



Issues Monitor

Sharing knowledge on topical issues in the Healthcare Sector

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Welcome to the August edition of *Issues Monitor – Healthcare*. Each edition pulls together and shares our firms' industry-wide knowledge to help you quickly and easily get briefed on the issues that affect your sector.

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Global Head of
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Keeping up to date with the very latest and most pressing issues facing your business can be a challenge, and while there is no shortage of information in the public domain, filtering and prioritizing the knowledge you need can be time consuming and unrewarding. I hope that you find *Issues Monitor* useful and I welcome the opportunity to further discuss the issues presented and their effect on your business.

Issue 2: The impact of an aging population on the cost of healthcare

An aging population will have profound implications on global healthcare providers, insurers and system managers. *Issues Monitor* has been examining this topic in a three part series:

Issue 1, *The impact of an aging population on global healthcare*, released in May 2010, provided an overview of the challenges facing different healthcare systems around the world. ([Click here to view](#))

Issue 2, *The impact of an aging population on the cost of healthcare*, examines the impact of an aging population on global healthcare costs and how countries are responding to increasing demand for healthcare services.

Issue 3, *The impact of an aging population on the global healthcare workforce*, due for release November 2010, will focus on what an aging population means for the delivery of care and how it will impact the global healthcare workforce.

The rapid rise in the number of elderly people (aged 60 years or above) and the resulting demand for healthcare provision is having a serious impact on the cost of healthcare globally. In 2007, the number of elderly people was more than three times that in 1950, and the number is expected to triple again by 2050.¹ As a result, healthcare providers, insurers and system managers around the world are looking at ways to control the cost and bend the cost curve without compromising the quality of care provided. Governments and payors in turn, are under pressure to stabilize their growing budget deficits, which have increased with the rise in healthcare spending.

2

The impact of an aging population on the cost of healthcare

Aging population behind soaring healthcare costs

An aging population has made it imperative for healthcare systems around the world to expand and optimize, so as to enable them to meet the rising demand from this swelling aging demographic group. This has made healthcare services much costlier. Further, as we will examine in our next issue, the worldwide shortage of geriatric specialists and healthcare workers is being compounded by this demographic shift. As the supply-demand gap of the workforce widens, salaries are rising — which further increases costs.

How is an aging population having an impact on healthcare insurance premiums?



