Campaign to End Obesity Economic Study: Assessing the Economics of Obesity and Obesity Interventions

KEY QUESTIONS AND ANSWERS

1. What is the study about?

America faces an impending economic crisis because of the increasing rise in obesity. If unchecked, the long-term health costs of obesity will overwhelm U. S. taxpayers, the federal budget, private insurers and the nation's health care systems.

- Policies to reduce the prevalence of obesity in America, through preventive and interventional methods, are hampered by the way current health policy and budgets are crafted.
    - Policy makers often lack the metrics-based research needed to evaluate obesity interventions properly and to make the most informed decisions to develop quality initiatives.
    - CBO and other federal budget agencies tend to evaluate programs on short-term bases that don't capture the true savings of prevention and intervention.

The study's recommendations:

- Amend the budget scoring process from a 10-year to a 25-year period to allow Congress to weigh the short-term spending increases associated with more intensive prevention efforts against the potential for offsetting spending reductions over the long run.

- Develop a reliable model for longer-term cost estimating based on credible inputs as well as a realistic programmatic model for implementation.

2. Who are the authors?

Michael O'Grady, PhD is a health policy expert with 24 years of experience working in Congress and the Department of Health and Human Services (DHHS). From 2003 to 2005, Dr. O'Grady was DHHS Assistant Secretary for Planning and Evaluation, where he directed both policy development and policy research across the full array of issues confronting the Department.

Dr. O'Grady is now a Senior Fellow at the National Opinion Research Center (NORC) at the University of Chicago and Principal of O'Grady Health Policy LLC, a private health consulting firm.

James C. Capretta, **MA**, a Fellow at the Ethics and Public Policy Center, was an Associate Director at the White House Office of Management and Budget (OMB) from 2001 to 2004, where he was responsible for health-care, Social Security, education, and welfare programs.

Mr. Capretta is also a health policy and research consultant with Civic Enterprises, LLC, a Senior Advisor to Leavitt Partners, and an Adjunct Fellow with the Global Aging Initiative of the Center for Strategic and International Studies and with the Hudson Institute. Earlier in his career, Mr. Capretta served for a decade in Congress as a senior analyst for health-care issues and for three years as a budget examiner at OMB.

- Both belong to the Chicago school of economic thought, which believes in minimal government intervention in free markets. Both served in senior positions in the George W. Bush Administration.

- O'Grady and Capretta have collaborated on several other studies and are highly respected health economists. They are concerned with issues related to efficiency, effectiveness, value and behavior in the production and consumption of health and health care.

- Their recommendations fit in with Congress' current focus on reducing federal spending. Both are deficit hawks. Their complementary backgrounds offer additional credibility to their policy suggestions and provide a framework for bipartisan support.

3. <u>Who paid for the study?</u>

- Support for this publication was provided by a grant from the Robert Wood Johnson Foundation.

4. <u>Why do we need to change the way we approach the problem?</u>

Controlling health care spending attributed to obesity and doing more to prevent obesity is vital to the nation's economy.

- Obesity-related health issues are the leading cause of employee absenteeism, and employers report that more than $153 billion in lost productivity annually is linked to obesity. Higher levels of obesity lead to increased health care spending.

- As more Americans become obese, the associated chronic conditions – diabetes, heart disease, hypertension and kidney disease – also increase. Sadly, over many years such diseases progress in severity, leading to ever-increasing spending to meet the health-care needs of an obese population. The authors believe prevention and intervention programs can lower the rates of obesity and reduce spending on health care.

- Currently, there is a disconnect, or policy gap, that fails to recognize the long-term economic benefits of programs that treat and prevent obesity. With better tools, policy makers will have more information to more accurately assess obesity interventions.

- O'Grady and Capretta state, "The only way to give policy makers an accurate analysis of their policy options is to go beyond CBO's traditional 10-year window." They recommend changing the budget window to a 25-year period, arguing that this approach provides more information and accuracy for policy makers to assess the impact of legislation designed for treatment and prevention of obesity.

