're here and needs to be protected.

The jobs that would be created in these types of businesses are in clean environments themselves, do not pollute and use up minimal amounts of natural resources. Increasing the number of jobs will tend to increase population and increase pressure on the transportation systems, but since many of the jobs lend themselves well to telecommuting, both within a community and across the state, even this downside will be mitigated.

And since the quality of life, especially for the elderly, is strongly influenced by fears associated with medical concerns, many of these services, especially those based on communications with patients, have a large direct impact on quality of life.

Oregon's location creates additional challenges on businesses that sell products and services outside of the state. But, as many successful Oregon businesses have already shown, services that have strong telephonic and electronic distribution components meet the challenge of our location.

## **P3. Productivity**

Because the core concept underlying these businesses is to decrease health benefit costs, they directly focus on improving productivity not only for existing businesses but also in attracting new businesses.

Although retirees moving to Oregon are not considered in the same category as businesses, the positive financial impact on Oregon is similar. In addition, a retiree considers cost and quality of life issues in ways similar to how any business would before locating to Oregon. And, for everyone, especially retirees, having systems in place that help them be more confident and effective purchasers of medical care could be a very important attractant.

## **P4. Pioneering Innovation and Entrepreneurship**

Products and services that address the exploding cost of medical care are beginning to be used in some segments of that marketplace, but the growth curve, both with regard to innovation and implementation has only just begun.

Clearly the next steps are developing refinements of older approaches and implementing their application across communities. Innovation and development in these applications will heavily depend on and greatly benefit from a different type of entrepreneurship – the ability of multiple parties in the public and private sector being able to take risks together in developing new businesses.

In addition, within the larger context of economic development of these programs, there will be huge opportunities for private sector entrepreneurs to contribute and grow.

#### **P5. Public Finance**

The largest element in our State's budget shortfall is the high and rapidly rising cost of the Oregon Health Plan, particularly Medicaid. And, even with major cuts in the number of people and services covered, the growth in costs per person covered will be the major factor in the need for the additional funds for years to come.

Unless costs are controlled, every year taxes will have to grow dramatically to support state sponsored health programs or fewer people will be covered. But uninsured people will often get more costly services and these costs will be passed along to everyone that is insured.

Addendum 1.

## **Why Develop a Community-based, Disease Management Business Located in Jackson County, Oregon?**

### Business characteristics

- Addresses a major concern of potential customers – rising healthcare costs
- Provides a direct return on investment for customers
- Good paying jobs
- Environmentally clean business
- Good infrastructure available (libraries and call centers in Southern Oregon)
- Business can start small and is easily scalable
- Minimal geographic boundaries to implementation and growth

### Multiple customers at local, state and national level

- Medicaid and SCHIP
- Medicare
- Private sector third party payers
- Public sector third party payers (State & local governments, school systems, etc.)

### Collaboration with higher education enhances both

- Job growth will require a large increase in trained professionals
- Academic institutions looking for increased business collaborations
- Good business model to both train and employ students
- SOU recognizes the importance of expanding more into health sector

### Political support obtainable

- Reducing overhead fits job growth strategy of both political parties
- Bates and Hannon very knowledgeable to re health care issues
- Physicians overworked and leaving Southern Oregon
- Good communications between local public and private sector leaders

### Good place to pilot

- Big enough for good data
- Small enough to keep costs low
- Representative population demographics

### Job Growth Potential High (using 1% of medical costs)

- Could support 125 jobs locally
- Could support 2500 jobs statewide
- With 20% national penetration could support 40,000 jobs

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Professional Positions

Syndicated Health Columnist, Tribune Media Services, 1997 to present.

Health Communications and Business Development consultant, 1999 to present.

CEO, Medical Director and Co-founder, Health ResponseAbility Systems Inc., 1993-99, among other projects built AOL's Health Channel and the Better Health & Medical Network.

Medical Director, Health Benefits Division, The Hartford Insurance Company, 1992-93.

Medical Director, Disability Services, The Travelers Insurance Company, 1991-92

Medical Director and Informed Care Product Manager, The Center for Corporate Health, a subsidiary of The Travelers Insurance Company, 1989-91.

Co-founder and Medical Director, Options & Choices (a health communication company), 1986-89.

Associate Professor of Continuing Medical Education, The George Washington University Medical Center, 1983-86.

Medical Editor and New Product Development Manager, The Medical Tribune and Hospital Tribune (medical professional newspapers), 1982-83.

Associate Director of Health Education, American Medical Association, 1979-1982.