



THE
COMMONWEALTH
FUND

**Starting on the Path to a High Performance Health System:
Analysis of Health System Reform Provisions of
Reform Bills in the House of Representatives and Senate**

Commonwealth Fund Staff

January 2010

Exhibit ES-1. Projected Savings and Effectiveness of System Reform Provisions in House and Senate Reform Bills

2010–2019 (in billions)

	CBO Estimate of Budget Savings, House of Representatives Bill 11/07/09	CBO Estimate of Budget Savings, Senate Bill 12/24/09	Percent Opinion Leaders Favor, or View as Effective	Projected System Cost Containment Effectiveness
Establish a health insurance exchange with market rules; repeal antitrust exemption			92% ^a	++
Public health insurance plan option	-\$5	—	76% ^a	++
Institute payment innovation to reward physicians and hospitals for value not volume	-\$2	-\$8	97% ^b	+++
Require annual provider productivity improvements	-\$177	-\$151		+++
Independent commission	—	-\$28	75% ^d	++
Negotiate pharmaceutical prices	-\$75	—	81% ^d	++
Increase payment for primary care services	-\$6	\$6	61% ^b	+
Cover preventive services and invest in community and employer prevention and wellness programs	\$48	\$17		+
Institute value-based benefit design linked to comparative effectiveness research			86% ^d	+
Level the playing field between Medicare Advantage plans and traditional Medicare coverage	-\$170	-\$136	77% ^b	+
Tax on premiums in excess of threshold	—	-\$149	58% ^c	+

Authors' views of long-term effectiveness in controlling total health system spending: Very effective = +++, Effective = ++, Somewhat effective = +. Health Care Opinion Leaders Surveys: ^a Dec. 2008; ^b April 2009; ^c June 2009; ^d Oct. 2009.

Source: Commonwealth Fund estimates; Congressional Budget Office, Letter to the Honorable John D. Dingell, Nov. 20, 2009; Letter to the Honorable Harry Reid, Dec. 19, 2009.



Exhibit 1. National Health Expenditures per Capita, 1980–2007

Average spending on health per capita (\$US PPP)

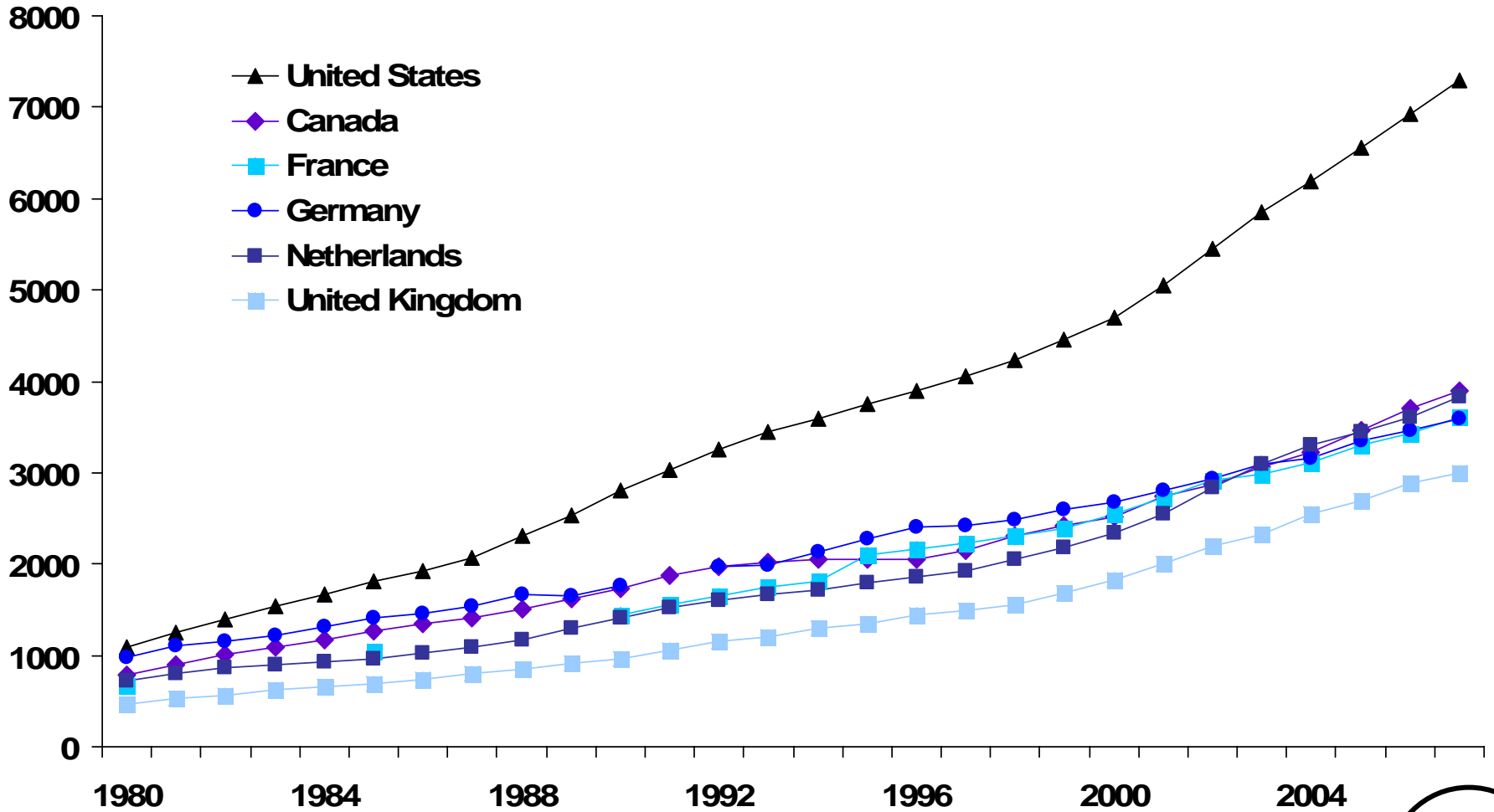


Exhibit 2. System Improvement Provisions of National Health Reform Proposals, 2009

