



NEW AMERICA
FOUNDATION

The Emerging Shape of Health Reform

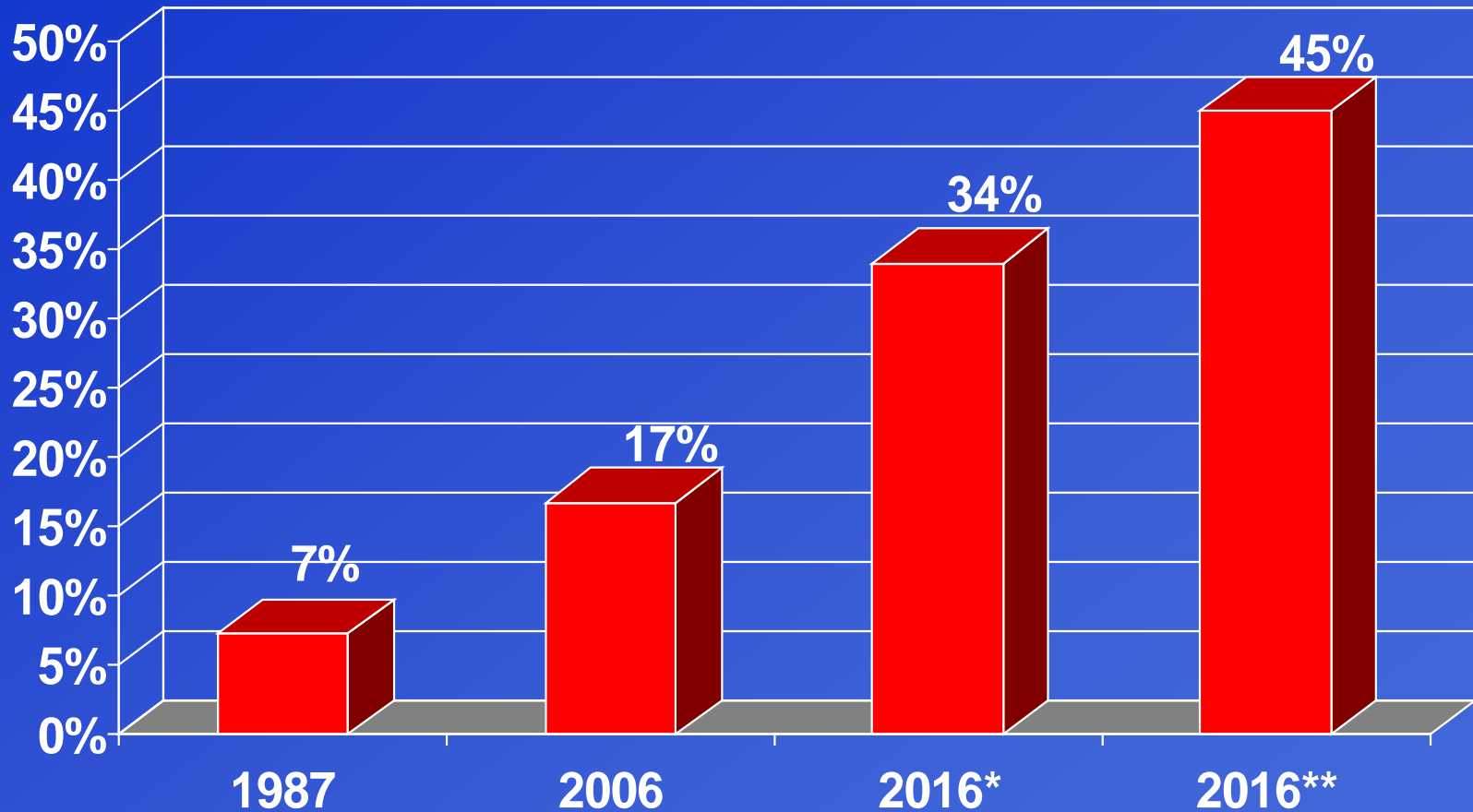
Len Nichols, Ph.D.
Director, Health Policy Program
New America Foundation

San Diegans for Health Coverage
July 17, 2009
San Diego, CA

Overview

- Why
- What is on the table
- What is *really* on the table
- Why we WILL do this
- Why we Won't
- Why I'm Optimistic

Percent of median family income required to purchase family health insurance



Source: Author's calculations, using KFF and AHRQ premium data, CPS income data, plus projections from Carpenter and Axeen, *The Cost of Doing Nothing*, 2008.

