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VC Investing Can Lower Health Costs

Brian Deagon
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There are many problems with U.S. health care, but the biggest is that costs are rising at triple the annual rate of inflation.

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So says Albert Waxman, co-founder of venture capital firm Psilos Group. Formed 11 years ago to invest in health care startups, it's expanded into technology as well.

Waxman has 40-plus years of experience as an entrepreneur, CEO and investor in health care.

He recently spoke with IBD about how innovation can help solve the problem of rapidly rising costs.

IBD: What's your view on today's health care debate?

Waxman: We have to focus on eliminating or dramatically reducing the annual inflation rate of health care, which is three to four times higher than the consumer price index. That is critical. We've got to find a way to reform health care so that we can bring the inflationary costs down. Otherwise, frankly, it's going to ruin American business and dramatically impact the deficit.

IBD: How can we do that?

Waxman: One way is to change the way we take care of the chronically ill, by adding remote patient monitoring. (Sensors or devices attached to a patient send a data feed to health care professionals who then remotely monitor the patient, reducing hospital stays and cutting a bevy of costs.) It's been proven to be tremendously successful within the Veterans Administration. With remote patient monitoring, the conservative estimates are that in the early years you would save \$25 billion to \$30 billion a year. By the 10th year, you'd be saving close to \$100 billion a year.

Another way to save is by reducing medication errors in hospitals, which adds \$7 billion to 8 billion in extra costs per year.

If you know that there are really good ideas and you have a high belief it will save money, invest in that but invest carefully and slowly. And as you generate savings, use that money to provide insurance relief to the people who can't afford insurance.

IBD: What role can the VC community play in improving and expanding quality health care?

Waxman: There is a significant opportunity, such as using information technology to improve efficiency and investing in cost-efficient technologies that eliminate errors.

All of those things represent an opportunity to save money. Many of the things I talk about, like remote patient monitoring, were created with venture capital money.

Another idea that has been talked a lot about -- purchasing models, which give the consumer a much bigger voice in the purchase of their insurance -- came out of a company that we invested in, called Extend Health.

IBD: How have your investments in the health field performed?

Waxman: In remote patient monitoring, we invested in a leading company, Health Hero, which was acquired by Robert Bosch. It makes a device that looks like a PDA and can dramatically reduce the costs of caring for the chronically ill. We also invested in a company called ActiveHealth, an innovator in personal health records. We successfully sold that company to Aetna (NYSE:AET - News). We also have been very successful in investing in medical device companies.

IBD: Has the uncertainty about health care reform changed your investment strategy?



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Waxman: Whether we have a private health care system or a public one, there is no question that both sides will have to figure out how to improve quality and reduce costs. As we look at the possible impact of health care reform, we've seen five different bills and all of them are pretty consistent with our investment strategies. So we are not particularly frightened about that.

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As to the long-term effects, I think if we don't have a private system, you will probably see a diminished amount of innovation in health care. Frankly, the U.S. is really the driving force for almost all health care innovation in the world. I think it's important to maintain a private system to foster innovation.

IBD: What's your main concern about possible changes to the health care system?

Waxman: My biggest fear is having health care reform pass that provides more insurance but does not enable a number of things we can do to help reduce costs, eliminate errors, things of that sort.

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