

After Reform of Insurance System What About Health Care Delivery System?

Stuart H. Altman, Ph.D.

**Sol C. Chaikin Professor of National Health Policy
The Heller School for Social Policy and Management
Brandeis University**

Three Issues Dominate Healthcare Policy Debate

The Need to:

1. Create a Universal Healthcare Financing System
2. Develop Programs to Reduce The Rate of Growth in Healthcare Spending
3. Improve the Quality of Care Delivered

**Most of Current Reform Debate
Has Focused On Health Care
Insurance System**

Major Options for Creating Universal Coverage

1. Create a All Government Paid Healthcare Financing System
2. Restructure the Existing Mixed Public/Private System and Maintain Current Tax Preference for Employer Sponsored Coverage
3. Eliminate Tax Preference and Use Tax Credits to Subsidize Coverage

Obama and Congressional Committees Opted For Option 2

Most Components of Senate Finance Committee Structure Likely To Prevail

*Similar To The Reform Plan of
Massachusetts With Some
Significant Differences*

Key Components of Senate Finance Committee Plan

- Limited Public Plan
- Federal Subsidies for Medicaid Expansion and Low Income Purchase of Pvt. Insurance
- Individual Mandate With Limited or No Penalties for Non-Participation
- Significant Insurance Reform
- Taxing Very High Premium Insurance Coverage

Key Components of Senate Finance Committee Plan

- Federal Spending 2010-2019 to Increase By \$829 Billion
- Expected Reductions in Other Federal Spending and Increased Revenues Will Reduce Deficit by \$83 Billion
- If Budget Target Not Met Subsidies for Purchase of Insurance Will Be Cut

Senate Finance Bill Would Reduce Uninsured By 29 Million in 2019.

*Number of Uninsured Would Equal
25 Million, 6% of non-elderly Pop.
(one-third unauthorized immigrants)*

As Alternative House Committee Bill Would Cover 9 Million More

*Added Coverage Would Add \$100 to
\$150 Billion Paid By Added Tax on
Wealthy*

Finance Committee Impact on Medicare and Medicaid

- Reductions in annual updates in Medicare Payments in fee-for-service sector (other than physician services)
- Significant Reduction in Medicare Advantage Payments (using competitive bidding)
- Reduce Medicare and Medicaid disproportionate payments for low-income patients
- Medicare Commission to limit growth in spending

**Federal Health Care Spending
Will Be Lower---***But What About
Other Sector Spending for Health
Care*

*Will The Spending Growth
Rate Be Reduced*

Limited Impact of Reform on Structure of Health Care Delivery System

*Overall Health Care Spending
Growth Curve Will Bend---But Only
Slightly*

Likely Increases In Spending By Other Sectors

- Some Increases In State Spending for Increase Medicaid Coverage
- Significant Increases in Private Insurance Premiums
 - More “Cost Shifting”
 - Younger healthier will not insure
 - Taxes on insurance companies
- Substantial Increase in Premiums Paid By Young Adults
- Higher Individual Co-Payments and Deductibles

WHY?

If Plans Included Serious Control of Costs---

I fear We Could Not Repeal

Altman's Law

Altman's Law

Most Every Powerful
Constituent Group Favors
Health Reform BUT If It is Not
Their Plan They Prefer The
"Status Quo"

Health Reform Provides Additional Funds to Most Health Sectors

- Cuts in **Physician** payments under SGR eliminated for one year
- **Drug Companies** Finance plan would eliminate cut in could see substantial increase in earnings and give back only a portion
- Elimination of a major portion of **Hospital** bad debts. Hospitals to give back a portion of low income subsidy payments
- Only **Insurance Companies** will see declines in revenues particularly from Medicare Advantage program

**Proposed Medicare Commission
Could Not Reduce Payments to
Hospitals Beyond Agreement for 10
Years**

*Physicians, Drug Companies and
Other Provider Groups Also Want
Exemption*

Why Are Healthcare Cost Rising?

The Current Big Debate---What is Driving The Increase In Health Costs

Price Increases Versus Growth In
Use of Services!

