



Department of Health and Human Services  
Office of the Secretary  
200 Independence Avenue, SW  
Washington, DC 20201

# Better Care, Lower Cost

*Prescription for a Value-Driven Health System*

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*Secretary  
Health and Human Services*

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*“To keep this country competitive, we’ve got to have a health care system that provides our people with good quality health care at affordable prices.”*

– **President George W. Bush**  
Address  
American Hospital Association  
May 1, 2006

## Health-Care Anxiety

It is ironic that the system we turn to for healing should be the source of such pain. Nearly everyone seems anxious about the mounting cost of health care.

Families are hurting. Health-care costs are growing three times faster than wages. Teachers in my home state recently received the largest salary increase in years but many of them still saw a reduction in their take-home pay because of higher health insurance costs.

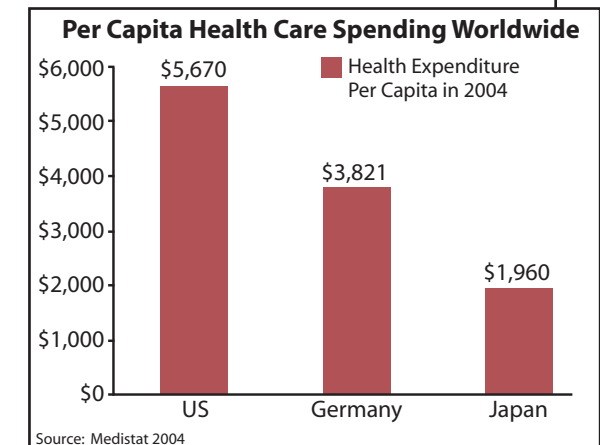
Doctors and hospitals are worried. They want the best for their patients, but see changes coming that could affect their future.

Companies and unions are anxious. Health care consumes over 16 percent of our gross domestic product, and that figure could surpass 20 percent within a decade. We pay twice as much for health care as our global competitors. GM, for instance, reports spending more on health care than for the steel in their cars.

Increasing numbers of employers and people alike simply can’t afford health insurance. More people than ever — 45 million at latest count — have no health-care insurance.

Rising health-care costs threaten to balloon government spending, leading to higher taxes or deficits. Other needs — education, housing, transportation — all suffer. Everyone agrees things have to change; our current direction cannot be sustained.

This collective anxiety — the pain we have in common — creates a catalyst for change. It motivates everyone to seek a better way, and creates the opportunity to forge a true “system” of health care built on the American foundation of value-driven competition.



## Defining the System

American health care can be shaped into a system where doctors and hospitals succeed by providing the best value for their patients. Value in health care is a combination of high quality and low price.

That's a big change because today, people don't measure the value of their health care. We do not know the full cost of our medical treatments, nor do we have any way to find out how good they are.

Health-care value is central to our quality of life. Sometimes, it is about life itself. Every American needs to know — and we deserve to know — the value of our health care.

Americans are value-conscious consumers. We clip coupons,

check the Web for the best travel prices and value, and carefully research our next car purchase. It's the American way! Given clear information, I believe people will naturally select the best health-care value.

Providing reliable cost and quality information empowers consumer choice. Consumer choice creates incentives at all levels, and motivates the entire system. Improvements come as providers and payers can see how their practice, service, or plan compares to others.

As value in health care becomes transparent, everything improves: costs stabilize; more people are insured; more people get better health care; and economic competitiveness is preserved.

Ultimately, this is a prescription for a value-driven system — a prescription of good medicine that works for everyone.

The need for change is self-evident. I believe that the will to change exists, and the time to act is now.

*“True patients on their way to the hospital in an ambulance are in no position to haggle, but most medical services aren't emergencies. With the right tools, patients can find better values. More honesty about price and quality can lower costs and achieve better outcomes.”*

USA Today Editorial  
August 2006

## Four Cornerstones

Building a value-driven health-care system requires four interconnected cornerstones. With the growing use of electronic health records, all four are within our grasp.