	House of Representatives 11/07/09	Senate 12/24/09
Exchange Standards and Plans	National or state exchanges; private, public, or co-op plans offered; essential health benefits 70%–95% actuarial value, four tiers; insurers must meet specified medical loss ratio of 85 percent	State or regional exchanges; private and co-op plans offered; essential health benefits 60%–90% actuarial value, four tiers plus young adults policy; insurers must meet medical loss ratio of 80 percent for individual and small groups, 85 percent for large groups
Innovative Payment Pilots: Medical Homes, Accountable Care Organizations, Bundled Hospital and Post-Acute Care	Adopt medical homes, ACOs, and bundled payments on large scale if pilot programs prove successful; Center for Payment Innovation	Allow Medicaid beneficiaries to designate medical home; ACOs to share savings in Medicare; CMS Innovations Center
Productivity Improvements	Modify market-basket updates to account for productivity improvements	Modify market-basket updates to account for productivity improvements
Primary Care	Increase Medicare payments for PCPs by 5%; bring Medicaid PCPs up to Medicare level	10% bonus payments for 5 years
Prevention and Wellness	Develop a national prevention and wellness strategy; establish a Prevention and Wellness Trust Fund; remove cost-sharing for proven preventive services; grants to support employer wellness programs	Provide annual wellness visit and/or health risk assessment for Medicare beneficiaries; strengthen state and employer wellness programs; remove cost-sharing for proven preventive services
Comparative Effectiveness	Establish Center for Comparative Effectiveness Research within AHRQ	Create Patient-Centered Outcomes Research Institute
Quality Improvement	Establish the Center for Quality Improvement to identify, develop, evaluate, disseminate, and implement best practices; develop national priorities for performance improvement and quality measures	Direct HHS to develop national quality strategy, public reporting

Note: ACO = accountable care organization; PCP = primary care physician; AHRQ = Agency for Healthcare Research and Quality. HHS = Department of Health and Human Services
Source: Commonwealth Fund analysis.

Exhibit 3. System Reform Provisions of House Bill

- **Health Insurance Exchange, Rules, and Choice of Public and Private Plans**
 - Health insurance exchange administrative savings for individuals and small businesses
 - Public plan authorized to use new innovative payment methods; secretary of HHS negotiates rates
 - Minimum Benefit Package; Review premium increases; 85 percent minimum medical loss ratio
- **Change Provider Payment**
 - Rapid-cycle testing of innovative payment methods
 - Medical homes
 - Accountable care organizations
 - Bundled payments for hospital and post-acute care
 - Authority to spread in Medicare and incorporate in public plan
 - Geographic variations: IOM study; Congressional up-or-down vote on recommendations
 - Productivity improvement; reduction for high hospital readmissions
- **Strengthen Prevention and Primary Care**
 - Improved coverage of preventive services and elimination of cost-sharing
 - Enhanced payment for primary care: 5 percent overall, 10 percent in shortage areas
- **Correct Overpriced Services and Plans**
 - Negotiation of pharmaceutical prices; prescription drug savings
 - Resetting Medicare Advantage rates to fee-for-service levels with quality bonuses
- **Center for Comparative Effectiveness and Value-Based Benefit Design**
- **Quality Improvement, Measurement and Public Reporting**
- **Medical Malpractice Demonstrations**
- **Repeal of Insurance Antitrust Exemption**



Exhibit 4. System Reform Provisions of Senate Bill

- **Health Insurance Exchange and Rules**
 - Health insurance exchange administrative savings for individuals and small businesses
 - Minimum benefit package; insurers must meet 80–85 percent minimum medical loss ratio; ability to reject plans with unjustified premium increases prior to implementation
 - Choice of private plans, new private multi-state plans developed by OPM, and consumer cooperative plans
- **Strengthen Prevention and Primary Care**
 - Provide PCPs a 10% Medicare payment bonus for 5 years beginning in 2011
 - Increase the number of GME training positions
 - Establish a Workforce Advisory Committee to develop and implement a national workforce strategy
 - Eliminate cost-sharing for annual wellness visits and evidence-based preventive services
- **Change Provider Payment**
 - Shared savings initiative for accountable care organizations
 - Rapid-cycle testing of innovative payment methods through CMS Innovations Center
 - Medical homes
 - Bundled payments for hospital and post-acute care
 - Authority to spread in Medicare
 - Productivity improvement; reduction for high hospital readmissions
- **Restructure payments to Medicare Advantage plans**
- **Create a private, nonprofit Patient-Centered Outcomes Research Institute**
- **Goals and Reporting**
 - Quality improvement, measurement, public reporting
 - Health goals and priorities for performance improvement

