

Remarks to the Greater Boston Chamber of Commerce
Health Care Costs
March 3, 2009
James J. Mongan, MD
President & CEO Partners HealthCare

Thank you Paul, and thank you and all of your members for all that the Chamber does to make greater Boston the strong and vibrant community that it is.

I'm here this morning to talk about health care, and in particular, the cost of health care. This is a serious subject, this will not be an easy 25 minutes and if you will excuse me I will skip any attempts at humor, folksiness, or inspiration.

The issue of health care and health costs is critical to our nation, because it is critical to our financial future; critical to our Commonwealth, because we have committed to covering all of our uninsured and because health care is a key engine of our economy; and critical to every family, because of its impact on all of our finances – but more importantly for its impact on the health, wellbeing, and yes, lives of our loved ones.

I have had forty years of experience focusing on this issue of health care cost and coverage, since I started with the United States Senate Finance Committee as a staff member focused on health issues in 1969. I continued to wrestle with these

issues in the Carter White House, in Kansas City on the front lines dealing with both cost and coverage as president of Truman Medical Center, the equivalent of Boston Medical Center, and for 15 years running teaching hospitals in Boston. These past four years I have also had the privilege of chairing the most prominent national Commission working on this issue – The Commonwealth Foundation Commission on a High Performance Health System. I understand the critical nature and complexity of the health care cost issues, and I want to share some of that with you this morning.

I would love to spend this morning on the good news – because there is stunning good news in medicine and health care to talk about. Medical science has never been more productive, and we are seeing things in our hospitals and clinics that we would not have dreamed of a few decades ago – new drugs, new devices, and new procedures. Think how we now accept as completely routine – hip replacements, knee replacements, transplants, and laser surgery, protecting sight and vision. And think of what is just over the horizon – in development right here in Boston – of advances in genetics, stem cells, and artificial organs.

And all this good news not only impacts us as patients, but also as a Commonwealth where health care and biotech are key economic drivers – where

we bring in more NIH money per capita than any other state, and have a developing biotech industry, based on our leading teaching hospitals, that is the envy of every other state in the union.

Yes, there is much to celebrate and to protect. Shame on us if we slow this medical progress, or if we erode the universities and teaching hospitals, which are the engine of our new economy.

But all of this does not come free, and although in a developed economy people will always allocate more to their health and wellbeing, as food and other necessities consume less of their income, steadily growing health costs are a significant challenge to the nation, the Commonwealth, and most American families.

So let's talk about health care costs. Health care costs have been increasing at a rate which substantially out paces the underlying rate of inflation throughout the past forty years. The net effect is that health care has gone from about 6% of the GDP in 1965, to about 16% of the GDP forty years later. Different analysts give varying reasons for this continuing escalation of health care costs. These reasons include escalating underlying inflation and the growth and aging of the population.

But most informed observers believe that the major engine driving increasing health care costs has been advances in technologies and procedures, such as I have described, which have led to a substantially different medical care product than that which was available forty years ago.

Now if we are buying a different and better product – leading to an increased quality of life for many, who are having their cataracts treated or hips replaced in ways which have been unimaginable forty years ago – why don't we celebrate those advances rather than bemoan their economic impact?

Why has the steady increase in health care expenditures been seen as a problem?

Well there are a number of reasons and I will cite three. First, as individuals, we generally see an immediate benefit when we buy a car or computer. However, much of our health care expenditures are paid through taxes or premiums, and the benefits may not be apparent for some time. Health expenditures represent a huge income transfer from the healthy to the sick, the young to the old, and the richer to the poorer. You tend to benefit from these expenditures not now – but when you are old and in poor health.

Second, there are real questions regarding the efficiency our health system provides. We spend nearly twice as much as other countries for similar health outcomes.

A third reason for the concern about steadily rising health care costs has been the impact on the economy, and concerns on the part of the payers, primarily the government and the business community. Governments recognize that it is difficult to balance budgets without achieving some control of increasing health care costs. Business, for its part, is increasingly concerned about the negative impact of what is viewed as one of its major uncontrollable costs.

At the federal level, unchecked increases in health care costs are the leading driver of estimated deficits in the future. The projections for Medicare deficits are more dire than are those for Social Security.

At the state level, as long as growth in health care costs outstrip projections of state revenue, it becomes difficult, if not impossible, over time, to maintain our groundbreaking health reform.

For business - small business in particular - rising costs can make health insurance prohibitive, and for families, health care costs eat into slowing wage increases.