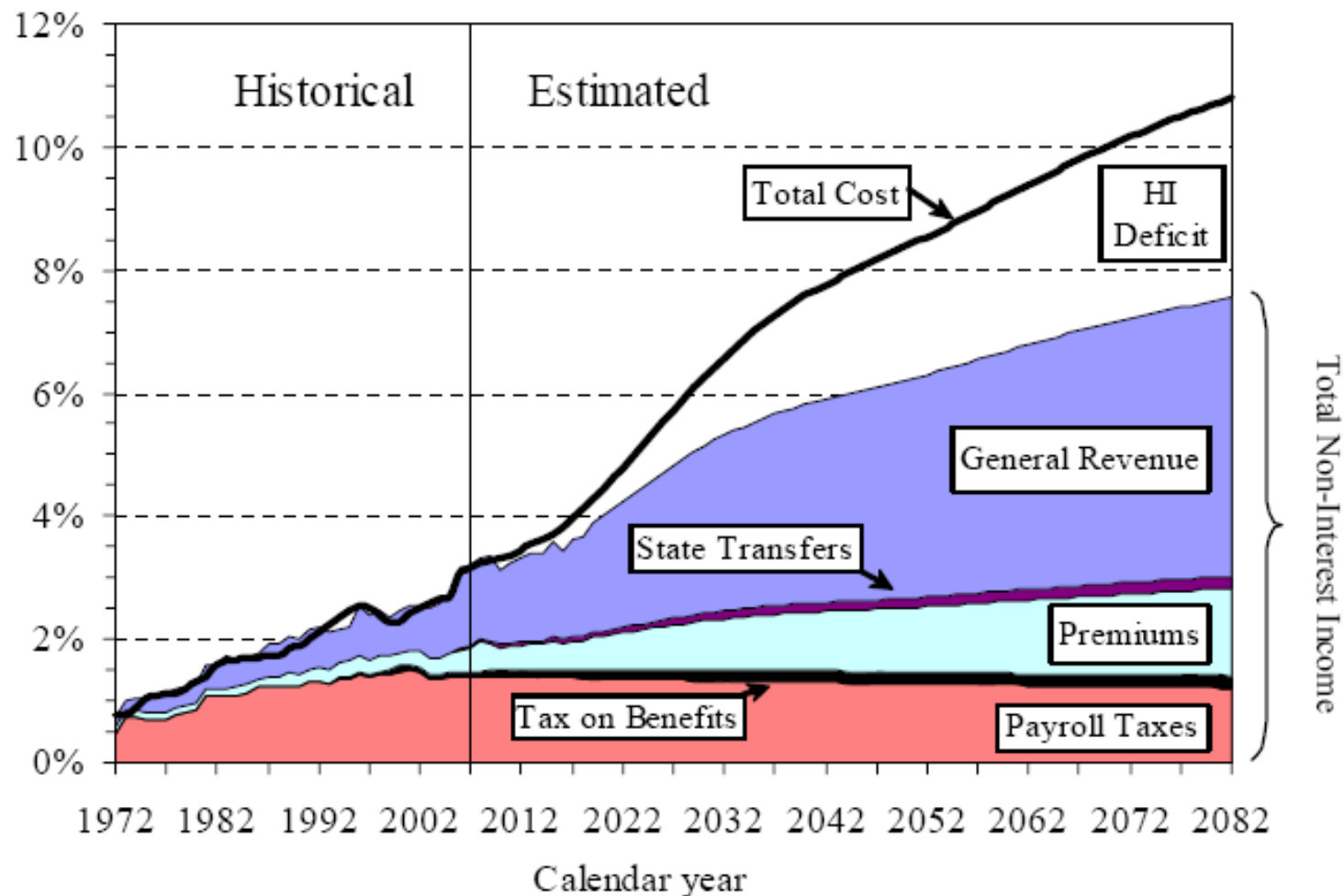
Uninsured Opportunity Cost

- More likely to be diagnosed late, and to die (18-22,000 + per year) than insured
- Economic value lost \$103-207B
- Lost social cohesion
 - Isaiah and Colbert