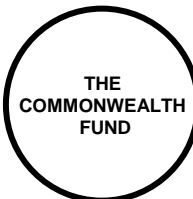
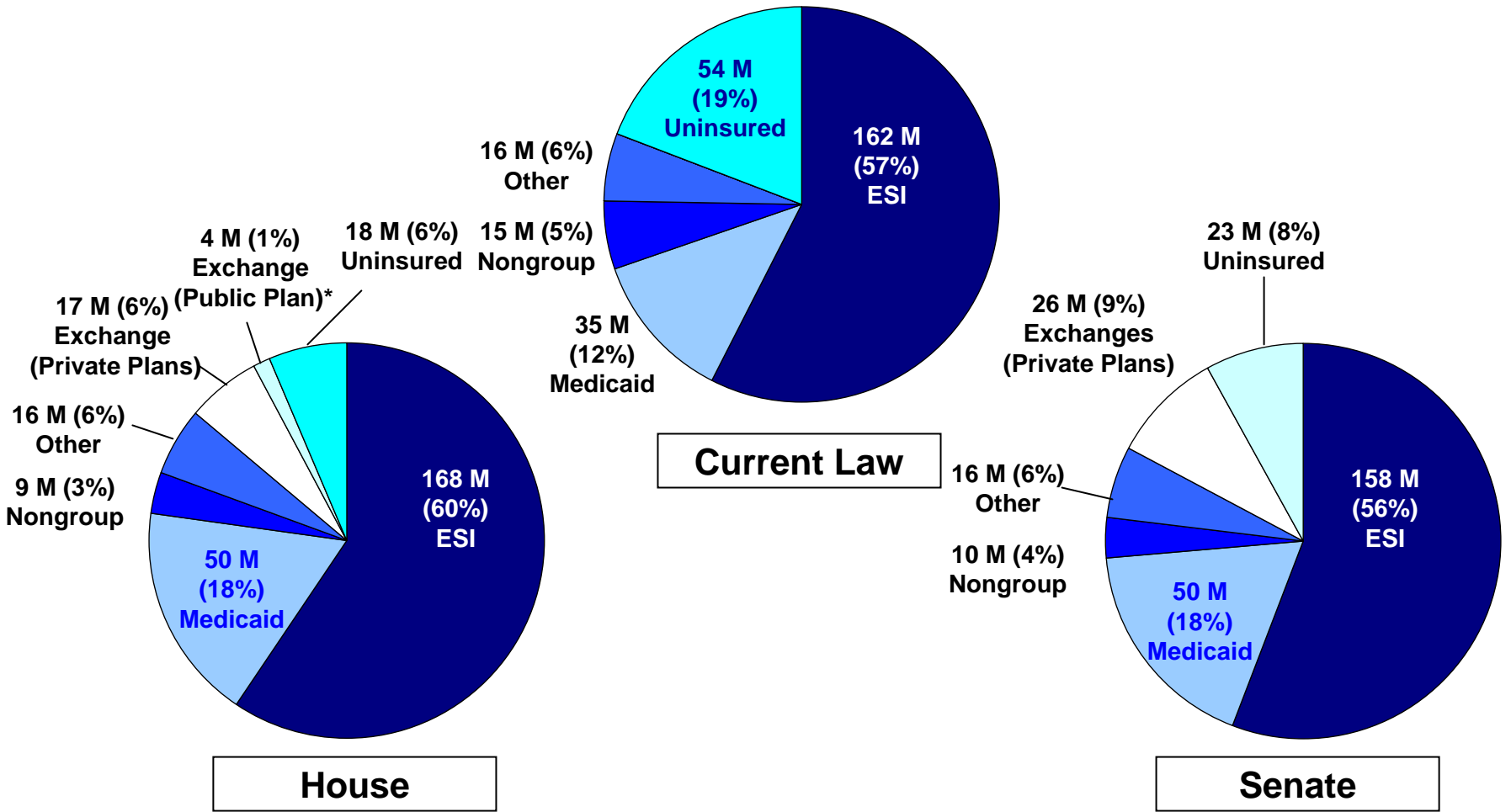


Exhibit 5. Source of Insurance Coverage Under Current Law and House and Senate Bills, 2019



Among 282 million people under age 65

*CBO estimates 20% of people enrolled in exchange will choose the public plan under the House bill. Employees whose employers provide coverage through the exchange are shown as covered by their employers (9 million in the House bill and 5 million in the Senate bill). Note: ESI is Employer-Sponsored Insurance.

Source: Revised Estimate of the Affordable Health Care for America Act, Congressional Budget Office Letter to the Honorable John Dingell, November 20, 2009, <http://www.cbo.gov/doc.cfm?index=10741>. The Congressional Budget Office Analysis of the Patient Protection and Affordable Care Act, Incorporating the Manager's Amendment, Dec. 19, 2009, <http://cbo.gov/doc.cfm?index=10868>.



Exhibit 6. House and Senate Payment and System Reform Savings, 2010–2019

Dollars in billions

	CBO estimate of House Bill	CBO estimate of Senate Bill
Total Savings from Payment and System Reforms	-\$456	-\$483
• Productivity improvement/provider payment updates	-177	-151
• Medicare Advantage reform	-170	-136
• Primary care, geographic adjustment	-6	6
• Payment innovations	-2	-8
• Hospital readmissions	-9	-7
• Disproportionate share hospital adjustment	-20	-43
• Prescription drugs	-75	6
• Home health	-55	-39
• Independent board	—	-28
• Other improvements and interactions	58	-83

Source: The Congressional Budget Office Analysis of H.R. 3962, The Affordable Health Care for America Act, Nov. 20, 2009, <http://www.cbo.gov/doc.cfm?index=10741>. The Congressional Budget Office Analysis of the Patient Protection and Affordable Care Act, Incorporating the Manager's Amendment, Dec. 19, 2009, <http://www.cbo.gov/doc.cfm?index=10868>.



Exhibit 7. Major Sources of Savings and Revenues Compared with Projected Spending, Net Cumulative Effect on Federal Deficit, 2010–2019

Dollars in billions

	CBO estimate of House bill (H.R. 3962)	CBO estimate of Senate bill (H.R. 3590)
Total Net Impact on Federal Deficit, 2010–2019	–\$138	–\$132
<u>Total Federal Cost of Coverage Expansion and Improvement</u>	<u>\$891</u>	<u>\$763</u>
<i>Gross Cost of Coverage Provisions</i>	<i>\$1,052</i>	<i>\$871</i>
• Medicaid/CHIP outlays	425	395
• Exchange subsidies	602	436
• Small employer subsidies	25	40
<i>Offsetting Revenues and Wage Effects</i>	<i>–\$162</i>	<i>–\$108</i>
• Payments by uninsured individuals	–33	–15
• Play-or-pay payments by employers	–135	–28
• Associated effects on taxes and outlays	6	–65
<u>Total Savings from Payment and System Reforms</u>	<u>–\$456</u>	<u>–\$483</u>
• Productivity updates/provider payment changes	–177	–151
• Medicare Advantage reform	–170	–136
• Other improvements and savings	–109	–196
<u>Total Revenues</u>	<u>–\$574</u>	<u>–\$413</u>
• Excise tax on high premium insurance plans	—	–149
• Surtax on wealthy individuals and families	–461	—
• Other revenues	–113	–264

Note: House totals do not reflect net impact on deficit due to rounding.

