Accounting for the cost of US health care: A new look at why Americans spend more

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June 2009

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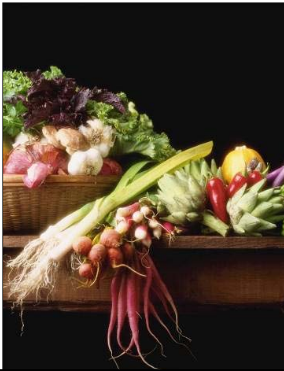
The U.S. spends twice as much on health care as on food, and more than Chinese consumers spend on all goods and services, 2006

$1,020 billion



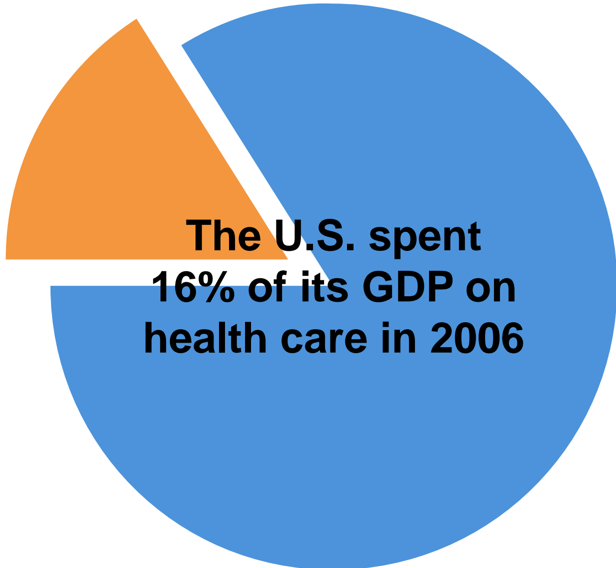
U.S. food[1]

$1,390 billion

China: personal consumption

$2,050 billion

U.S. health care



1 Excludes alcoholic beverages ($150 billion) and tobacco products ($92 billion)

SOURCE: Bureau of Economic Analysis; National Bureau of Statistics of China; MGI analysis

Rationale for the study

1. **To build robust picture of costs in US health system in an international context**
   - Are we sicker?
   - Where do we spend more?
   - Why do we spend more?

2. **To frame principal issues and inform public policy debate**

1 Footnote

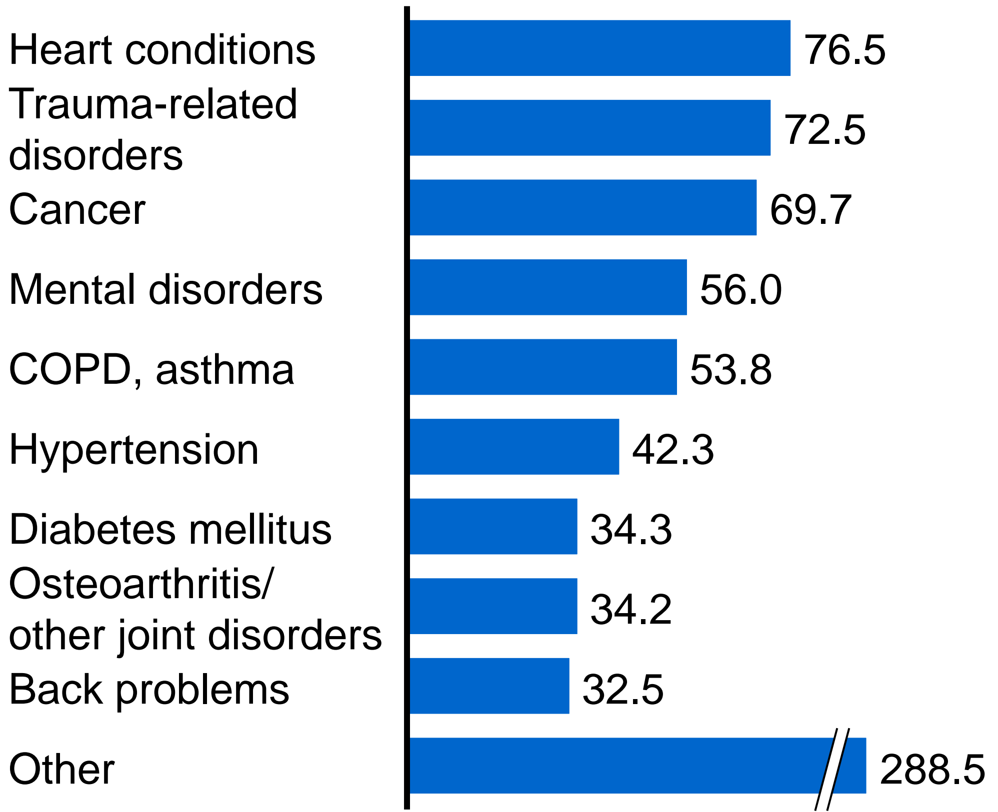
SOURCE: Source

US disease prevalence is lower than in peer countries for most high-cost medical conditions