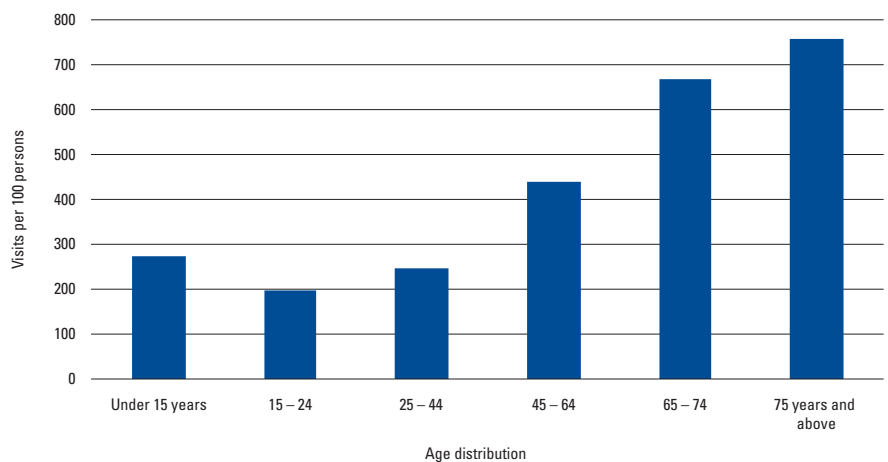
Americas

- Rising healthcare spending – In 2009, healthcare spending in the US increased 5.7 percent year-over-year (y-o-y), to reach US\$2.5 trillion. This represents 17.3 percent of the gross domestic product (GDP). Over the next ten years starting in 2010, this spending is expected to reach US\$4.5 trillion, and by 2020, healthcare will account for one-fifth of the total spending in the US.^{2,3}
- Chronic disease among the elderly is a key driver in rising healthcare costs in the US. Approximately 80 percent of residents aged 65 or older suffer from at least one chronic disease, according to a 2007 report by the Centers for Disease Control and Prevention.⁴ The country's annual spending of US\$1.6 trillion on chronic disease management is nearly equal to its estimated 2009 federal deficit.⁵ The ever-increasing aging population is driving this increase in chronic disease.⁶
- The aging population is putting intense pressure on the cost of healthcare. The average annual health insurance premiums for employer-sponsored health insurance in the US have more than doubled over 1999 – 2009, to reach US\$13,375 per family.⁷ According to an online survey of 2,389 American adults conducted by Harris Interactive and HealthDay in March 2010, an aging population in the US is a major contributor to rising insurance premiums.⁸ Indeed, rising healthcare costs are a contributing factor to the higher number of people without health insurance — the number of uninsured people in the US is expected to rise from 46 million in 2009 to 72 million in 2040, according to a 2009 report by the White House Council of Economic Advisers.⁹



- Given the demographic changes in the US, increased demand for ambulatory care is anticipated. And the patient group with the most contact with physicians for ambulatory care comprises individuals over 75 years of age. This change will require physicians to tailor programs to the frail and elderly and provide specific services to support patient needs. Figure 1 shows the number of ambulatory care visits to physicians offices in the US in 2007, by age group.

Figure 1: Ambulatory care visits to physicians offices in US, 2007¹⁰



Source: Percent Distribution of Number of Visits to Health Care Professionals, by Selected Characteristics, US Census Bureau

- Over 2008 – 09, Canada’s healthcare spending increased by C\$9.5 billion (US\$8.4 billion) to C\$183.1 billion (US\$161.2 billion) — 11.9 percent of the country’s GDP. Further, healthcare is expected to consume 45 percent of Quebec’s 2010 budget. By 2030, this figure is further expected to reach 67 percent.¹¹ An aging population is mainly contributing to the ever-rising healthcare costs, which in turn has forced the Canadian provinces to reassess their publicly funded healthcare model.¹²

AsPac

- Over the next 40 years, Australian government spending on healthcare for older people is expected to increase seven times over January 2010 levels. Further, the average spending per older person will rise from A\$2,300 (US\$2,096.2) to approximately A\$7,200 (US\$6,561.9) in 2050. “This (increase in health costs) is a product of the increasing age of Australians overall and secondly, the fact that with innovations in pharmaceuticals and medical technologies and the rest, the cost of treating each individual aged Australian will rise as well,” said former Australian Prime Minister Kevin Rudd.¹³
- Healthcare expenditure in Hong Kong is expected to reach US\$315.2 billion in 2033, up from US\$67.8 billion in 2004, growing at a compound annual growth rate of 5.4 percent. The country’s aging population and soaring healthcare costs are the major contributors to its ever-spiraling healthcare spending.¹⁴



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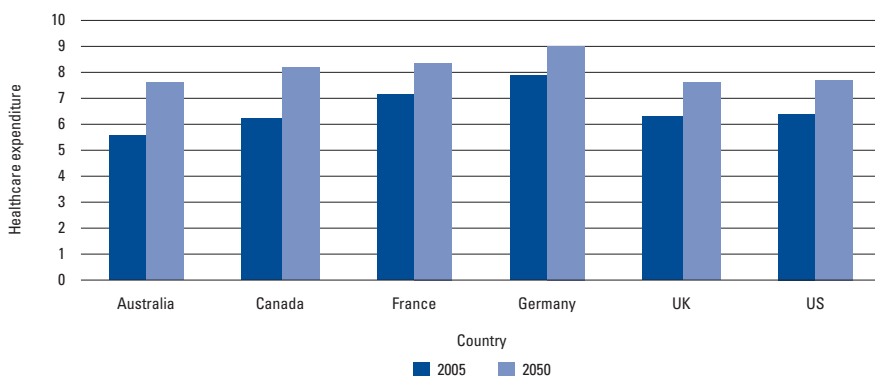
- Although Singapore has maintained its healthcare cost at less than four percent of its GDP, the surge in demand from a rapidly aging population has put the industry under increasing pressure. Government Health Minister Khaw Boon Wan said if the country succeeds in keeping the percentage of GDP spent on healthcare at a single digit, it will be a great achievement.¹⁵

