

New Study Finds Up to 20% Waste in Healthcare Spending of Large Employers and Proposes Solutions

*Data-driven study a collaboration of the
American Health Policy Institute and VBID Health*

Washington, D.C. – Today, the American Health Policy Institute (AHPI) releases “Using Data-Driven Disruption to Reduce Wasteful Healthcare Spending,” in collaboration with VBID Health. The study, written by David Edman and Paul Manz, is an analysis of wasteful spending of 35 large, self-insured employers based in the United States. In applying industry research and lessons learned from the Health Waste Calculator¹ tool to these employers, VBID found approximately **\$2 billion** in wasteful and unnecessary healthcare spending – **20% of total spending**.

“One objective of this effort is to draw a distinction between high value and low value healthcare services in order to reduce or eliminate wasteful spending,” says Mr. Edman, Managing Partner, VBID Health. “Another goal is to reduce inefficiencies in healthcare delivery and financing, thereby producing greater value. Studies indicate that reductions in wasteful spending resulting in lower costs can also lead to higher quality care. This analysis lays the groundwork for accomplishing these objectives.” These 35 companies are representative of a cross-section of large U.S. employers, collectively providing healthcare to about one million individuals. Findings can therefore provide a window into how much waste exists in a typical large employer health plan.

VBID Health divided the wasteful spending into four main categories: pharmacy; inpatient; outpatient; and administrative:

1. **Pharmacy**, which was determined to generate 4% wasteful spending, suffered from problems such as over-prescription and non-adherence to drug regimes;
2. **Inpatient**, generating 6% wasteful spending, was beset by problems such as medical errors, preventable admissions, and hospital acquired infections;
3. **Outpatient**, which at 9% generated the highest waste score of the top categories, faced the problems of missed prevention opportunities and defensive medicine; and
4. **Administration**, which at 2% wasteful spending was lower than the other main categories, had to cope with inefficient claims processing and excessive complexity.

In response to these problems, VBID Health recommended five specific and actionable goals:

1. The use of software such as the Health Waste Calculator to assess spending at micro levels on a per-member per-month (PMPM) basis, to develop specific PMPM spending targets, and to assess the results of specific interventions;

2. Implementing payment approaches that shift away from fee-for-service medicine in favor of value-based payments;
3. Revising plan designs to encourage healthy behavior and discourage unnecessary and inappropriate care;
4. Using predictive modeling to identify high risk patients by disease type and cost ranking. And finally, that large employers take advantage of their combined purchasing power and economies of scale; and
5. Large employers taking advantage of their combined purchasing power and economies of scale.

Tevi Troy, CEO of the American Health Policy Institute said, “This study not only demonstrates the need to reduce waste in healthcare spending, it helpfully identifies the four departments of large employers where most of the waste occurs: pharmacy; inpatient; outpatient; and administrative. More importantly, this study also shows that large employers, through their collective innovation and combined purchasing power, can have a significant and meaningful impact on reducing cost of healthcare.”

To view the full study, please visit the following link:

http://www.americanhealthpolicy.org/Content/documents/resources/Wasteful_Spending_AHPI_2016.pdf

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American Health Policy Institute is a non-partisan non-profit think tank, started by the HR Policy Foundation that examines the practical implications of health policy changes through the lens of the American large employer. The Institute examines the challenges employers face in providing healthcare to their employees and recommends policy solutions to promote the provision of affordable, high-quality, employer-based healthcare. The Institute serves to provide thought leadership grounded in the practical experience of America’s largest employers. The Institute’s mission is to develop impactful strategies to ensure that those purchasing healthcare are able to not only bend the cost curve, but actually break it, by keeping healthcare cost inflation in line with general inflation. To learn more, visit www.americanhealthpolicy.org.

Value Based Insurance Design (VBID) Health specializes in designing and promoting health benefits plans that get more health out of every healthcare dollar spent by aligning patients’ out-of-pocket costs, such as copayments and deductibles, with the value of health services. By reducing barriers to high-value treatments (through lower costs to patients) and discouraging low-value treatments (through higher costs to patients), these plans can improve health outcomes. VBID Health provides consulting services to large healthcare purchasers in both the private and public sectors. To learn more, visit www.vbidhealth.com.

ⁱ The Health Waste Calculator is a stand-alone analytical tool that provides actionable data to support healthcare quality, efficiency, and effectiveness reporting. The calculator brings together clinical expertise and powerful data analytics and was developed by VBID Health and Milliman MedInsight. Learn more here: <http://www.vbidhealth.com/products.php>