- **Connecting the System:** Every medical provider has some system for health records. Increasingly, those systems are electronic. Standards need to be set so all health information systems can quickly and securely communicate and exchange data.
- **Measure and Publish Quality:** Every case, every procedure, has an outcome. Some are better than others. To measure quality, we must work with doctors and hospitals to define benchmarks for what constitutes quality care.
- **Measure and Publish Price:** Price information is useless unless cost is calculated for identical services. Agreement is needed on what procedures and services are covered in each “episode of care.”
- **Create Positive Incentives:** All parties — providers, patients, insurance plans, and payers — must be subject to contractual arrangements that reward both those who offer and those who purchase high-quality, competitively-priced health care.

The architecture of a value-driven health-care system is being drafted — each of us has a role in completing the design and building the structure.

*quality*  
+ *price*  
—  
*value*



## Connecting the System

In the 1800's, America had numerous railroad systems, but it did not have a system of railroads. Regional rail systems ran on more than twenty different gauge tracks, with the distance between rails ranging from three all the way up to six feet. The systems did not interconnect. Customers and commerce alike suffered.

How often have you waited for lab results to be mailed to your doctor or hand-carried X-rays from one office to another? Electronic health records save everyone time and money. They reduce the chance of medical error. Shared electronically, they can impact every step in the health-care process.

*"I ... applied everywhere for information, but in scarcely an instance have I been able to obtain hospital records fit for any purposes of comparison."*

Florence Nightingale  
Notes on Hospitals, 1863

Sharing information requires interoperability. Big word, simple concept: it's what lets you use your bankcard in ATMs virtually around the world. It will give us the same kind of access to our personal medical history.

Achieving interoperability means setting standards, so one system can talk to another, exchanging data accurately, efficiently, and securely.

Work is underway. The American Health Information Community, with broad representation, is adopting standards covering registration, lab results, prescription drugs, and secure information transfer.

There is also a certification process to ensure these standards are being met. Nearly two dozen software systems are certified, with more on the way.

Interoperability will allow data to be aggregated, in an anonymous way, and analyzed. Connecting providers and payers across the nation will provide the reservoir of data necessary to dependably measure cost and quality.

That adds up to value and is critical to changing America's health-care system.

## Measure and Publish Quality

Health care is like any other service; some providers are better than others.

Quality of care is of critical interest to patients; their health, even their lives, can be at stake. They need and deserve to know. Doctors want to know too.

What constitutes good quality? Let's acknowledge that the measurement of health-care quality is full of complexities. As a medical discipline, it is still in the pioneering phase.

But it can be done; and some health professional groups are already doing it. Measuring quality requires accepted definitions and standards. Gathering data on quality requires electronic records and the ability to share aggregated health data.

Standards should not be dictated; they need to result from broad collaboration across private and public health-care sectors. The Department of Health and Human Services (HHS) helped convene two such private-public collaborations, the AQA (formerly the Ambulatory Quality Care Alliance) and the Hospital Quality Alliance (HQA), to identify quality measures for standard ambulatory and hospital care episodes.

Already, the AQA has created a "starter kit" of quality measures for 26 common conditions or procedures. Under a planned Medicare initiative in six pilot cities — Boston, Indianapolis, Minneapolis, Madison, San Francisco, and Phoenix —

community collaborations are applying and expanding these measures. We will help other communities do the same.

Many physicians have said to me, "I go to work every day, and I do the very best I can to help and heal people. I have no idea how I compare with the larger universe of physicians. I would love to know how my results compare — I can learn from that."

The fact is, we all can.

*"Thirty-four percent reported getting the wrong medication or dose, incorrect test results, a mistake in their treatment or care, or being notified late about abnormal test results."*

Commonwealth Fund Survey  
November 2005

# The Future

There is no way today for a patient to compare the value of health-care choices. In the future, people will get information that will allow them to compare cost, quality, and related facts necessary to find high-quality, low-cost health care. Likewise, physicians and hospitals will have the comparative information they need to improve.