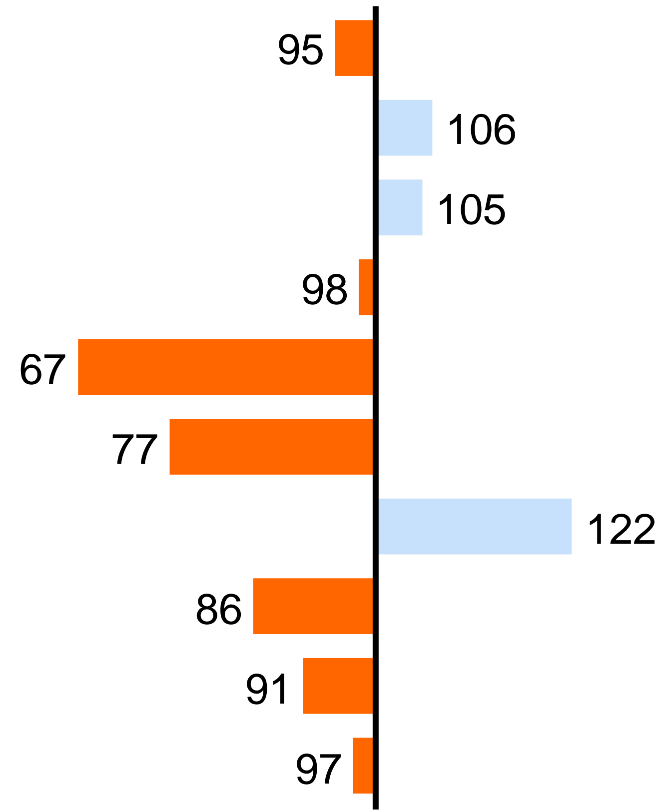
Higher U.S. prevalence

Lower U.S. prevalence

U.S. health care expenditures by disease condition*
$ billion



Disease prevalence: U.S. vs. peer countries**
U.S. prevalence = peer countries at 100