Quality and Efficiency

- Beth McGlynn and Rand
 - Appropriate care 55% of the time
- National Academy of Engineering and Institute of Medicine
 - 30%, 5% of GDP, adds no clinical value
- Dartmouth (Wennberg and Fisher)
 - Geographic disparities are stunning
- MedPAC
 - 2/3 of hospitals lose money on Medicare
 - Case mix adjusted cost per case varies > 25%
- Atul Gawande: McAllen vs. Grand Junction
 - Struggle for the soul of American medicine

Chart D—Medicare Cost and Non-Interest Income by Source as a Percent of GDP



Source: Social Security and Medicare Trustees Report Summary, 2008.

The Good News

- Policy makers understand that delivery system reform must accompany coverage expansion/insurance market reform
- Many stakeholders are willing to say the status quo is unsustainable
- The economic meltdown has created a “tabula rasa” opportunity, to focus on true priorities

The Bad News

- Economic meltdown has cost a lot and we're not out of it by any means
- Partisan warfare makes it hard to support sufficient cost growth containment
- Kennedy's illness cost bi-partisanship in HELP committee, spills over into Finance
- Grassley needs R cover, too
- House (and now AMA!) would seem to prefer a Democrat-only strategy

What is on the Table?

- Covering All Americans + legal immigrants
 - Exchange + insurance reforms + purchase requirement
 - for individual and “small” group markets
 - Subsidies for lower income
 - Medicaid expansions for poor
- Paying for it
 - 1.6T = 0.8% of GDP over 10 years
 - Tax increases
 - Reducing tax exclusion for employer payments
 - Delivery system savings/Medicare savings

Hard Issues

- Competing public plan
- Payfors (are hard)
 - Tax cap is hard on Ds
 - Delivery reform is hard on providers
 - Taxes are hard on voters
 - Choices are hard on politicians
- How large is “small” business
- Pay or play
- Delivery reform is really about incentives

What is *REALLY* on the Table?

- Ds remember 1994
- Rs remember 1994, too
- Vision and style of Obama
- Obama credibility, Baucus + Waxman Legacy
- CAN our political system DO anything big?₁₁

Momentum

- HELP passed their bill on party line vote
- House is marking up in 3 committees simultaneously
- AMA endorsement of House bill effectively sanctions public plan
- BUT...

Anti-Momentum

- We Can't Afford This
- We aren't doing enough about cost growth over time
 - vs. Rationing/Socialism/High taxes
- Enemies of reform taking gloves off
- Moderates are nervous about D only bills