Now before I turn to what can be done about health care costs, let me make an extremely important point in understanding this issue. Rapidly increasing health care costs are a national – not a local - issue. I do not point this out to discourage attempts at state level solutions to this problem, but to make sure we all understand that there are no bad guys or easy answers to this problem.

Those of you, who like myself, still read and treasure newspapers, know that the Boston Globe has run a recent series implying that there is a bad guy, and an easy answer. According to this series Partners is too good, too strong, and has driven up costs through a so-called “Partners effect”. Well, facts are an inconvenient thing. Let me show you a key set of facts.

First costs are not going up disproportionately in Massachusetts, driven by a Partners effect, or any other local effect. The largest public survey of health insurance premiums shows family premiums rising over the past decade at an average of 8.8% a year nationally, while they have risen an average of 8.7% a year in our state. This is a national story, not a special Massachusetts story.

Now some of you might say “well our base costs are much higher in Massachusetts”. But, remember Boston is an expensive place to live. In fact premium costs in Massachusetts are only 8% higher than the national average in spite of costs of living in Boston being 35% higher than the national average. Far from driving the cost of living in Boston, those of us in health care are burdened by this overall 35% higher living cost, just as each of your businesses are.

While I’m referencing the Boston Globe series, let me set the record straight on some other misrepresentations in those articles:

- The Globe implied that suburban hospitals were being crushed by teaching hospitals. In fact suburban hospitals’ share of admissions and revenues has been stable from 2000 to 2008.
- The Globe talked about a “secret handshake” giving preferential treatment to Blue Cross in 2000. In fact, Harvard Pilgrim received a better deal than Blue Cross, to assist Harvard Pilgrim in recovering from receivership.
- The Globe talked about pricing differences between community hospitals and teaching hospitals, as if this were a revelation. In fact in all major cities there are significant price differentials among hospitals with most of the

difference reflecting the higher costs of stand by services such as burn units, and under reimbursed services such as mental health services.

But I am not here primarily to talk about the Boston Globe this morning – I’m here to talk about the serious national problem of rising health care costs. This problem will not be solved by attempting to paint Partners as a villain, as anything other than a major asset to our community.

By pointing out that rising health care costs are a national problem, I am in no way saying that the Commonwealth of Massachusetts should sit on its hands and defer to Washington in solving this problem – though much of the solution ultimately will need to come from the federal level.

Let me draw an important analogy to the related issue of covering the uninsured. Just a few years ago, I was one of those skeptics who said that states could not deal with the uninsured on their own – that it was a national problem. And it is a national problem.

But what I learned is that states can assume leadership roles in trying to solve national problems. And that is exactly what the political leadership of this state did

– to the everlasting credit of leaders like Robert Travaglini, Sal DiMasi, Mitt Romney, Therese Murray and Robert DeLeo. But leadership doesn't happen in a vacuum. In addition to many other advocacy groups the business community, including this Chamber of Commerce under Paul Guzzi's leadership, was critical in passing health reform. And although I started as a skeptic, I am proud that Partners HealthCare, under my leadership and that of our Board Chairman Jack Connors, also played a key role.

Now make no mistake – we will ultimately need national leadership to complete the work on health coverage reform, but Massachusetts leadership on this issue is proving extremely helpful to the national debate.

So I believe there is a parallel leadership role for Massachusetts with respect to health care costs. We will not solve this problem on our own, but we can begin with important demonstrations of leadership. And in fact much of this work has already begun with the passage of landmark legislation under Senate President Therese Murray's leadership, which takes very important first steps guided by Governor Deval Patrick, which I will reference in a moment.

So what can we do as a state and a nation to control health costs? There is a blunt approach, adopted by many other nations, which sets specified rates for all providers. And often includes limits on expenditures. While this regulatory approach can indeed control costs, it can also lead to indirect rationing, or limitation of services. Now to the extent that unnecessary services are limited this is just fine. Our Commonwealth Commission, as I said, has estimated that we spend nearly twice as much as other countries for similar health outcomes, so there clearly is unnecessary care. The problem with this blunt, regulatory approach, however, is that it does not fit with our political culture, and it can lead to limiting services, which have value, and which we as a relatively wealthy society do not want limited. When it comes to health care, we are very conflicted as a nation, and as individuals, - we want cost control, but we also want all that modern medicine can offer, particularly when loved ones are involved. If the current national economic crisis leads us to consider this heavily regulatory path, it is best done at a national level.

