

Testimony
of
Craig R. Barrett
Chairman, Intel Corporation

Senate Committee on Finance
“Prepare for Launch: Health Reform Summit 2008”
Trends in Employer Sponsored Health Coverage
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Good morning Chairman Kerry and Senator Smith and panel members. First, thank you for having the foresight to hold this roundtable series on US health care. We are all keenly aware of the statistics highlighting the state of the US healthcare crisis:

US HC spending at \$2.2 trillion, \$7K/person, 16% GDP

4X spending on national defense

By 2017: \$4.3 trillion, \$13K/person, 20% of GDP

In 2007, insurance premiums increased twice as fast as pay

Annual premium paid by employer for family of four: \$11.5K

Gross earnings for a full-time minimum wage worker: \$11.7K

125M citizens have chronic disease, 60M with multiple conditions

Annual chronic care costs approaching \$1 trillion

Secondly, thank you for inviting me to discuss Intel's experience as both a large purchaser of employee health services and as one of the leading research companies on technology that connects people and information across the continuum of care.

Whether you think employers or government should be in charge of healthcare, the reality is that we both play major roles. And from our perspective, it's time for both of us to rethink what we're expecting from the system and how we can affect change. I believe firmly that change can only come from the exercise of purchasing power, and the only two parties with significant purchasing power in health care are the government and private industry.

Alternatively, we can choose to do nothing. But if the situation looks bad today, it looks worse next year. I don't think the current situation or status quo is acceptable. I think that major change has to come from the true purchasers of healthcare and my community, the business community, has been guilty of not being involved in this dialogue. I hope what you see going forward are initiatives from our industry to try to pre-empt the system and move it in into the right direction.

Why I care

I'm a member of the senior generation over sixty-five which, as a group, uses a disproportional share of the medical resources in the US. I'm also a grandparent who has grave concerns about the ability of our current system to provide quality and affordable care to my grandkids and even their children. I'm also the chairman of a large US corporation who purchases healthcare for approximately 60,000 US employees. We are on pace to spend \$1 billion annually on healthcare within just a few years. That translates into a cost of doing business that puts us in a distinct disadvantage to our foreign competition.

While I would applaud your willingness to have the discussion around how we pay or massage some efficiency out of a broken system, I would remind you that the system is out of control and on a path to bankruptcy. Without providing some major fixes, US business will continue to export jobs directly as a result of healthcare costs. I conclude that healthcare is pricing itself out of business, and in the process is just going to drive CEOs to make decisions to put resources elsewhere where the healthcare cost is much more affordable.

Employer Perspective

The current US healthcare system is not economically sustainable; the costs directly impact US companies' ability to compete globally, and the ability of many individual employees to afford healthcare for themselves and their families. This is not just a competitive issue with emerging economies as the US system costs twice as much per capita as the total healthcare bill in most other developed nations. Further, we do not get better results for this investment; US healthcare fails to stand up to comparison on a wide range of quality measures. Clearly something has to change. Spending more or providing less is not a solution. We need to provide better care at lower total cost.

Given that employers pay into the current system in three ways, via corporate taxes, employee benefits and the cost shift from the uninsured, employers have the most to lose and gain due to their status as a large consumer. In fact, if you spread healthcare cost equally over the entire US population, the healthcare costs for an Intel family of four in the US are more than the fully loaded costs of a qualified engineer in many developing nations.

While we believe government has to help lead the way toward systemic transformation, we also believe employers and the private sector are more nimble and able to lead the way toward new care paradigms, new financing alternatives and have the power to affect change.

Changing the Reimbursement Model

It is clear that we are currently getting the system we pay for. We largely finance, practice and reimburse healthcare as we did prior to WWII. Doctors in the US are still not paid to have a conversation with their patient over the telephone; a device that is over 130 years old. Is it any wonder we don't pay for email communications between doctor and patient?