5. Haven't I seen recent reports claiming that rates of obesity have leveled off?

- A closer look at the data shows that the figures are statistically unchanged. We have no evidence that these numbers represent a continuing trend. Virtually every expert agrees that nearly two-thirds — 60 percent — of the U.S. population is either obese or overweight.

- The authors examined data from the CBO and CDC as well as published research. They concur with other research that shows the annual medical burden of obesity has risen to almost 10 percent of all medical spending and could have amounted to $147 billion in 2008. Even under the most optimistic of scenarios, CBO shows the health care costs of obesity outstripping projections for GDP growth.

6. What new information does the study provide?

The authors published an article in 2009 that examined the long-term cost implications of Type 2 diabetes. The current study builds on their past work and the work of other economists.

- The earlier study, published in *Health Affairs* in September 2009, discussed the costs associated with the progression of Type 2 diabetes over many years. The article suggested that well-designed interventions aimed at Type 2 diabetes (and the associated chronic illness, e.g. kidney disease) are more cost-effective than previously projected. This study has been cited in more than 20 authoritative articles.

- The new study is a logical progression of their thinking on the obesity crisis. O'Grady and Capretta stress that obesity prevention efforts are directly relevant to efforts to head off chronic illnesses stemming from obesity. They say that policy makers should give strong consideration to adjusting the budget process under special circumstances to reflect the importance of a long time horizon for certain health prevention efforts.

7. What can be done?

It is important to understand that the chronic diseases associated with obesity have a progression that leads to ever-increasing health care needs. Prevention and intervention programs can reduce the rates of obesity and spending on health care. Prevention programs can be both cost-effective and offer clinically measured improvement in health. This may become more evident when looking at years 11-25 (instead of the current 10-year period).

- The authors examined several peer reviewed programs – government sponsored, community sponsored and workplace wellness, among others – and looked at clinical effectiveness and economic considerations. Using strict criteria, they found that certain interventions can be both clinically successful and cost-effective. However, we need more data to better understand the impact of prevention and intervention.

- Examining data from workplace wellness programs, they found that many are cost-effective and produce measurable improvements in employee health. On average, the studies found that such programs reduced medical costs by $3.27 and absenteeism by $2.73 for every dollar spent

on wellness efforts. The authors feel this warrants a closer look, that having more data will allow for rigorous examination to understand fully the impact of these programs and, as a result, better-informed decision making.

8. **What are examples from other industries that demonstrate cost savings in prevention?**

- Health care researchers and health economists point to programs aimed at lowering smoking, using seatbelts, and increasing vaccinations as clinically and cost effective. The nation seriously jeopardizes its future by standing put – maintaining the status quo – in fighting obesity.

9. **What do the authors recommend?**

- Modify the budget scoring process from a 10-year to a 25-year period to allow Congress to weigh the short-term, upfront costs of prevention and intervention against the potential for offsetting spending cutbacks over the long term.

- Develop a reliable model for longer-term cost estimates based on solid data as well as on realistic, evidence-based programs.

10. **How did they come to their recommendations?**

- The authors devised an economic simulation using well-documented NIH and CDC data to show the cost consequences of an obesity-related disease (Type 2 diabetes) over 25 years. Policy makers can follow the natural progression of disease and the resulting health-cost consequences.

- They concluded that looking at the implications of policies beyond 10 years would, under certain circumstances, generate additional insights into current trends and how those trends might be affected by policy.

11. **What is QALY?**

- In the U.S. commercial insurance market, a cost-effective intervention is one that provides the equivalent of an additional quality year of life at a cost of under $100,000. Other countries use other thresholds.

- The concept of the quality-adjusted life-year (QALY) is a widely used measure of health improvement that is employed by decision makers charged with allocating scarce resources across competing health care programs. This widely accepted model has been refined since its initial invention by two health economists in 1956. For additional information please see http://www.ispor.org/meetings/invitational/QALY/Paper2revised.PDF

- While not perfect, the QALY allows economists to compare the costs and economic benefits of interventions