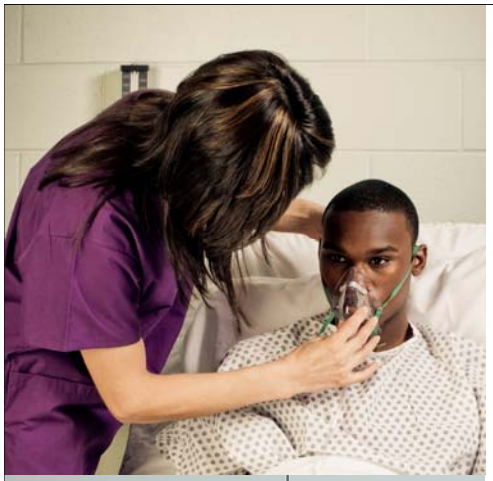

Accounting for the cost of health care in the United States

McKinsey Global Institute

Lenny Mendonca

July 2009

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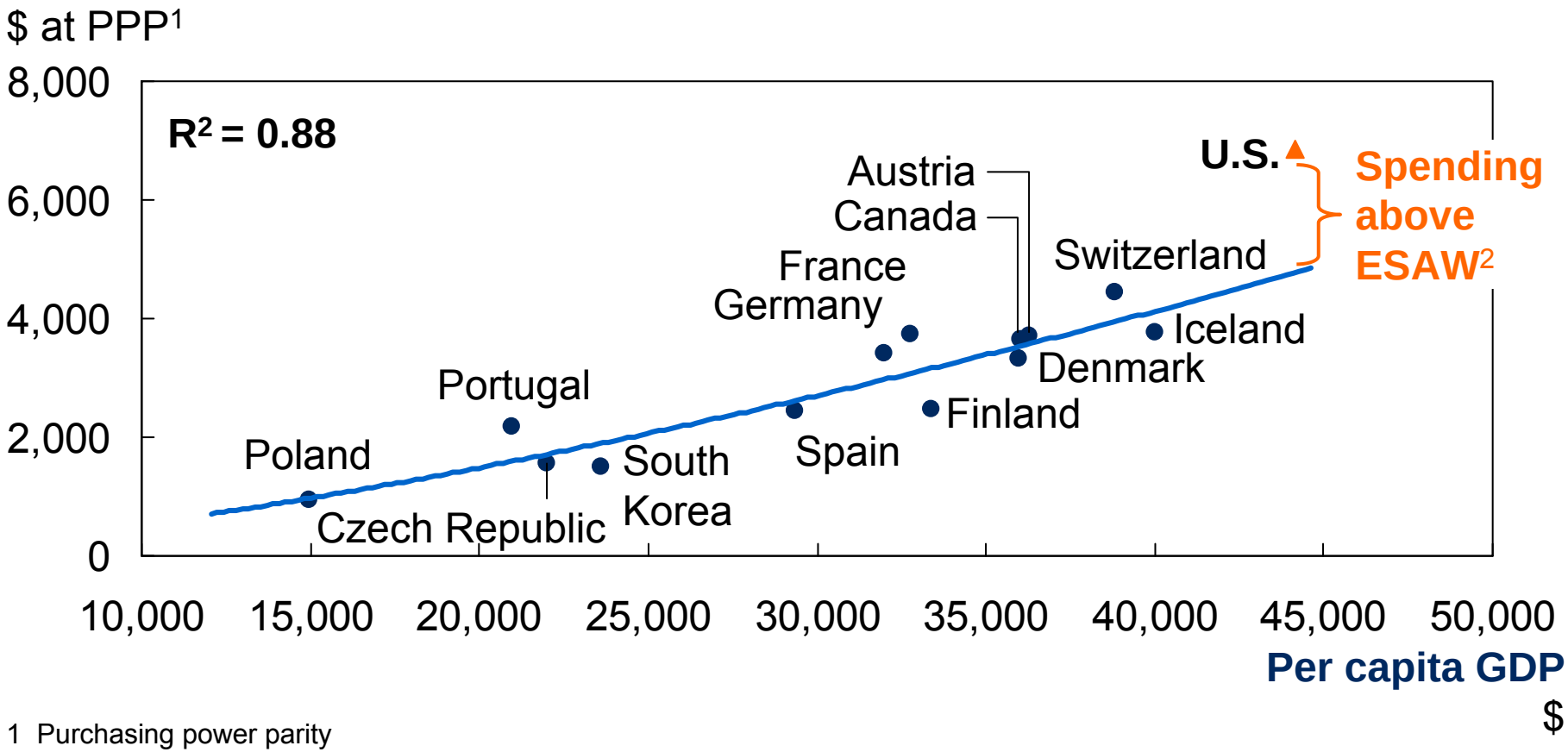
The US spends far more on health care than expected even when adjusting for relative wealth

