



SPENDING MONEY & SAVING LIVES:
**THE HIGH COST
OF HEALTH**

By Linda Anderberg

Everyone agrees that the costs of health care in the United States are rising, and rapidly. In fact, the U.S. Centers for Medicare & Medicaid Services (CMS) estimates that our national health care expenditures will reach 20 percent of the GDP by 2015.

Some economists project that this figure could reach 30 percent in 20 years' time. Distinguished Professor of Health Economics and Public Policy **Richard Scheffler** states, "It's unlikely that the trend in health care spending is going to change or be mitigated to any large degree. So the big issue

is not how much we spend, but how to spend our money wisely."

An expert in health care markets, health insurance, mental health economics, health work force, and pharmacoconomics, Scheffler is well qualified to help Americans get their money's worth out of the

health care system. As director of the **Nicholas C. Petris Center on Health Care Markets & Consumer Welfare**—a position he has held since the center's inception in 1999—he has been able to raise more than 11 million dollars to support research and education in these areas. The Petris Center, based at Berkeley's School of Public Health, has its own research staff and can also call on an impressive network of health experts and economists from coast to coast. The center's mission is to conduct research that will objectively inform policy-makers about the consumer health care issues of access, affordability, competition, and information quality, particularly as these issues affect low-income or vulnerable groups.

Are Mental Health Measures Succeeding?

California's mental health care system is, by design, a system of 58 county- and two city-based mental health care systems, each of which has significant control over the financing and delivery of its services. The system is undergoing significant transformation following the 2004 passage of Proposition 63, the Mental Health Services Act (MHSA)—an initiative to support mental health systems by placing an ongoing 1 percent tax on individuals with incomes over \$1 million, with the intent of raising \$1.8 billion

for improving the system as a whole," says Scheffler. "This report and survey is the first in a series of surveys to measure progress toward the MHSA goal of a transformed mental health system in California."

Putting a Price Tag on Technology

Treatment of mental health disorders is one of many areas of medicine where technology, in the form of new pharmaceuticals, has led to better outcomes for patients. Says Scheffler, "It's well understood now that people can function outside of facilities and have normal lives, and the right medication can be

Health Affairs documenting ADHD medication use among 5- to 19-year-olds in countries belonging to the Organization for Economic Cooperation and Development. The researchers found that use and spending grew in both developed and developing countries, but spending growth was concentrated in developed countries, which adopted more costly, long-acting formulations.

"Given the global diffusion of ADHD medications, as well as the prevalence of this condition, ADHD could become the leading childhood disorder treated with medications across the globe," Scheffler says.

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over the first three years. This constitutes a 10 percent increase in mental health spending at the county level, and Californians should expect a return on their investment.

The Petris Center is already closely monitoring the flow of funds, program and service changes, outcomes, and the process of change. A study funded by the California HealthCare Foundation will examine the implementation and effects of Proposition 63 over three years. As part of that research, in November 2007 the center released a report, *California on the Eve of Mental Health Reform*, which presents findings from the researchers' systematic compilation of key organizational information about county mental health departments prior to the passage of the MHSA. The report highlights commonalities between the state's diverse county programs, including high participation in innovative demonstration programs, minimal spending on institutional care, low administrative overhead, and provision of care in languages beyond those that the state requires.

"While each county is different, the similarities between counties may be useful in providing lessons

an important factor to help them live in the community." Positive advances have also been made in the treatment of heart disease, he adds, and there's good evidence that some of the high tech services like coronary artery bypass, treatment of coronary artery disease, lipitors, and other approaches have had measurable and important impacts on saving people's lives and improving longevity.

This technology comes at a price, however. The consensus estimate is that an average of 50 percent of the additional spending on health care each year is driven by technology, broadly defined as new drugs, tests, and procedures. "Some of these procedures are quite important and save lives," says Scheffler, "and some are perhaps marginal improvements over things that are already done and may be quite expensive."

Because of this concentrated spending in medical technologies, it's important to monitor their implementation and outcomes. The Petris Center is keeping tabs on the global increase in usage of psychostimulant drugs to treat attention-deficit/hyperactivity disorder (ADHD). The center published a study in the March/April 2007 issue of the journal

"We can expect that the already burgeoning global costs for medication treatment for ADHD will rise even more sharply over the next decade."



Richard M. Scheffler, director of the Petris Center (center), with Tracey Fremd, president of the California Association of Nurse Practitioners (left), and Allegra Kim of the Epidemiology and Prevention for Injury Control Branch of the California Department of Health Services, at the 2007 Petris Symposium

The study recommends that countries compare data on spending to adjust overuse or underuse, and to weigh carefully the potential benefits versus potential liabilities such as side effects and addiction.

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It also suggests that promoting optimal prescription and monitoring should be a priority.

Considering Costs in California

Although it remains to be seen what health reform proposals in the state of California will be implemented, much work has been done to determine the economic feasibility of several plans. In addition,

that chronically ill individuals would have access to premiums at the same rate as anybody else. But one of the concerns is that insurance companies would very predictably lose a lot of money on these same individuals and will run away from these people." At a November conference cosponsored by the Petris Center and Boalt Hall's Berkeley Center for Law, Business, and the Economy, Dow shared his

One of the Petris Center's primary missions is to keep tabs on California's health care market. "We've published many papers that look at the structure of the market and evaluate antitrust issues," says Scheffler. "We also held a conference on antitrust issues in California; how to make the market more competitive and reduce costs." Health care markets work best for consumers when prices are low and there are many providers to choose from. When the bargaining power of hospitals, health plans, and medical groups becomes too concentrated, higher prices for consumers can result.



many of the reforms proposed in California are included in the national plans being shaped by presidential candidates, such as the idea of an individual mandate and guaranteed access to health insurance. "California faces the same cost issues as the rest of the country," says Scheffler, "and it also has a higher rate of uninsured."

If, as has been proposed, California adopts a community rating system—eliminating the insurance companies' ability to set premiums based on health status of individuals—healthy people could see their premiums raised. States with community rating like New Jersey, Massachusetts, and New York have some of the highest premiums in the country. And yet community rating is an important component of keeping costs at a more reasonable level for people with preexisting conditions.

Community rating is one of many potential landmines in health insurance reform. Associate Professor of Health Economics **William Dow** says, "Community rating solves one level of problems in

expertise on the pitfalls of community rating, asserting that reinsurance and risk adjustment can help make it work by stabilizing the insurance market.

Market Forces at Work

Our health care system is very fragmented, and part of the high cost of care comes from misallocation of resources and unnecessary administrative costs. "In the United States, some of the things we spend money on are unnecessary because they are duplicate services," says Scheffler. "Things like tests that are done more often than needed or that don't need to be done at all."

Looking Ahead

The health care workforce, another area of focus for the center, is the subject of some planned activities for the coming year. In April 2008, the center will convene "The 2008 Berkeley Conference on the Global Health Workforce," addressing topics such as policy recommendations for achieving adequate supplies of health workers, and the effect of the health workforce's size, skills mix, and distribution on health care delivery. In addition, Scheffler has a book forthcoming in August 2008 from Stanford University Press, *Is There a Doctor in the House? Market Signals and the "Right" Supply of Physicians*.

While the cost of health care can only be expected to increase, the Petris Center, working on many different fronts, is helping make certain that those valuable dollars will be put to the best use. And wise spending, in turn, will protect the public's health and save lives. [↪](#)

“Community rating solves one level of problems in that chronically ill individuals would have access to premiums at the same rate as anybody else.”