

Healthcare 2015 and Healthcare Reform A Current Snapshot and Path Ahead



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Issue

Despite having pockets of excellent care delivery, there is a growing consensus that the US healthcare systems is unsustainable.

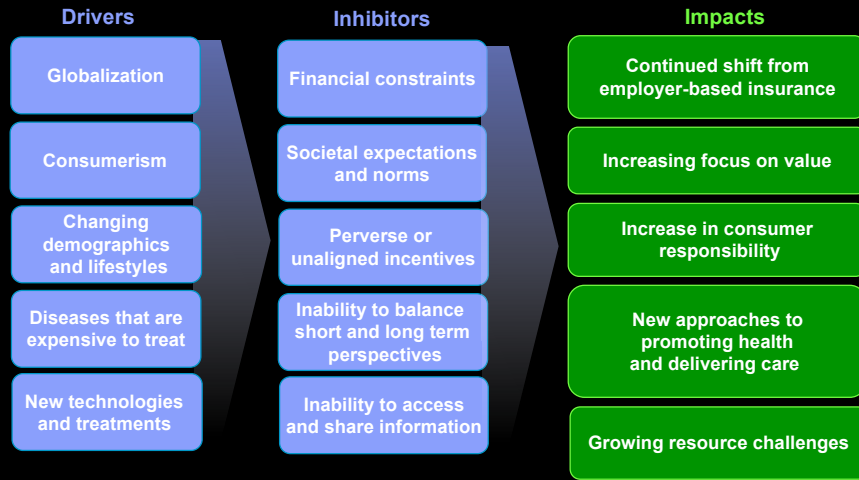


High, rapidly rising costs	<ul style="list-style-type: none">▪ US\$2.5 trillion (17.6% of GDP) will be spent in 2009–US\$4.0 trillion (almost 20% of GDP) will be spent in 2015▪ Highest per capita spend among OECD countries in 2006–48% more than Norway, which spends the third-most–2.4x the OECD average per capita spend
No link between higher costs and quality or safety	<ul style="list-style-type: none">▪ 98,000 to 195,000 people killed per year by medical mistakes▪ 57,000+ dying from inadequate care▪ 2 million hospital-acquired infections with 90,000 dying per year▪ 4-fold variation in costs with similar quality▪ Ranked 37th in overall health system performance by WHO▪ 22nd in life expectancy, 28th in infant mortality and 30th in obesity among the 30 OECD countries
Access issues	<ul style="list-style-type: none">▪ 45+ million uninsured▪ 15+ million under-insured, most who are working

❖❖❖ *“Let there be no doubt ... Health-care reform cannot wait, it must not wait, and it will not wait another year.”*
– U.S. President Barack Obama, February 24, 2009

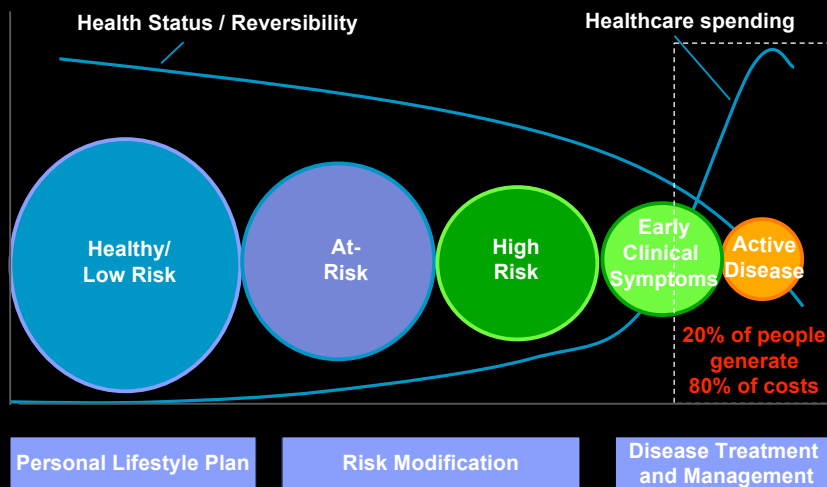


The force of the drivers for change will overpower the inertia of the inhibitors, causing the following impacts.



