Congressional Budget Office

Presentation to The Alliance for Health Reform

Health Costs and Health Information Technology

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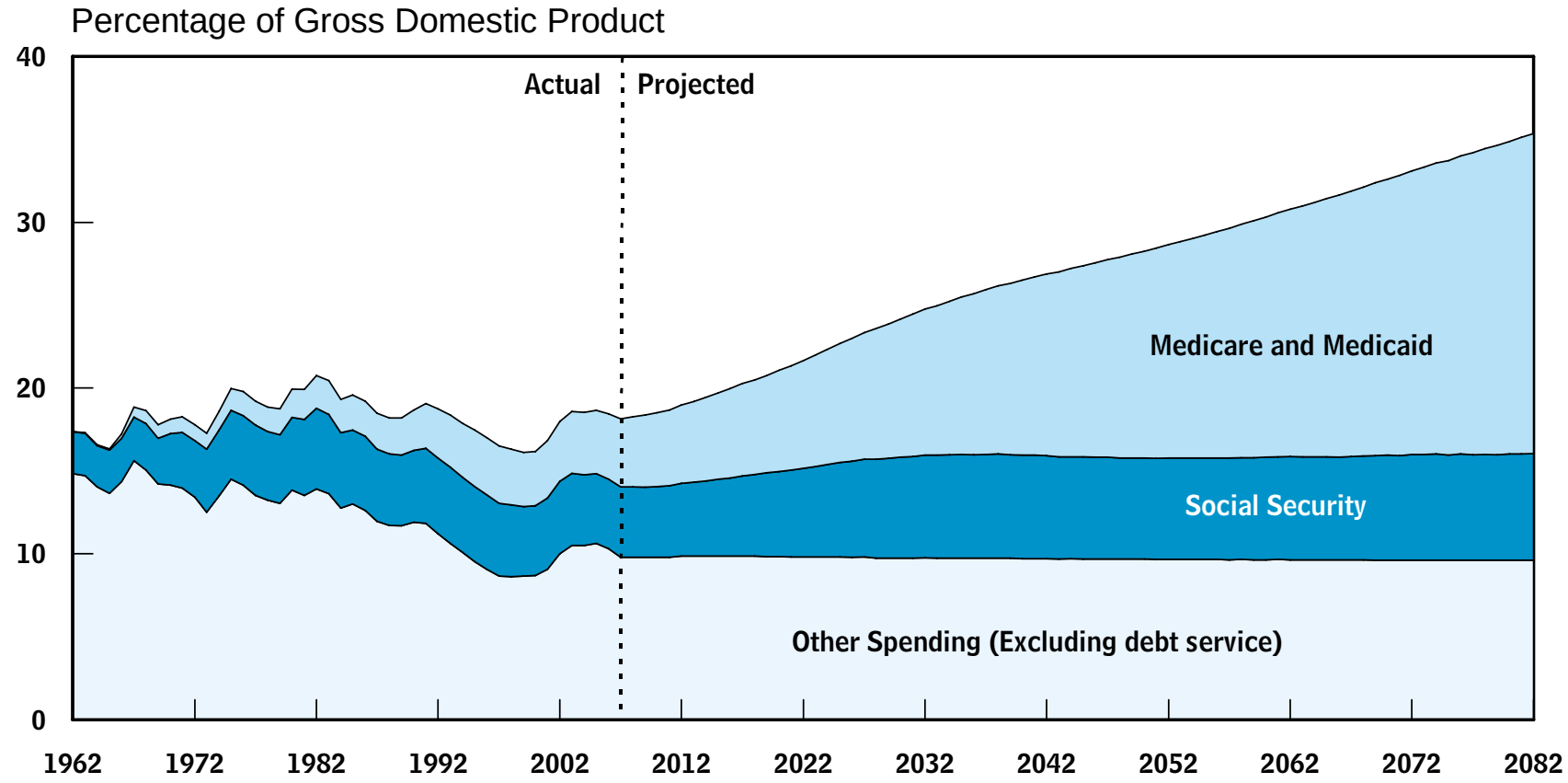
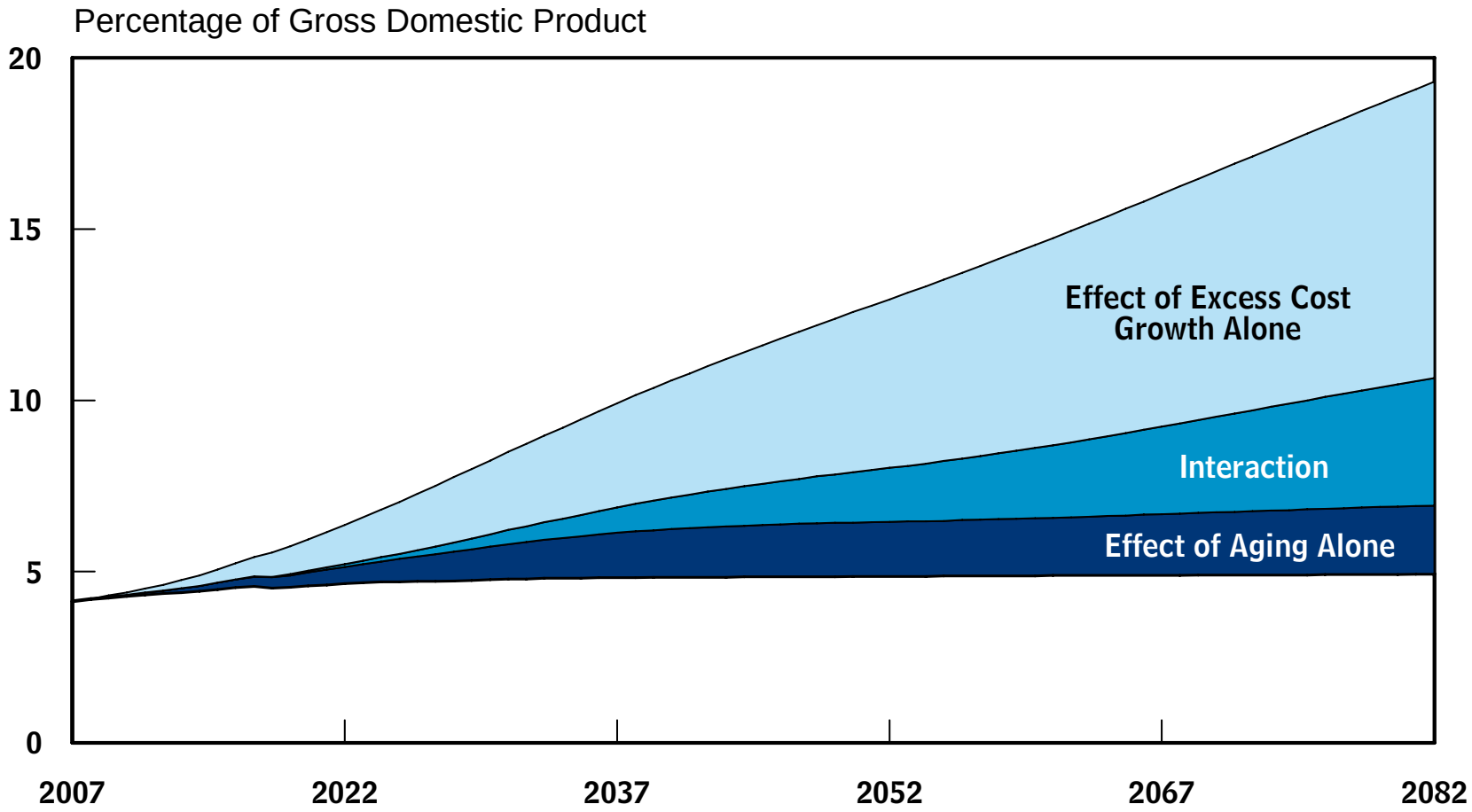
Federal Spending Under CBO's Alternative Fiscal Scenario