Source: The Congressional Budget Office Cost Estimate of the Patient Protection and Affordable Care Act, Dec. 19, 2009,

<http://www.cbo.gov/doc.cfm?index=10868>. The Congressional Budget Office Analysis of H.R. 3962, The Affordable Health Care for America Act, Nov. 20, 2009,

<http://www.cbo.gov/doc.cfm?index=10741>.

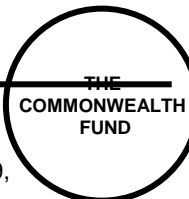
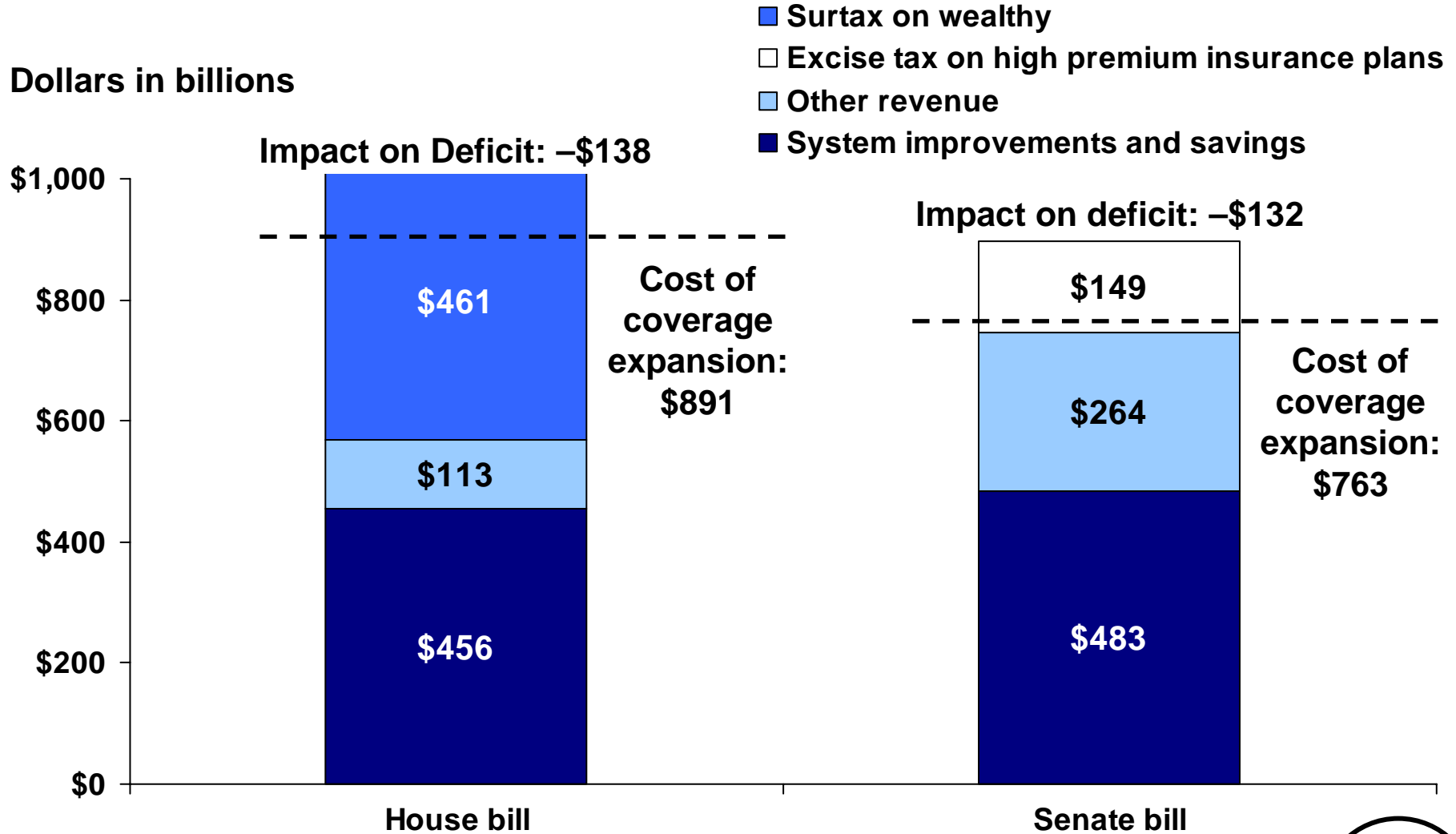


Exhibit 8. Proportions of System Savings and New Revenue in House and Senate Bills

