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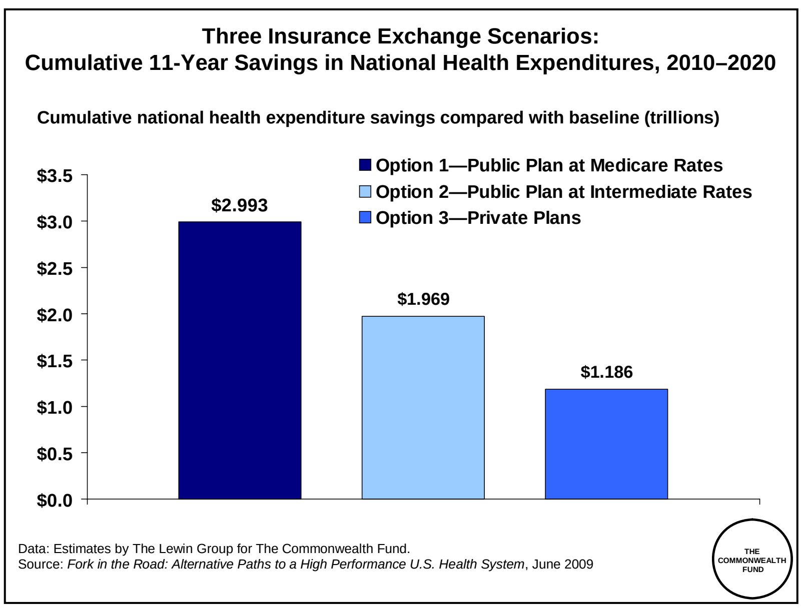
New Report Analyzes Cost Implications of Three Health Reform Scenarios, with Alternative Public Plan Options

National Savings and Federal Budget Costs Vary Widely Depending on Approach

New York, NY, June 24, 2009— A comprehensive approach to health insurance, provider payment, and care delivery system reforms has the potential to slow health care cost increases while achieving near-universal coverage. The potential savings for families, businesses, and the federal government vary markedly, however, depending on whether or not a public insurance plan option is included and how such a plan is structured, according to a new analysis from The Commonwealth Fund. The report is the first to compare three different scenarios: one that includes a public plan option in which health care providers would be paid at rates that fall midway between current Medicare rates and private plan rates, among other payment reforms; one that includes a public plan option that links payments more closely to Medicare rates; and one that includes no public plan, relying exclusively on private plans.



Cumulative health system savings between 2010 and 2020, compared with projected trends for that period, would range from a high of $3.0 trillion under the approach that includes a public plan paying providers at Medicare rates in competition with private plans, to $2.0 trillion for a public plan paying providers at rates midway between current Medicare and private plan rates, to $1.2 trillion in the private plan scenario, according to the study. All three approaches would make affordable coverage available to everyone.

Each reform path would include significant reforms to the way the nation pays for care, in order to reward value and efficiency rather than volume. The two scenarios that include a public plan choice alongside private plans would spread reforms more quickly, reduce insurance administrative costs, and enable the federal government to expand coverage at less expense—leading to substantially lower costs. The cumulative net federal costs over the 11 years from 2010 to 2020 under the "Private Plans" scenario—$360 billion—would be up to three times higher than those under the "Public Plan with Medicare Payment Rates" scenario ($112 billion) or the "Public Plan with Intermediate Payment Rates" scenario ($232 billion).

The authors note, however, that although health system savings under the private plans scenario would be $1.2 trillion, without payment and system reforms common to all three scenarios, the private approach would incur a net system *cost* of $1.2 trillion.

"We are in the midst of an economic crisis that will grow worse if we continue on our current path," said Commonwealth Fund President Karen Davis, a coauthor of the report. "The nation will be spending one out of every five dollars on health care by 2020, with millions more uninsured—undermining the health and financial security of families, businesses, and the government. This analysis shows we have a choice of paths that could lead to access for everyone, lower costs, and improved quality of care."

All three scenarios considered in the report, *Fork in the Road: Alternative Paths to a High Performance U.S. Health System*, contain provisions aimed at improving value and health outcomes, combined with investments to improve care quality, safety, and promote public health.

