



## Understanding the Rising Costs of Health Care *If You Only Knew...*

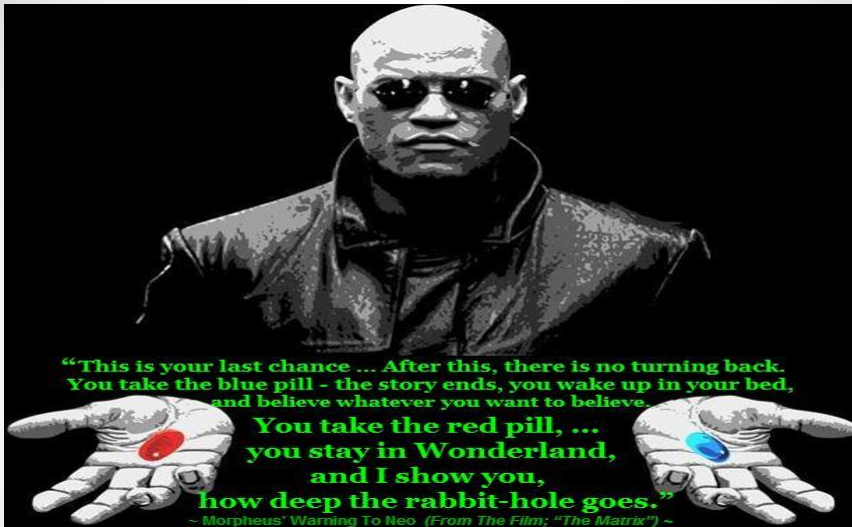


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April 2019

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Reducing the cost of health care is a Megaproject because of the sheer size of the undertaking:

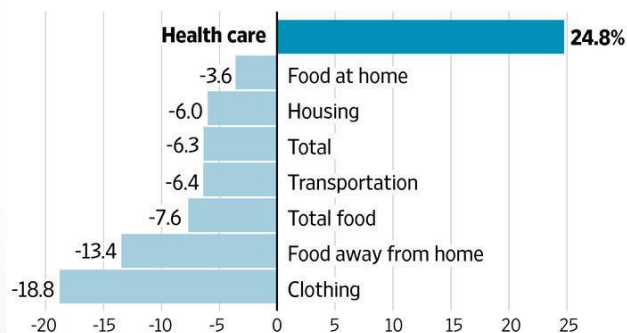
*The US Healthcare System is a \$3.2 Trillion dollar machine that wakes up every morning focused solely on thinking of ways to remove money from your pockets.*

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### A Bigger Bite

Middle-class families' spending on health care has increased 25% since 2007. Other basic needs, such as clothing and food, have decreased.

**Percent change in middle-income households' spending on basic needs (2007 to 2014)**



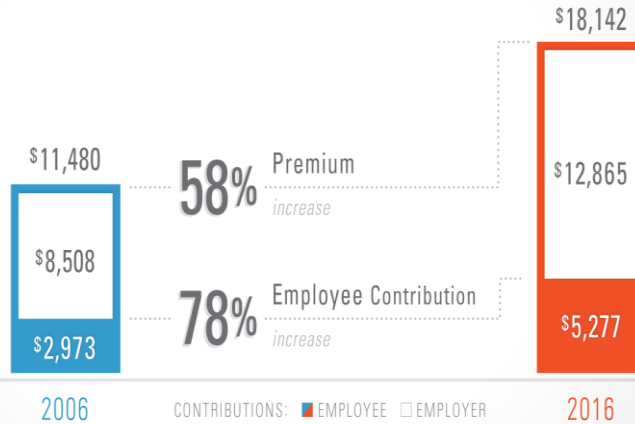
Sources: Brookings Institution analysis of Consumer Expenditure Survey, Labor Department  
THE WALL STREET JOURNAL.

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## Average Health Insurance Premiums

### Employee Contributions for Family Coverage, 2006 – 2016

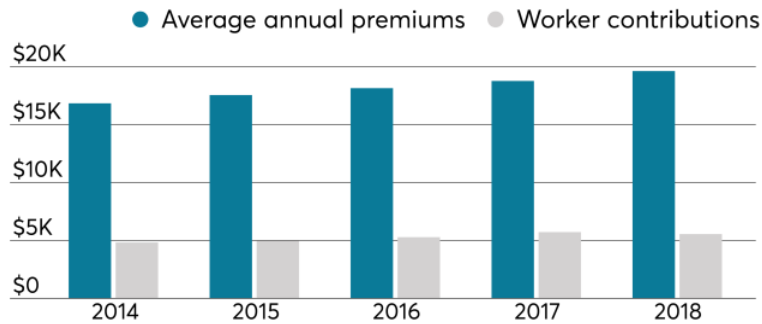
**Unarguably Unsustainable!**  
Cannot continue to 'cost shift' to employees.



(Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2016)

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## The rising cost of employer-sponsored family health coverage



Source: Kaiser Family Foundation

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## Health Insurance Company CEOs' Total Direct Compensation in 2016



David Cordani, Cigna  
**\$21.9 million**  
 (\$84,017 per day)



Stephen Hemsley, UnitedHealth  
**\$31.3 million**  
 (\$119,918 per day)



Michael Neidorff, Centene  
**\$32.2 million**  
 (\$123,225 per day)



Mark Bertolini, Aetna  
**\$41.7 million**  
 (\$159,647 per day)



Bruce Broussard, Humana  
**\$17.0 million**  
 (\$65,208 per day)



Joseph Swedish, Anthem  
**\$17.1 million**  
 (\$65,356 per day)



**Median earnings of full-time wage and salary workers in 2016: \$43,264**

Sources: DEF 14A Schedules, Securities and Exchange Commission; Bureau of Labor Statistics; Current Population Survey.  
 Annual CEO compensation includes salary, non-equity incentive pay, other compensation, and value of stock options exercised and stock awards that vested.  
 In addition, these CEOs were given stock and option awards totaling \$78.6 million (in aggregate) this year, which will provide value in future years.

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## U.S. Pharma Company CEOs' Total Direct Compensation in 2016



John C. Martin, Gilead Sciences  
**\$98.4 million**  
 (\$377,132 per day)



Ian C. Read, Pfizer  
**\$23.4 million**  
 (\$89,539 per day)



John C. Lechleiter, Eli Lilly  
**\$20.9 million**  
 (\$80,035 per day)



Richard A. Gonzalez, AbbVie  
**\$25.0 million**  
 (\$95,757 per day)



Robert A. Bradway, Amgen  
**\$34.1 million**  
 (\$130,550 per day)



Kenneth Frazier, Merck  
**\$33.8 million**  
 (\$129,515 per day)



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## The United States has world's highest health care costs

More than 17% of the U.S. gross domestic product is spent on health care

- This is 50% more than France, the No. 2 country
- By 2026 it will reach 20% of the U.S. national GDP

Despite high spending on health care, U.S. ranks relatively low compared to other developed countries on several key health outcome measures:

- Life expectancy
- The prevalence of chronic conditions
- Mortality from heart disease (leading cause of death in the U.S.)

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- Aging population
- Diabetes crisis?
- Advanced medicine
- ObamaCare
- Medical Malpractice
- Defensive medicine
- Fear
- Mitigation
- Access to healthcare?
- Rules?
- People are getting care
- of themselves
- creating more
- diseases?



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## The reason why health care is so expensive:

- We pay higher prices for hospitals, doctors, and prescription drugs.
- Lack of transparency insulates us from the higher prices and true cost of health care.
- We rely on insurance carriers to pay for our health care expenses
- Health care is an artificial market that encourages overconsumption
- There is widespread fraud, waste and abuse

*But Why? Let's dig deeper...*

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## We pay higher prices for hospitals, doctors and prescription drugs

- Unlike other countries, the U.S. Government doesn't manage prices.
- In a system where government doesn't negotiate prices down, prices will be higher.
- Without market-generated price limits, higher health care costs lead to higher profits for carriers and providers.
- One example is the prescription Drug Achar. In 2001 it sold for \$40 a vial, today it costs more than \$40,000 a vial. That's an increase of 100,000%! (*60 Minutes TV Report, Leslie Stahl – May 6, 2018*)
- No transparency and no consumer sensitivity to prices.

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**Lack of transparency insulates us from higher prices and true cost**

- If you had “supermarket insurance” would you care if a loaf of bread increased from \$4 to \$400?
- Would you visit a restaurant where every menu item was “market price”?
- Health care is the only segment of the economy where consumers do not expect transparency for goods & services to make informed choices and maximize value.
- No known price and no known quality.