Source: IBM Global Business Services and IBM Institute for Business Value

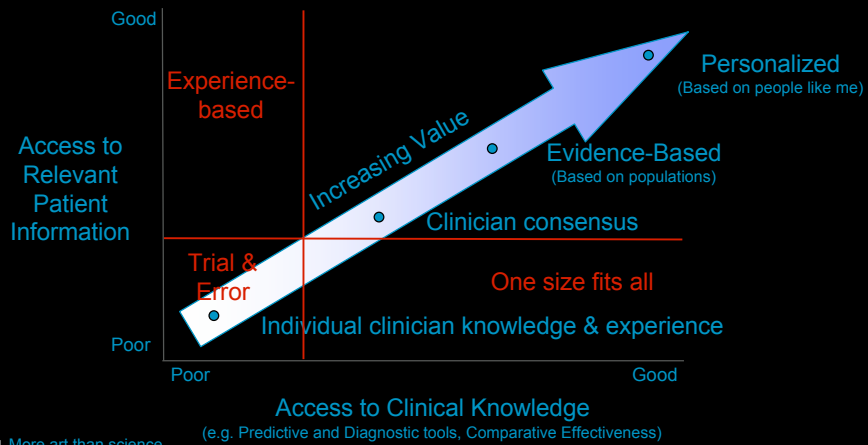
A value-based health system should appropriately balance resources expended in keeping people healthy and in treating sickness.



Source: IBM Global Business Services and IBM Institute for Business Value, adapted from Ralph Synderman

Analysis » Increasing focus on value

The ability to deliver value improves with access to relevant patient information and knowledge of what works for that patient



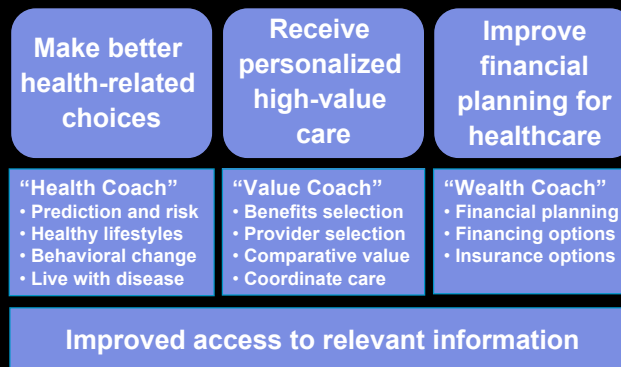
Source: IBM Global Business Services and IBM Institute for Business Value

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Analysis » Increase in consumer responsibility

In assuming more responsibility for their healthcare, consumers must make wiser health and financial decisions as patients and purchasers

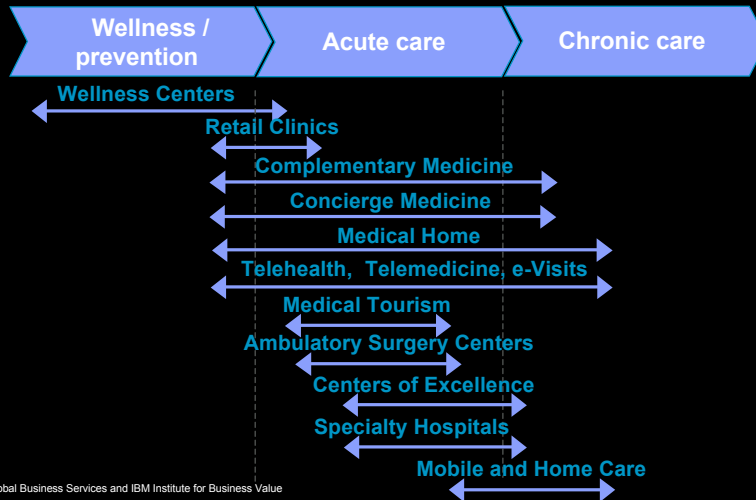


Source: IBM Global Business Services and IBM Institute for Business Value

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Healthcare models and approaches will need to be coordinated or integrated to meet changing requirements



Source: IBM Global Business Services and IBM Institute for Business Value

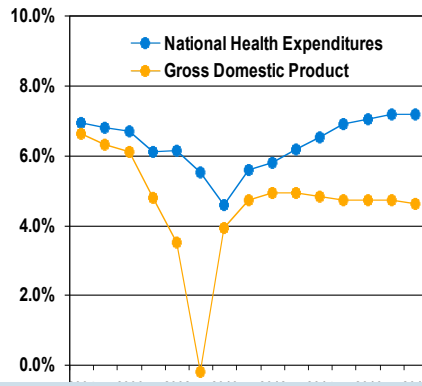
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Growth in healthcare spending has exceeded that of overall economic growth, both will “bottom out” this year