Europe

- Public spending on long-term care in the EU is expected to almost double between 2007 and 2060, from 1.2 percent to 2.3 percent of GDP. This increase in spending will be driven by the long-term healthcare needs of an aging population.¹⁶
- Healthcare spending in France is expected to reach 11.6 percent in 2014 from 11.4 percent in 2009 — indicating that it will maintain its position as the highest healthcare spender relative to GDP. The country’s aging population is one of the key drivers behind this sharp increase in spending.¹⁷
- Over 2000 – 07, Germany’s healthcare spending rose 19 percent, from EUR212.5 billion (US\$196.5 billion) to EUR252.8 billion (US\$346.5 billion). The country’s aging population was one of the key drivers behind this rapid rise.¹⁸
- Age-related government healthcare expenditure in the UK is expected to reach 8.7 percent of GDP in 2035, up from 7.5 percent in 2007.

Figure 2 shows the estimated healthcare expenditure in Australia, Canada, France, Germany, the UK and the US over 2005 – 50.

Figure 2: Healthcare expenditure as percentage of GDP, 2005 – 50¹⁹



Source: 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-2060), Economic and Financial Affairs European Commission

Paying privately

Rising healthcare costs are borne not only by the state; they also impose a significant financial burden on the elderly. The aging population is driving the surge in the incidence and prevalence of osteoporosis and other bone diseases, and by 2020 the number of affected people worldwide is expected to exceed 400 million.²⁰ As a result, the demand for hip and knee replacement procedures is also rising.²¹ In 2009, the cost of hip replacement surgery was approximately GBP880



In 2009, the cost of hip replacement surgery was approximately GBP880 (US\$1,378), up from GBP230 (US\$376.9) in 1989.

How is the information technology market gaining from an aging population?



(US\$1,378), up from GBP230 (US\$376.9) in 1989. This is expected to continue to rise as the population ages.²² In South Africa, the joint replacement market is forecast to reach US\$94.9 million by 2016, up from US\$61.5 million in 2009, largely due to the aging population and rising healthcare costs.²³

Out-of-pocket expenses for older Americans will continue to rise with the increase in healthcare costs. In the US, the annual average out-of-pocket healthcare costs for older people will more than double, from US\$2,600 in 2010 to US\$6,200 in 2040. However, the average household income in this demographic group will increase at a much slower pace over the same period, from US\$26,800 to US\$34,600.²⁴ Further, the number of personal bankruptcy filings among older Americans more than doubled over 1991 – 2007, partly due to the rising healthcare costs.²⁵

How to tackle the issue of rising healthcare costs

Healthcare systems around the world are under pressure due the rising demand from the elderly population. An aging population needs more healthcare services, as they are more prone to chronic diseases and age-related issues. Consequently, this has led to an increase in healthcare costs. It is therefore crucial to contain the rising costs, as healthcare systems globally and the elderly population are under a huge financial burden. The following initiatives have been undertaken by various countries to improve healthcare delivery to the elderly:

- **Improving healthcare delivery efficiency by increasing adoption of information technology** – Certain countries such as the US have started implementing technologies such as eHealth, telemedicine or electronic medical records to improve the quality and delivery of care to an increasingly chronically ill and aging population. Also, with the increasing demand from this demographic shift, the conventional hospital-based healthcare system is no longer sustainable, and new options for home-based care for the elderly need to be provided.²⁶

In the US, the Patient Protection and Affordable Care Act provides an impetus for caretakers to start using new technology models of care when dealing with chronically ill and aging populations.²⁷ In an initiative aimed at promoting electronic health records, US President Barack Obama has proposed that all health records be computerized by 2014. Over ten years, the plan will cost approximately US\$75 – 100 billion.²⁸ In the long term, however, it will prove beneficial, as it can lead to an annual saving of US\$700 billion, which is currently spent on unnecessary tests and mistakes.²⁹