Each of the scenarios envisions a national health insurance exchange that would provide consumers with a choice of insurance plans, as well as federal assistance to make coverage affordable. Other than reforms related to the public plan, the cost estimates for all three options include the same payment, system, and insurance reforms. These reforms—including Medicare payment reforms—are essential for ensuring affordability, as they offset new use of services by the uninsured and together save $2.5 trillion in total system savings over 2010–2020.

In analyzing the cost trend consequences of the three alternative paths, the authors of the report assume that Medicare would adopt significant payment reforms to improve payment for primary care and align incentives with quality and efficiency. The same payment reforms would apply to a new public insurance option for the under-65 population in the two scenarios that include this option.

The Public Plan with Medicare Payment Rates scenario would achieve the most significant reduction in starting premium rates, followed by the Public Plan with Intermediate Payment Rates. Compared with relying only on private plans to expand coverage, the inclusion of a public plan option provides greater short- and long-terms savings for families, businesses, and the federal government.

"Each of the paths we analyzed would take significant steps toward ensuring that everyone has access to high-quality, affordable health care. The key difference is the ability to bend the cost curve and the pace of change," said Commonwealth Fund Senior Vice President Cathy Schoen, lead author of the report. "At a time when many can't afford to get sick and businesses are struggling to stay solvent, a public insurance option offers the potential to make markets work in the public interest."

Highlights of the report include:

- Under all three scenarios, near universal coverage would be achieved. Assuming reforms start in 2010, the number of uninsured Americans would drop to 4 million by 2012 (1 percent of the population) and remain low. Without reform, the number uninsured is expected to rise to 61 million by 2020.
- By providing a less expensive base for insurance expansion, federal costs would be significantly lower in the scenarios that include a public plan choice. With savings offsetting the costs of expansion, the 11-year net increase in federal budget costs from 2010 to 2020 is expected to be $112 billion with the Public Plan with Medicare Payment Rates option, $232 billion under the Public Plan with Intermediate Payment Rates, and $360 billion under Private Plans.
- Hospital and physician revenues would continue to grow under all three scenarios, but at a slower rate. Reforms that insured everyone and raised Medicaid's payment rates to Medicare's would infuse new revenues and eliminate the need for implicit cross-subsidies built into current charges to private insurers.
- The bulk of savings over time would benefit individuals and families as a result of the slower growth in premiums and out-of-pocket costs. By 2020, annual savings per household would range from $1,600 in the Private Plans and the Public Plan with Intermediate Payment Rates scenarios, to over $2,200 in the Public Plan with Medicare Rates scenario. The benefits would accrue across income groups.

With low marketing costs and net revenues invested in premium reserves, both public plan scenarios have the potential to lower insurance administrative costs and set a benchmark for private plans. The analysis estimates a $223 to $265 billion *reduction* in administrative spending from 2010 to 2020 in the public plan scenarios, in contrast to a $32 billion *increase* in the private-plans-only scenario. These savings do not include potential savings to hospitals and physicians from more consolidated payment and reporting practices.

The national debate on health reform is currently centered on the question of how to slow the growth of health care costs, ensure quality, and, at the same time, expand coverage. The report indicates the potential costs savings and value of creating a new public insurance choice for the under-65 population, if combined with payment reforms and an integrated approach to improving health system performance.

The authors note that all three approaches would represent major steps toward covering the uninsured. Yet scenarios that include a public plan could substantially alter the future trajectory of health spending and trigger a new competitive challenge to private insurers to innovate. The authors conclude that given the economic and financial crisis facing the nation, particular consideration needs to be given to options that offer the greatest potential to moderate cost growth while improving care outcomes. "We can't afford the path we are currently on," Schoen says. "Without creative efforts that disrupt the status quo, it will be difficult to sustain coverage expansion."

Methodology: The Commonwealth Fund contracted with the Lewin Group to estimate the potential impact of the three scenarios from 2010 to 2020, assuming all reforms begin in 2010. The report lists all policies reform included in the analysis. The Lewin Group is a wholly owned subsidiary of Ingenix, a unit of UnitedHealth Group. The Lewin Group maintains editorial independence from its owners.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.