**Most Proposals To Limit Growth In
Spending Through Delivery System
Reform Assume Major Problem Is
Excess Utilization**

*But Recent Analysis Show Spending
Increases Mainly Due To Price
Increases*

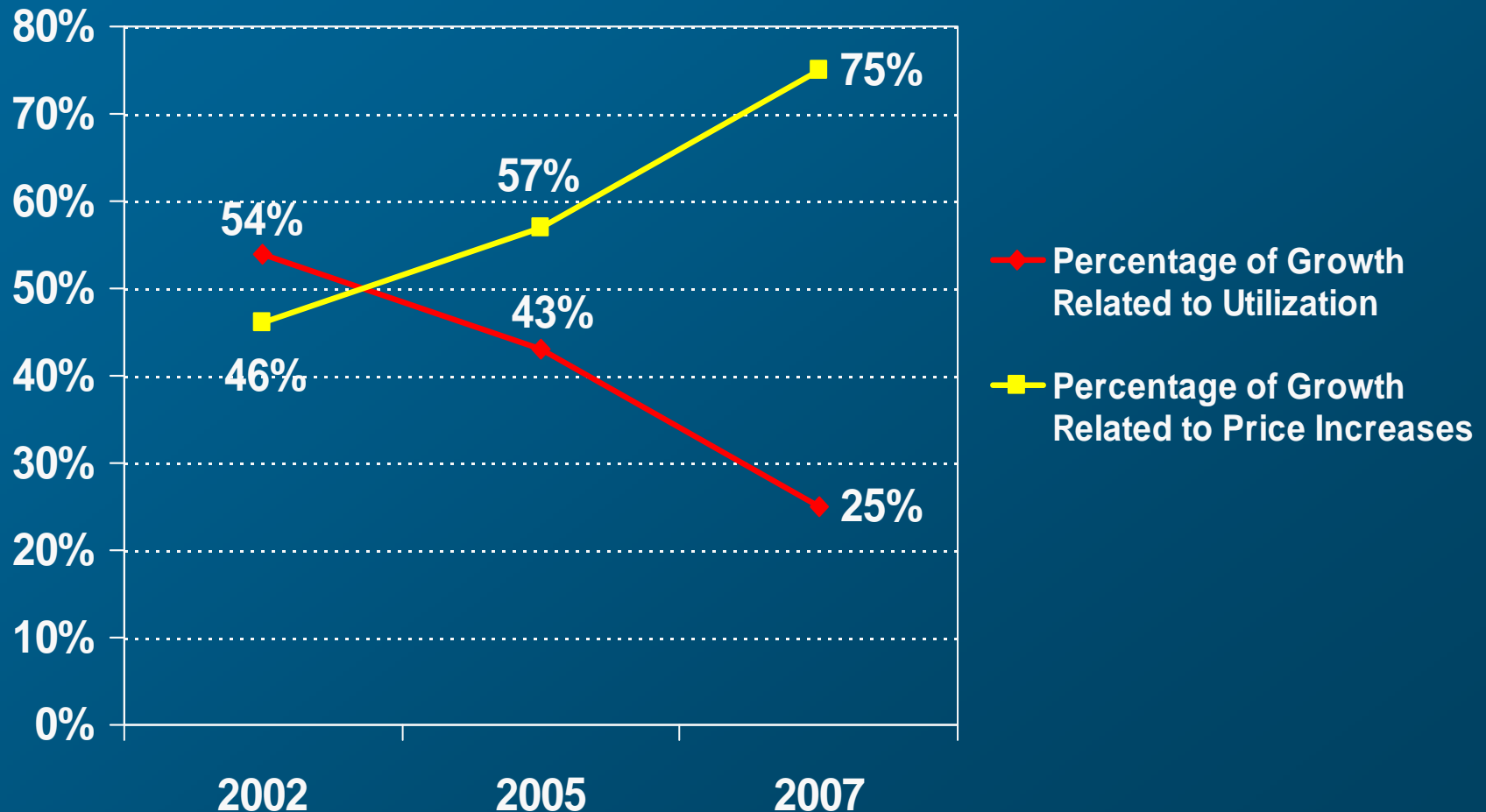
Factors Affecting Per-Capita Spending Trend for Hospital Services 1994-2004



Source: Strunk et al. "Health Care Costs: Declining Growth Rate Pauses in 2004," Health Affairs, June 2005 .