Healthcare Spend and GDP Growth
% Change by Year, 2004-2018



- Average health spend growth is expected to be 6.2% per year from 2008 to 2018
 - In 2009, health spend will increase 5.5%, while GDP will decrease 0.2% (1st decrease since 1949)
- Due to the recession’s impact on the overall economy, health growth is expected to significantly outpace GDP growth in 2008 and 2009
- Influenced by the recession and the Baby Boom generation, average annual spending growth by public payers (7.2%) is expected to outpace that of private payers (5.3%)
 - Public share of total spend to exceed 50% by 2016, reach 51.3% by 2018

7 Source: IBM Healthcare and Life Sciences, IBM Institute for Business Value, CMS

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On a worldwide basis, \$2.7T in government spending is planned to help recover country economies



Industry	Specific Focus Area	Countries (\$ B)	
Government	Smarter Regulatory Systems	USA *	681
	Intelligent Transportation	China *	936
	Shared Services	European Union *	257
	Customs/Border Management	Italy *	101
	Infrastructure Bridges/Roads	Germany *	94
Energy & Utilities	Smart Grid/Energy Efficiency	UK *	85
Healthcare	Health Systems IT	South Korea *	81
Education	School Modernization	Saudi Arabia *	57
	New Energy Sources	Spain *	44
Telecommunications	Broadband Expansion	France *	43
Automotive	Automotive Advancements	Brazil *	42
	Intelligent Buildings	Japan *	37
	Property Carbon Assessments	Russia *	31
Cross Industry	Water Management	Australia *	15
		Argentina *	17
		Poland	14
		Hungary	13
		Taiwan	12
		Turkey *	10
		India *	5
		Indonesia *	2
		Other	126
		TOTAL	\$2,703B

94%

*Note that total includes all countries with announced programs as of February 18, 2009, beyond the 17 countries listed

Key ARRA components include health IT leadership, funding/incentives, R&D, standards, certification, education/outreach, and privacy/security



<p>Office of the National Coordinator (ONC) Goal: develop HIT infrastructure to improve quality, reduce costs, and protect privacy Funding: \$2B Related provisions:</p> <ul style="list-style-type: none"> Codifies ONC (Operating Plan due May 18, 2009) Establishes Chief Privacy Officer Issues grants to promote interoperability, test standards, fund HIT regional extension centers, etc. 		<p>Comparative Effectiveness Research (CER) Goal: support research to reduce inappropriate and unnecessary care (would not be used by government to mandate use of clinical guidelines for payment, coverage or treatment)</p> <p>Funding: \$1.1B</p> <ul style="list-style-type: none"> \$300M AHRQ \$400M NIH \$300M grants for NGOs <p>Related provisions:</p> <ul style="list-style-type: none"> 15-member Coordinating Council for Comparative Effectiveness Research \$1.5M to fund an IOM report not later than June 30, 2009 that includes recommendations for CER
<p>HIT Policy Committee</p>		
<p>HIT Standards Committee</p>		
<p>EHRs Goal: 90% EHR adoption for physicians, 70% for hospitals Funding: \$17.2B in net CMS incentives (\$34B total) Related provisions:</p> <ul style="list-style-type: none"> National HIT Research Center HIT Regional Extension Centers to provide HIT training and technical assistance to providers Meaningful use of certified EHRs 	<p>Health Information Exchanges Goal: support information sharing Funding: \$300M from ONC for regional grants Related provisions:</p> <ul style="list-style-type: none"> NIST will award grants to universities and other research groups to establish Centers for Healthcare Information Enterprise Integration to develop new approaches for a fully interoperable national healthcare infrastructure 	
<p>Privacy and Security</p>		

Other key provisions of the proposed bill



- **\$4.7 B:** Broadband, telemedicine and distance learning in unserved and underserved areas
- **\$2.5 B:** U.S. Department of Agriculture's Distance Learning, Telemedicine and Broadband Program
- **\$1.5 B:** Construction, renovation and equipment for federally qualified health centers (FQHCs)
- **\$500 M:** Social Security Administration upgrades and EHR usage for disability benefits
- **\$85 M:** HIT to Indian Health Services
- **\$50 M:** Information technology within the Veteran's Benefits Administration

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Key FY2010 budget proposals (subject to change)



- **\$634B over 10 years** for "healthcare reserve fund" to finance fundamental reform
 - Additional funding will be needed
 - Funded by tax increases and by "savings proposals that promote efficiency and accountability, align incentives toward quality, and encourage shared responsibility"
 - Bundled Medicare payments
 - Competitive bidding for Medicare Advantage
- **\$6B+** for NIH for additional cancer research
- Proposes to allow importation of prescription drugs
- In Obama's press conference on March 24, 2009, he stressed:
 - HIT. This is a key component of ARRA
 - Prevention
 - Paying at rates for lower cost regions with commensurate quality
- We know from prior messages that he is considering expanded coverage (e.g. SCHIP), understands the challenges for primary care and likes the concept of the PCMH.