## Surgical Care Consumer Guide

Search Results: **Hip Replacement**

[What's included in the cost?](#)

### Summary

Average Cost in Network Facility: \$11,249 - \$15,895  
 Out of Network Facility: \$18,889 - \$23,460

Results sorted by: Distance

Sort by:

### Key

Quality: ★★★★★ Highest | ★ Lowest    Cost: \$ Least Expensive | \$\$\$\$ Most Expensive    Patient Assessment: ★★★★★ Highest | ★ Lowest

| Distance (Miles) | Facility Name   | Patients per year | Quality | Cost Estimate      | Insurer Pays      | Patient Pays     | Patient Assessment of Care |
|------------------|---|-------------------|---------|--------------------|-------------------|------------------|----------------------------|
| 6.2              | Clearwater General<br>14280 Bay Drive<br>Clearwater, FL 22131                 | 400               | ★★★     | \$\$<br>\$15,895   | 85%<br>(\$13,511) | 15%<br>(\$2,384) | ★★                         |
| 13.2             | All Saints Medical Center<br>123800 All Saints Drive<br>Tampa, FL 22122       | 86                | ★★★★★   | \$\$\$<br>\$20,700 | 80%<br>(\$16,560) | 20%<br>(\$4,140) | ★★★★                       |
| 25.6             | Good Samaritan Hospital<br>11111 E. Samaritan Drive<br>Tampa, FL 22222        | 232               | ★★★★★   | \$\$<br>\$15,895   | 90%<br>(\$14,306) | 10%<br>(\$1,590) | ★★★★★                      |
| 26.3             | Tampa Hip Hospital<br>1400 East Tampa Boulevard<br>Tampa, FL 22211            | 170               | ★★★     | \$\$\$<br>\$20,700 | 75%<br>(\$15,525) | 25%<br>(\$5,175) | ★★★                        |
| 27.3             | Orthopedic Clinical Hospital<br>1444 Goodie Drive<br>St. Petersburg, FL 22113 | 432               | ★       | \$<br>\$11,600     | 70%<br>(\$8,700)  | 30%<br>(\$2,900) | ★                          |
| 33.2             | Valley General Hospital<br>1400 Tampa Bay Way<br>Tampa Bay, FL 22031          | 310               | ★★★     | \$\$<br>\$16,230   | 85%<br>(\$13,796) | 15%<br>(\$2,434) | ★★★★                       |

\* Sample for illustrative purposes only.



## Measure and Publish Price

Nothing but good comes from people knowing cost.

If we are to control health-care costs — and we must — we first need to know what our costs are, and what we are getting for our money.

But doing so is difficult. Beyond our insurance premiums and co-payments, none of us has a clue what we actually pay for health care.

The problem is that while a great deal of our spending is going to truly valuable treatments, too much is not. As a result, health-care costs are higher than they need to be.

*“This is the only industry where people are buying services without information. If we want people to become more engaged in thinking about what medical care costs, we have to change that.”*

Dianne Kiehl, Executive Director  
Business Health Care Group of Southeast Wisconsin

Price transparency requires gathering information from insurers and payers and providing relevant information to consumers. Wide participation is important, because a large body of information is needed to be able to draw valid price comparisons on specific treatments, hospitals, and doctors.

To create an immediate critical mass, HHS is providing cost information on common inpatient and ambulatory services for our Medicare program.

At the same time, insurers and payers are working to develop standards so that consumers can get a clearer idea of their overall costs of treatment for an “episode of care” — physicians, hospital services, lab tests, pharmacy, rehabilitation, etc.

We are all health-care consumers. Informed consumer choice can create profound change.

## Create Positive Incentives

Incentives motivate, and competition works.

A car company offers no-interest loans to motivate buyers. Others quickly follow suit. You select one make over another because it offers more options for the same price.

Incentives drive action and change. You are given a reason to care about making a good choice, and the marketplace is changed as others provide incentives in order to stay competitive.

It is time to let value-driven competition make an impact on health care.

What if, when going for an elective treatment such as a knee replacement, you are given options: health care professionals who provide high quality at high costs; those who provide low quality at low costs; and everything in between? Suddenly, you have information you need and a personal incentive to care.

Incentives are not just for consumers. In the future, incentives for doctors and hospitals will be part of the payment structure. Already, insurance plans and Medicare are experimenting with pay-for-performance incentives and competitive bidding for services where doctors and hospitals are rewarded for quality outcomes.

