

The price of excess*

Identifying waste in healthcare spending



Executive summary

Everyone agrees there is waste in healthcare spending. Ferreting out the waste breeds controversy and finger-pointing. As a result, health industry leaders focus on what they can control, which is eliminating waste in their own organizations. However, the integrated nature of health can make those efforts counter-productive. Wasteful spending extends beyond one organization or health sector, and eliminating waste in one sector may actually increase it in another.

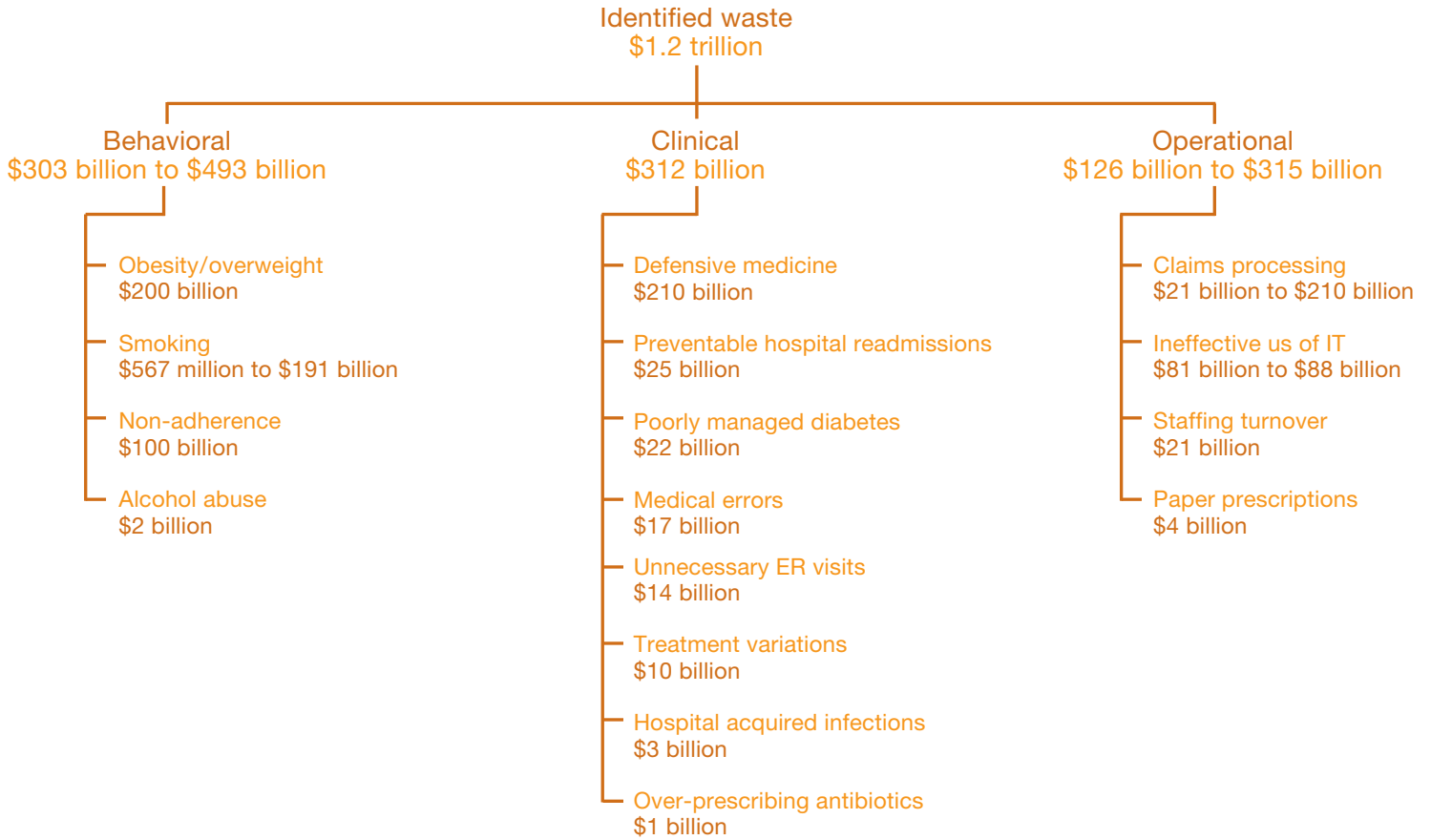
To appropriately address waste in health spending, health industry leaders, policymakers and consumers must work together on system-wide goals and incentives to address the waste that imperils the health of us all. In this paper, we view waste as costs that could have been avoided without a negative impact on quality.

Key findings:

Wasteful spending in the health system has been calculated at up to \$1.2 trillion of the \$2.2 trillion spent nationally, more than half of all health spending.

- Spending can be classified into three waste “baskets”: behavioral, clinical and operational. These baskets cross all of the health sectors and include consumers, government and industry.
- The top three areas of wasted spending are defensive medicine (\$210 billion annually), inefficient claims processing (up to \$210 billion annually), and care spent on preventable conditions related to obesity and overweight (\$200 billion annually).
- Eight out of 10 consumers surveyed by PricewaterhouseCoopers’ Health Research Institute (HRI) said that inefficiency in the healthcare system is not only driving up healthcare costs, but impacting the quality of care.
- Consumers see themselves, government and the industry at fault for wasteful spending. For example, 86% of consumers surveyed by HRI agreed that patients going to emergency rooms for non-emergency care drives up healthcare costs. Two-thirds said that they personally had received excessive medical testing.
- When U.S. consumers were asked why they believe the U.S. healthcare system has inefficiencies that have not been resolved, nearly half said “because it is not a priority for the government.” More than a third said it was due to the health industry not being willing to change business practices.
- Key barriers to eliminating waste are culture, politics, funding and incentives, and lack of a coordinated focus.
- Solving inefficiencies means developing system-wide incentives to encourage partnerships and networks that work toward shared value.

Exhibit 3: Identifying waste in healthcare spending



Source: Analysis by PricewaterhouseCoopers' Health Research Institute

Behavioral: All's not well

Preventable risk factors—such as obesity, smoking, poor adherence to drug regimens, and alcohol abuse—drive health spending. An individual with a high number of these risk factors costs more than twice as much in healthcare costs as one with a low number of risk factors, according to PricewaterhouseCoopers' analysis.⁶ Conditions such as obesity lead to higher rates of diabetes, hyperlipidemia, back problems, depression and hypertension.⁷ This is a concern of both employers and government, which recently noted that about one-fourth of Medicare spending was attributed to obese beneficiaries in 2002.⁸ Exhibit 4 shows the costs associated with these