In 2005, Intel, Cisco and Oracle launched an effort to incrementally change the way employers pay for healthcare services for our employees. The program known as the Silicon Valley Health IT initiative is a collaborative effort amongst seven large IPA's representing 25 distinct practice sites and over 1,800 physicians. The goal was to help the system shift toward a more patient centered approach via rewards for the use of IT to provide better communication, care and follow-up.

Early data has shown promising results and each year the bar is raised to drive toward NCQA guidelines and patient satisfaction. We'll continue to look for ways to lead the change around how we pay for the care provided to our employees and their dependants.

As we know, action follows money. Different outcomes require that we rethink how we pay for care in the US. We need to transition from the fee for service treadmill that is driving more and more providers out of the profession. As funders of the

system, the ones who actually write the checks, we have the power to work with the delivery system to help align the incentives and reward the right care. Simple examples are electronic prescriptions, electronic communication between patient and clinician, remote diagnostics and monitoring, electronic health records, etc.

Clinics and Wellness

Intel has also made the commitment to deploy on-site clinics for our larger facilities. We are combining these clinics with a renewed emphasis on employee health and wellness. While these clinics are not a new concept, we believe it is another step toward establishing a culture of wellness and convenience to our associates.

Additionally, given the coming age and chronic tsunami coupled with the projected workforce shortages, the old one-on-one physician to patient paradigm will not suffice. We need to move away from the physician-centered care delivery paradigm toward a patient centric model where delivery and funding are channeled via care teams with a community approach toward care. IT is a powerful enabler to help provide the care necessary to meet this tide head on.

Dossia

Intel is one of the founding members of Dossia, a non-profit organization initiated by a consortium of large US employers for the purpose of creating a national system to deliver lifelong, personal, private, and portable health records for their employees. We will leverage employers as the purchaser of healthcare services and place the health data into the hands of employees and their families. This will be a national platform that will provide personal

control to the employee over an independent, non-tethered view of their patient information. With a complete picture of their health, employees will be free to exercise more choice and thus drive competition for the higher quality, patient-centric healthcare.

Health IT- the right information at the right time to improve quality, cost and access

We applaud the Senate and House members who acknowledge the need to move healthcare transactions to the 21st century through embracing health IT.

During the past two years I have worked with U.S. Health and Human Services Secretary Michael Leavitt on AHIC to help identify low-hanging fruit that will help move our struggling healthcare system toward increased digitization which will lead to higher quality at a reduced cost. Electronic prescribing consistently migrates to the top of that list.

The Institute of Medicine (IoM) tells us that medication errors kill more than 7,000 Americans annually, and that as many as 1.5 million harmful medication errors could be prevented each year if electronic prescribing were implemented on a national scale. I find it hard to understand how the FAA can ground any aircraft which has a nonworking seatbelt, and the NTSB can recall hundreds of thousands of automobiles for a few malfunctions, yet we somehow overlook the fact that thousands of patients are negatively impacted by handwritten prescriptions each year.

The industry needs a greater level of customer service and efficiency similar to Fed-Ex which tracks and delivers over 6 million packages a day with 98% reliability. Additionally, Wal-Mart has made substantial technology investments in order to more

efficiently fulfill their mission. Wal-Mart CEO, Lee Scott, gets a report on his desk each morning describing sales by store, region, nation and product calculated overnight from the prior day. We should be asking the CDC to have similar knowledge about what happened in US healthcare from the day before. My point is that technology has changed every other industry, except healthcare. IT is a powerful tool that can help provide more for less on an annual basis.