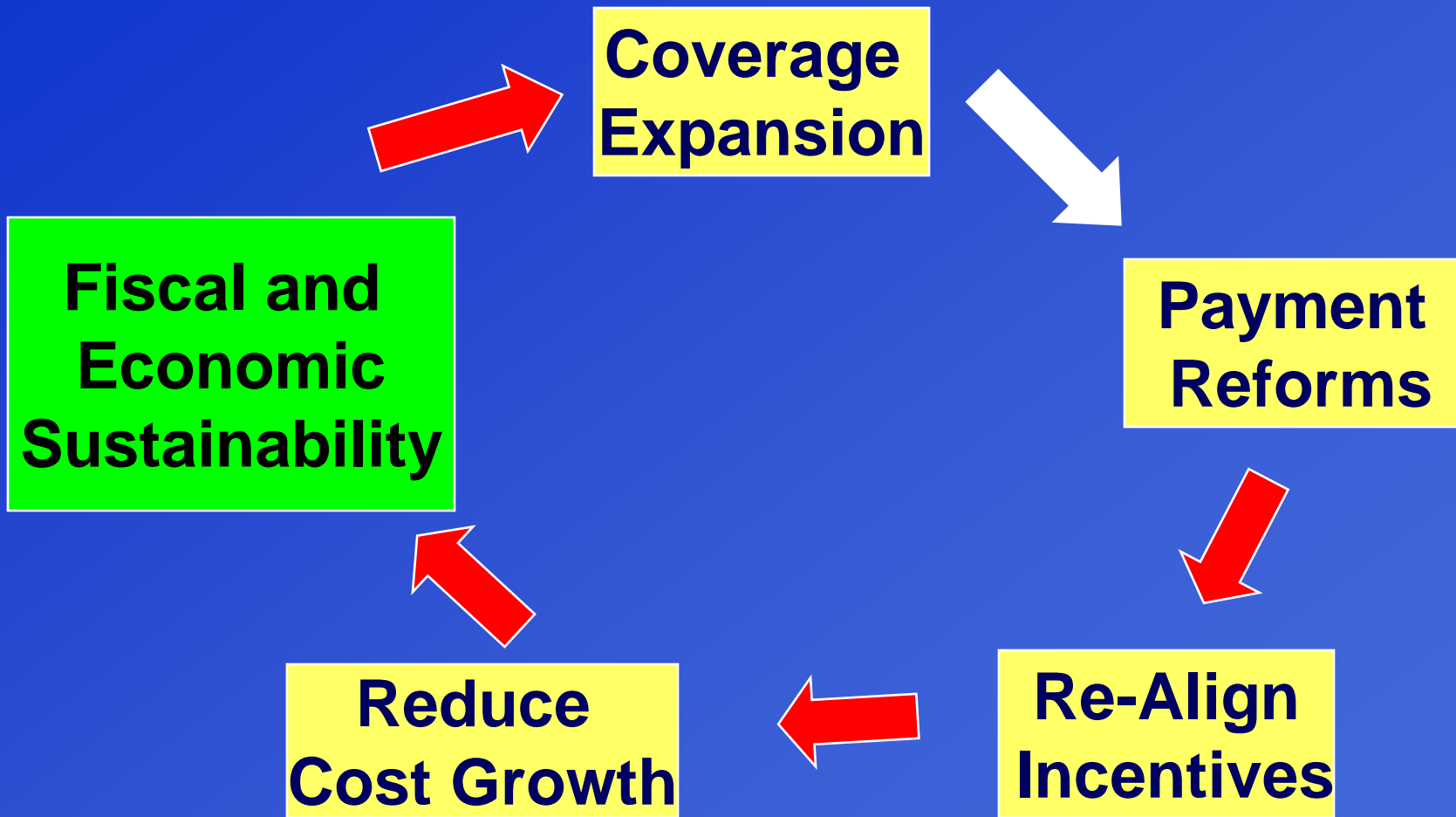
What You're Gonna Hear

- You can keep what you've got if you like it
- Trust, but Verify
 - Transparency of price and comparative quality info
 - Market outcomes and government programs will need to be monitored better
 - Will realigned incentives produce greater value?
- Shared Responsibility *is* the American Way
 - Individual responsibility is central
 - Community responsibility is to make it possible for each individual to take responsibility for himself or herself
- Change on this scale is impossible
- Economic and moral cost of doing nothing is high¹⁴

Why There's Still a Chance

- Obama, the great communicator
- Senate Republicans think longer term
- Smart Providers are scared of failure
- Some Employers are fairly desperate

Virtuous Cycle of BIG Reform



Conclusion

- House will pass bill by August recess
- EVERYONE in Senate feeling heat
 - The abyss of failure is terrifying
- Obama is key
- We will know by October 15, if not before
- Stay Calm, Carry On

Emerging Consensus

- FFS is *SO* 20th century (maybe 19th)
- “We’re spending enough, already, ...”
- Primary care and coordinated care needs to be nurtured
- Inappropriate use is *NOT* a black box
- Accountability is *LONG* overdue

What Is Meant by “Payment Reform?”

