



Trends in health care costs

Health care costs continue to grow faster than the general economy for a variety of systemic reasons. This paper will look at some of those reasons and talk briefly about how UnitedHealthcare is using its resources and market leverage to make a positive difference in the cost and quality of health care.

After a period of moderate increases in the 1980s and early 1990s, health care costs in the United States have been increasing sharply for the past several years. According to the Centers for Medicare and Medicaid Services, total national health care expenditures grew 6.7 percent to \$2.1 trillion in 2006, or approximately \$7,026 per person, and accounted for 16 percent of Gross Domestic Product (GDP).¹

Our national health care spending is growing significantly faster than the GDP – real GDP growth rate for the U.S. in 2007 was 2.2 percent – less than one third the rate of health care spending growth.² And in fact, growth in health expenditures is expected to continue to average 6.7 percent per year over the period from 2006 to 2017. While a flat rate of trend might seem like an improvement over comparatively larger growth rates in years past, such a trend line would still mean that the health share of GDP would rise from 16 percent in 2006 to 19.5 percent by 2017.³

Changing focus on costs

In years past, trend analysis has focused on specific cost sectors such as hospital spending, physician services and pharmacy costs as key drivers behind the increasing cost of care in the U.S. However, in recent years attention has turned to the question of why costs in the U.S. seem to be so much higher – and rising so much faster – than in other advanced industrial countries. According to the Kaiser Family Foundation, compared to other developed nations, the U.S. spends more on health care per capita and devotes a greater share of its GDP to health. Since 1980, the U.S. also has had among the highest average annual growth rates in per capita spending on health care.⁴

Another study reported U.S. health care spending per capita was 2.5 times greater than health spending in the median Organization for Economic Cooperation and Development (OECD) country and much higher than health spending in any other OECD country.⁵ Even Switzerland, which has the highest per capita health spending of any European country, spends only two-thirds as much per capita as the U.S. spends.⁶

¹Centers for Medicare and Medicaid services, National Health Expenditure Fact Sheet 02/25/2008
http://www.cms.hhs.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp

²C.I.A Fact Book, <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html#Econ>

³Centers for Medicare and Medicaid services, National Health Expenditure Fact Sheet 02/25/2008
http://www.cms.hhs.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp

⁴Health Care Spending in the United States and OECD Countries; January, 2007
<http://www.kff.org/insurance/snapshot/chcm010307oth.cfm>

⁵Health Spending In OECD Countries In 2004: An Update Health Affairs, 26, no. 5 (2007)

⁶Differences In Disease Prevalence As A Source Of The U.S.-European Health Care Spending Gap Health Affairs 26 no. 6 (2007)

Key drivers of health care costs

From a systems perspective, a picture of multiple, overlapping causes emerges. The Committee for Economic Development (CED) released an exhaustive analysis called *The Employer-Based Health-Insurance System (EBI) Is At Risk: What We Must Do About It*.⁷ The CED is a nonpartisan organization of business and education leaders dedicated to policy research on major economic and social issues. They found the following five factors driving health care costs:

- 1 Cost-unconscious demand** – the U.S. has created a system in which most people – patients and physicians alike – have little direct personal interest in making the most cost-efficient choices in health care, and often little opportunity to do so.
- 2 Extensive use of new technologies** – in the U.S., we have a culture that places a very high value on advanced medical technology and has great faith in it. People want to have these services, their doctors want to provide them, and society does not want to deny them.
- 3 A significant increase in chronic disease** – Johns Hopkins University found that in 2005, 133 million Americans had a chronic condition – that’s over one third of the entire population.⁸ The number is growing faster than the population in general, in part because the population is aging, and because medical advances have transformed former deadly diseases into costly chronic conditions. And as early as 2004, care given to people with chronic conditions accounted for 85 percent of total health care spending.⁹
- 4 Fragmented, uncoordinated, small-practice fee-for-service practice model** – this system can be extremely wasteful:
 - ▶ It is filled with cost-increasing incentives.
 - ▶ It rewards and encourages such things as wasteful duplication of tests.
 - ▶ It is poorly organized for systematic improvement in system coordination, overall economy and safety, or even measurement of performance.
 - ▶ It lacks incentives for such innovations as health information technology
- 5 Most health-care delivery is local** – there are system monopolies at the local level, which prevents effective competition for price or quality.