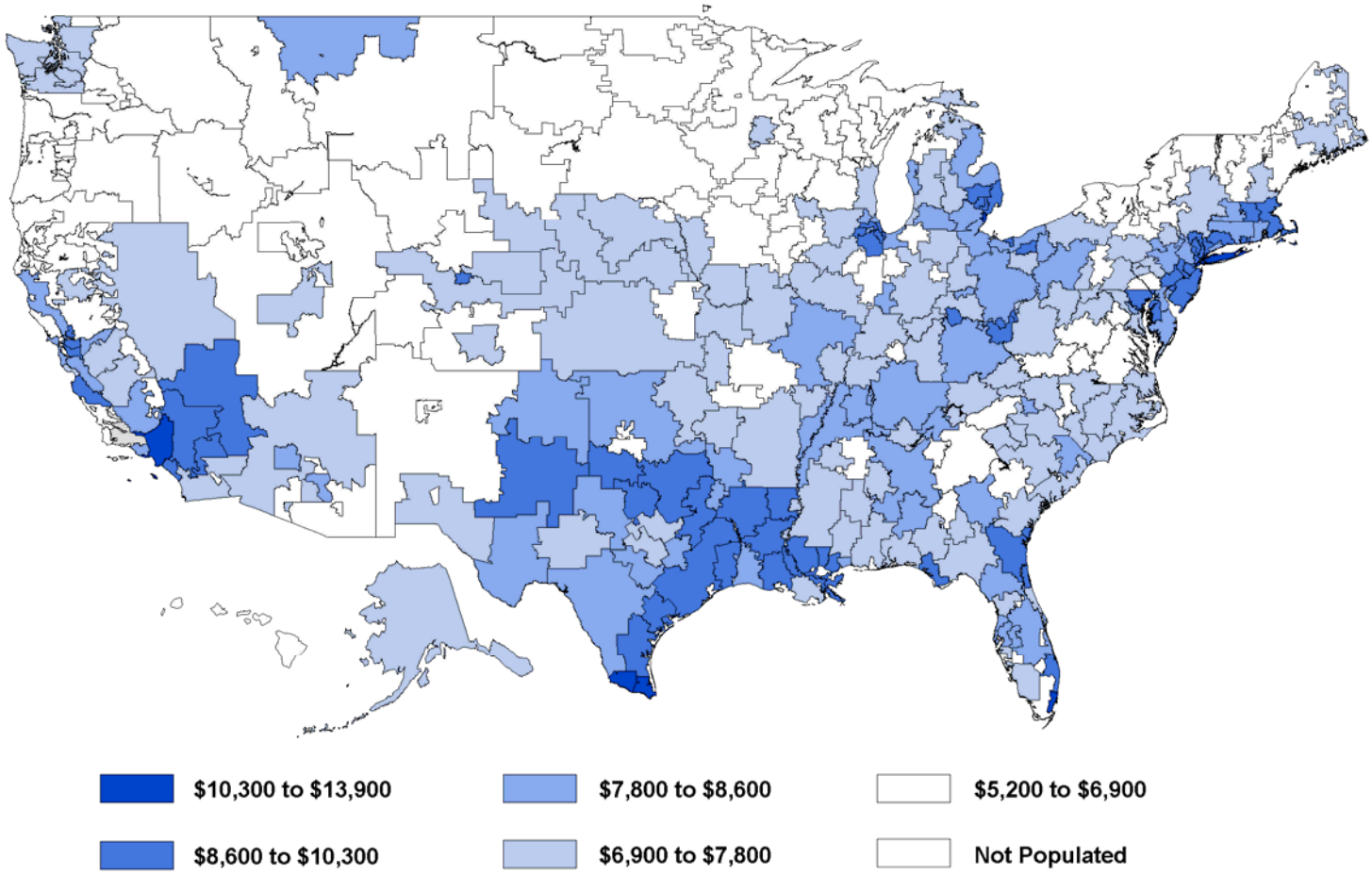
Estimated Contributions of Selected Factors to Long-Term Growth in Real Health Care Spending per Capita, 1940 to 1990