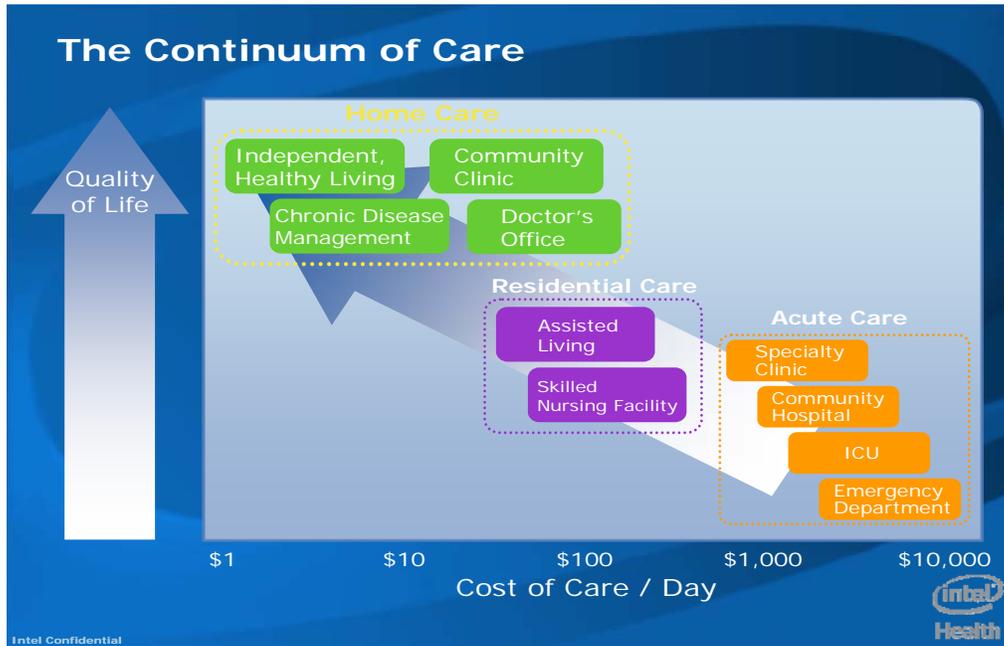
Back to the Future – Home Centered Health Care

Over 70 million aging baby boomers could overwhelm the US health care system and engulf the nation's tenuous economy, according to a new study, "Will the Boom Bust Health Care?," by management consulting firm Tefen USA. Internationally, the United Nations shows the number of people aged 70 and older doubling in 25 years to 1.2 billion in 2025.

While the bulk of health care today is delivered in hospitals and clinics, today's acute care-centered system is ultimately unsustainable in the future.

Recognizing the impact of these demographics, Intel researchers launched an unprecedented study of seniors and chronically ill patients in 1999. Our ethnographic researchers have observed and interacted with more than 150 hospitals and clinics and 1,000 households in 20 countries. We became passionate about enhancing independence and finding solutions to help individuals, family members and caregivers stay in touch with the people they care about. We are learning that consumer education combined with home computers, wireless networks, televisions and cell phones offer new ways to increase prevention, early detections and caregiver assistance. We are designing systems that better connect

to information interaction, safety and security and health and wellness. Through ongoing monitoring and patient education, we can begin to shift the process of improving outcomes while keeping patients at home and independent.



Solutions for the Chronically Ill

In order to solve the cost problem, you only have to do a quick analysis to understand that a majority of the costs to our current system reside in 20% of the population; mostly, the chronically ill and the old. So if you want to impact overall healthcare costs, you need to focus on providing high quality, lower cost care to these two groups. Without doing so will result in little to no impact in reducing overall healthcare costs.

Innovative programs making improvements to the care of the chronically ill have the potential to impact Medicare/Medicaid the most. The top 25% of Medicare's costliest beneficiaries have multiple chronic conditions and account for "fully 85 percent of

spending”;¹ These patients suffer from congestive heart failure, diabetes, coronary artery disease, hypertension and dementias including Alzheimer’s Disease.² They see an average of 13 different physicians a year, fill 50 different prescriptions, often receive conflicting diagnoses and advice from providers about the same set of symptoms, and are 100 times more likely to have a preventable hospitalization³.

Through coordinated care provided by professionals combined with the expanding technology alternatives being proposed in this Congress, we can start to see a reversal in skyrocketing medical costs. Continuous monitoring through technology combined with a team of doctors, nurses, physical therapists interacting with patients in their homes gives an alternative to the current system of emergency room visits followed by institutional care.