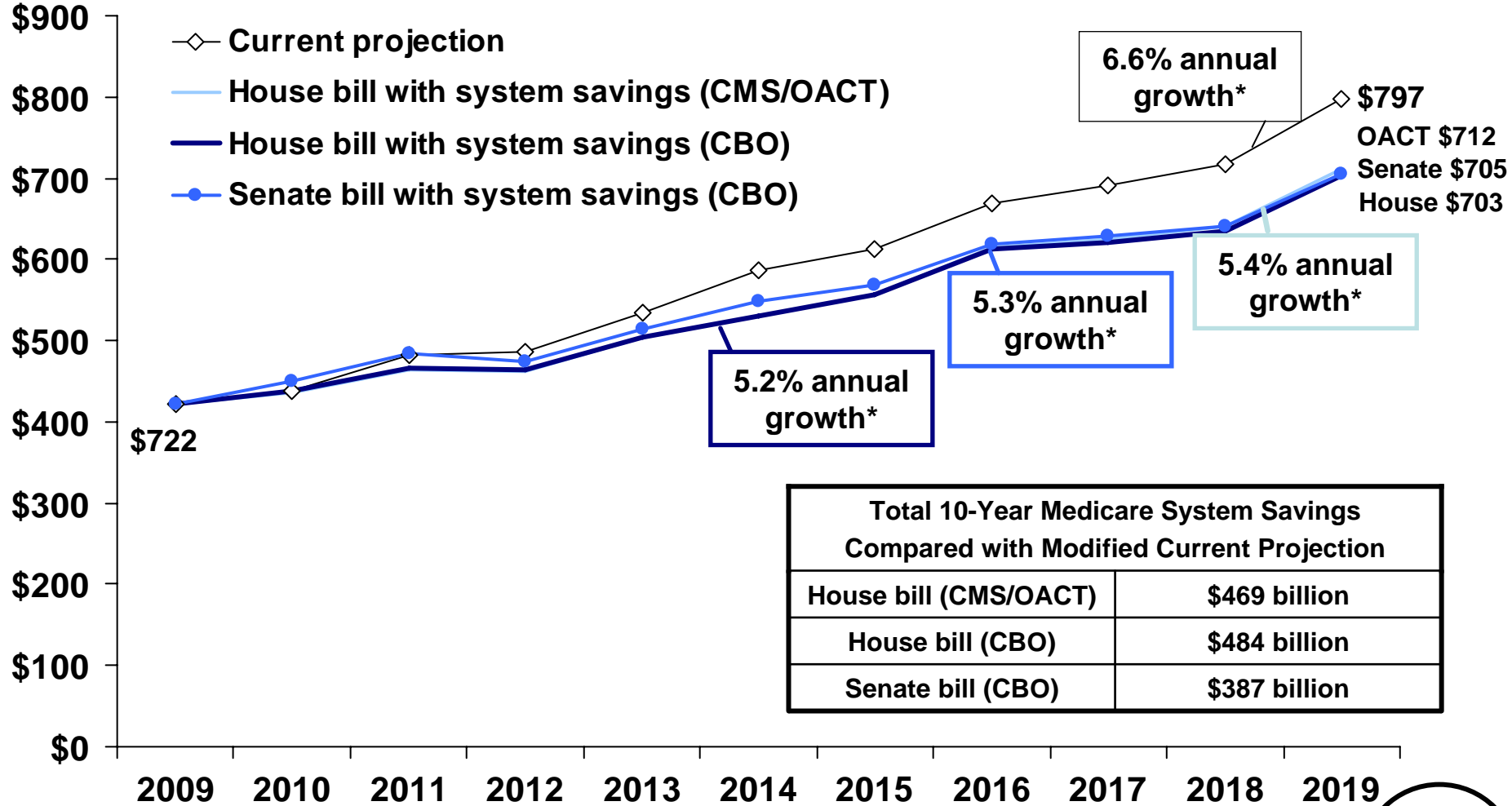


Source: The Congressional Budget Office Analysis of H.R. 3962, The Affordable Health Care for America Act, Nov. 20, 2009, <http://www.cbo.gov/doc.cfm?index=10741>. The Congressional Budget Office Analysis of the Patient Protection and Affordable Care Act, Incorporating the Manager's Amendment, Dec. 19, 2009, <http://www.cbo.gov/doc.cfm?index=10868>.



Exhibit 9. Medicare Spending with System Savings, 2010–2019: Current Projection and Alternative Scenarios

Billions



* Notes: Compound annual growth rate.

Data: Estimates by CMS using Congressional Budget Office (CBO) cost estimates as provided on Nov. 6, 2009 and Nov. 18, 2009 and OACT estimates as provided on Nov. 14, 2009.



Exhibit 10. Bending the Curve: Options that Achieve Savings Cumulative 10-Year Federal Budget Savings

	Path Estimate	CBO Estimate	OMB Estimate
Aligning Incentives with Quality and Efficiency			
• Hospital pay-for-performance	–\$ 43 billion	–\$ 3 billion	–\$ 12 billion
• Bundled payment with productivity updates	–\$123 billion	–\$201 billion	–\$110 billion
• Strengthening primary care and care coordination	–\$ 83 billion	+\$ 6 billion	—
• Modify the home health update factor	—	–\$ 50 billion	–\$ 37 billion
Correcting Price Signals in the Health Care Market			
• Reset Medicare Advantage benchmark rates	–\$135 billion	–\$158 billion	–\$175 billion
• Reduce prescription drug prices	–\$ 93 billion	–\$110 billion	–\$ 75 billion
• Limit payment updates in high-cost areas	–\$100 billion	–\$ 51 billion	—
• Manage physician imaging	–\$ 23 billion	–\$ 3 billion	—
Producing and Using Better Information			
• Promoting health information technology	–\$ 70 billion	–\$ 61 billion	–\$ 13 billion
• Comparative effectiveness	–\$174 billion	+\$ 1 billion	—
Promoting Health and Disease Prevention			
• Public health: reducing tobacco use	–\$ 79 billion	–\$ 95 billion	—
• Public health: reducing obesity	–\$121 billion	–\$ 51 billion	—
• Public health: alcohol excise tax	–\$ 47 billion	–\$ 60 billion	—