	Smith, Heffler, and Freeland (2000)	Cutler (1995)	Newhouse (1992)
Aging of the Population	2	2	2
Changes in Third-Party Payment	10	13	10
Personal Income Growth	11-18	5	<23
Prices in the Health Care Sector	11-22	19	Not Estimated
Administrative Costs	3-10	13	Not Estimated
Defensive Medicine and Supplier-Induced Demand	0	Not Estimated	0
Technology-Related Changes in Medical Practice	38-62	49	>65

Sources of Growth in Projected Federal Spending on Medicare and Medicaid



Medicare Spending per Beneficiary in the United States, by Hospital Referral Region, 2005



Variations Among Academic Medical Centers

Use of Biologically Targeted Interventions and Care-Delivery Methods Among Three of U.S. News and World Report*'s "Honor Roll" AMCs*

	UCLA Medical Center	Massachusetts General Hospital	Mayo Clinic (St. Mary's Hospital)
Biologically Targeted Interventions: Acute Inpatient Care			
CMS composite quality score	81.5	85.9	90.4
Care Delivery—and Spending—Among Medicare Patients in Last Six Months of Life			
Total Medicare spending	50,522	40,181	26,330
Hospital days	19.2	17.7	12.9
Physician visits	52.1	42.2	23.9
Ratio, medical specialist / primary care	2.9	1.0	1.1

Source: Elliot Fisher, Dartmouth Medical School.

Health Information Technology (Health IT)

Applications of health IT can enable providers to deliver better-quality health care more efficiently by:

- Eliminating medical transcription and physical management of files
- Prompting prescription of generic rather than brand-name drugs
- Reducing duplication of diagnostic tests
- Reminding physicians of appropriate preventative care
- Identifying drug interactions and allergies

But the cost implications of health IT depend on context:

- Health IT is “necessary but not sufficient” to generate savings
  - Financial incentives
  - Use of information
  - Toaster analogy
- Health IT applications are most promising in integrated health systems

Untapped Resource: Health IT Could Have Critical Role in Comparative Effectiveness Research

- Widespread use of health IT applications could make large sets of data on care and outcomes available for comparative effectiveness research
- Health IT systems could aid in implementing and tracking changes in care based on research findings

The RAND Corporation Study

- RAND estimated $80 billion in net annual savings potentially attributable to Health IT adoption
- Examined *potential* rather than *likely* impact
- Considered only studies demonstrating positive effects from implementation of Health IT systems
- Did not consider growth in adoption under current law when calculating savings

Policies to Promote Health IT Systems

Mechanisms to promote the use of health IT

- Subsidies for adopting new technologies
  - Induces those who are “close” to adopting
- Penalties for failing to use health IT system
- Requirement to use health IT