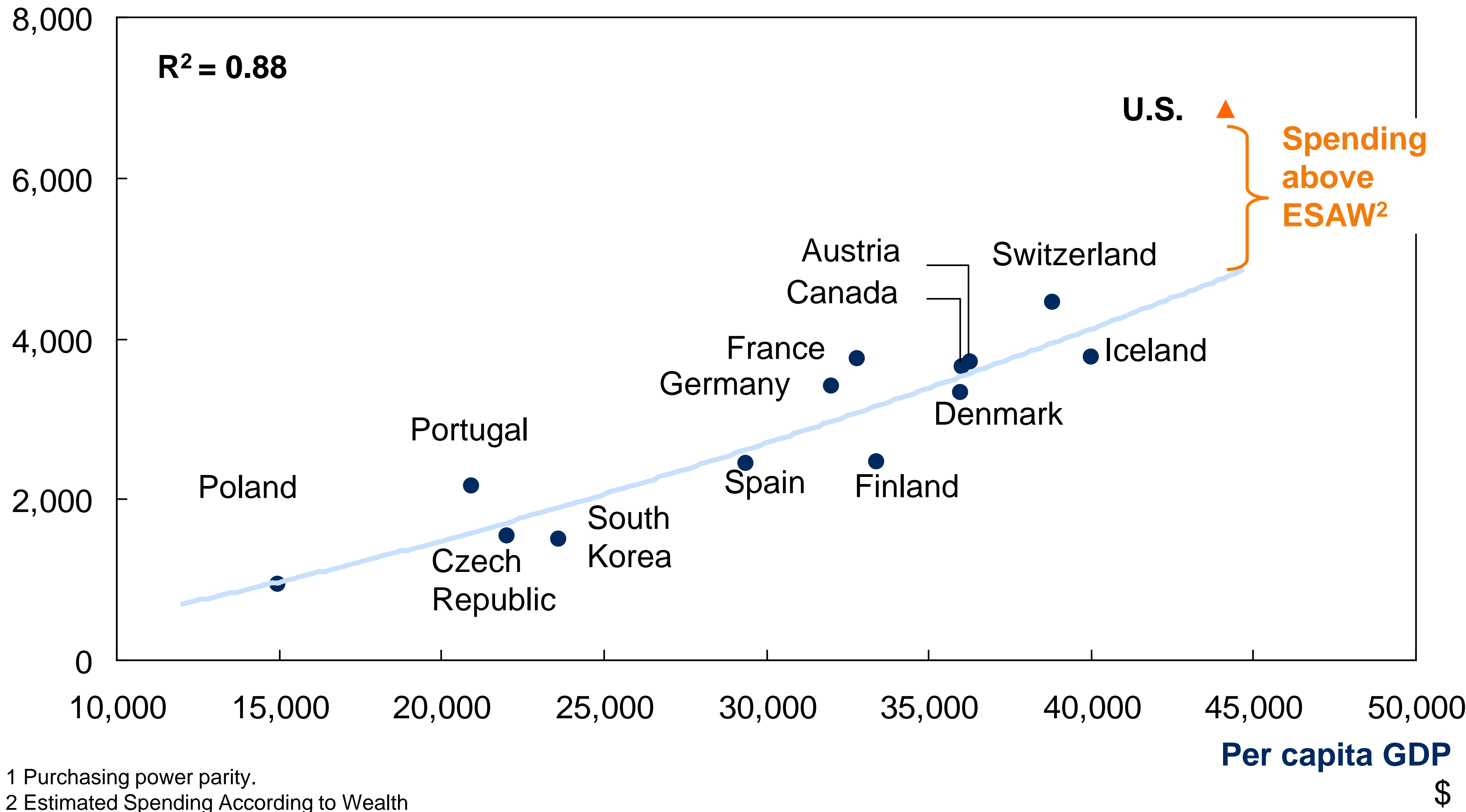


* Includes 35 of 60 medical conditions surveyed by Medical Expenditure Panel Survey

** Peer countries are France, Germany, Italy, Spain, and the United Kingdom.

Source: Medical Expenditure Panel Survey, 2005; Decision Resources 2006; McKinsey Global Institute analysis

The U.S. spends far more on health care than expected even when adjusting for relative wealth