The Department of Veterans Affairs implemented its Home Based Primary Care (HBPC) two years ago, which contains many of the essential features of successful chronic care coordination programs and found it produced a 27% reduction in inpatient admissions and a 69% reduction in inpatient days. After accounting for the HBPC's costs, the program produced a 24% reduction in VA costs of care.⁴ Consider applying these savings to the \$440 billion in Medicare spending last year scaling up to the 78.2 million aging baby boomers, and the potential of this approach becomes obvious.

¹ “High-Cost Medicare Beneficiaries”, Congressional Budget Office, supra note 1, p. 4 (May 2005)

² CBO Finding, supra note 1 at p. 6.

³Testimony of Gerald F. Anderson, Ph.D., Johns Hopkins Bloomberg School of Public Health, Health Policy and Management (May 9, 2007)

⁴ “Quality Measure of Reduction of Inpatient Days During Home Based Primary Care”, Eades T.E., Tompkins H., J. Am. Geriatr. Soc. 2007; 55(4):S56-S57.

Global Health Race

Between now and 2013 the EU and the private sector will invest more than €1bn in research and healthcare innovation for older people. Some €600m is to be invested in the ambient assisted living program, while a further €400m is included in the EU's latest research framework program. In addition, about €30m in research funds have been made available this year under the European Union's ICT Policy Support Program.

Through an unprecedented partnership with the Irish government Intel launched the TRIL (Technology Research for Independent Living) Centre creating one of the largest research centers of its kind. This active research collaboration between industry and academic drives knowledge transfer through the collective work of multidisciplinary research teams. The TRIL Center is building an open, sharable research platform and co-invents new technologies for older people and their families.

The US shows evidence of quickly being left behind in this global marketplace largely ignoring, avoiding or under-investing in aging-in-place and home health R&D. One exception is the Oregon Health and Science University biomedical Engineering Lab developing technologies for early detection and remediation of aging changes. The university is using biosensors to continuously monitor seniors' movements and develop new ways of detecting cognitive impairment.

By adopting a platform of innovation and care for the “age wave,” US businesses, governments, and NGO's have the opportunity to not only create centers of excellence but also provide a new economic frontier serving the US and across the globe.

Conclusion-Changing the Debate

Over the past four years there has been an abundance of dialogue, discussion and posturing on the state of US healthcare. The two candidates for President have made healthcare a priority in the current campaign and survey data show that the public is more concerned about losing health care coverage than a terrorist attack. New ideas are percolating on how to extend access to the uninsured, define new financing streams to pay for the increasing healthcare burden, and to build a technologically challenging national health information network.

Sadly, the current debate typically centers on “who pays”? This leads to endless discussion on which financing mechanism to utilize to increase the funds deemed necessary to change our healthcare system. While entertaining, it does not address the inherent problem in the current model; namely the excessive costs.

I am still unclear on how requiring people to buy health insurance when healthcare costs increase by 8 or 10 percent a year is going to fix the system. We could debate individual mandates, employer pay-to-play surcharges-- we could debate all sorts of things.

All these discussions are a giant balloon squeeze. The system is out of control and all we're trying to do is put the cost on somebody else's shoulder because we don't like the size of the cost. The current compounded annual increase in health care costs in the US is approximately \$200 billion – greater than the cost of the Iraq war. We ought to be debating how we fix the system; how we provide better care at a lower cost, not who pays the higher cost each year.

I would propose that \$2.2 Trillion is a sufficient amount necessary to provide high quality care for all of our citizens. We just need to focus on ways to reduce costs and increase quality, something most of us in other industries figured out long ago in order to stay competitive and in business.

As Congress prepares for the critical debate on healthcare, employers will take market based actions as large consumers to drive patient-centered care based on outcomes, not numbers of visits, consultations, and institutional visits. We share healthcare responsibility with the government and agree that a collaborative approach is likely to yield the most fruit. But let's agree on the problem we want to solve, the roadmap to get there and how to channel the national passion toward real improvements in the health and lives of our citizens.