New challenges for VA health economics

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This month marks the 10th anniversary of the VA Health Economics Resource Center (HERC). Ten years ago, it was difficult to conduct health economic research in VA. In the absence of billing data, each researcher was challenged to find a way of estimating the cost of care.

Closing the Cost Data Gap

VA is now one of the best environments to conduct health economic studies. The HERC average cost data helped close the VA cost data gap. These HERC data provide an estimate of the cost of all VA provided services, an annual effort that characterizes 670,000 hospital stays and 86 million VA outpatient visits.

HERC cannot take all of the credit for closing the cost data gap. VA economists owe a lot to VA leaders who adopted the Decision Support System and to the staff who make it successful.

HERC has helped facilitate research use of DSS data. We advocated for the creation of the DSS national data extracts and document them with guidebooks and technical reports. This month HERC released four new DSS products: a hospital cost database, a department cost data base, a guide to the DSS intermediate product databases, and a SAS format file to translate DSS intermediate product department codes (see related article in this issue).

HERC efforts have gone well beyond closing of the cost data gap. Over the last decade, HERC has served VA researchers with courses, seminars, guidebooks, technical reports, data sets, and a consulting service. The HERC course on econometrics is helping our research colleagues learn that health economics is not just about counting costs-- econometric methods are ideally suited for the analysis of observational data from health services studies. HERC chaired the committee that established the HSR&D Cyber-Seminar initiative. HERC now coordinates monthly economic Cyber-Seminars for the VA “virtual department” of health economics. HERC provides targeted help to QUERI researchers. HERC created a guide to methods of conducting preference assessments to determine Quality Adjusted Life Years (QALYs).

New Challenges for HERC

Despite this record of achievement, there are many new opportunities and challenges for your HSR&D economic resource center.

- **Cyber-Seminars.** We are surprised and gratified by continued growth in enrollment in the HERC courses. An important element of this is the great job of promotion done by the staff at the HSR&D CIDER. We are now attempting to arrange Continuing Medical Education credit for the upcoming HERC cost-effectiveness course.
• **Document payroll data.** HERC is now documenting PAID, the VA payroll database. This database not only provides salary information, it identifies provider specialty, and enumerates the population of VA employees for survey sampling.

• **Document contract data.** VA is increasingly turning to contract providers. It spent $3.8 billion on contract care in FY09, a 20% increase over the prior year. HERC hopes to improve its documentation of the contract care databases and to compare contract care data sources.

• **Facility-level data.** Econometric tools allow longitudinal evaluation of patients clustered by facility. There is a great need for panel data that characterize VA facilities, including the geographic variation in labor cost.

• **Patient-level data.** HERC has created databases with the annual costs incurred by each of the 5 million persons who use VHA. We would like to populate this database with DSS cost data, and with indicators of chronic disease status.

• **New DSS databases.** DSS continues to create new databases, includes a department level human resources database (ALBCC-HR) and a DSS dataset with cost incurred in each hospital ward.

Since HERC will also be busy updating its guidebooks and annual cost databases, we will turn to our customers and steering committee to set priorities. We will be conducting focus groups and fielding surveys, and will very much appreciate your participation.

**New Challenges for VA Health Economists**

After a decade of work, is our research having the intended impact? Are we helping improve the quality and efficiency of veterans' health care? It is great that HSR&D funds HERC to provide our colleagues with tools for economic research, but our ultimate success must come from those tools being used in studies that make a difference.

Cost-effectiveness analysis has been used to estimate the efficiency of hundreds of innovations in terms of dollars cost per gain in QALY. This method is widely applied throughout the world. Government funded institutes fund cost-effectiveness research in Canada, the United Kingdom, and many other countries. The health plans in these countries consider cost-effectiveness when making health care coverage decisions, helping them constrain cost increases without compromising population health.

CEA is not routinely applied in the United States, however. Some are concerned that considering cost-effectiveness represents unwarranted rationing of care. Political opposition has also come from those who provide pharmaceuticals, devices, and health services. Such opposition is understandable: if CEA were considered, some new treatments would need to be cheaper or more effective before they would be approved.

Researchers must share in the blame for the failure to use CEA in the U.S. Too few evaluations have been done. Important innovations have not been studied, and when they have, findings have not been timely. Methods have not been clearly described to decision makers.

The research community needs to better ascertain the needs of health care decision makers. We must do a better job of explaining how CEA is an appropriate decision aid. We must not only provide information on cost-effectiveness, we also need to project the cost of covering new innovations by conducting Budget Impact Analyses.

Research must be timely. We can shorten our response time if we anticipate future needs and pre-position our resources. Emergency agencies know that brush fires, tornadoes, and hurricanes are seasonal events, and they plan for them. We must develop analytic models in all of the major disease areas, so that we are ready and waiting when new interventions are developed.