Once transparency unveils price and quality information, and incentives are in place to drive quality-based decisions, real change starts to happen.

People need to know price and quality. People need to care about price and quality. And people need to have a reason to care about price and quality.

*“The right goal is to improve value (the quality of health outcome per dollar expended).”*

**Redefining Health Care**  
Creating Value-Based Competition on Results  
Michael E. Porter  
Elizabeth Olmsted Teisberg



## Igniting Change

The full transition to value-driven health care will take time, but change has already begun.

Transparent price and quality information is available for common procedures and conditions in some communities today. Two years from now, as standards are adopted, more and more procedures will be covered, and value-driven competition will spread. Within a decade, a value-driven system will be the foundation of health-care decisions.

*“Starbucks reported that, in one year, they spent more on health care than on materials for brewing coffee.”*

Howard Schultz  
Starbucks CEO  
August 2005

Change of this scale requires critical mass.

Federal health-care programs can provide that mass. Together, the Departments of Defense, Health and Human Services, Veterans Affairs, and the Office of Personnel Management are the biggest purchaser of health care in the nation. Federal programs cover some 93 million people, nearly 40 percent of the nation’s insured

We are using this critical mass to begin organizing the system. President Bush issued an Executive Order to ensure that beginning on January 1, 2007, all federal agencies and those who do health-care business with the government make the four cornerstones of value-driven competition a significant component of all purchasing decisions.

I believe that most of the nation’s largest employers, major unions and state governments will take similar action. The tipping point at which the system changes is within sight.

It is clear that change is coming. We have a unique opportunity — all of us, everyone concerned — to ignite this change process.

The time to act is now.

## A Prescription for Change

Exponential change often starts with a single small step.

It’s difficult to imagine life today without the World Wide Web. This powerful and ubiquitous tool, with millions of Web sites and countless pages, started with the posting of a single document just 15 years ago, August 6, 1991, to be exact.

The genius of the Web is that the voluminous information (transparency) flows freely (is interoperable). Working together, we need to apply that same genius to reshaping America’s health care system:

- Implement the Presidential Executive Order and gain the agreement of large employers, unions and state governments to take similar actions
- Establish AQA and HQA as national arbiters of quality care comparisons
- Create price and quality comparisons by defining “episodes of care” for frequent procedures and conditions
- Build a network of Quality and Price Information Collaboratives (QPICs) across many communities
- Create protocols to aggregate price and quality information at the regional and local levels
- Accelerate the creation and adoption of health IT standards
- Expand adoption of health IT among small to medium care providers
- Provide education and incentives for patients, doctors and hospitals that will stimulate adoption and drive change

With nascent technology standards in place, and with local pilots a test bed for quality and price standards, we have the fuel for igniting change.

# A Place to Connect

**Health Care Transparency**

*You deserve to know*

**Health Care Transparency Home**

Consumers deserve to know the quality and cost of their health care. Health care transparency provides consumers with the information necessary, and the incentive, to choose health care providers based on value.

Providing reliable cost and quality information empowers consumer choice. Consumer choice creates incentives at all levels, and motivates the entire system to provide better care for less money. Improvements will come as providers can see how their practice compares to others.

**Health care transparency is built on four cornerstones:**

Building a value-driven health care system requires four interconnected cornerstones. With the growing use of electronic health records, all four are within our grasp.

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*"Every American should have access to a full range of information about the quality and cost of their health care options."*

– HHS Secretary Mike Leavitt

**Spotlight**

President Bush signs Executive Order Directing Federal Agencies to Provide Health Care Quality and Price Information for Consumers

[Executive Order >>](#)  
[Remarks >>](#)  
[Fact Sheet >>](#)

HHS Secretary Mike Leavitt's Vision for Health Care Transparency [Booklet \(PDF\)](#) (751KB)  
[News Room](#)

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Learn more and follow developments on the HHS Transparency Web site at:  
[www.hhs.gov/transparency](http://www.hhs.gov/transparency).

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Health and Human Services