⁷The Committee for Economic Development (CED) *The Employer-Based Health-Insurance System (EBI) Is At Risk: What We Must Do About It*. November 7, 2006

⁸Chronic Conditions: Making the Case for Ongoing Care Johns Hopkins Bloomberg School of Public Health November 2007

⁹ibid

UnitedHealthcare's role in managing costs

The upward spiral of health care costs poses an immense challenge to the American people and the health care system as a whole. Ever-increasing health care costs are limiting access and care for millions of people. UnitedHealthcare believes that proper stewardship of America's vast medical resources means improving access to care while also keeping it as affordable as possible.

We will review each of the key cost drivers as identified by the CED report and briefly examine ways we are making a difference and building a better health care system for everyone:

1 Cost-unconscious demand

We are dedicated to creating a system in which patients and health care professionals alike have a direct personal interest in making the most cost-efficient choices in health care. Our strategy is to engage and empower individuals to make optimal health care decisions together with their physician.

This is actually an area where we feel that positive changes are already beginning to make themselves felt. Looking ahead, we see consumers asserting themselves more knowledgeably – taking more responsibility for their health and well-being.

We're the market leader in consumer-driven health plans (CDHP), serving over 2.73 million people through our DefinitySM Health Reimbursement Account and Definity Health Savings Account products, in conjunction with over 11 million members in our consumer activation and engagement programs.

Our programs are designed to transform passive participants into value-conscious consumers. By their design, CDHP products engage consumers with incentives, education, and the tools necessary to make informed health and financial decisions. Our consumer tools include:

- ▶ Price and quality data designed to drive market transparency
- ▶ Personalized health messaging
- ▶ Monthly health statements
- ▶ Wellness and financial coaching and more

We are making positive changes in health care affordability, quality, access and convenience. We are continuing to invest in transformative technology that helps consumers take more responsibility for their own health care. At the same time we are also advocating for more transparency, higher quality and lower costs, and championing a clinical approach that emphasizes nationally accepted standards-based care – helping consumers get the right treatment, at the right time, in the right place.

2 Extensive deployment of new technologies

Americans place a high value on advanced medical technology and have great faith in it. For example, advanced imaging procedures are one of the fastest growing sectors in health care. Roughly \$100 billion dollars (10 percent of U.S. health care dollars) annually is attributed to radiology services and the trend is growing about 15 to 20 percent per year.¹⁰

Unfortunately, not all of this care is being provided according to best practice guidelines, resulting in significant variation in the appropriate use of health care imaging services. Our Excellence in Radiology program is just one of our efforts to promote clinically integrated care for greater quality and affordability.

This program leverages our powerful analytic tools and exclusive clinical database to help manage complex, high cost care services. To reduce variations from recognized clinical guidelines, while improving the quality and safety of imaging services, the Excellence in Radiology Program uses three main techniques that apply to providers of imaging services in our network:

- ▶ **Accreditation** – imaging accreditation promotes the quality and safety of imaging services through the application of nationally recognized standards. Accreditation helps ensure that imaging equipment, technologists and physicians are in compliance with appropriate performance standards. We have collaborated with the American College of Radiology (ACR) and the Intersocietal Accreditation Commission (IAC) to promote their imaging accreditation programs.
- ▶ **Notification with evidence-based dialogue** – a mandatory notification process has been introduced for selected outpatient advanced imaging procedures. Note that this is not a traditional sort of precertification, preauthorization or a medical necessity determination. Instead, notification may involve a physician-to-physician discussion, using national clinical guidelines to support physicians in their decision-making process.
- ▶ **Physician data sharing** – these are physician care profiles specific to imaging, and include appropriateness criteria based on accepted guidelines and dialogue. Our Pathways system uses clinical rules and intelligent algorithms to bundle claims submitted over a 24-month period into episodes of care. These are then used to compare practice patterns with similar specialists treating the same conditions in the same state.

