



SOME ASSEMBLY REQUIRED

COST CONTAINMENT IN THE SENATE HEALTH REFORM BILL

A Utah Health Policy Project Research Summary

December 22, 2009

THE POINT IS TO GET STARTED...

To summarize [a recent UHPP analysis](#), cost containment measures in the Senate bill are as strong as they can be at this stage of the reform process, and this is why national health reforms cannot wait another year. Widespread bipartisan consensus exists that reforms need to get underneath the cost problem; however, national health reform legislation has been heavily criticized for not doing enough to truly rein in costs. These criticisms are not without merit, but they go too far: Although economists have debated for years about how to control costs, there is at present very little practical experience to guide policymakers. Therefore, the Senate bill begins appropriately at square one, with pilot projects to test what is achievable.

BENDING THE CURVE—WHAT IS REALISTIC?

The legislation being debated in Congress right now creates a much needed starting point for addressing the concerns about rising health care costs and waste in our current health care delivery system. **Both versions of reform legislation contain costs better than we have been able to achieve to this point.** The Congressional Budget Office (CBO) estimates the House version of the bill would save \$398 billion over a 10-year period, while the Senate version will yield savings of \$435 billion. It cannot be stressed enough that these savings are only calculated by the CBO for public programs—Medicare and Medicaid—and not for the entire private market. Looking at just the Senate bill, the Commonwealth Fund estimated \$1.5 trillion in savings over 10 years in *both* the public and private sectors.

Senate bill outlines 4 cost containment mechanisms...

1. **Deficit Neutrality:** fiscal responsibility is a necessary component of a sustainable health care delivery and payment system. The CBO estimates that the Senate bill is not only budget neutral but will reduce the deficit by \$130 billion

THE PROBLEM OF COSTS

The current trajectory of rising health care costs is unsustainable for families, businesses, and taxpayers.

- 92% of Utahns are concerned about cost.
- The average annual premium for employer-sponsored family insurance more than doubled over the last decade, rising from \$5,800 to \$13,400.
- For a quarter of Utah families, health care costs are a major financial strain, consuming more than 10% of their income.

High health care costs also impact the bottom lines of our large and small businesses.

- Over the past decade the number of Utah employers offering health insurance decreased by almost 9%.
- 88% of small businesses not offering insurance say they can't afford to, while 79% of those who do offer it say they are struggling to do so.

On our current trajectory, costs will continue to skyrocket, consuming all future wage increases and economic growth. Part of what makes health care so expensive is that the health care system as a whole is inefficient and riddled with perverse incentives. With separate payments for each individual test and procedure, providers have incentives to *give more medicine rather than better medicine*. The result is increased paperwork and duplication, while discouraging providers from working together to achieve the best possible outcomes for their patients.

over 10 years.

2. **Excise Tax:** A tax on cadillac health plans is meant to change behavior, not just simply raise revenue. It will restrain the growth in health care costs in the private sector by incentivizing employers to limit the cost of plans and putting employees back in touch with the true cost of their health coverage.
3. **Independent Medicare Commission:** An advisory board would submit proposals to Congress containing recommendations to reduce the per capita rate of growth in Medicare spending if spending exceeds a targeted growth rate.
4. **Payment and Delivery System Reforms:** As there is little practical experience to draw from in this area, the legislation takes a measured approach by creating pilot programs to test several payment and delivery system changes, including:
 - a. moving from a fee-for-service to an episode-of-care model;
 - b. bundling payments for care, particularly for treatment of chronic conditions like diabetes and asthma; creating medical homes;
 - c. reducing hospital readmissions and hospital acquired infections;
 - d. testing wellness programs, and;
 - e. funding comparative effectiveness research.

These pilot programs will be the foundation for transforming our health care system to be less fragmented, more organized, and better aligned with evidence-based medicine.

CONCLUSION

While the end result of what comes out of Congress may not be ideal or as robust as we'd like, the proposed reforms provide a starting point towards addressing the persistent challenges we face in delivering quality, affordable health care coverage. Our analysis underscores the need to get started on the reform process if not for any other reason than to determine what works – and what does not. Based on the state's proven expertise in managing health care costs, Utah has the potential to be a national model in this arena. Our take-home message is this: reform is a process. There will never be a silver bullet or definitive solution. Rather, reform must be an ongoing, iterative process, and the legislation being debated starts us down the right track.

For further details, see the complete UHPP analysis here:

http://www.healthpolicyproject.org/Publications_files/USHARE/CostContainmentFINAL12102009.pdf