If a blunt, heavily regulated approach with ceilings on rates and expenditures is problematic, what other approaches remain? Last year, along with my colleagues Drs. Tom Lee and Tim Ferris, I wrote an article in the New England Journal of Medicine, surveying all of the ideas regarding health costs from the left and the

right of the political spectrum. In that article, we recommended five areas of work as most potentially effective in a rational package of steps aimed at controlling costs. All of these, are difficult to accomplish and will not yield immediate results, but they are the path to enduring solutions. The five are as follows:

- First, reform of our reimbursement system. Our current open ended fee-for-service based reimbursement system is nothing less than an engine for inflation – the more you do the more you are paid, and there are no explicit incentives for quality or efficiency. We must move towards new methods of reimbursement, and this is the important work being begun in Massachusetts under the Murray bill, which set up a Payment Reform Commission. This Commission, like our Commonwealth Commission at the national level, will be looking at things such as pay-for-performance, where certain quality and efficiency standards must be met; to bundled payments for entire episodes of care, rewarding efficiency; to capitation payments, which pay groups of providers, in advance, for the total care of patients, rewarding both prevention and efficiency. I am proud to say that at Partners HealthCare all of our contracts with major local payers have pay-for-performance features. Along with Blue Cross, Tufts, and Harvard Pilgrim, we are national leaders in these experiments.

- Second, electronic medical records, properly used, can be critical to controlling costs. Some of the most sobering data regarding health care in the United States is the stunning variance in practice which exists around the country, first documented years ago by Dartmouth's Dr. John Wennberg. This data shows striking variation in rates of surgery and other procedures across the country, with no measurable differences in outcome – a huge source of inefficiency. The Commonwealth Commission believes that electronic records, with decision support features to prompt and guide physicians' behavior, have great potential to increase efficiency and decrease variance in practice. The Federal government agrees, and significant support for electronic medical records is contained in the recently passed economic stimulus legislation. Here again, Massachusetts is in the lead in implementing electronic records, primarily because all of our Partners primary care doctors are now on the electronic record. I am proud to say that we are one of the first large systems in the country to achieve this goal – yet another reminder of Partners national leadership role.
- Third, disease management is another important area of focus. Here is another statistic from health care you should keep in mind – 10% of people account for 70% of health costs. If you want to improve quality and impact costs, you must focus on these sickest patients. Again at one of our largest

Partners hospitals, MGH, we are playing a leadership role in disease management, with a major Medicare demonstration project where we are showing that with focused extra support for some of our sickest elderly patients, we can cut hospital and emergency department usage and achieve substantial savings.

- Fourth, effectiveness review. In this country we review the safety of new drugs, but there is no body to review the relative effectiveness of new drugs or procedures. In short, how much real value or benefit is yielded, for how much additional cost. Now some decry even raising this concept as a first step towards rationing, but most believe that with new technology as the major cause of increasing cost, we must work in this area. The Commonwealth Commission has recommended this approach; the federal government has taken a first step, with a provision in the recent stimulus bill establishing a commission; and Partners is implementing a similar review procedure within our own organization. Massachusetts should explore work in this area.
- Finally, I would mention an area where I do not recommend government action - but where I would urge all of us in medical education, along with leaders in religion and secular ethics to focus - and that is on end of life care. End of life expenditures represent a large part of health costs, but as

importantly, end of life issues will become even more significant as medicine advances and society ages. Medicine has a huge role to play in helping society deal with these issues, and at Partners we are developing robust end of life committees to help families wrestle with these issues and we are building hospice alternatives. But medicine cannot do this alone – counselors, clergy, ethicists, and ultimately each of us as individuals must be involved. Government should be extremely cautious.

So as promised, this has not been an easy morning. I have talked to you about the drivers of health care costs, the impact of these costs on government, business, and families, the fact that costs are a national, not a local issue, the fact that there is a leadership role for Massachusetts, the perils of blunt actions, and five recommendations for rational action. I have also described how Partners HealthCare is playing a leadership role in each area, and in fact, Partners is demonstrating how organized systems can lead to solutions. Only organized systems - as opposed to the very fragmented, disorganized non-systems that make up much of American medicine - only organized systems can implement reimbursement reform, thoroughly disseminate electronic medical records, and establish sophisticated disease management programs.

Contrary to some published impressions, Partners is much more part of the solution, than part of the problem. Importantly to Massachusetts, we are not an anchor dragging the economy down, but an engine driving the economy forward. And most importantly, our hospitals, along with the other great hospitals in this state, are a reassuring presence during times of health, and a beacon of hope at times of despair.

Thank you for your attention.