Excellence in Radiology is only one example of a wide range of initiatives we have launched designed to drive greater transparency and accountability through the health care delivery system -- while encouraging the practice of evidence-based medicine. Our powerful analytic capabilities allow us to help ensure that consumers and physicians can make the best possible use of costly new technologies.

¹⁰HealthLeaders-InterStudy as found in Health News Today, February 8, 2005
<http://www.medicalnewstoday.com/articles/19733.php>

3 A significant increase in chronic disease

The growth in chronic disease has been cited specifically as a potential cause for the disproportionate rise in costs in the U.S. compared to other developed countries.¹¹

We provide care management services for individuals with emergent or chronic health needs through a combination of clinical programs that include treatment decision support, health and wellness, coordinated case management, dedicated nurses and teams, and programs addressing disease management, behavioral health and ancillary care.

For members with chronic conditions, we have developed an automated condition-specific assessment for 27 high-frequency conditions that have a significant impact on quality of life and health care costs. In addition, our fully insured customers automatically get treatment decision support services that provide consumers with information about their medical conditions, treatment options and the clinical and cost ramifications of treatment choices. (This service is available to self-funded customers at an additional cost.)

A Johns Hopkins University study found that:

“Approximately half of all people with a chronic condition have multiple chronic conditions... These are the heaviest users of medical care services. Data show that people with five or more chronic conditions see an average of almost 14 different physicians and fill 50 prescriptions in a year. Care coordination in this population is critical, but the current system provides few financial incentives for clinicians to coordinate care across providers and service settings.”¹²

We are dedicated to knitting together our fragmented care systems. Every encounter a member has with us – whether clinical, behavioral or pharmaceutical – is fully documented and recorded. Every network professional involved in each person's care has consistent information, so wellness and treatment solutions are tailored with no gaps in care. This fully-integrated approach is making a difference in managing health care quality and costs.

¹¹Differences In Disease Prevalence As A Source Of The U.S.-European Health Care Spending Gap Health Affairs 26 no. 6 (2007)

¹²Chronic Conditions: Making the Case for Ongoing Care Johns Hopkins Bloomberg School of Public Health November 2007

4 Fragmented, uncoordinated, fee-for-service practice model

The American health care system is the most sophisticated, care-intensive and technology-rich system in the world. It is not, however, an environment that is systematic or integrated by nature. Health care delivery is profoundly fragmented – among hospitals, clinics, primary care and specialist physicians, and drug and medical device manufacturers. From a consumer's perspective, the marketplace can be complex and confusing.

Our core competencies in organizing care and resources into better-functioning health networks and systems are ideally suited to combat fragmented care. We use data, analyses and the resulting clinical intelligence to create informed participants in health care – including patients, doctors and plan administrators – to add value to the marketplace.

We are simplifying the health care experience through significant and sustained investments. We have adopted streamlined, more consistent processes and designed simpler, more understandable products and services, and we are using advanced systems technologies to automate and speed health care interactions, simplify administrative functions, advance information and lower costs.

For example, UnitedHealthcareOnline.com, our physician Web site, lets physicians and their staff use just a few keystrokes or the swipe of a patient's medical ID card to quickly verify patient eligibility, submit claims, check status and submit notifications. They can even inquire how their practice patterns compare to nationally accepted "best practices" and complete other important tasks.

Reducing the effects of the fragmented medical market lies at the core of our mission to improve the quality and effectiveness of health care for all Americans. Our solutions can make positive changes in behavior through sophisticated clinical data and engagement with physicians to help reduce variations in care, resulting in improved health outcomes and greater affordability.

5 Health care delivery is local

The CED observes that in theory, employers could get around the inefficiencies of local health systems by going into the health care business and organizing their own delivery systems. However, as a practical matter it would be extremely difficult to organize enough employees in a given area to support an integrated delivery system. Health care is a complex business. Running an efficient health care system is not part of the core competence of most employers.¹³

We make it unnecessary for employers to organize their own delivery systems through a nationwide health care network that serves individuals and businesses in all 50 states. By combining our national scale with a local focus, our nationally integrated network can feature uniform contracts and standardized technology to simplify claims payments and reduce errors. Beyond that, we deploy one of the largest collections of clinical data in the world so that clinicians and researchers can carefully determine what treatments deliver the most positive outcomes for patients; which physicians and hospitals consistently deliver the highest quality care; what pharmaceutical products and medical innovations are safe and effective; and what benefit designs and advocacy approaches work best.

