

## Jackson: It's the health care payment system, stupid!

By Brian Jackson

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Most Americans agree that U.S. health care costs are breaking our collective bank. What may be less well known is how current payment mechanisms strongly encourage overuse of health care services. Further, cost-conscious states like Utah are effectively underwriting wasteful practices of high health cost regions such as New York City and Los Angeles.

As evidence, look at Medicare expenditures. In 2006, taxpayers paid an average of \$6,859 to care for each Utah Medicare enrollee, substantially less than the U.S. average of \$8,304. If the rest of the U.S. spent at Utah's rate, it would save approximately \$40 billion per year in Medicare costs alone.

The disparity is primarily due to volume, not price: Utah medical enrollees receive fewer health care services -- tests, procedures, office visits and hospital admissions -- than their counterparts nationally. Counterintuitively, Utah Medicare enrollees are probably a bit healthier as a result. Most studies show a mildly negative correlation between the volume of care and the quality of care. Because all medical procedures carry some degree of risk, excessive use of medical procedures doesn't help the average patient.

Consider, for example, the recent guideline changes for prostate and breast cancer screening. Excessive cancer screening beyond what is recommended does not save additional lives but it does drive up overall costs by leading to more follow-up visits and procedures.

In my work at the University of Utah I study regional variation in physicians' test ordering. Hospitals vary widely in the mix of tests that their doctors order; at most hospitals I can find at least one test being ordered at 10 or more times the national average.

In general, I have found that Northeast coastal cities, southern Florida and Southern California have much higher volumes of laboratory testing than Utah. Dartmouth researchers (see [www.dartmouthatlas.com](http://www.dartmouthatlas.com)) have found similar patterns in Medicare spending, both overall and in the last two years of life.

Why would doctors promote health care services that cost money but don't clearly benefit patients? Health services researchers point to the fact that most U.S. health care is still paid on piecework -- the more tests, procedures and inpatient admissions, the more everyone in the system makes: doctors, hospitals, insurance companies. This creates a strong financial disincentive for doctors and hospitals to develop more cost-effective care.

In some cases high resource use may result from conscious decisions on the part of revenue-seeking doctors, clinics and hospitals. In other cases, high resource use has probably simply crept into the medical culture over time. Utah appears to have been less susceptible to these forces than other states.

We need to start paying doctors, hospitals and clinics based on how well they promote health and cure disease, rather than how many procedures they perform. Designing such a system won't be easy.

The good news is that many smart health economists are working on this problem. The Robert Wood Johnson Foundation, for example, has funded a number of promising "pay for value" pilot projects. The bad news is that payment reform is highly threatening to the players in health care who benefit in the current system. It should not be surprising that to date the physician, hospital and insurance lobbies have kept serious payment reform out of

the major health reform bills in Washington. As a result, even if some mashup of the House and Senate versions manages to make it into law, it will not likely result in significant cost savings.

Message to Utah's elected representatives and senators as they negotiate health care bills in Washington: U.S. health care payment needs to switch from fee-for-service to fee-for-value. Not only will payment reform do more than any other single factor to control national health care costs, but it will also allow Utah taxpayers to stop underwriting health care waste in the coastal urban centers.

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