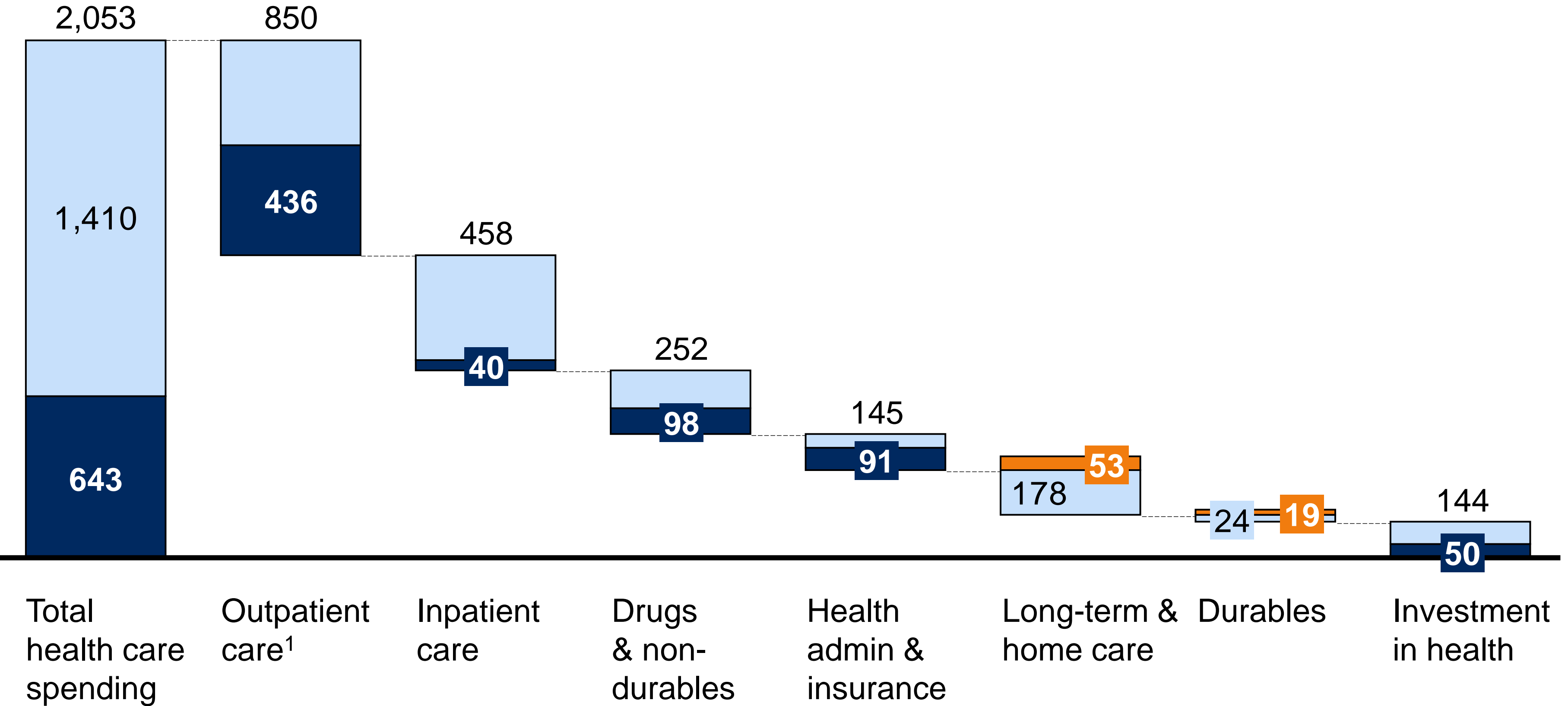


1 Purchasing power parity.
2 Estimated Spending According to Wealth

SOURCE: Organisation for Economic Co-operation and Development (OECD)