Per capita health care spending, 2006



1 Purchasing power parity
2 Estimated Spending According to Wealth

SOURCE: Organisation for Economic Co-operation and Development (OECD)

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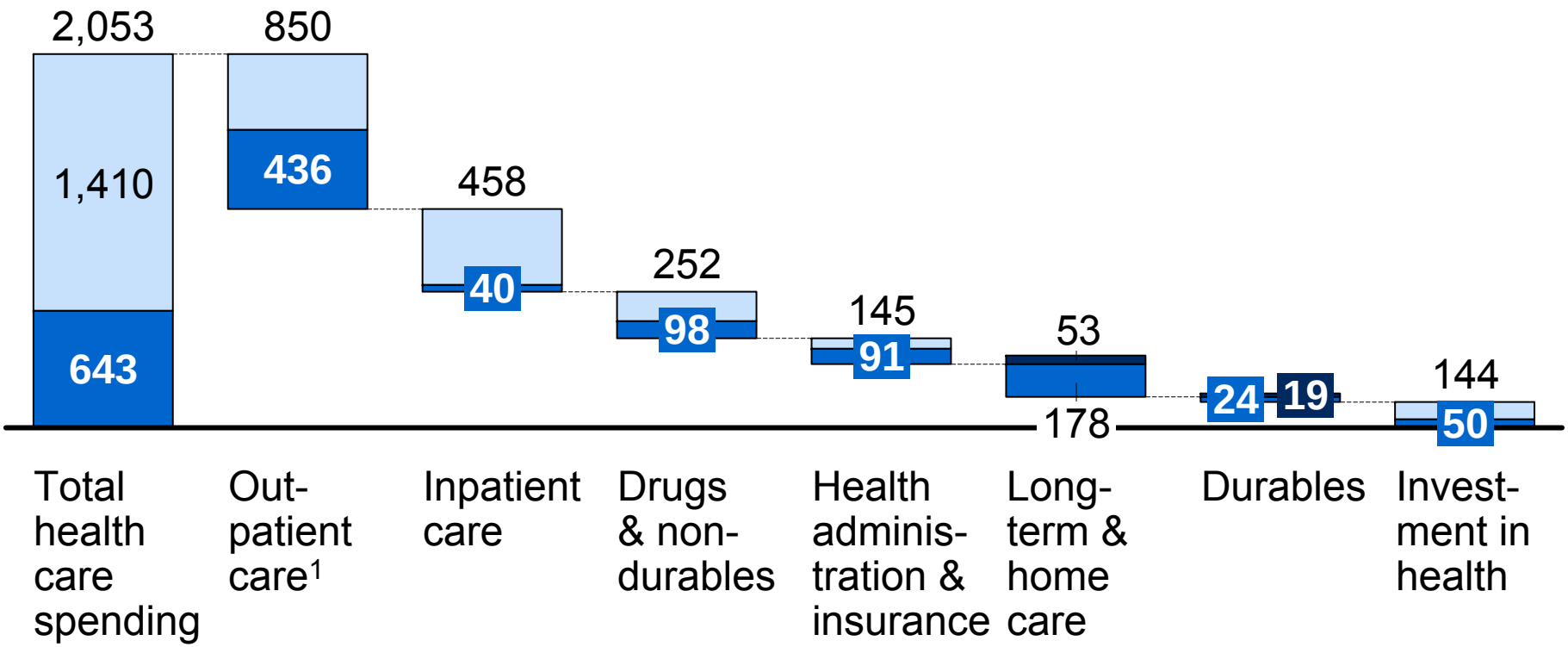
The US spends nearly $650 billion more than expected; outpatient care accounts for two-thirds of this amount

$ billion, 2006



1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities.