The Veterans Health Administration is well positioned to be a leader in using cost-effectiveness analysis. VHA is a globally budgeted, national system that seeks to offer a consistent health benefit to every eligible veteran. VHA has a well-funded research service and a system of tracking utilization and cost that is the envy of other health care plans.

But before CEA can be part of our decision making, we must demonstrate to the members of our plan, the nation's veterans, that cost-effectiveness is not about limiting care. It is about getting the greatest possible health benefit from the available resources.

Every household understands that resources are limited, and choices must be made. These choices involve a trade-off between cost and value. Cost-effectiveness analysis will be essential to getting the best possible outcomes from our health care expenditures.
FY 2008 HERC Average Cost Estimates

The HERC Average Cost datasets for FY 2008 have been generated and are now available to VA researchers. For the HERC data repository location at Austin Information Technology Center (AITC), please refer to the companion guidebooks, and to our intranet site. We have not made any notable modifications to the files since last fiscal year.

Overview of New DSS Products by HERC

We are happy to announce the availability of three new products by HERC based on Decision Support System (DSS) data. Below are brief descriptions of each.

DSS Station Cost Data Set

Ever wonder how much VA was spending for nursing home care at the Ann Arbor VA? Or, are you interested in knowing how VA's mental health spending has changed over time? HERC's Station Level data sets contain total expenditures for VA care in HERC-designated service categories. These data report the annual costs and total utilization (inpatient days or outpatient visits) for twelve inpatient and thirteen outpatient service categories. Inpatients services include medicine and surgery, rehabilitation, blind rehabilitation, spinal cord injury, specialized psychiatric, substance abuse treatment, intermediate medicine, domiciliary, and psychosocial residential rehabilitation stays (psychiatric and substance use). Outpatient services include: medicine, dialysis, ancillary, rehab, diagnostics, pharmacy, prosthetics, surgery, psychiatry, substance use, dental, adult day, and home care. The Station Level cost data sets contain one record per service per station, as identified by 3-digit station number (STA3N), per fiscal year. The Station Level cost data sets are named stationXX (where XX refers to the fiscal year of the data set). Datasets for FY 2000-2007 can be found on the VA mainframe at Austin.

Guide to Intermediate Product Department Extracts

HERC researchers have produced a guidebook describing the use of the DSS National Intermediate Product Department Extract Files. In 2005, DSS files were released to VA researchers at the level of the intermediate product department for each encounter for inpatient (T-IPD) and outpatient (O-IPD) care. These files provide more detailed cost information for specific types of care. The IPD extract files are available for all fiscal years beginning in 2003.

HERC has also created a permanent SAS format library for the product department names (IPD_NUM) for files FY 2003 through FY 2008. HERC has made this file available at Austin Information Technology Center (AITC) for use by researchers.

Additional Cost Field for DSS Discharge Extract

VA researchers frequently want to analyze discharge data. The DSS Discharge (DISCH) National Data Extract (NDE) includes information on the discharge bed section, but does not have information on other treating specialties in a hospital stay. If this detail is important, then researchers must extract information from the Treating Specialty (TRT) NDE. However, this process can become tedious since information on some stays is in the TRT files from multiple years, for example, when a stay begins before the fiscal year of discharge. To expedite this process, we created a HERC DISCH file beginning in fiscal year (FY) 2007 that is functionally identical to the DSS DISCH NDE with the exception of additional fields containing cost and length of stay subtotals for each inpatient category of care, e.g., acute medicine, psychiatry, nursing home, etc. HERC has made this file available at AITC. A companion guidebook to this product is also available.

Please note that researchers using these products will require DSS tasks codes to access the data repository at AITC. For the location of these files, please refer to their respective guidebooks on the HERC intranet or e-mail us at herc@va.gov.
Health economists from government and the private sector have released a new compendium of best practices for studying the changes in U.S. health care costs. The 21 papers written by the group appeared as a special supplement to the July issue of the journal Medical Care. The papers identify the best methods for health costing research, such as studies of the growth in health care expenditures, identification of the cost of illness, cost-effectiveness analyses, and evaluation of health care policies.

The supplement is the result of collaboration between three federal agencies: the National Cancer Institute (NCI), the Agency for Healthcare Research and Quality (AHRQ), and the Department of Veterans Affairs (VA). Written by experts in health economics, epidemiology, health services research, and biostatistics, the papers discuss ways to improve and apply health care cost estimation methods and promote research in this area. Health economists from University, health plans, and private industry contributed to the effort.

The papers in the special issue examine best practices and challenges in measuring costs, conducting statistical analysis of cost data, and applying the data to policy decisions. The special issue also outlines an agenda for future research. It includes an inventory of 80 data sources that can be used in health care costing studies.

The publication, Health Care Costing: Data, Methods, Future Directions, is available at AHRQ Publications Clearinghouse. Please order by specifying AHRQ publication number OM 09-0079: Medical Care supplement on health care costing. If more than one copy is needed, please describe the reason in your request.

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