What Is Driving Health Insurance Premiums

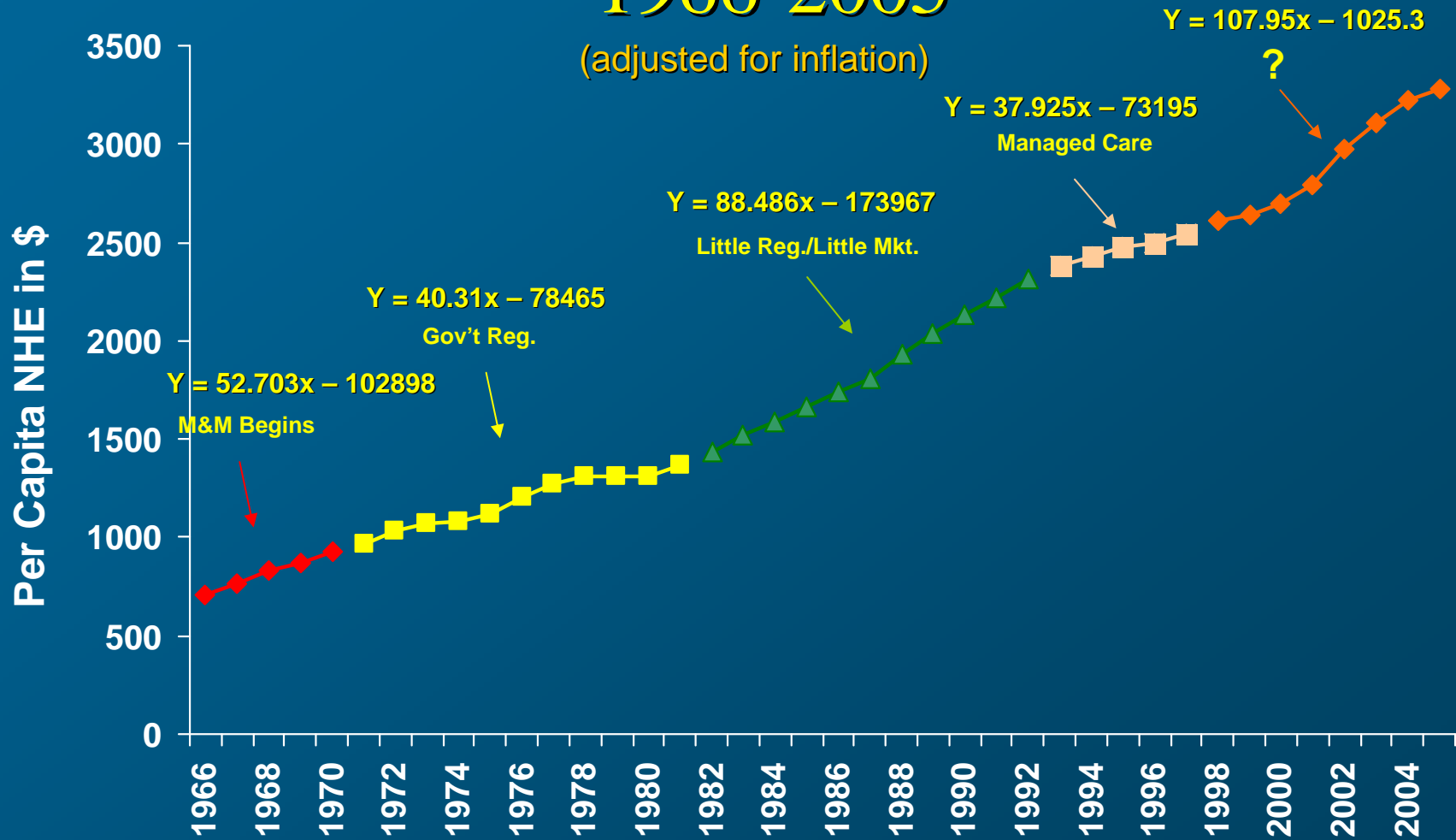
Price vs. Utilization



The U.S. Has In The Past Tried To Control Health Spending---

*BUT----With Limited Success and For
a Limited Time Period*

The Changing Growth Pattern of Per Capita National Health Expenditure 1966-2005



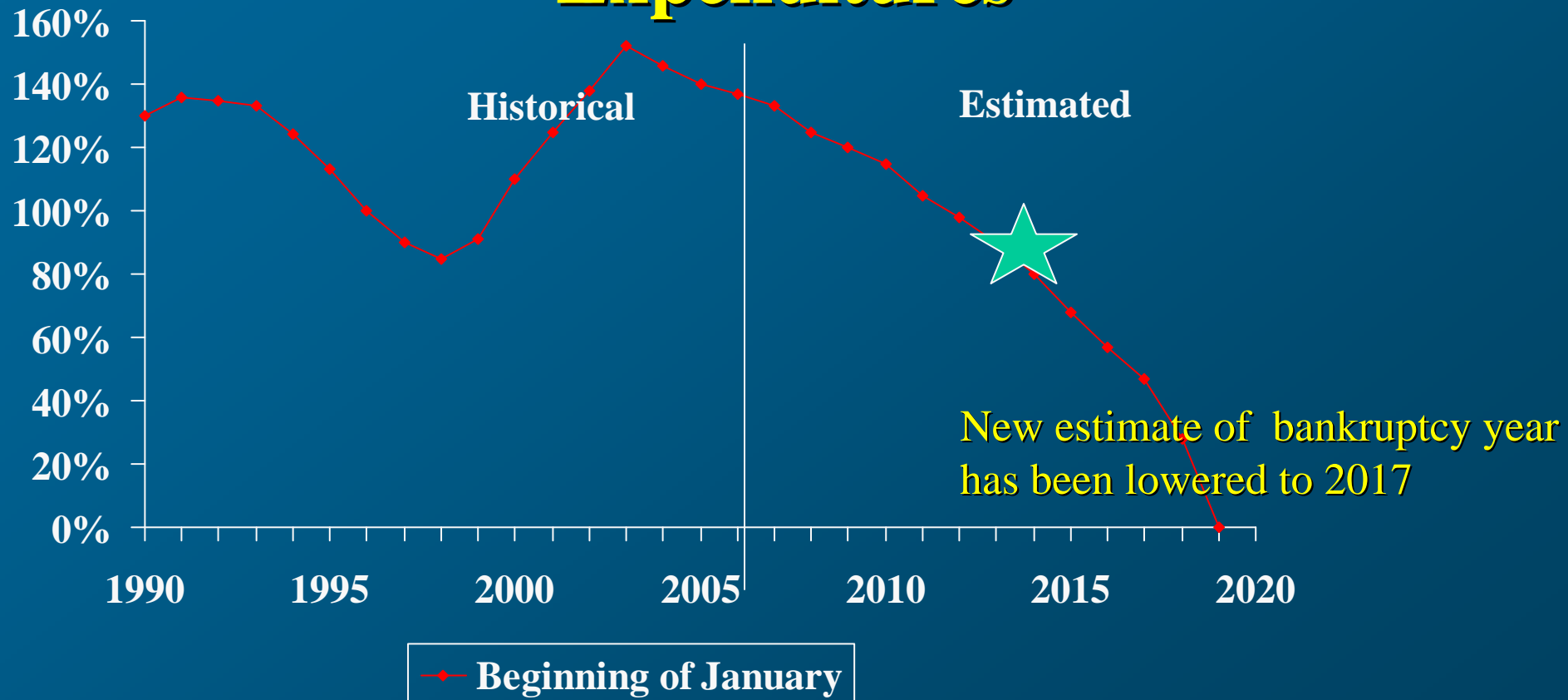
BUT WAIT-----*The 800 lb. Gorilla
of U.S. Healthcare Financing
Problems Is Coming!*

Medicare

Current Reform Plans Include Substantial Reductions In Spending

*But Reductions Unlikely To
Eliminate Long-Term Problems*

HI Trust Fund Balance At Beginning Of Year As A Percentage Of Annual Expenditures



SOURCE: 2004 Annual Report of The Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

**The Problem is Not Medicare's
Alone It Is Our Entire Health care
System**

Where We Need To Go---*We Must
Change The Current Health Care
Payment and Delivery Systems*

Commonwealth Fund ---

*“Framework for a High
Performance Health System”*

*Need to Deliver Care Through Healthcare
Systems That Emphasize Coordination
and Integration*