SOURCE: OECD; McKinsey Global Institute analysis

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Strengths and challenges of the US health system

Strengths

- Innovation and access to new treatments and technologies
- Prestigious world-class academic medical centers
- Higher cancer survival rates
- Convenience

Challenges

- Highest per-capita expenditure (16% of GDP)
- Lower life expectancy and higher infant mortality as compared to OECD
- Limited access for uninsured (16% of the population)

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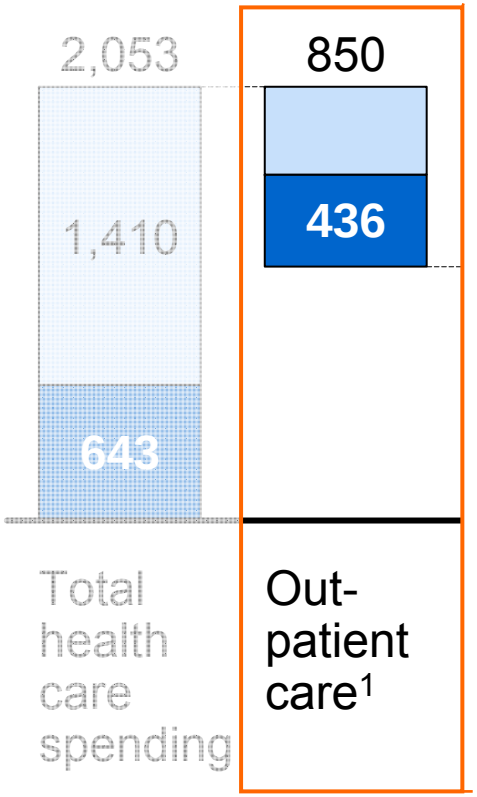
Above ESAW
Below ESAW

$ billion, 2006



Outpatient care

Largest and fastest-growing component of U.S. health system

Incentives at work

- Highly profitable service line
- Discretionary nature of care
- Payment for more care rather than more value
- Technological innovation fueling price inflation
- Lack of value consciousness from patients

Structural change in care delivery system

- More care in US has shifted from inpatient to outpatient setting than in other developed countries
- Cost effectiveness of outpatient setting more than offset by increases in utilization

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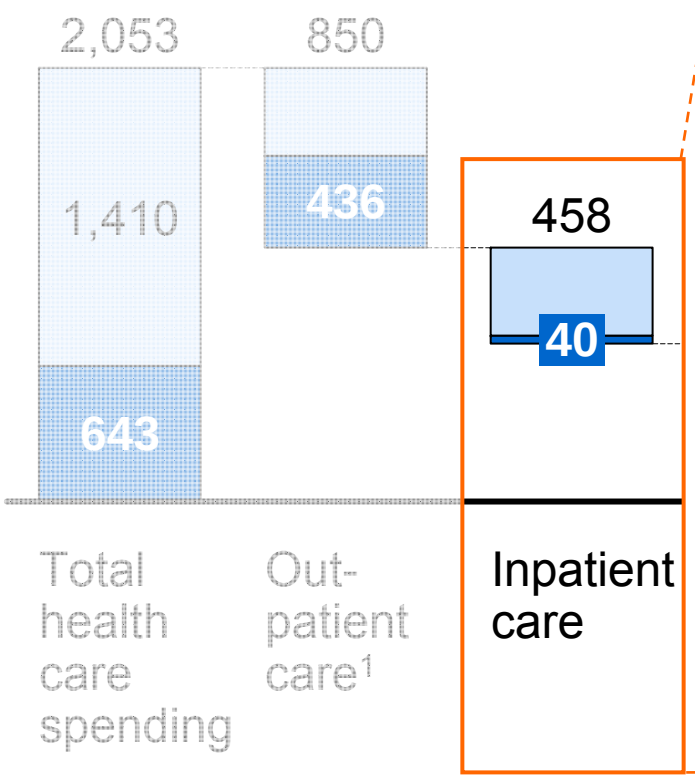

Inpatient care

Incentives at work

- Higher procedural intensity, concentrated in activities that are highly profitable to providers
- Higher factor costs

Structural change in care delivery system

- More care in US has shifted from inpatient to outpatient setting than in other developed countries
- Accounts for 25 percent of overall health care spending but only 6 percent of total spending above expected