Our mission is to improve the performance of the health system at every level – nationally, regionally and locally. That means supporting the physician/patient relationship and empowering people with the information, guidance and tools they need to make sound personal health decisions wherever they may live. We're working with health care professionals across the delivery system so people can get the care they need at an affordable price and improve the overall health and well-being of the people and communities we serve.

¹³The Committee for Economic Development (CED) The Employer-Based Health-Insurance System (EBI) Is At Risk: What We Must Do About It. November 7, 2006

The customer's role in managing costs

We are committed to help keep people healthy and helping our customers manage the increasing costs of providing health care benefits. The employer's role is to carefully choose the kinds of products and plan designs that will drive increased efficiency and accountability through the system. We strongly believe in the power of the consumer movement to deliver superior outcomes and cost control through choice, personalization and incentives for better health.

We are empowering consumers to become informed advocates for improving their own health and well-being by providing them with the opportunity to make intelligent use of the health care system. For example, after one customer changed its benefit design for cardiac care so that it encouraged employees to use facilities with higher demonstrated treatment effectiveness, it also saw an average savings of \$5,671 for each employee using a designated cardiac facility.¹⁴

We offer an array of plan designs and funding approaches, appropriate for any size business. Customers should consult with their brokers or UnitedHealthcare representative on plan design alternatives early enough in the year to take advantage of all the alternatives that we have to offer.

What employees can do to manage costs

Employees can use the UnitedHealth Premium[®] designation program to identify network physicians and specialty centers that meet nationally recognized guidelines for quality and cost efficient care. We share this information with members on myuhc.com[®] to assist them in making informed decisions about where to find care for themselves and their families.

Employees can help combat rising pharmacy costs by using the services on our member Web site, myuhc.com. They can order prescriptions through the mail (depending on plan availability), and they can find out how they can ask their doctors about generic substitutes for brand name drugs. Increased usage of generic drugs and mail-order service can provide substantial savings to members and their employers.

Employees need to be educated to seek care in the UnitedHealthcare network in order to gain the convenience and value that the network provides. And, typically, care through the network provides lower out-of-pocket costs.

¹⁴HUB Magazine, Changing the Benefits Paradigm, Vol. 6, issue 1, 2007

Looking to the future

Our potential to help improve health care makes us one of the most visible stewards of America's vast health care system, entrusted with both important resources and responsibilities. Every day we are involved in decision-making that often has positive, life-changing consequences for millions of Americans.

Our role as stewards creates a unique position of trust and accountability for bringing greater quality, affordability, access and simplicity to the health care system. We are actively working to ensure that the people we are privileged to serve are not only receiving access to quality care but have the information, guidance and tools to make good decisions about their health and well-being, as well as their care. These responsibilities inform and motivate everything we do.

Simpler process, smarter solutions, better results for you.





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For a complete description of the UnitedHealth Premium® Designation program, including details on the methodology used, geographic availability, program limitations and medical specialties participating, please see myuhc.com®.

The DefinitySM Health Savings Account (HSA) high deductible health plan (HDHP) is designed to comply with IRS requirements so eligible enrollees may open a Health Savings Account with a bank of their choice or through OptumHealth Bank, Member of FDIC. "Definity HSA" refers generally to the DefinitySM HSA product, which includes a HDHP, although at times "Definity HSA" may refer only and specifically to the Definity Health Savings Account, provided in conjunction with OptumHealth Bank and not to the associated HDHP.

UnitedHealthcare's DefinitySM Health Reimbursement Account, or HRA, combines the flexibility of a medical benefit plan with an employer-funded reimbursement account.

Insurance coverage provided by or through United HealthCare Insurance Company or its affiliates. Administrative services provided by United HealthCare Insurance Company, United HealthCare Services, Inc. or their affiliates.

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