U.S. spends nearly $650 billion more than expected

$ Billion, 2006

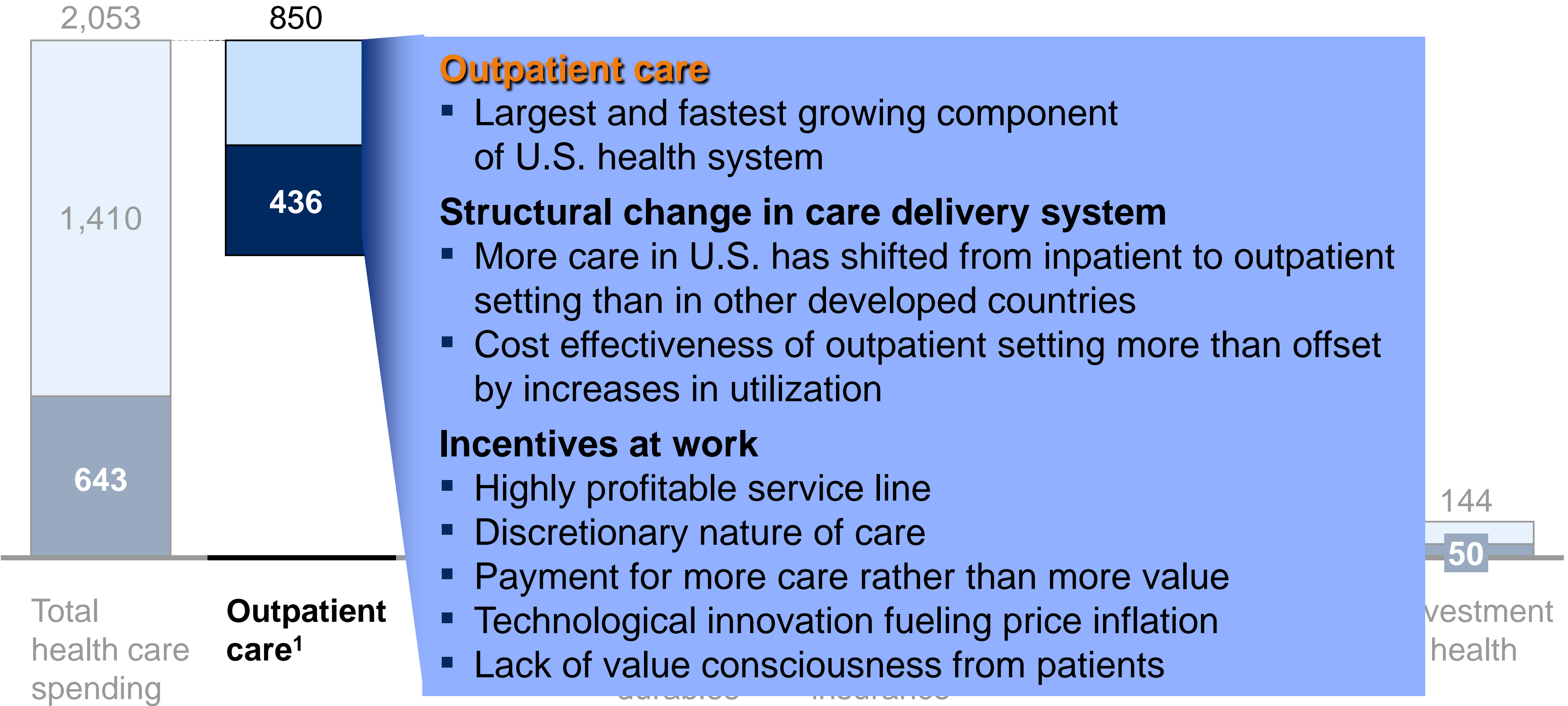


1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities

SOURCE: OECD; McKinsey Global Institute analysis

Outpatient care cost drivers

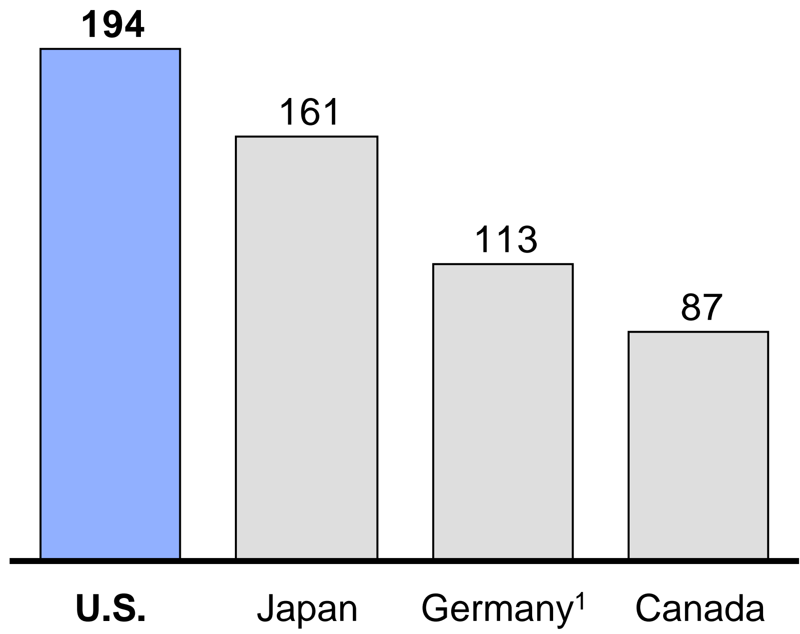
$ Billion, 2006

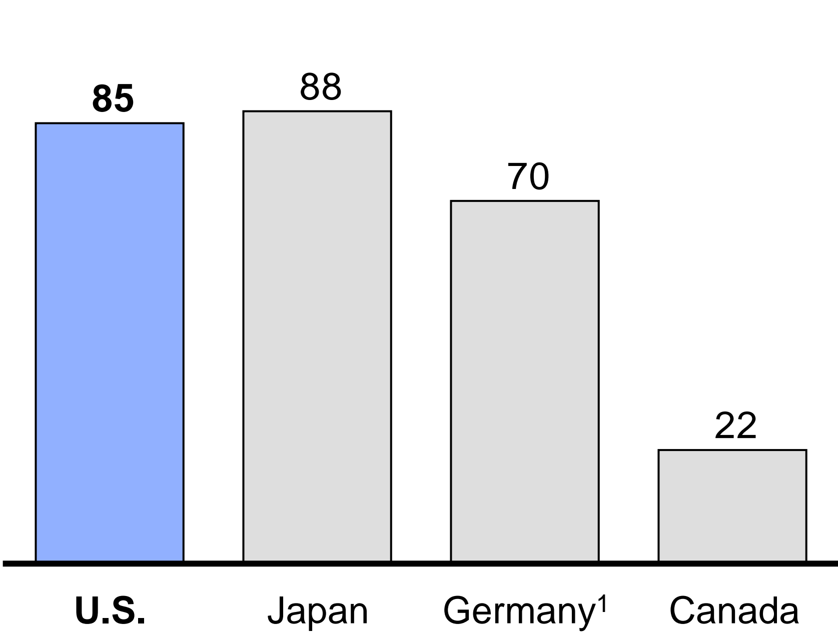


1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities

SOURCE: OECD; McKinsey Global Institute analysis

The U.S. conducts more diagnostics per capita than other OECD countries and reimburses more favorably





CT: U.S.	CT: Japan	CT: Germany[1]	CT: Canada	MRI: U.S.	MRI: Japan	MRI: Germany[1]	MRI: Canada
616	62	146	N/A	1,057	122	216	N/A