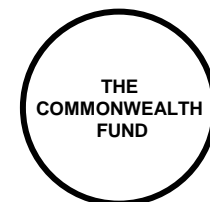
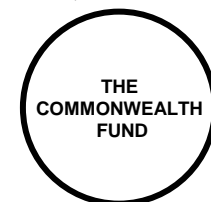
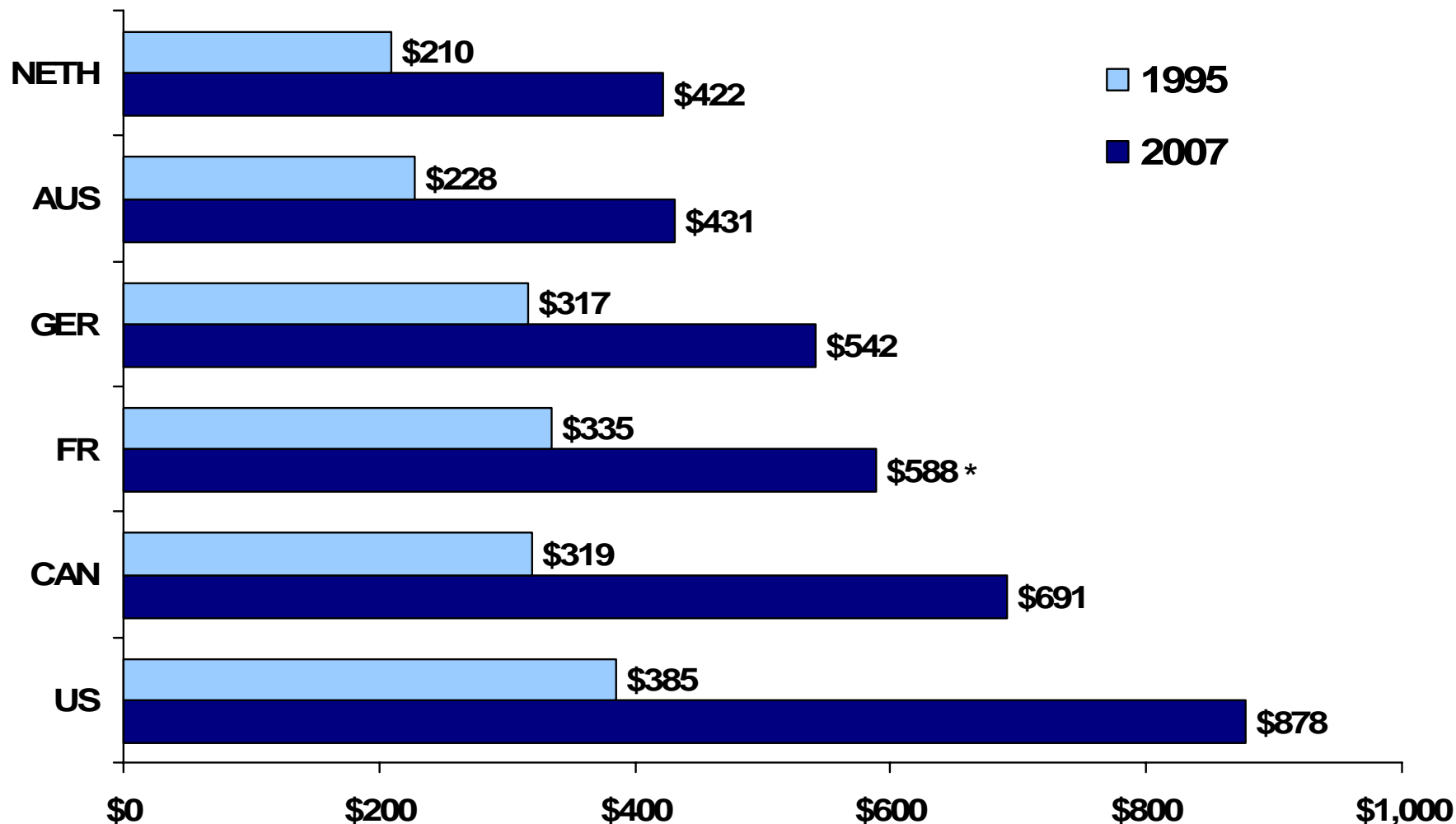


Exhibit 11. Pharmaceutical Spending per Capita: 1995 and 2007 Adjusted for Differences in Cost of Living



* 2006
Source: OECD Health Data 2009 (June 2009).

Exhibit 12. CBO Estimates of Major Health Legislation Compared with Actual Impact on Federal Outlays

Health Provision	CBO Projection	Actual Impact
Medicare hospital PPS, 1982–1983	\$10 billion savings, 1983–1986	\$21 billion savings, 1983–1986
BBA 1997: skilled nursing facilities; home health; and fraud, waste, and abuse reduction	\$112 billion savings total, 1998–2002	Actual savings 50% greater in 1998 and 113% greater in 1999 than CBO projections
MMA 2003: Medicare Part D	\$206 billion additional spending	Actual spending 40% lower than projection

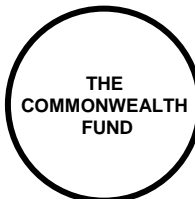
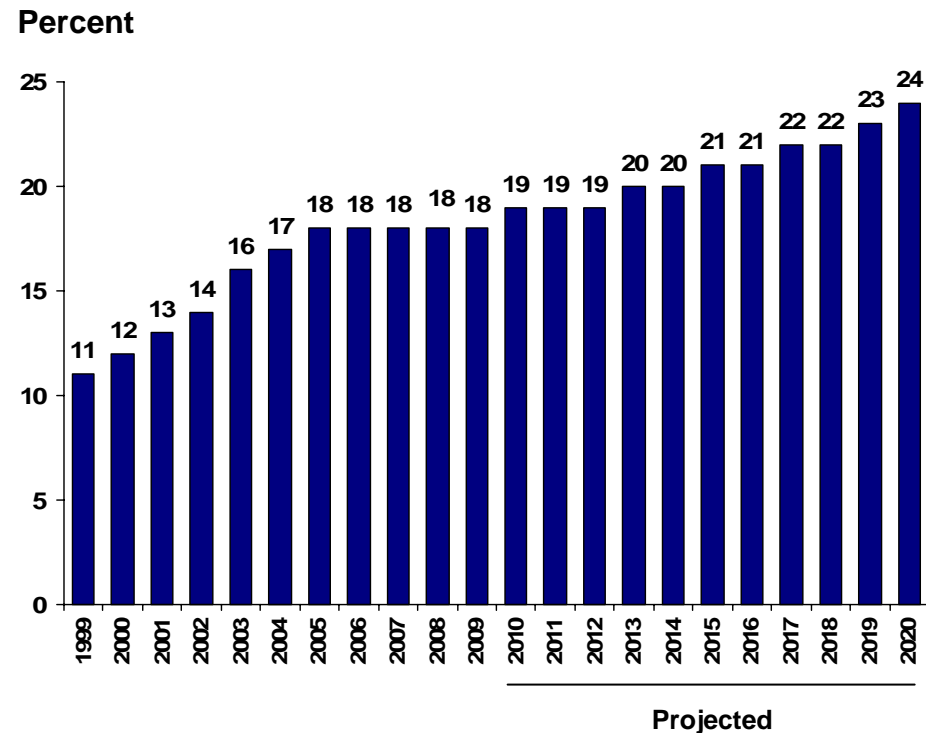
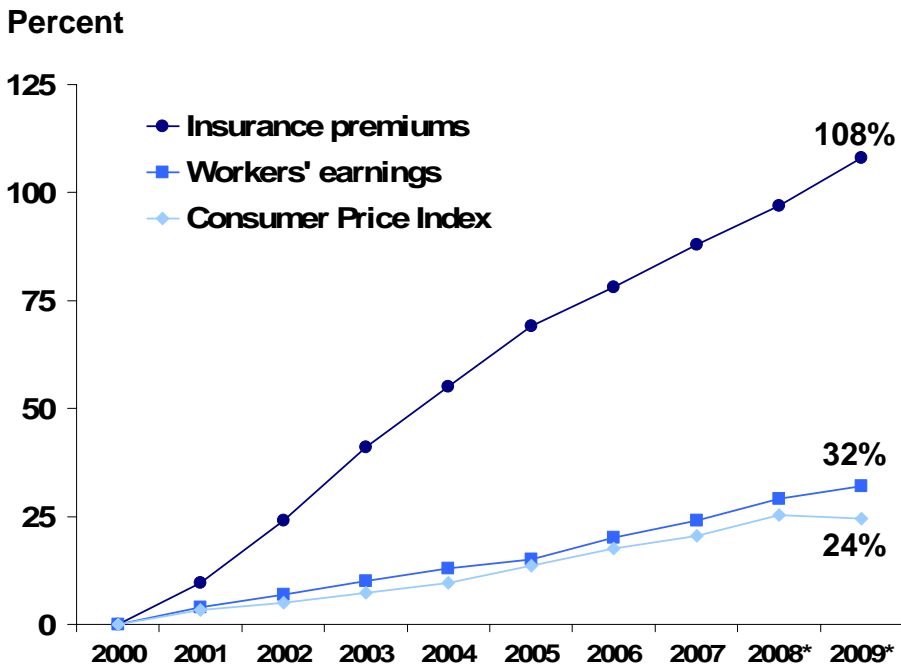


