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Health Economics Resource Center

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Health Economics Resource Center



Dedicated to improving
the quality of health economics research



The Health Economics Resource Center (HERC) is dedicated to improving the quality of economics

research conducted by the U.S. Department of Veterans Affairs (VA). It is a national center that assists VA researchers in assessing the cost-effectiveness of medical care and evaluating the efficiency of VA programs and providers.

What does VA care cost?

To conduct high-quality health economics research, VA must be able to determine its health care costs. Because VA does not routinely prepare patient bills, VA researchers and analysts must rely on other sources to calculate the cost of health care encounters. Three alternatives are available: average costing, micro-cost methods, and the Decision Support System.



The average cost method is based on relative values derived from non-VA cost datasets, VA utilization data, and department costs obtained from the cost distribution report. Every encounter with the same characteristics is assumed to cost the same.

Micro-cost methods include three approaches. The *pseudo-bill* requires detailed utilization data,

much like the lines in an itemized hospital bill. The cost of each item is estimated using Medicare reimbursement rates, the charge rates of an affiliated university medical center, or some other non-VA sector source.

The *cost function* method requires detailed cost and utilization data for a specific, non-VA service to simulate the cost of a comparable VA service.

Direct measurement is used to determine the cost of new interventions and programs unique to VA.



It directly measures inputs, such as staff time and supply costs, to develop a precise cost estimate.

Researchers are beginning to use the *Decision Support System*, a computerized cost-allocation system adopted by VA. DSS staff are undertaking the difficult task of allocating costs to VA health care products and patients' stays.

The best method to use depends on the level of accuracy required. Micro-costing methods are accurate, but expensive to employ. Average cost methods are easier to undertake, but the cost estimate may not fully reflect how the intervention affects the resources used in providing care. In fact, it is often appropriate to use mixed methodologies in the same study. Usually one uses a micro-cost method to estimate the cost of care associated with

an intervention or the issue under study, and a simpler average cost method to find the cost of other unrelated care.

What does HERC do?

- Provides researchers with telephone support, training courses, handbooks, a web site, a shared knowledge base, and a centralized point of access to cost determination tools.
- Develops, tests, evaluates, and disseminates micro-cost and average cost methods and improves the theoretical basis of health care cost determination.
- Helps users with micro-cost methods: pseudo-bill, cost function, and direct measure.
- Creates a comprehensive set of estimates of the cost of every VA health care encounter based on an average cost method and documents the appropriate use of these estimates.
- Trains researchers in the use of VA databases for economic research, with a focus on the use of the Decision Support System as a research tool.
- Promotes health economics research by describing other economic data sets, identifying changes in VA information policy needed for economics research, and creating forums for research dissemination.