

Stimulus Health Economists: Savings Will Require Sacrifice

By: The Associated Press | 11 May 2009 |

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A health industry offer on Monday to trim costs by \$2 trillion over the next decade found a skeptical audience among health care economists, who say such savings might materialize only if many parts of the industry are ready to sacrifice.

President Barack Obama announced a voluntary offer made by a consortium of hospitals, insurance companies, drugmakers and doctors to cut the growth rate for health care spending by 1.5 percentage points a year.

The consortium cited several areas of focus, including improving care coordination and embracing technology improvements. The common thread was wringing efficiency and care improvements out of the current system.

But a letter the consortium delivered to Obama gave little insight into which parts of the health care sector the savings will come from.

Monday's announcement appeared to have little effect on the stocks of health care companies. Several health insurers and drugmakers, for instance, saw their share prices fall nearly in step with the Standard and

Poor's 500 index, which was down more than 2 percent.

Some insurers were hit a little harder, especially Cigna Corp., which fell \$2.25, or 9.5 percent, to \$21.43, after gaining sharply late last week.

Economists say true spending reductions will require much more than nips and tucks.

They involve one theme people in the system generally don't want to hear, according to Jean Mitchell, a Georgetown University health economist.

"Everybody is going to have to make less money if we're really going to rein in costs," she said.

Significant changes in the way hospitals and doctors are paid also may be necessary, said Dr. Mark McClellan, an economist who ran Medicare and the Food and Drug Administration for President George W. Bush.

He noted, for instance, that past attempts to restrain Medicare payments haven't worked in part because they force doctors to cycle more patients through their office to make up for the declining revenue.

Doctors then spend less time with each patient or on coordinating that care. He said a system that ties payment more to quality, rather than quantity, must be developed.

"It doesn't mean that you have to make radical changes overnight," he said. "But it sure means that you better have a different long-term business model in mind and a pathway for getting from here to there."

Harvard economist David Cutler said trillions of dollars in savings are possible over the next couple decades, but they won't happen "just by waving your hands."

He sees plenty of financial fat to trim in the system. Medical mistakes — which can range widely from infections developed in hospitals to improper prescriptions — can cost as much as \$100 billion a year.

A lack of preventive medicine and poor care coordination also can drive up costs by leading to patients who need more extensive care.

"This is not rationing," he said. "This is just kind of, 'Stop doing things that are stupid.' "

Another economist, John C. Goodman, dismissed the industry offer as rhetoric. Goodman, president of the Dallas-based National Center for Policy Analysis, said topics like care coordination and electronic medical records have been studied and don't yield significant savings.

"I don't see anything new here and no reason to take any of this seriously," he said.

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