- Vision: align incentives among providers, payers, and patients
- Requires: Moving away from FFS
 - Sharing risk and reward in sustainable ways, i.e., managing joint accountability/shared responsibility
 - Bundling across time and space
 - Verification of quality and responsibility for that care
 - Shared responsibility includes patients
 - Antitrust, self-referral and other legal changes
 - Malpractice reform

Five Policy Problems

- Current FFS prices often “wrong” $P \neq C$
- Local provider market power $\Rightarrow P > C$
 - Ownership “anomalies” hurt here
- $Q > Q^*$ on average (Dartmouth, NAE, Atul)
- $C > C^*$ (MEDPAC, common observations)
- $P \rightarrow C^*$ will take “forever” through RUC, DRG revisions, etc.

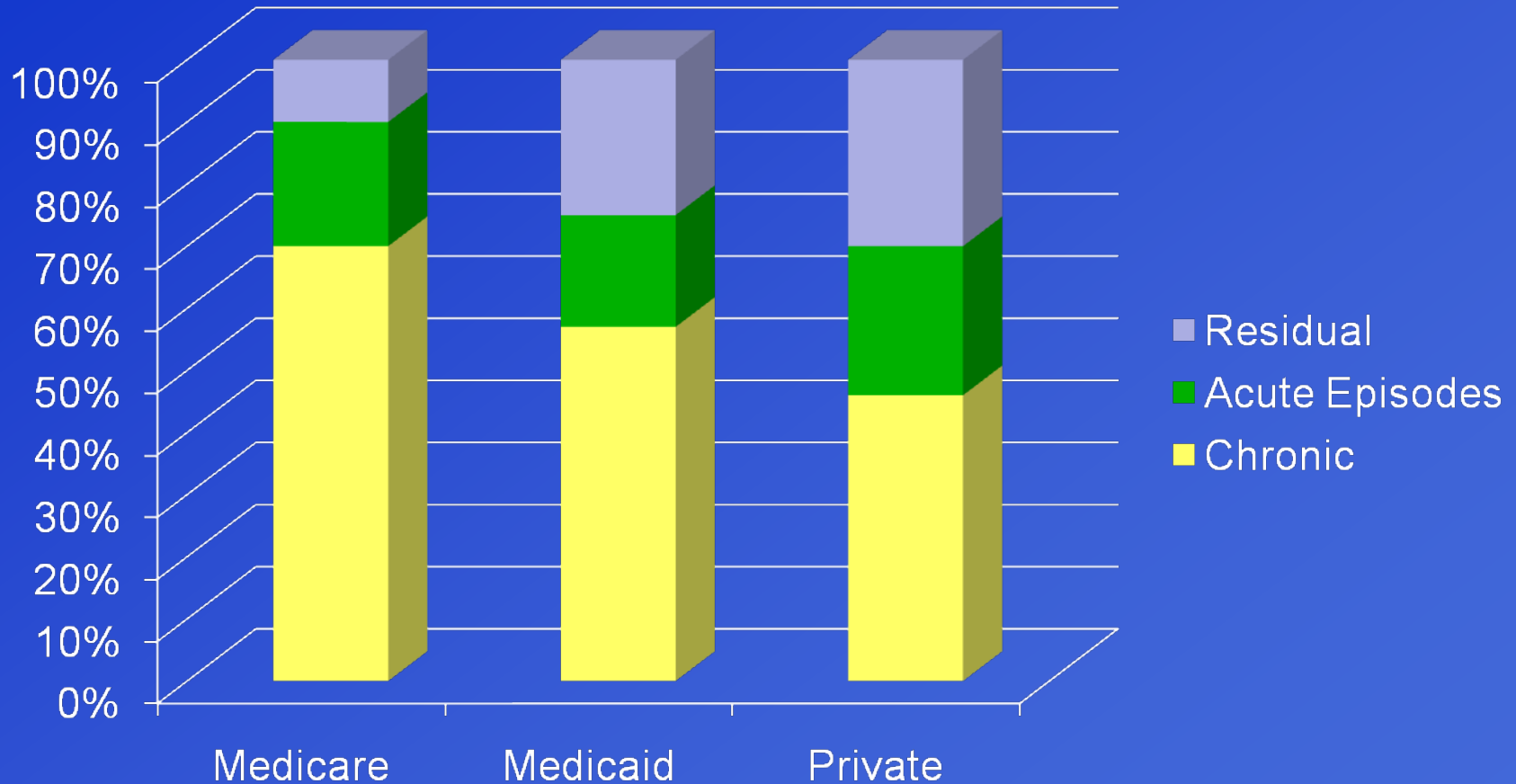
General Solution

- SO, enlarge unit (Q) for which we pay
 - Build bundles
 - From Promethean efforts (
 - From “Best” providers
 - And PAY (eventually) based on efficient bundle of Q^*
 - So $Q \rightarrow Q^*$ and then $C \rightarrow C^*$ “on average” or at least in right direction
 - Worry about price of bundle more than individual P_s

Constructing Bundles

- Medicare data finesses local market power pricing problem
- Once efficient bundles and prices are set, easier for private payers to piggyback, **IMPLICITLY** using Medicare power to drive prices toward C and on toward C^*
- All payer pricing rules may be ultimate solution

Percent of Expense



Sources: chronic, AHRQ/MEPS and K. E. Thorpe, *Health Affairs*;
all else, New America ballpark estimate

Payment Models

- Full Responsibility (capitation)
 - Health plans, IDS, ACOs, etc.
- Full Bundle for chronically ill
 - All of above, plus medical homes
- Ambulatory Bundle for Chronically ill
 - All plus medical homes