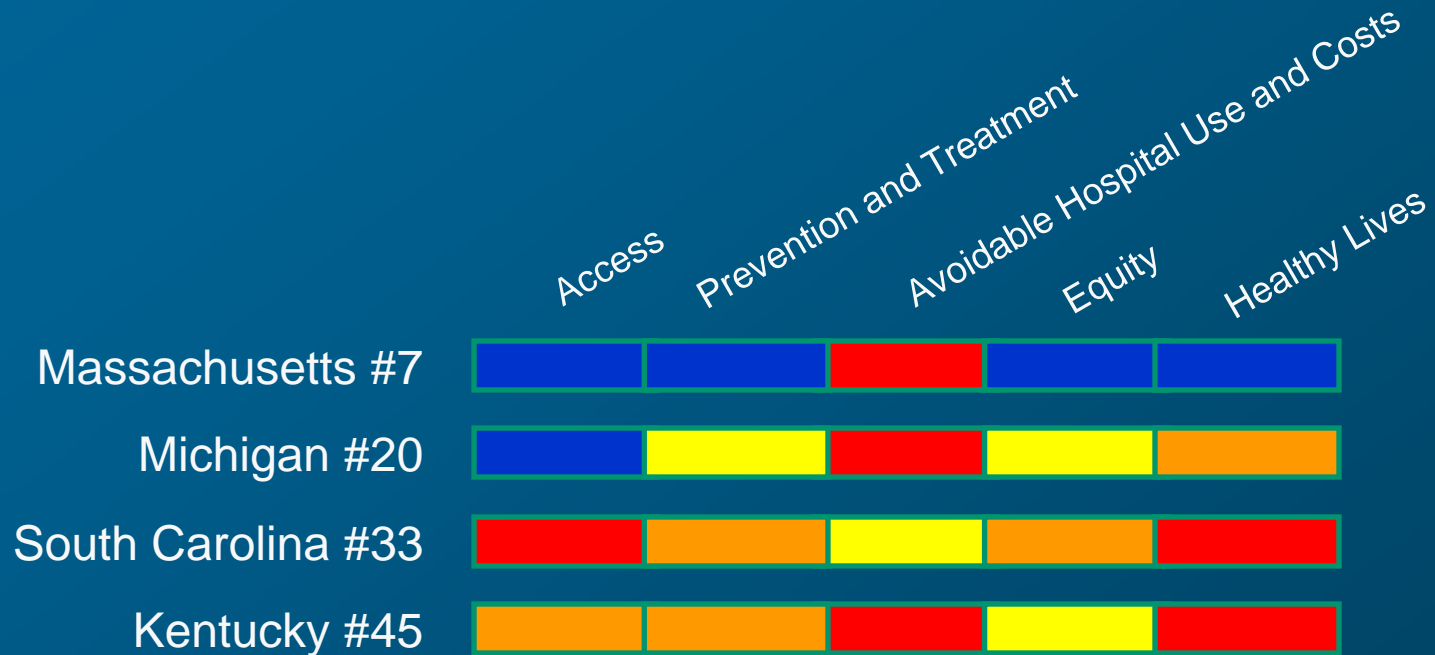
Authors of The Commonwealth Fund Report Believe ---

“Improved safety and quality envision cooperative behavior between hospitals and physicians so as to make optimum use of expanded health IT, hospital P4P and chronic care management for the frail elderly and patients with severe chronic conditions”

**Any Significant Restructuring of
Healthcare Delivery System Will
Require Reimbursement Systems That
Supports Such Behavior----**