Exhibit 13. Premiums Rising Faster Than Inflation and Wages

Cumulative Changes in Components of U.S. National Health Expenditures and Workers' Earnings, 2000–2009

Projected Average Family Premium as a Percentage of Median Family Income, 2008–2020



* 2008 and 2009 NHE projections.

Data: Calculations based on M. Hartman et al., "National Health Spending in 2007," *Health Affairs*, Jan./Feb. 2009; and A. Sisko et al., "Health Spending Projections through 2018," *Health Affairs*, March/April 2009. Insurance premiums, workers' earnings, and CPI from Henry J. Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits Annual Surveys, 2000–2009*.

Source: K. Davis, *Why Health Reform Must Counter the Rising Costs of Health Insurance Premiums*, (New York: The Commonwealth Fund, Aug. 2009).

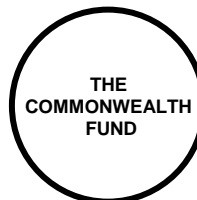
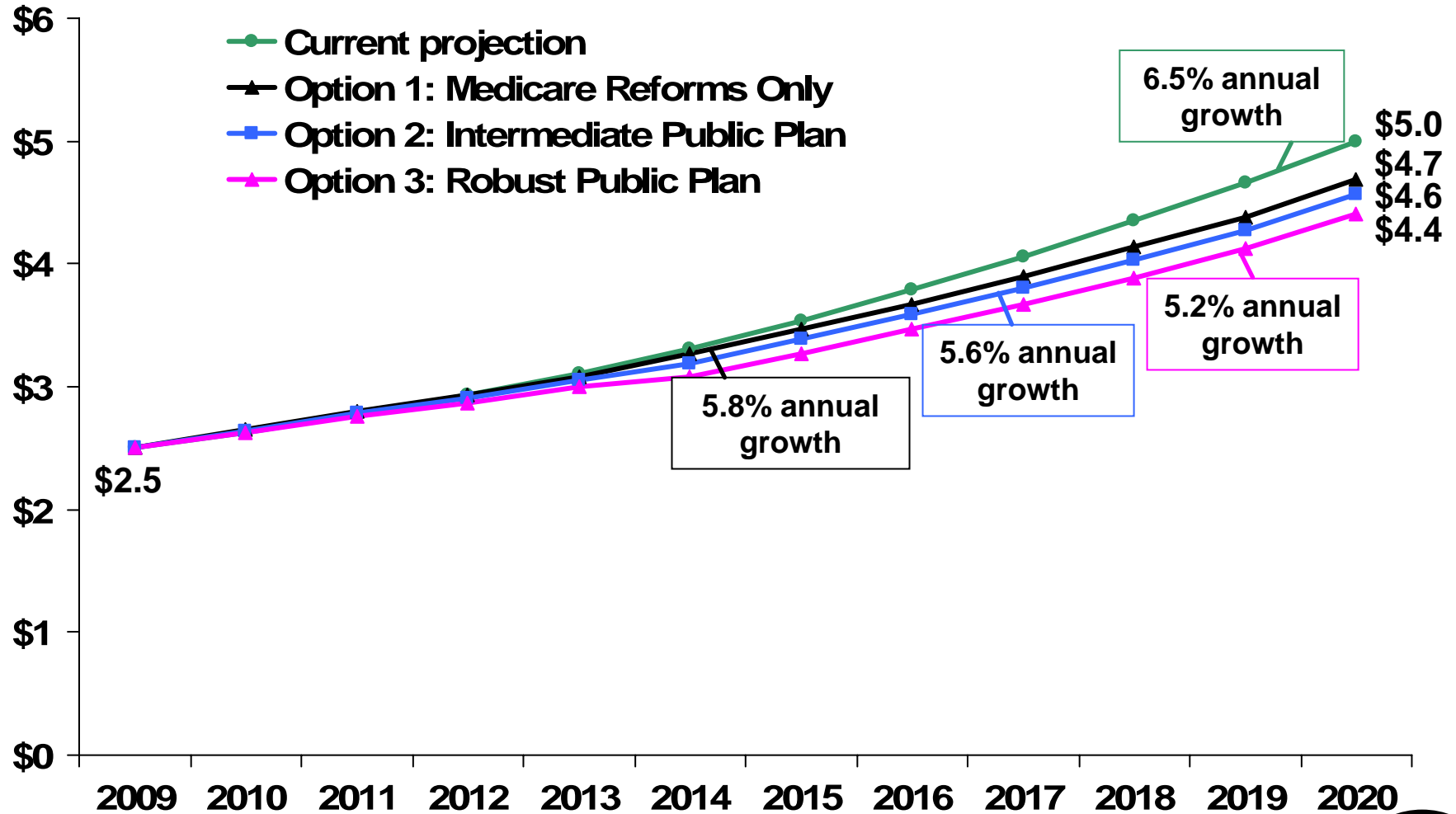


