



OVERHAULING AMERICA'S HEALTHCARE MACHINE

STOP THE BLEEDING
AND SAVE TRILLIONS

DOUGLAS PEREDNIA, M.D.

Praise for
Overhauling America's Healthcare Machine

“Finally, a healthcare system that works! *Overhauling America's Healthcare Machine* is a superbly written book on what it takes to reduce administrative bloat, simplify the system, slash costs, and give all Americans sustainable medical and financial security.”

—William Bernstein, Bestselling author of *A Splendid Exchange*
and *The Birth of Plenty*

“This work turns the conventional wisdom and heated rhetoric surrounding the issue of healthcare financing on their heads. It addresses an entire set of corrosive systemic problems that are almost never discussed, and it gets us closer to a realistic view of the problems and of the direction that must be taken for meaningful change to occur.”

—Jim Grigsby, Ph.D., Professor, Department of Medicine and
Department of Psychology, University of Colorado Denver

“Scholarly both in thinking and writing. A terrific accomplishment.”

—Dr. Donald A.B. Lindberg, Director, National Library
of Medicine

“Beautifully written; the data is incredibly complete and presented in an easy way to follow. The model for fixing the system is simple and elegant.”

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Medicine, University Medical Center of Princeton

“Very enlightening and does a good job explaining the complexity and issues in healthcare. The writing is tight, clear, and done with an underlying sense of humor.”

—Will Engle, Executive Director, Association of Telehealth
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“This should be recommended to all physicians and medical students as a primer in the realities of medical practice today as well as the development of current health care policies.”

—Dr. Richard Armstrong, Chief Operating Officer,
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“A thoroughly enjoyable read. I especially liked the commonsense, economic approach that shows how we can fix the system without excruciating tradeoffs.”

—Kevin Coltin, Arizona State University

*Overhauling America's
Healthcare Machine*

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For Nancy and Teddy

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Acknowledgments

This book is a distillation of what we now know about fixing American healthcare. It describes the collective experience and thinking of millions of Americans, channeled through personal accounts and conversations, written reports, statistics, economic data and healthcare research. I wish that there were some way to individually thank each of the patients, clinicians, executives, economists, researchers and others who directly and indirectly contributed their time, insights and expertise, but there are far too many. Nevertheless, this book could never have been written without you.

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About the Author

Douglas A. Perednia, M.D., graduated from Swarthmore College with a degree in Economics, and obtained his medical degree at Washington University in St. Louis, Missouri. A medical internist and dermatologist, he has spent many years in clinical medicine, in academia as a principal investigator for the National Institutes of Health, with non-profit healthcare organizations, and as a business executive in private industry. A popular speaker and writer, Dr. Perednia periodically works as a consultant to government, business, and non-profit organizations. In his spare time, he writes for *The Road to Hellth* blog (www.roadtohellth.com), which deals with the interactions between doctors, patients, insurers, government, and the business of medicine.

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1

Introduction

“Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen.”

—*Winston Churchill*

Have you ever wondered why everyone talks about spiraling health-care costs and insurance premiums, but no one ever seems to explain or address their root causes?

Do your eyes glaze over when you hear news reports and politicians talking about healthcare because it seems to be so big and complex that no one could ever understand it?

Have you ever wondered how it's possible for the richest country in the world to spend more than \$2.5 trillion on healthcare each year, but still not be able to provide coverage to more than 15% (50 million) of its citizens?

Are you concerned that the huge, complex, and open-ended 2010 healthcare reform law signed into law by President Obama didn't really solve anything, and is simply setting the stage for higher costs and more healthcare system upheaval down the road?

If so, this book is for you.

The good news is that while healthcare in America is dysfunctional and complex, its core problems and their solutions can be readily understood by anyone willing to read and make use of a little visual imagery. This is the big difference between the complexity of *practicing medicine* versus the complexity of the *healthcare system*. Understanding the practice of medicine requires a relatively detailed understanding of anatomy, biochemistry, pharmacology, physiology,

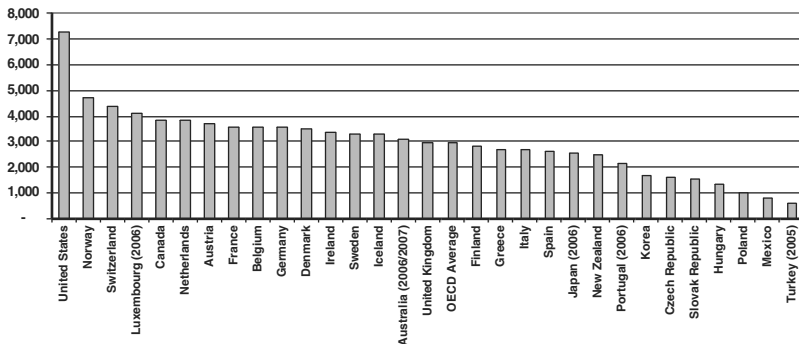
pathophysiology, and a host of other specialized knowledge. In contrast, the healthcare system in the United States (as in any country) is simply a set of business relationships and regulations. Anyone who has purchased a product online is perfectly capable of understanding the process of ordering a laboratory test or submitting an insurance claim. The trick to understanding the whole thing is to not be intimidated and to resist being snowed by special interests who might want to assert that “their business requires special expertise” before it can become comprehensible.