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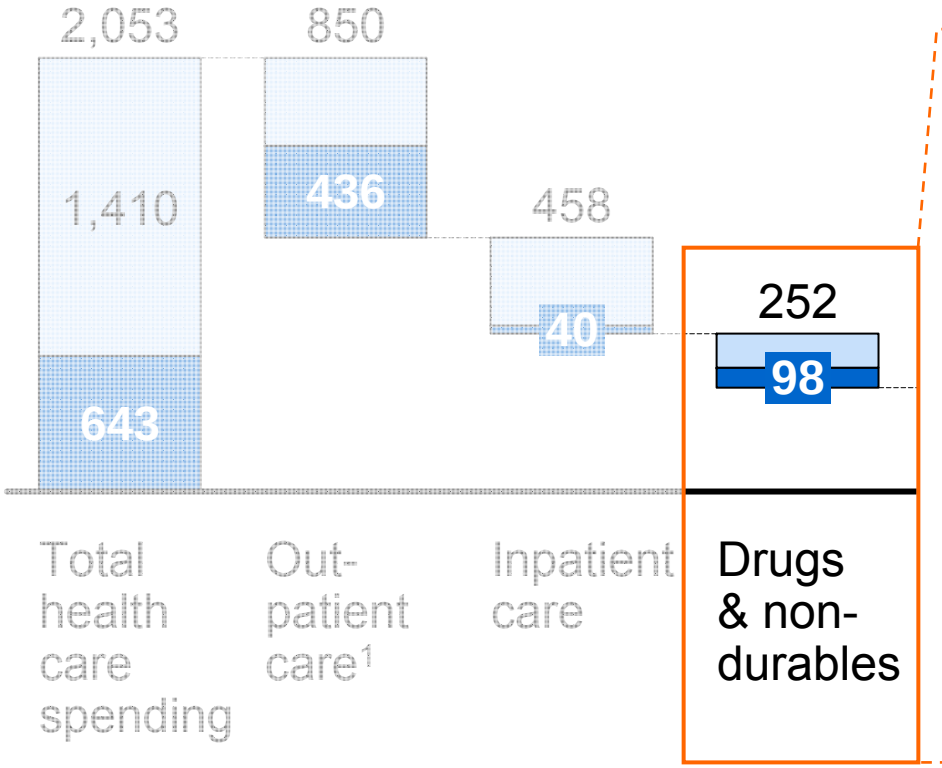

Drugs and nondurables

- 50 percent higher drug prices on average
  - 77 percent higher for branded drugs
  - 35 percent higher for biologics
  - 11 percent lower for generics
- More expensive mix of drug use, driving price gap up to 118 percent
- Americans use fewer prescription drugs than OECD peers

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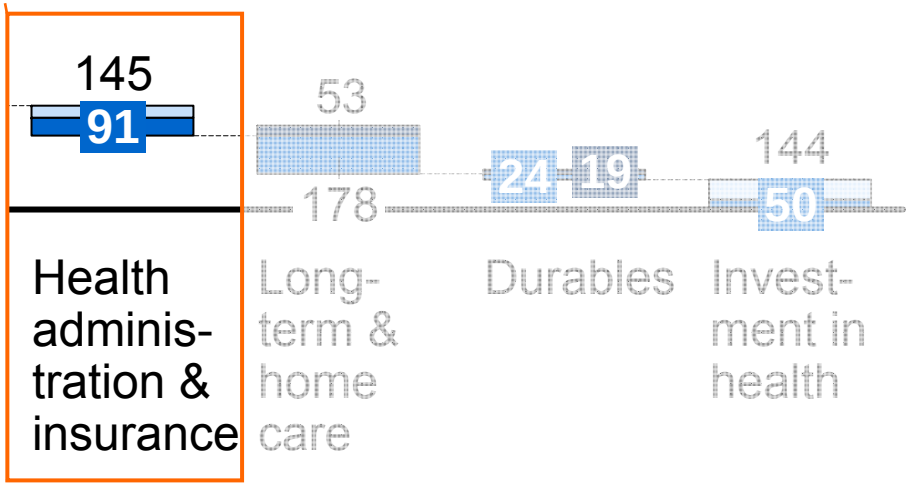
Above ESAW
Below ESAW

2,053 850

Health administration and insurance

- Multi-payor system structure creates higher marketing, underwriting, and claims costs
- Multi-state regulatory framework creates greater complexity
- Inefficiencies/lack of standardization in many processes (e.g. claims administration)



