

The High Cost of Healthcare

In the past few decades, spending on healthcare in the U.S. has increased exponentially, far outpacing the growth in healthcare spending in comparable, industrialized countries, as well as the growth of overall U.S. *gross domestic product* (GDP).¹ The amount the U.S. spent on healthcare in 2011 accounted for over 17% of the national GDP, or approximately \$8,680 per capita.² Despite the significant amount of money spent on healthcare in the U.S., the U.S. is consistently ranked average or slightly below average on many “*quality of care indicators*” compared to other, industrialized countries.³ These health outcomes rankings demonstrate that the U.S. may not be receiving sufficient “*value per dollar*” spent on the population’s healthcare.

The high cost of healthcare in the U.S. has not resulted in better health outcomes; rather, despite high costs, quality in the U.S. healthcare system is variable and does not necessarily result in better health outcomes than those countries with less expensive systems.⁴ For example, in 2006, the U.S. spent more on healthcare than any other country, but ranked 39th for infant mortality, 43rd for adult female mortality, 42nd for adult male mortality, and 36th for life expectancy, as compared to 190 World Health Organization member states.⁵ Additionally, in a recent *Bloomberg* publication which ranked 48 countries with advanced economies for “*efficiency*” in healthcare, the U.S. ranked close to the bottom, coming in at 46 overall.⁶ The U.S. obtained an “*efficiency score*” of 30.8, based on measures of life expectancy and healthcare cost per capita, compared to Hong Kong, which ranked number 1, with an efficiency score of 92.6.⁷ These figures appear to demonstrate that the U.S.’s monetary investment in healthcare has not yielded correspondingly high marks in healthcare quality.

Spending statistics from the *Centers for Medicare and Medicaid Services* (CMS) indicate that increases in healthcare spending have recently slowed.⁸ In 2012, U.S. healthcare spending increased by just 3.7%, marking the fourth straight year of historically low spending increases.⁹ For comparison, the rate of increase in healthcare spending peaked from 2001 to 2003, increasing at a rate of 8.8% each year.¹⁰ However, it is not apparent that this recent trend in healthcare spending is attributable to more efficient spending and better health outcomes.

For example, a recent study conducted by the Kaiser Family Foundation and Altarum Institute attributes 77% of the recent slowdown in healthcare spending to the effects of the economic downturn.¹¹ The study ascribes the other 23% of the slowdown in healthcare spending to changes in the healthcare system, including increased consumer cost-sharing, tighter managed care, and modifications in payment and delivery.¹² As such, to the extent that the slowdown in healthcare spending is derived from a temporary phenomenon initiated by the *Great Recession*, health spending can be expected to rebound as the domestic economy recovers.¹³ As a result, the recent decrease in healthcare spending is not necessarily evidence of an increase in the “*value per dollar*” spent on healthcare in the U.S.

The subsequent articles in this three-part Health Capital Topics series will examine waste which contributes to unnecessary expense and inefficiency in the healthcare system, as well as possible solutions aimed at reducing inefficiencies and increasing the “*value per dollar*” spent on healthcare.

- 1 “Explaining High Health Care Spending in the United States: An International Comparison of Supply, Utilization, Prices, and Quality,” By David A. Squires, *The Commonwealth Fund*, Vol. 10 (May 2012), p. 2-3.
- 2 “National Health Spending in 2011: Overall Growth Remains Low, but Some Payers and Services Show Signs of Acceleration,” By Micah Hartman, et al., *Health Affairs*, Vol. 32, no. 1 (January 2013), p. 87-88.
- 3 “Health Spending in OECD Countries: Obtaining Value Per Dollar,” By Gerard F. Anderson, et al., *Health Affairs*, Vol. 27, no. 6 (2008), p.1722.
- 4 Squires, May 2012, p. 9.
- 5 “Ranking 37th – Measuring the Performance of the U.S. Health Care System,” By Christopher J.L. Murray, et al., *The New England Journal of Medicine*, Vol. 362, no. 2 (January 14, 2010), p. 98.
- 6 “Most Efficient Health Care: Countries,” *Bloomberg Best* (and Worst), August 19, 2013, <http://www.bloomberg.com/visual-data/best-and-worst/most-efficient-health-care-countries> (Accessed 2/4/2014).
- 7 *Ibid.*
- 8 “National Health Expenditures 2012 Highlights,” *Centers for Medicare & Medicaid Services*, <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/highlights.pdf> (Accessed 3/24/2014).
- 9 “Health Cost Growth is Down, or Not. It Depends Who You Ask.” By Drew Altman, *The Henry J. Kaiser Family Foundation*, March 5, 2014, <http://kff.org/health-costs/perspective/health-cost-growth-is-down-or-not-it-depends-who-you-ask/> (Accessed 3/14/2014).

-
- 10 “Assessing the Effects of the Economy on the Recent Slowdown in Health Spending.” The Henry J. Kaiser Family Foundation, April 22, 2013, <http://kff.org/health-costs/issue-brief/assessing-the-effects-of-the-economy-on-the-recent-slowdown-in-health-spending-2/> (Accessed 3/14/2014).
- 11 Altman, March 5, 2014; The Henry J. Kaiser Family Foundation, April 22, 2013.

- 12 The Henry J. Kaiser Family Foundation, April 22, 2013.
- 13 *Ibid.*



(800) FYI - VALU

*Providing Solutions
in the Era of
Healthcare Reform*

Founded in 1993, HCC is a
nationally recognized healthcare
economic financial consulting firm

- **HCC Home**
- **Firm Profile**
- **HCC Services**
- **HCC Experts**
- **Clients Projects**
- **HCC News**
- **Upcoming Events**
- **Contact Us**
- **Email Us**

HEALTH CAPITAL

CONSULTANTS (HCC) is an established, nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, Missouri, with regional personnel nationwide. Founded in 1993, HCC has served clients in over 45 states, in providing services including: valuation in all healthcare sectors; financial analysis, including the development of forecasts, budgets and income distribution plans; healthcare provider related intermediary services, including integration, affiliation, acquisition and divestiture; Certificate of Need (CON) and regulatory consulting; litigation support and expert witness services; and, industry research services for healthcare providers and their advisors. HCC's accredited professionals are supported by an experienced research and library support staff to maintain a thorough and extensive knowledge of the healthcare reimbursement, regulatory, technological and competitive environment.



Robert James Cimasi, MHA, ASA, FRICS, MCBA, CVA, CM&AA, serves as Chief Executive Officer of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“Accountable Care Organizations: Value Metrics and Capital Formation”* [2013 - Taylor & Francis, a division of CRC Press], *“The Adviser’s Guide to Healthcare”* – Vols. I, II & III [2010 – AICPA], and *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books]. His most recent book, entitled *“Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services”* was published by John Wiley & Sons in March 2014.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS).



Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives, and serves as President of the St. Louis Chapter of the American Society of Appraisers (ASA). He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



Anne P. Sharamitaro, Esq., is the Executive Vice President & General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. Ms. Sharamitaro has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in *“Healthcare Organizations: Financial Management Strategies,”* published in 2008.