But why should you or anyone else care about this slow-motion disaster and how to fix it? Two reasons: your money and your life.

America's existing healthcare strategy is financially unsustainable. Left unchecked, it will continue to consume ever larger amounts of government and personal income. But, it is also medically and socially unsustainable. Government policies are increasingly making medical decisions for both you and your doctor, often with little or no science behind them. Unless our healthcare machine is truly reformed and simplified, we can look forward to being poorer, less healthy, and more rigidly regulated in our personal lives than ever before.

As Figure 1.1 shows, we already pay more for our healthcare than the citizens of any other country in the world—both in absolute terms and on a per capita basis.

Providing medical care to just 85% of the population now costs more than \$2.4 trillion annually. That's nearly 17% of our gross domestic product, or about \$6,402 for every man, woman, and child—whether or not they're covered by health insurance. This is nearly double the amount spent on healthcare per capita in nearly every other developed country, and it's breaking our collective bank. As a nation, we now spend more on healthcare than any other aspect of living: more than defense (\$2,901 per person), more than spending on all types of energy (\$3,642 per capita in 2006.)¹, more than on education (about \$3,218 per capita), more than on housing (about \$3,002 per capita), and almost ten times what we spend each year at Christmas (almost \$800 per person). Even worse, the inflation rate for healthcare—about 9% in 2010—is rapidly outpacing growth in



Notes: Health expenditure for insured rather than resident population; current health expenditure for 2007 or latest year available.

Data from: OECD Health Data 2009, OECD (<http://www.oecd.org/health/healthdata>)

Figure 1.1 Healthcare Spending per Capita in the United States Compared with Other Developed Countries, 2007 (U.S. \$ Purchasing Power Parity)

income and is more than twice the overall rate of inflation. The Center for Medicare and Medicaid Services estimates that total U.S. healthcare expenditures will continue to grow to more than \$4.1 trillion, or \$12,782 per resident, by 2016.

Who pays this tab? You do. Even children aren't immune. It's all a result of the wonderland of U.S. healthcare financing, where cost shifting is the rule rather than the exception.

If you're a typical working person, this escalating cost is making you poorer every year—even if you *think* that your employer is picking up the tab. If you're a businessman, the cost of healthcare is making you less competitive because you're less able to afford high-quality staff. If you're retired and on Medicare, current policies will probably force you to spend more out of pocket or reduce your access to doctors. And if you're a politician, there's a good chance that your political survival will depend heavily upon actions that you take on healthcare over the next few years.

But the greatest sin of the U.S. healthcare system is not that it is expensive, but that it's inefficient. It might not be so bad paying all that money if it meant that everyone was getting excellent access to top-quality care and better health outcomes than those paying less in

other countries, but that's hardly the case. Instead, the system that we've created wastes money and resources at an astonishing rate of billions of dollars every day. Between one-third and one-half of what we spend does absolutely nothing to improve health or add value to the lives of patients. Or to put it another way, with the amount we're wasting on a lousy business model, we could pay for the entire annual cost of national defense *and* Christmas. If the current healthcare system was an employee, you would fire it. If it were a vendor, you'd choose another one. And if it were a patient, you'd prescribe immediate surgery to excise the diseased portions.

Unfortunately, the 2010 healthcare reform law does nothing to change any of this.

The Obama/congressional legislation is more than 2,400 pages of complex, special interest–friendly legislation that will implement 168 new federal committees, panels, programs, and Medicare benefit cuts, and cost the American taxpayer an *additional* trillion dollars over the next ten years. It is a top-down approach; one that inevitably creates more rules, complexity, and paperwork, and ultimately pits government regulators against healthcare providers, their patients, and you.

This book describes a different approach—one that it's not too late to take. What we and future generations need is a logical, comprehensive, and apolitical *simplification* of the existing healthcare system; one that could be implemented with roughly 200 pages of legislation instead of 2,000. A system that gives all healthcare providers and their patients more medical and financial security, enhances market-based competition, slashes administrative complexity and overhead costs, reduces the price of healthcare goods and services across the board, and requires no increases in federal funding. An approach that would save about \$570 billion annually in national healthcare expenditures, while covering more people than ever before.

The urgency of fixing the healthcare system is best appreciated in the context of a single fact: Resources are finite, while people's wants are infinite. In a world characterized by a growing population, rising commodity prices, expensive energy, and an aging population in developed countries, the luxury of wasting close to a trillion dollars annually has clearly become unsustainable. For all practical purposes, it is an unlegislated tax of nearly \$3,000 per American per year.

Improving the efficiency of the system might be the only way to prevent a meltdown of the larger economy and restore growth in the standard of living. And if the opportunity is large, so are the consequences of continuing on our current path.

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