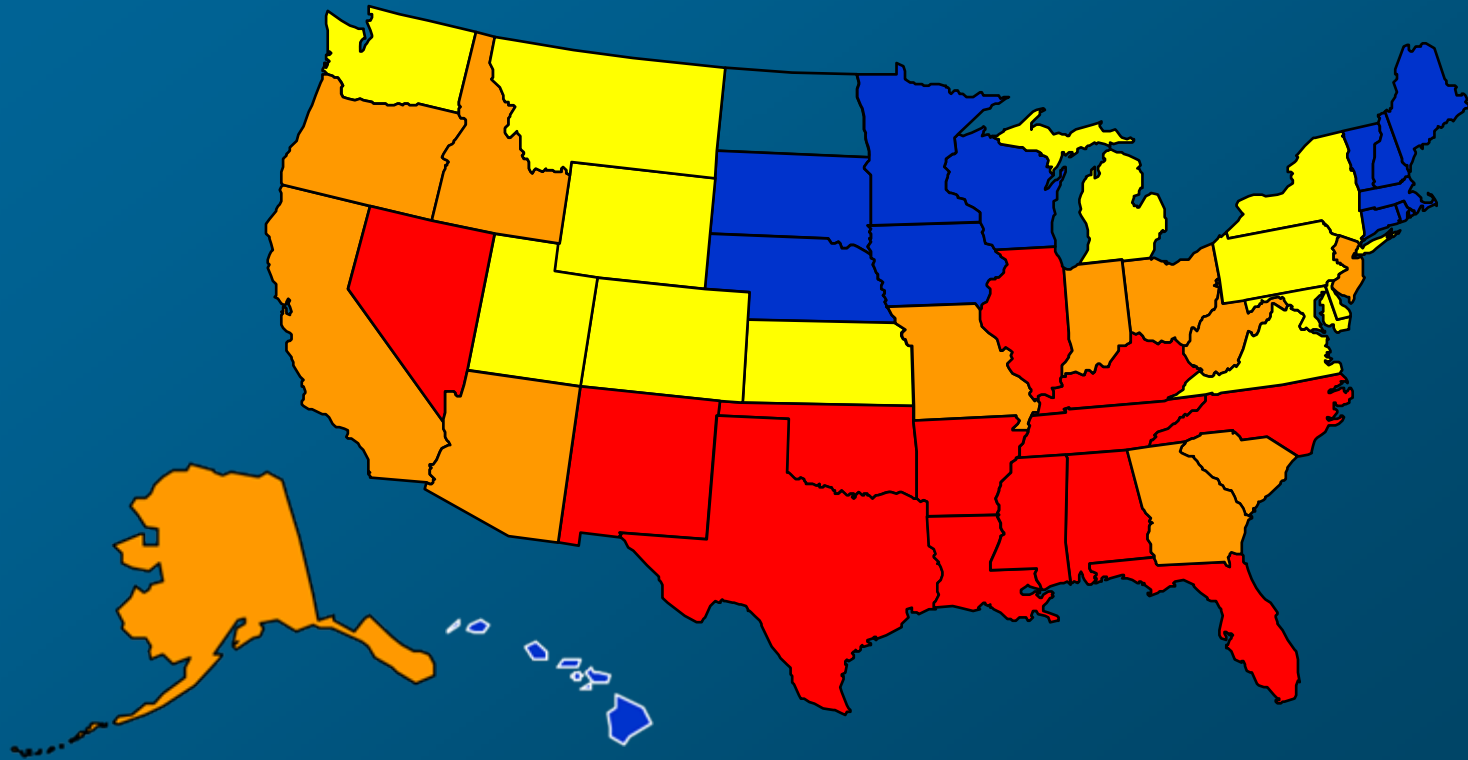
Fee-for-Service System Needs to be
Modified or Abandoned!

How States Are Classified In Terms of Health System Performance



■ First Quartile ■ Second Quartile ■ Third Quartile ■ Fourth Quartile

State Summary of Health System Performance



Options For Changing Payment System

- **Bundled or Case Payments**
- **Significant Pay-for-Performance Add-On or Penalties**
- **Value-Based Payments**
- **Permit Wider Use of “Gain-sharing” Between Hospitals and Doctors**

Aligning Incentives Between Hospitals and Doctors

- The Importance of a Value-Based Payment System---
 - Allows Hospitals to Be Rewarded for More Appropriate and Cost Effective Care
 - Permits Hospitals to Share With Physicians The Benefits of Higher Valued Care
- Need Transparency and Elimination of Conflicts of Interest

Some Delivery, Payment and Workforce Changes Will Be In Health Reform Legislation

- Bundle Payment for Acute and Post Acute Care
- Penalties for Excess Re-admissions
- More Extensive Pilot or Demonstrations for Bundle Payments Including Ambulatory Care
 - Special emphasis on chronic conditions
- Extra Funding To Expand Primary Care Workforce
 - Medical Home
 - Additional funding for Primary Care Residencies
 - Expand Primary Care Workforce--Give More Independent Responsibilities to Nurses and Other Healthcare Professionals

**Increased Incentives For
Providers and Patients To Use
More Efficient Home Based
Services**

One Final Issue---

**Why We Need An Appropriate
But Effective Comparative
Effectiveness System**

**And Yes It Needs To Include Both
Clinical and Cost Effectiveness
Components**