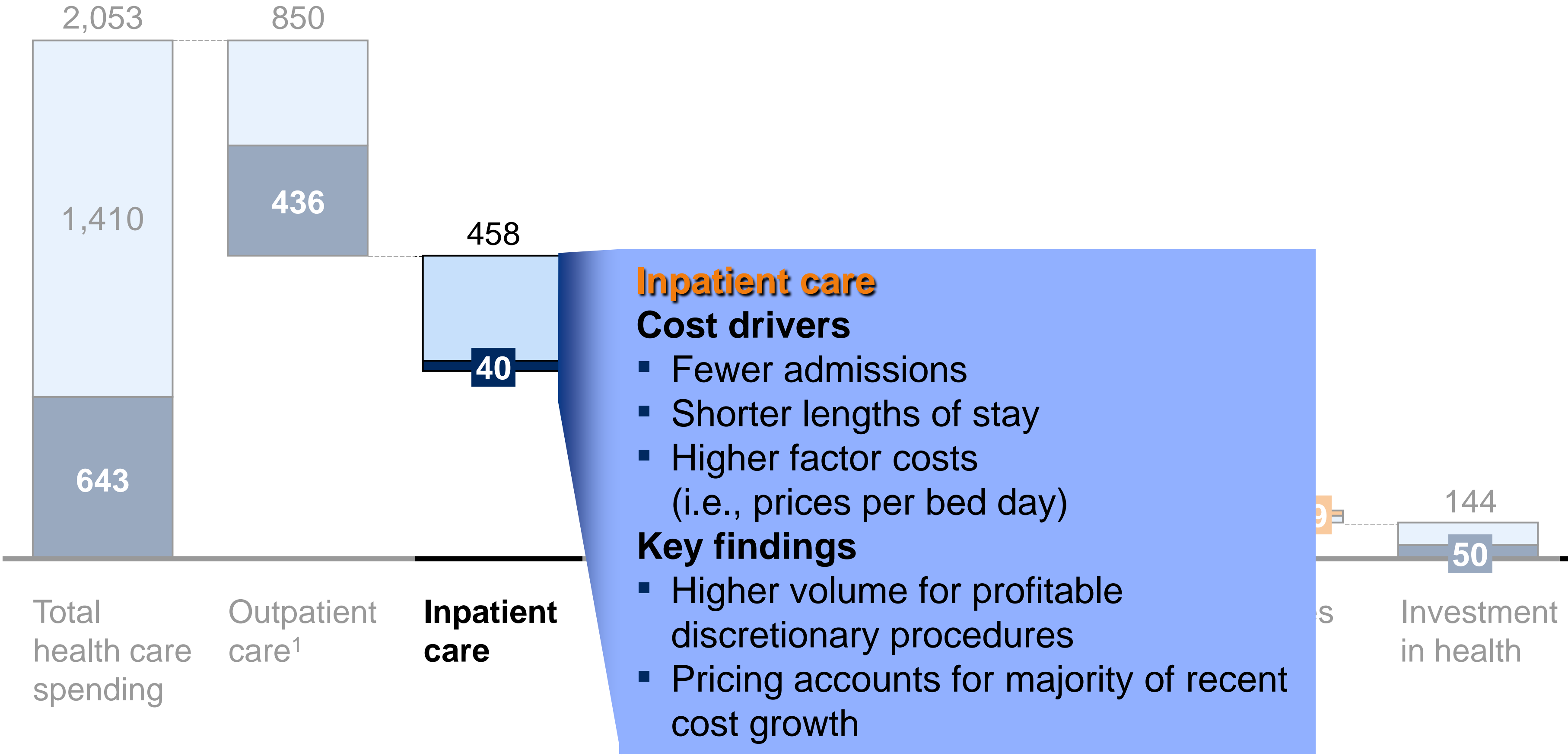
Reimbursement price per procedure[2]
$ Dollar

1 Data from 2004
2 Reimbursement prices are for 2008 for all countries. All prices are for public reimbursement for an abdominal CT or MRI

SOURCE: IMV; Japanese Ministry of Health, Labour and Welfare; German Federal Office for Radiation Protection; National Fee Analyzer; EMB; Igakutushin (Japanese medical news agency)