- Full bundle for acute episodes
 - Partial bundles for acute episodes (Finance)
- Shared savings/risk variants on each

What to do NOW

- “Manhattan project” for bundles
 - Plus standard order sets, plus checklists
- Have MEDPAC determine which Ps are most wrong for highest cost DRGs
- Tell the world FFS is going away
- Start payment pilots ASAP, reward “systems” which also deliver quality, safety, satisfaction
- Create Office of Excellent Health Delivery to teach how to get to Q* over time, share savings
- Tell the world, Medicare will pay no more than 110% of efficient bundles in X years
- Empower private sector to follow suit

How to Get There

- Red October
- In year 6, we will begin to reduce Medicare payment updates for providers above median in (case mix adjusted) cost to hit savings targets
- We will make clear at the outset, FFS is gonna be less rewarding than new incentive systems before long
- Unleash leadership

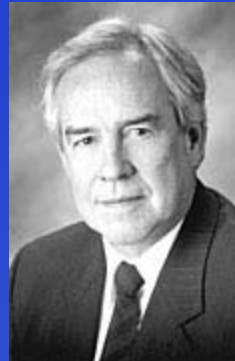
Health CEOs for Health Reform



Lloyd Dean
CHW



Patricia Gabow
Denver Health



Nick Wolter
Billings Clinic



Gary Kaplan
Virginia Mason



Ken Frazier
Merck



Bruce Bodaken
Blue Shield, CA



Tony Tersigni
Ascension Health



Scott Armstrong
Group Health



Donna Katen-Bahensky
U Wisconsin Hospital +



HEALTH CEOs *for*
HEALTH REFORM
A BETTER HEALTH SYSTEM FOR ALL

REALIGNING U.S. HEALTH CARE INCENTIVES
TO BETTER SERVE PATIENTS AND TAXPAYERS

June 12, 2009

Remember...

- Failure IS an option, BUT:
 - The cost of doing nothing is high
 - System fragmentation will accelerate
 - We will get price controls sooner than you think
- SO, re-doubling our efforts to succeed this time is far preferable to “doing nothing” scenario
- Remember: Politicians need courage, so help them