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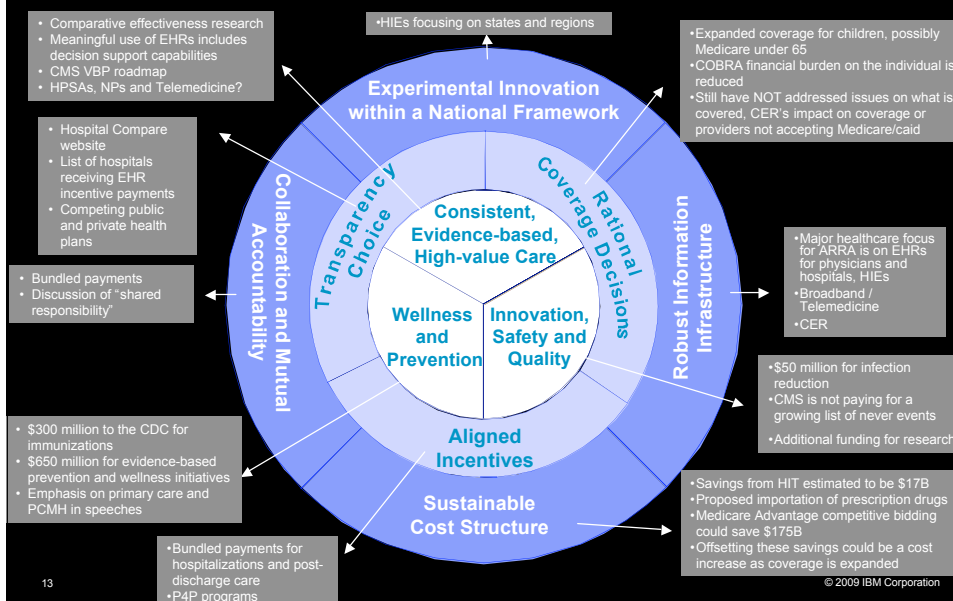
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The current consensus opinion: the stimulus program will trigger a new wave of IT investment in the healthcare industry



Perspective	Provider Investment Areas
Healthcare IT spending surge coming. \$36.2B in funding for Healthcare IT will trigger a new wave of IT investment by hospitals, medical practices, providers.	<ul style="list-style-type: none"> Clinical applications, especially electronic medical records, led by healthcare ISVs. IT infrastructure and IT services
Providers must invest in EHRs before getting incentive funds. Providers are not eligible for Medicare/Medicaid EHR incentive funds until <u>after</u> they buy and implement EHRs.	<ul style="list-style-type: none"> Creative financing options for EHR projects MSO strategy enables EHR plus for providers
Small to mid-size hospitals and medical practices will be compelled to deploy EHRs.	<ul style="list-style-type: none"> Hosted EHRs (software-as-a-service model) IT support / backup for ISV implementations
Health information exchanges will be deployed with states playing a significant role.	<ul style="list-style-type: none"> Health information exchanges: services and software
Data security spending will increase. Public concerns will grow about the security of sensitive patient medical records, increasing pressure on providers to secure digital records. The stimulus law broadens the privacy and data security requirements initially established under HIPAA.	<ul style="list-style-type: none"> Security and privacy solutions Information strategy and governance Records retention
Evidence-based medicine will spur investment in BI/data analytics. This is being pushed by the \$1.1B Comparative Effectiveness Research (CER) program.	<ul style="list-style-type: none"> Health analytics and business intelligence Data governance "Knowledge clouds" and tools

Proposed and legislated changes touch on all ten areas of IBM's transformation framework – although much more remains to be done.



Discussion with Tom Handler and audience



- Is this HIT funding taking us in the right direction?
- Which Gartner scenario is the most likely, based on the ARRA legislation, the budget proposals and other current indicators?
- What should a hospital-based organization or integrated delivery network do now?



Thank you

