Rising Costs of Health Care

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Mr. Chairman and Members of the Senate Finance Committee: Thank you for inviting me here today to testify on the important topic of rising health care costs. For the record, my name is Dr. Fred Olson and I am the Chief Medical Officer at Blue Cross and Blue Shield of Montana (BCBSMT).

Blue Cross and Blue Shield of Montana provides services to approximately one-third of the population of Montana and almost 50% of the fully insured market. We administer the Children's Health Insurance Program for the State of Montana, and through Tri-West; we handle the health insurance of Montana's military families.

The cost of health care, which is rising at unsustainable rates, is of paramount importance to Blue Cross and Blue Shield of Montana. We are pleased to be able to provide our thoughts on what we consider to be some of the top drivers of healthcare costs.

<u>Consumerism</u>

The US consumes approximately twice as much heath care as other industrialized nations. Many factors have been identified as contributing to this over-utilization of healthcare services.

- Insurance has tended to insulate patients from true healthcare costs by covering the majority of services. Studies show that patients choose to receive 40% more healthcare services when the cost is born by someone else. We support publication of cost and quality information that will allow patients to become more cost-effective consumers, and insurance products that reward cost-effective behavior.
- Many consumers feel that more healthcare results in superior outcomes, in spite of numerous studies that have

shown that excessive consumption of healthcare to be counterproductive.

- In the US, we approve therapies without consideration of cost, in contrast to other nations, which consider benefits as well as costs in their approval processes.
- As we learned at the Senate Finance Committee's health care summit in June, 30% of health care spending goes toward ineffective, inappropriate, or redundant care. I applaud Senator Baucus for introducing the Comparative Effectiveness Research Act, which will help support evidence-based medicine. We need more information on what works best in medicine, and we need to support use of electronic medical records that can help prevent redundant care.

Relative Shortage of Primary Care Physicians

Patients today are increasingly frustrated at being unable to locate a primary care physician who is accepting new patients. The United States has the highest ratio of specialist physicians to primary care physicians found among industrialized nations. Comparing nations, there is a clear correlation between an increasing percentage of primary care physicians and more cost effective health care. Comparing States within the US, analysis of Medicare cost and quality metrics shows the same relationship: States with higher percentages of primary care physicians as compared with specialist physicians have shown lower healthcare costs, and higher quality metrics.

US trained physicians are increasing less likely to become primary care physicians. A 2007 survey of 1,177 fourth-year medical students at 11 US medical schools showed that only 24 students (2%) were planning on becoming internal medicine generalists. The US needs to address the growing shortage of

primary care physicians by actively managing its physician training programs, and by enacting changes in the physician compensation system that pays specialists 2 to 3 times more than primary care physicians.

Unhealthy Lifestyle Choices

Unhealthy lifestyle choices including smoking, exercise, and eating habits that lead to obesity add significantly to health care costs. According to the Centers for Disease Control and Prevention (CDC), 33 percent of adults, and 14-18 percent of children are obese. The CDC also found 24 percent of men and 18 percent of women still smoke. More often than not, these personal choices lead to chronic diseases, such as diabetes, hypertension, and heart disease. As a result, 6 out of 10 adults in US have at least one chronic condition.

To contain healthcare costs, we must add additional support to programs that promote wellness through improved lifestyle choices and reduce the prevalence of chronic conditions.

Costs Attributable to Malpractice Litigation

Medical malpractice suits increasingly target bad outcomes rather than true malpractice. Malpractice insurance varies by specialty, with direct costs varying between $5,000 and $200,000 per physician per year. In addition, physicians learn to practice "defensive medicine": Ordering services that help protect themselves from litigation rather than helping to define or treat a patient's medical condition. The total costs of malpractice litigation are difficult to quantify, but continue to substantially contribute to rising healthcare costs.

Excess Capacity/Duplication of Services

We often see facilities duplicating very expensive services, such as cancer treatment, as they compete within the healthcare market. Competition in healthcare, in contrast to competition in other economic sectors, does not seem to lower cost. US consumers pay the costs of these duplications. We need a mechanism to constrain deployment of these duplicative medical services in some areas, while assuring the provision of necessary services in others.

Cost Shifting

While cost shifting does not increase the overall cost of healthcare, it does lead to higher health care costs and higher insurance costs for individuals insured through the private sector. Cost shifting occurs when the uninsured cannot afford to pay their healthcare costs, and when Medicare and Medicaid pay less for healthcare services than providers find acceptable. In Montana, the Department of Public Health and Human Services (DPHHS) reported that current Medicaid payments to hospitals cover only 68 to 70 percent of the costs for providing the services. Health care providers in Montana tell us that the cost shifting from Medicare and Medicaid to the commercially insured is approximately 35%. That 35% cost shift translates into an approximate increase in paid claims of $700 per year for each BCBSMT insured member.

Cost shifting will become more problematic as our population continues to age. By 2030, it is estimated one-forth of the population of Montana will be over age 65, resulting in additional cost shifting to the commercially insured. Blue Cross and Blue Shield of Montana believes that the reimbursement rates for Medicare and Medicaid must be adjusted to reduce cost shifting. We also support universal coverage, which will eliminate cost shifting for care of the uninsured.

Thank you for your time today. Blue Cross and Blue Shield of Montana appreciates the focus the Senate Finance Committee is putting toward health care reform. We believe your efforts will bring about substantive reform, from which all Americans will benefit.

I am happy to answer any questions you may have.