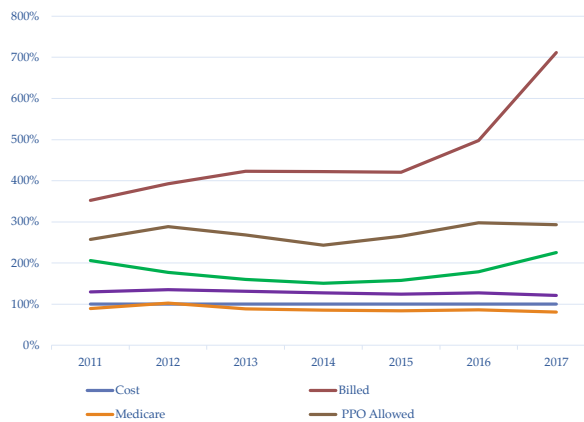
**Let’s Look at an Example:**

**Hospital Costs Flat, Billed Charges**



**Increasing Hospital Invoices as % Cost**

BUCA PPO ‘discount’ results in reimbursement averages of 288-300+% of Medicare! AND, with no Medical Bill Review to ensure the accuracy of billing.



Source: AMPS MBR Database (1,600 Hospitals, 10,150 Claims)

### We rely on insurance carriers to pay for our health care expenses

- When consumers don't pay directly for goods and services, price ceilings are eliminated.
- This approach supports a monopolistic stranglehold on pricing preventing competition and efficiency.
- We expect our health insurance to pay for essential and elective care.
- The more health services cost, the more insurance carriers charge.

### Health care is an artificial market that encourages overconsumption

- With no consumer knowledge of prices, insurance carriers encourage individuals to over use health services; "If my insurance is paying, who cares?"
- Induced by carriers, the system creates an artificially high demand for services.
- Consumers expect full coverage for all services, akin to turning in a homeowner's claim for a leaking garden hose.
- Health insurance changed from protection against catastrophic illness to prepayment of routine healthcare.
- "Outpatient care and hospitalization increases suddenly and significantly at age 65 relative to the control group aged 62 – 64 years and thus similar health status" – *The Effects of Medicare on Health Care Utilization and Outcomes*, Frank Lichtenberg



### There is widespread fraud, waste and abuse

- The health care insurance industry's massive bureaucracy provides fertile ground for illegal, reckless and wasteful activities.
- Health care fraud costs the nation between \$68 to \$200 Billion annually (The National Health Care Anti-Fraud Association)
- Fraud detection is a low priority because of insurance carrier's "open checkbook" payment strategies.
- There is no incentive for insurance carriers to invest in fraud & waste mitigation because much of their income is based on provider alliances. More services, higher prices means they both win.

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### *OK, We're Up In Arms, So Now What???*



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In 2018 Amazon announced their Employer Health Initiative

It made its first foray into pharmacy by acquiring the internet pharmacy start-up PillPack

Developing medical diagnostics, specifically at-home testing

Filed a patent for its Alexa voice assistant to pick up on a cold or a cough

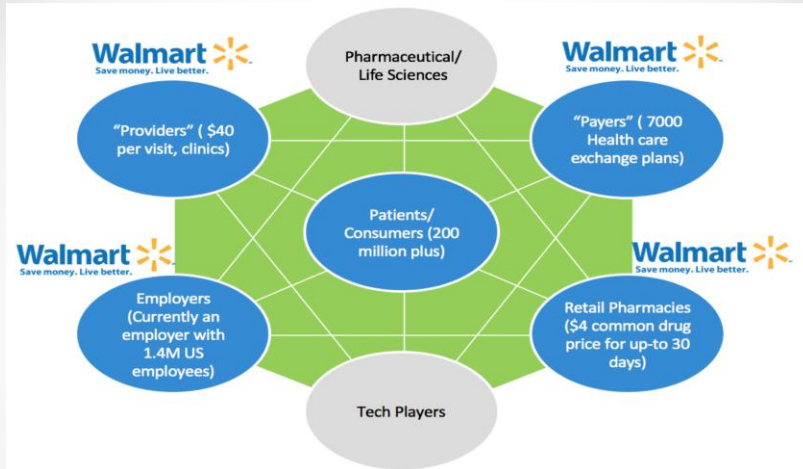
Introduced Alexa features for scheduling basic and primary care visits

Introduced more health products on its marketplace, including provider supply chain

