The Emerging Shape of Health Reform

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San Diegans for Health Coverage
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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

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>7%</td>
</tr>
<tr>
<td>2006</td>
<td>17%</td>
</tr>
<tr>
<td>2016*</td>
<td>34%</td>
</tr>
<tr>
<td>2016**</td>
<td>45%</td>
</tr>
</tbody>
</table>

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

Source: Institute of Medicine, 2002, New America Foundation, 2008
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

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?
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 high
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

- Coverage Expansion
- Payment Reforms
- Re-Align Incentives
- Reduce Cost Growth
- Fiscal and Economic Sustainability
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 20\textsuperscript{th} century (maybe 19\textsuperscript{th})

• “We’re spending enough, already, …”

• Primary care and coordinated care needs to be nurtured

• Inappropriate use is \textit{NOT} a black box

• Accountability is \textit{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 Ps
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
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

Bruce Bodaken
Blue Shield, CA

Tony Tersigni
Ascension Health

Scott Armstrong
Group Health

Ken Frazier
Merck

Donna Katen-Bahensky
U Wisconsin Hospital +
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