The European Commission (EC) is also emphasizing the use of technology to tackle the soaring costs and other issues raised by a rapidly aging population.³⁰ In its Digital Agenda, the EC has laid out a plan to enable Europeans to access their medical data online.³¹ The EC has rolled out a number of actions to improve eAccessibility for older people. Further, it's new EUR600 million (US\$794.1 million) AAL Programme, set under the Ageing Well action plan, will help to develop ambient assisted living, which involves technologies designed to allow the elderly to continue to live at home.³²



Approximately
98%
of physicians in the
Netherlands use
electronic medical records.

In Germany, as highlighted in KPMG's recent publication "A Better Pill to Swallow," a health insurance provider Techniker Krankenkasse (TK) has undertaken an initiative to educate patients suffering from chronic diseases through a telephone-based coaching program. In addition to increasing awareness among patients about the disease, this health coaching also encourages them to adopt a better lifestyle. There is also an indication of reduction in out-patient and in-patient hospital care costs for patients coached through this program.³³

In 2007, the Canadian government announced that it would contribute C\$400 million (US\$374.3 million) to Canada Health Infoway over the next five years. Canada Health Infoway, a partnership between the federal government and all provincial and territorial governments, functions to speed up the adoption of electronic health information technology throughout Canada.³⁴ Infoway is currently managing 10 investment programs to support the adoption of electronic health records. Telehealth is one such program that will benefit the elderly by cutting down their number of visits to healthcare centers. Moreover, the elderly will also benefit from the fact that they need not leave their homes for proper health monitoring.³⁵

The Dutch healthcare system is under pressure to meet the increasing demand for healthcare services from an aging population. In order to ensure the accessibility, affordability and quality of healthcare services to the elderly, the government introduced a number of initiatives, including the development of a nationwide system for exchanging electronic healthcare data. The introduction of the Electronic Medication Record and the Electronic General Practitioner's Record has enabled healthcare providers to gain access to patients' medical history through their own information systems.³⁶ Approximately 98 percent of physicians in the Netherlands use the electronic medical records, according to a 2007 Commonwealth Fund study of 6,536 physicians from seven countries.³⁷ The optimum use of electronic records is highly beneficial for elderly patients who face difficulty in remembering their medical history.

- **Providing proactive and integrated care** – According to research conducted at McMaster University Health & Social Service Utilization Research Unit, Ontario (Canada), proactive and integrated care is more effective and less expensive than on-demand care. The same research cited in KPMG's "A Better Pill to Swallow" highlighted that annual proactive care cost is C\$2,160 (US\$2,000), compared with annual on-demand care cost of C\$10,971 (US\$10,158.8) for each untreated older person.³⁸ Healthcare systems worldwide can take advantage of these findings to ensure cost-effective healthcare services for the elderly.
- **Adopting a home-based care model** – The rapidly growing aging population in Japan is increasing the burden on state finances. Home-based care models are being promoted to reduce the pressure on the healthcare system and to cut costs. An additional advantage of this model is that it enables participants to continue living an active life in their own home and community.³⁹



In addition to controlling healthcare costs, improvements in the efficiency, delivery and functioning of the healthcare systems globally are urgently needed in order to make them more sustainable. The following initiatives can be undertaken to improve the overall sustainability of healthcare systems:

- **Increased adoption of the 'pay-for-performance' model** – This payment model — under which healthcare providers are paid based on their performance — is an important tool to cut down on soaring healthcare costs without compromising on the quality and efficacy of healthcare provision.⁴⁰

In January 2008, the Centers for Medicare & Medicaid Services undertook a two-year long 'Medicare Home Health Pay for Performance' initiative to demonstrate the impact of financial incentives on the quality and cost of healthcare services in Medicare. In the first year of demonstration, 166 US home health agencies helped Medicare save approximately US\$15 million.⁴¹

- **Boosting public-private partnership** – Increasing private sector participation will help the public sector, as the responsibility to build a more stable and sustainable healthcare system will be shared. Further, it will also help healthcare systems to cope with the increasing demand from the elderly.