Inpatient care cost drivers

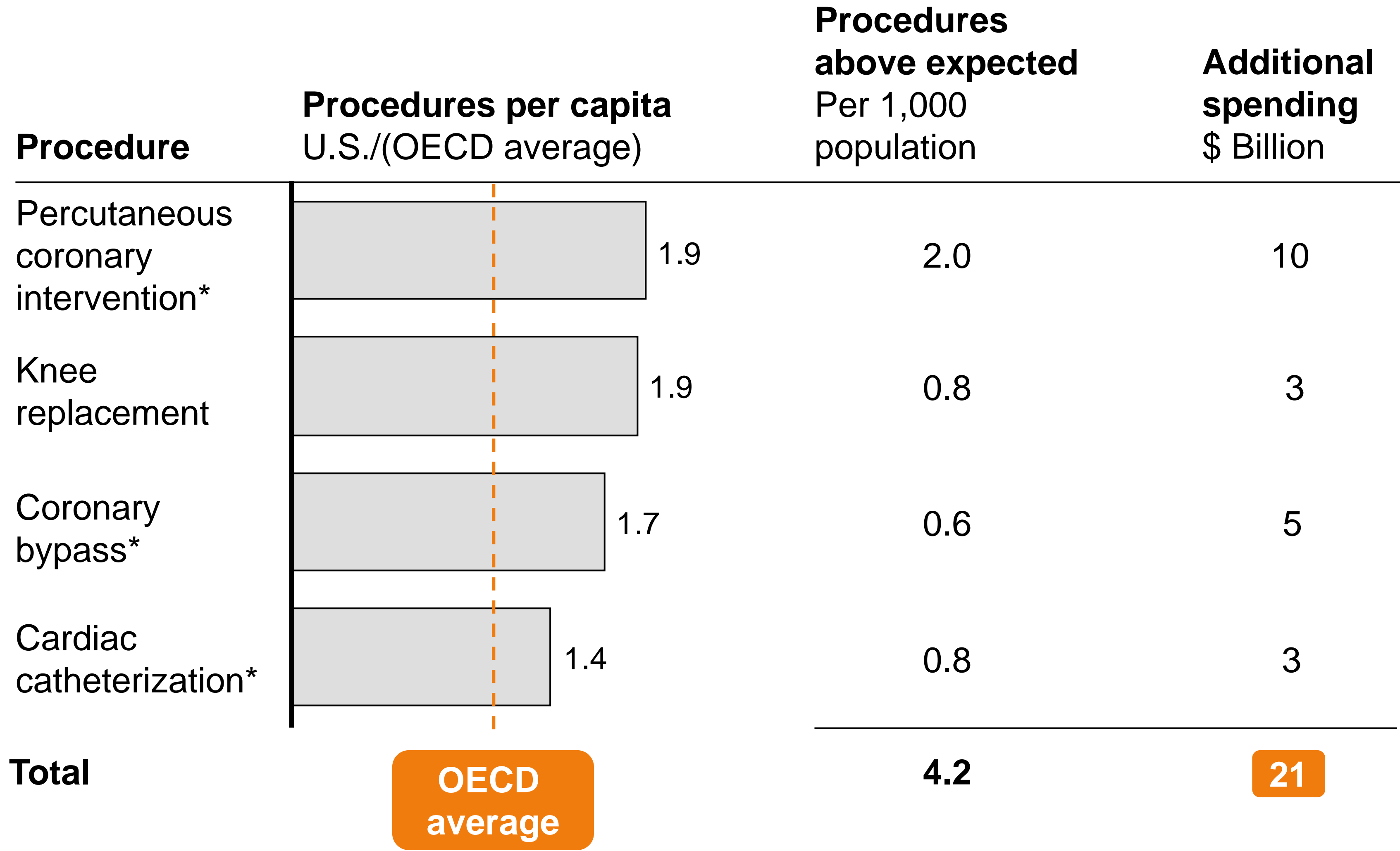
$ Billion, 2006



1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities

SOURCE: OECD; McKinsey Global Institute analysis

Cardiac procedures and knee replacements alone represent $21 billion in spending above expected in the U.S.

