Robert Wood Johnson Foundation

Is Less Better? Greater Efficiency with Fewer Resources Expended

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Research Highlight

POLICY PERSPECTIVE

THERE IS WIDE VARIATION IN THE USE AND COST OF CARE FOR PATIENTS WITH CHRONIC ILLNESS ACROSS REGIONS AND BETWEEN HOSPITALS IN MEDICARE. MORE CARE AND SPENDING DOES NOT EQUATE TO BETTER SATISFACTION AND OUTCOMES. BASED ON THIS STUDY, IT APPEARS THAT MEDICARE COULD GREATLY IMPROVE THE EFFICIENCY OF CARE PROVIDED WITHOUT SACRIFICING QUALITY. TO DO THIS, POLICY-MAKERS WOULD NEED TO CONSIDER REDESIGNING MEDICARE'S PAYMENT SYSTEM TO REWARD EFFICIENCY AND QUALITY, NOT VOLUME OF SERVICE PROVIDED.

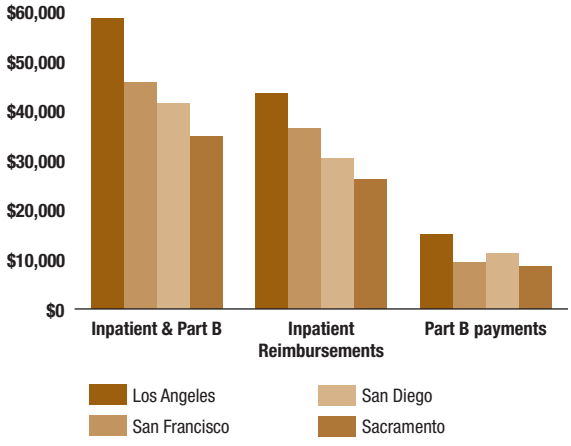
The Problem

Health care quality performance measures have traditionally been limited in scope, focusing on factors such as patients' experiences of care or disease outcomes. These types of indicators ignore an important dimension of the health care system–the efficiency of care–which is measured through the resources and dollars spent per patient over time for similar patients. Previous research shows that greater spending on health care for patients at the end of life does not necessarily result in better quality or survival.[1,2,3] More recently, John Wennberg, Elliott Fisher and colleagues at Dartmouth Medical School analyzed Medicare claims data to determine the relative efficiency of health care providers in managing patients with severe chronic illnesses in California.[4] They compared Medicare spending, utilization of physician labor, ICU beds, hospital beds and hospital resources between hospitals and geographic regions from 1999 to 2003. The results of this study indicate that Medicare spending varied extensively among hospitals in the same region and between regions, without associated improvements in patient satisfaction or higher quality care. Their data points to important opportunities for improving health system efficiency.

The authors emphasize the need for a fundamental redesign of the health care payment system from one that rewards too much care to one that pays for performance that would improve system-wide efficiency.

Key Findings

- **The average Medicare spending per enrollee in the last two years of life varied from less than $20,000 to almost $90,000 in 226 California hospitals.** Two-thirds of this variation in spending was associated with the volume of care (frequency of visits and length of stay in the hospital) provided.
- **Los Angeles was the most costly hospital region studied in California.** Medicare paid an average of $58,480 per Los Angeles decedent during the last two years of life for inpatient and Part B services. Sacramento was the least costly region, spending $34,659; San Diego and San Francisco were in the middle, spending $41,319 and $45,672, respectively. Chronically ill patients in Los Angeles spent more days in the hospital, used more hospital resources and were more likely to experience high-tech deaths than patients in the other three regions.



- **If per enrollee reimbursements to Los Angeles hospitals had been the same as per enrollee reimbursements to Sacramento hospitals, Medicare would have saved $1.7 billion.** In a more efficient system, these dollars could be redirected toward improving services for the chronically ill.

–Melanie Napier

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Resources

Dartmouth Atlas of Health care: *http://www.dartmouthatlas.org/*.

Several Health Affairs articles that deal with inequalities in medical care for the same medical conditions: *http://content.healthaffairs.org/cgi/content/full/hlthaff.var.5/DC1*.

RWJF Feature: *http://www.rwjf.org/newsroom/featureDetail.jsp?featureID=1166&type=3*.

1 Fisher ES, Wennberg DE, Stukel TA and Gottlieb DJ. "Variations in the Longitudinal Efficiency of Academic Medical Centers," *Health Affairs*, 7 October 2004.

2 Fisher ES, Wennberg DE, Stukel TA, Gottlieb DJ, Lucas FL and Pinder EL. "The Implications of Regional Variations in Medicare Spending, Part 1: The Content, Quality, and Accessibility of Care," An*nals of Internal Medicine.* 138(4): 273-287, 2003.

3 Fisher ES, Wennberg DE, Stukel TA, Gottlieb DJ, Lucas FL and Pinder EL. "The Implications of Regional Variations in Medicare Spending, Part 2: Health Outcomes and Satisfaction with Care," *Annals of Internal Medicine.* 138(4): 288-298, 2003.

4 Wennberg JE, Fisher ES, Baker L, Sharp SM and Bronner KK. "Evaluating the Efficiency of California Providers in Caring for Patients with Chronic Illness," *Health Affairs* (Web Exclusive), November 2005.