As a part of the World Bank's new eTransform Initiative, Pfizer is collaborating with the bank to improve healthcare delivery in developing countries by utilizing information and communication technologies. This joint initiative should help the developing countries' governments to efficiently use their healthcare resources. "Through public-private collaborations, which bring together global expertise, appropriate technologies, efficient processes, and necessary financial resources, the potential of health and technology can be fully realized," said Mohsen Khalil, Director, World Bank's Global Information and Communication Technologies Department.⁴²

- **Improving workforce productivity** – As more people are aging and retiring from the workforce, governments are feeling the pressure from the decreasing number of taxpayers and the increasing demand for healthcare entitlements. As a result, countries must boost their productivity in order to pay for the rising healthcare costs. "It is not to make people work longer, that we speak of, it is to enable people to work smarter by drawing upon the most up to date technology and the most up to date skills. That's what makes a difference in boosting our productivity growth," said former Australian Prime Minister Kevin Rudd.⁴³

Outlook

Governments will continue to spend significant amounts of money on their healthcare systems to ensure a fair and viable healthcare service for all. The increasing adoption of healthcare information technology and the pay-for-performance payment model will balance out the surging healthcare costs by eliminating unnecessary spending and improving the efficiency and quality of healthcare provision. Adoption of healthcare technology alone can save approximately US\$77 billion per year in the US, according to a study by the Rand Corporation.^{44, 45}

What could be the impact of increased healthcare spending on the workforce productivity?

Furthermore, chronic disease management should receive high priority if healthcare costs are to be controlled. In Australia, chronic diseases currently account for approximately four-fifths of the disease burden, and this is expected to rise further in the coming years as a result of the rapidly aging population. The country's annual spending on cardiovascular and respiratory diseases alone will account for A\$40 billion (US\$32.3 billion) of healthcare spending by 2032 – 33.⁴⁶

Healthcare expenses may affect a country's financial viability in the short term, but will prove to be productive in the long run. Spending on a country's healthcare management will enhance the productivity of its workforce, which in turn will contribute to its economic growth. "Healthcare spending should be viewed as an investment in future capital, contributing to a productive workforce, rather than merely as an expenditure," said Dr Al Headen, Associate Professor of Economics at North Carolina State University.⁴⁷

FURTHER INFORMATION

Visit kpmg.com for the following related publications

- *A Better Pill to Swallow – A global view of what works in Healthcare*
- *Rising to the challenge? – The impact of global demographic change on the public sector*
- *Tough Choices Ahead – The Future of the Public Sector*
- *The Wolf is at the Door – The Global Economic Crisis and the Public Sector*

How KPMG firms can help

Efficiency and cost optimization

Working alongside clients, our firms' professionals help to streamline processes, to enhance controls and to contain costs and business risks. We look at systems, supply chains, capital structures and contracts with third parties to see how they can best be utilized. We identify areas of weakness that might jeopardize achievement against objectives,

as well as, advising on the development and execution of management systems to create sustainable business performance.

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KPMG's global network of member firms gives us the local experience to help companies align their IT operations and business objectives with often repeatable and distributable solutions. We can help them to use technology to drive growth, improve business performance and to safeguard operational integrity, security and continuity.

Public Private Partnerships

Public private partnerships (PPPs) are an increasingly common means of getting infrastructure projects off the ground. KPMG works with the public and private sector, as well as with secondary investors, on PPP projects. Planning and preparation are crucial to help both sides realize value from their capital expenditure commitments.

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Companies mentioned in this issue

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Centers for Disease Control and Prevention	2	Pfizer	7
Centers for Medicare & Medicaid Services	7	Rand Corporation	7
Council of Economic Advisers	2	Techniker Krankenkasse	6
Harris Interactive	2	The Commonwealth Fund	6
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