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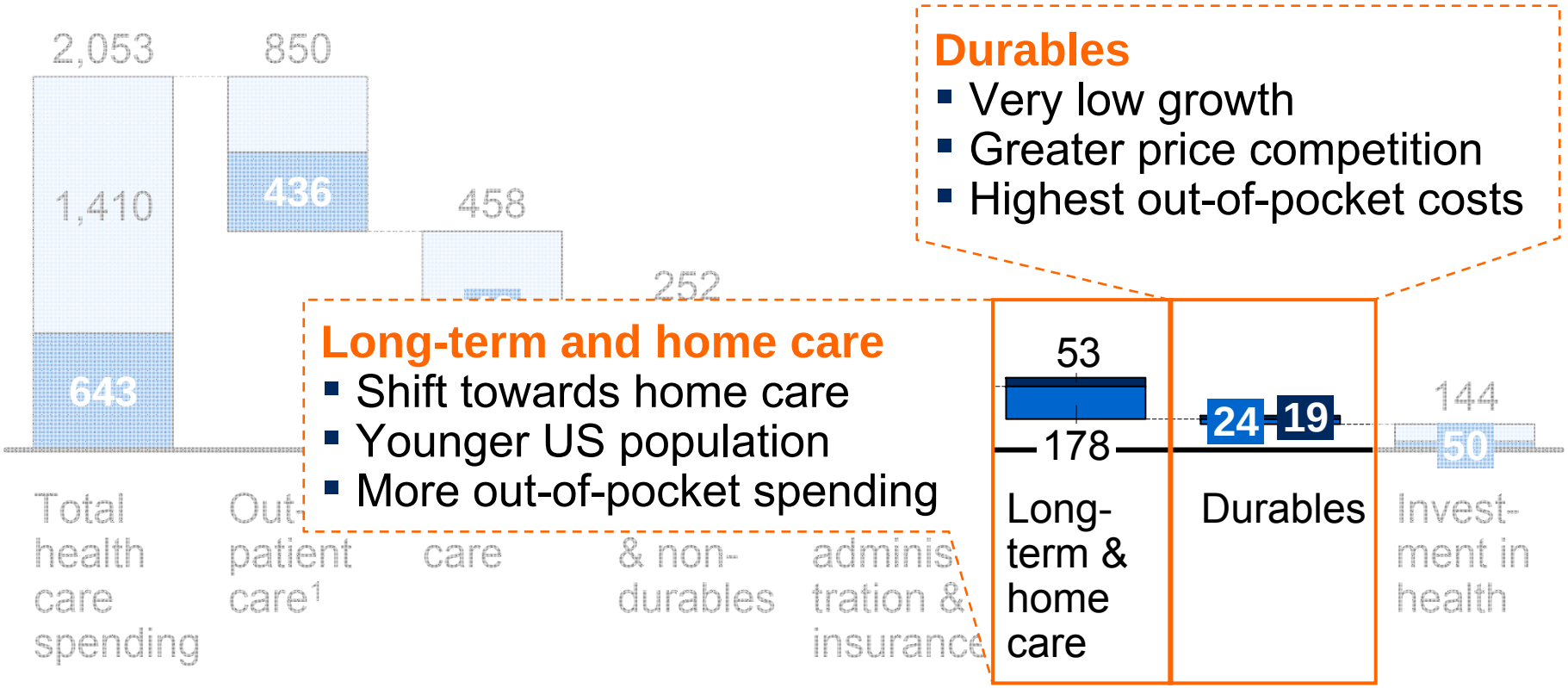

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How this links to reform

Take-aways

- US health system incentives are optimized for suppliers of healthcare products and services
- Supplier actions are perfectly rational in response to these incentives
- Additional costs are not resulting in longer life expectancy, though US patients may enjoy other benefits (e.g., convenience)
- Lack of objective value received on the part of patients and payors coupled with ongoing cost growth at current growth rate is likely unsustainable
- Outpatient care delivery accounts for most of spending above expected, but costs are higher than expected in most categories

Address three underlying problems to bend the cost curve

- Minimize economic distortions that prevent consumers and providers from making value-conscious decisions
- Simplify administrative complexity to remove waste that drives up costs
- Tackle high incidence and cost of treating lifestyle- and behavior-induced diseases

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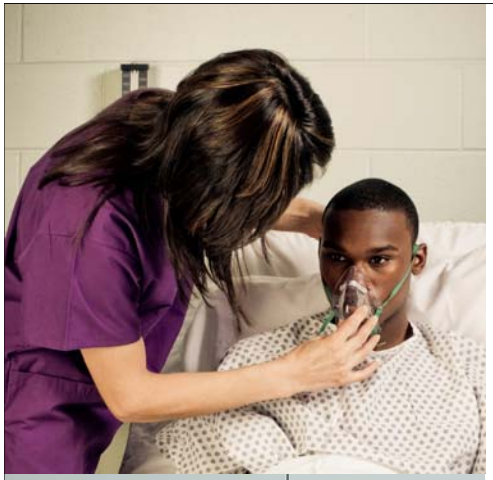

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