Announced a product to mine patient medical records

Started its own employee health clinic

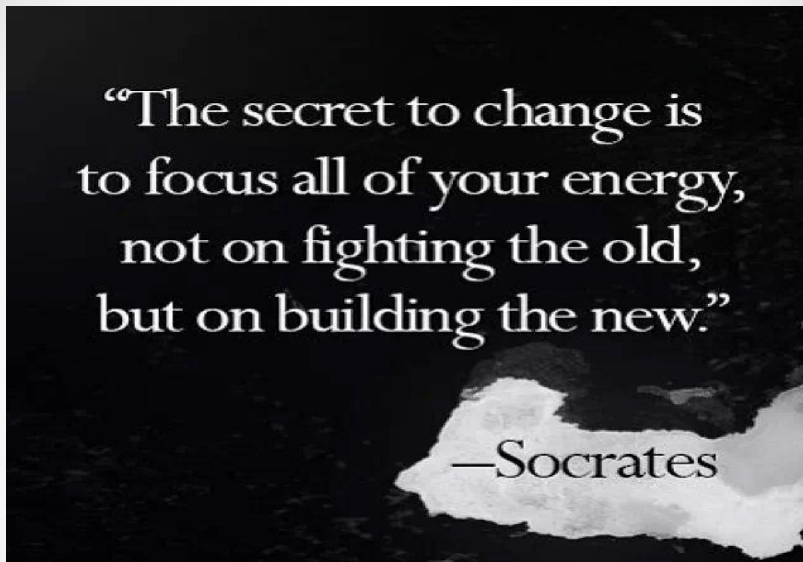
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**Figure 5: Walmart : Entrant US Health Care Ecosystem**

Note: Modified by © Taposh Dutta Roy, mapping Walmart to the Health Care Ecosystem  
Source : <http://www.beckershospitalreview.com/hospital-management-administration/the-new-healthcare-ecosystem-5-emerging-relationships.html>

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## Design & Deploy Your Own HealthCare Ecosystem!

### Characteristics of a Healthcare Ecosystem:

Uses information technology, transparency and real-time actionable data

Links high performing healthcare organizations across the nation

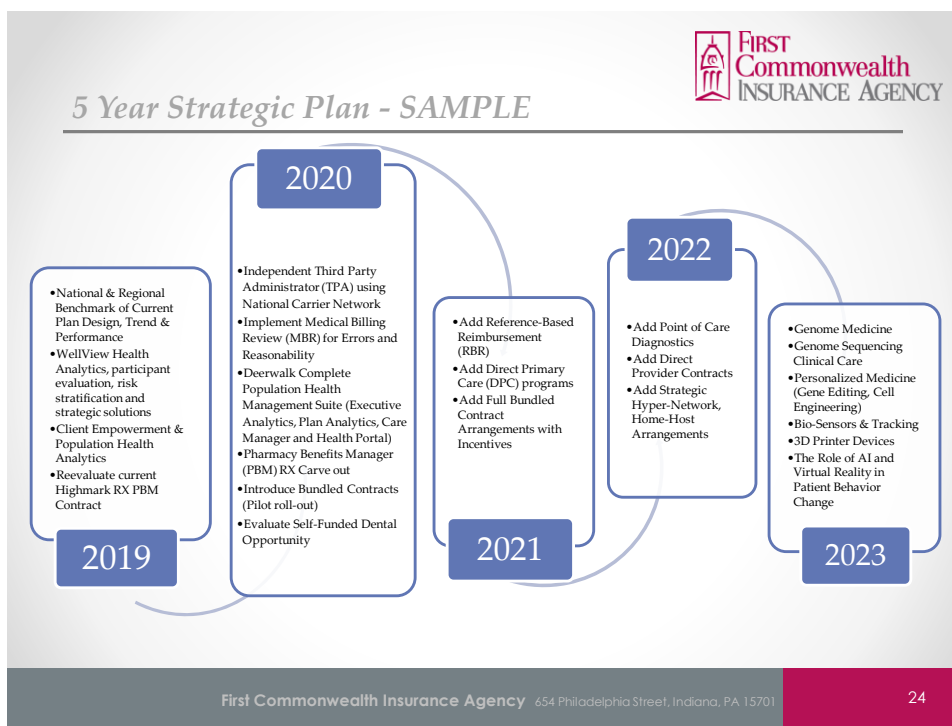
Employees a seamless exchange of health information

Provides healthcare consumers with a higher quality of care, improvement in patient access, and more efficient control of the cost of healthcare services

*"The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year."*

– John Foster Dulles (Former Secretary of State)

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*"Remember, I'm offering you the truth... Nothing more"*  
– Morpheus, The Matrix