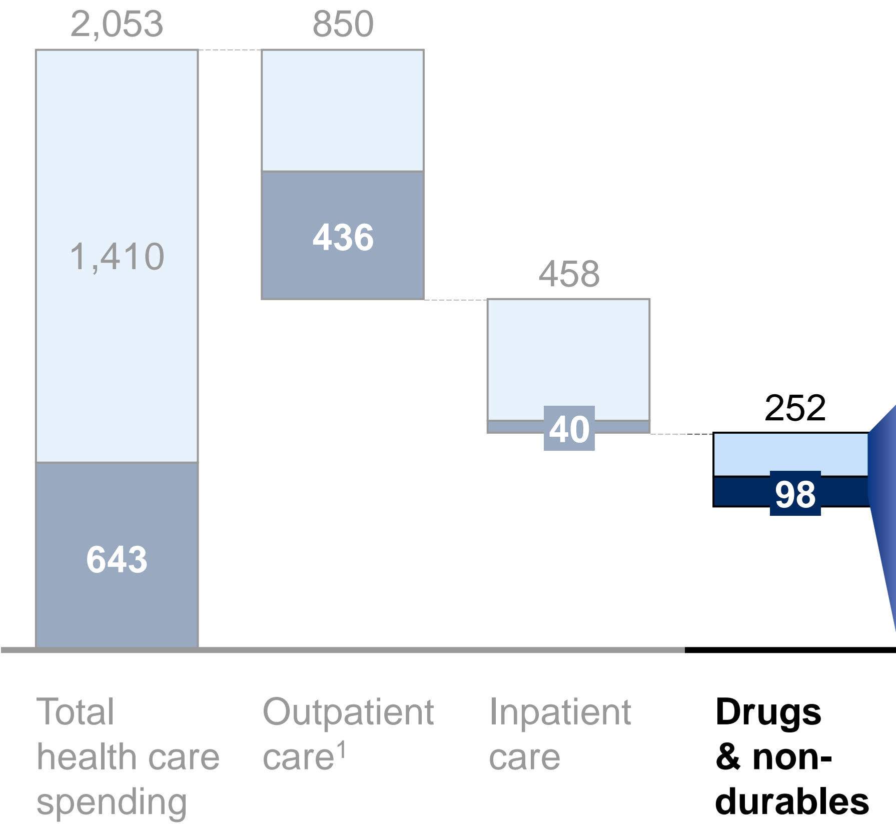


1 Adjusted for disease prevalence by country

SOURCE: OECD; McKinsey Global Institute analysis

Drugs and nondurables cost drivers

$ Billion, 2006



Drugs and nondurables

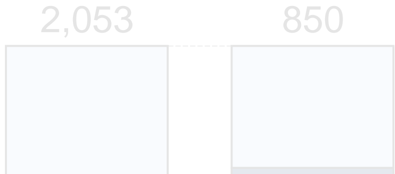
- 50% higher drug prices on average
  - 77% higher for branded drugs
  - 35% higher for biologics
  - 11% lower for generics
- More expensive mix of drug use, driving price gap up to 118%
- Americans use fewer prescription drugs than OECD peers

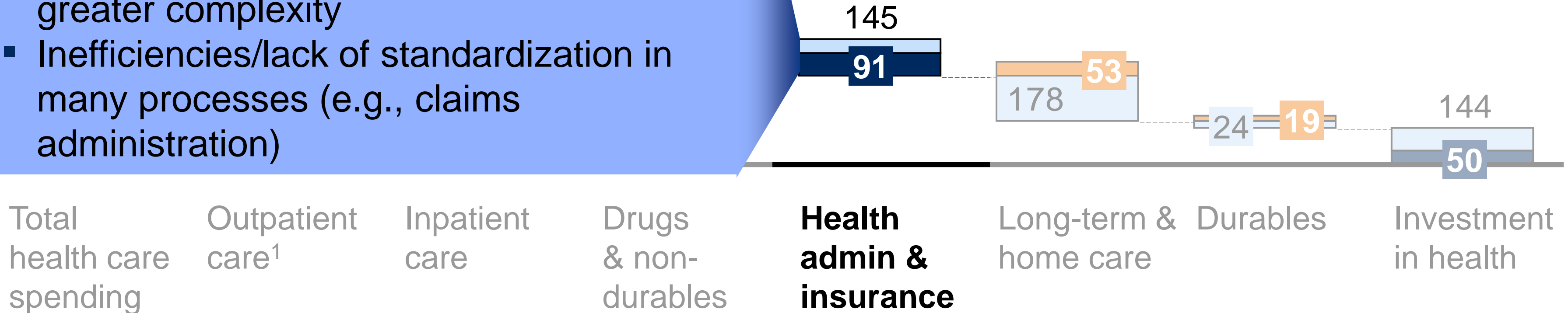
1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities

SOURCE: OECD; McKinsey Global Institute analysis

Health administration and insurance cost drivers

$ Billion, 2006





Above ESAW

Below ESAW

Total health care spending | Outpatient care[1] | Inpatient care | Drugs & non-durables | **Health admin & insurance** | Long-term & home care | Durables | Investment in health

1 Outpatient care includes physician and dentist offices, same-day visits to hospitals including Emergency Departments, ambulatory surgery and diagnostic imaging centers, and other same-day care facilities

SOURCE: OECD; McKinsey Global Institute analysis

Parting thoughts

Take-aways

- U.S. health system incentives optimized for suppliers of healthcare products and services
- Supplier actions are perfectly rational in response to incentives
- Additional costs not resulting in longer life expectancy, other benefits may exist (e.g., convenience)
- Outpatient care delivery accounts for most of spending above expected, but costs are higher than expected in most categories
- Lack of objective value received by patients/payors coupled with continued cost growth at current rates is likely unsustainable

Successful reform program will be characterized by the following

- Address supply, demand, and intermediation
- Realign existing incentives
- Sustain cutting edge research and innovation, defining characteristics of the current system
- Account for societal norms and values
- Withstand reactions of existing stakeholders