Exhibit 14. Total National Health Expenditures (NHE) 2009–2020: Current Projection and Alternative Scenarios

NHE in trillions

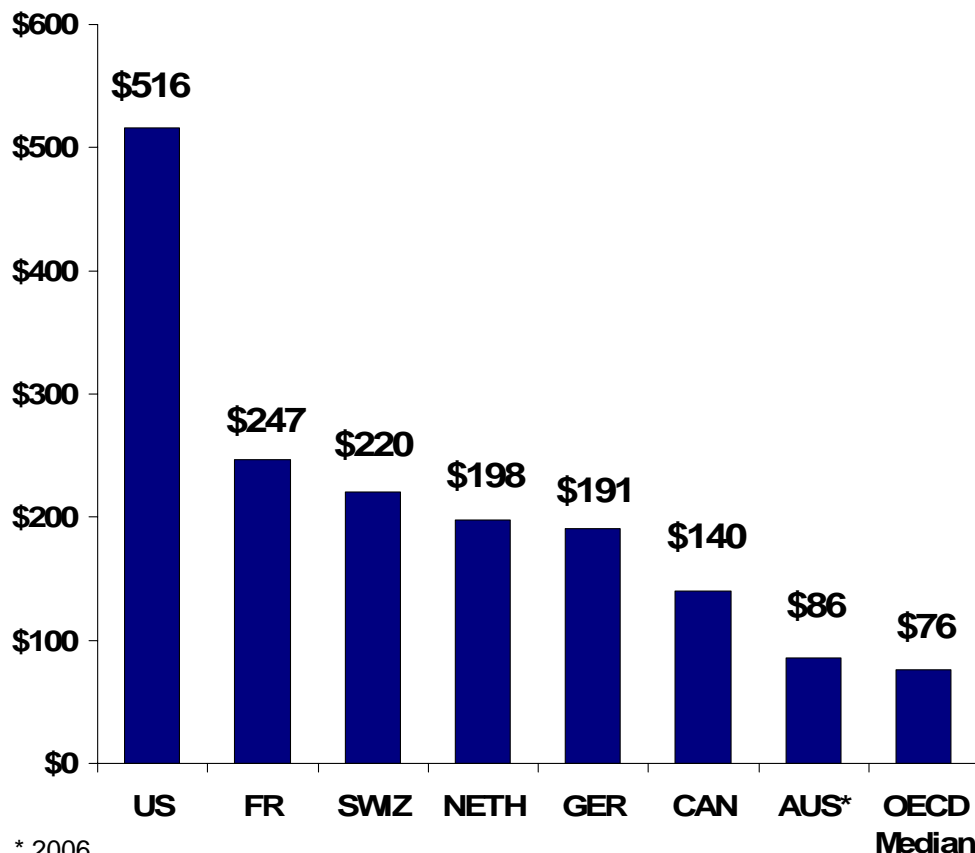


Source: C. Schoen, K. Davis, S. Guterman, and K. Stremikis, *Fork In the Road: Alternative Paths to a High Performance U.S. Health System*, (New York: The Commonwealth Fund, June 2009).

Exhibit 15. High U.S. Insurance Overhead: Insurance Related Administrative Costs

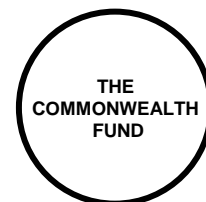
- **Fragmented payers + complexity = high transaction costs and overhead costs**
 - McKinsey estimates adds \$90 billion per year*
- **Insurance and providers**
 - Variation in benefits; lack of coherence in payment
 - Time and people expense for doctors/hospitals

Spending on Health Insurance Administration per Capita, 2007



* 2006

Source: 2009 OECD Health Data (June 2009).



* McKinsey Global Institute, *Accounting for the Costs of U.S. Health Care: A New Look at Why Americans Spend More* (New York: McKinsey, Nov. 2008).

Exhibit 16. Illustrative Health Reform Goals and Tracking Performance

1. Secure and Stable Coverage for All

- Percent of population insured
- Percent of population with premiums and out-of-pocket expenses within affordability standard

2. Slowing Growth of Total Health Spending and Federal Health Outlays

- Annual growth rate in total health system expenditures
- Annual growth rate in Medicare expenditures
- Impact on federal budget: new spending, net savings, new revenues

3. Health Outcomes and Quality

- Percent of population receiving key preventive services or screenings
- Percent of population with chronic conditions controlled
- Percent reduction in gap between benchmark and actual levels of quality and safety

4. Payment and Delivery System Reform

- Percent of population enrolled in medical homes
- Percent of physicians practicing in accountable care organizations
- Percent of provider revenues based on value



Exhibit 17. Projected Savings and Effectiveness of System Reform Provisions in House and Senate Reform Bills

2010–2019 (in billions)

	CBO Estimate of Budget Savings, House of Representatives Bill 11/07/09	CBO Estimate of Budget Savings, Senate Bill 12/24/09	Percent Opinion Leaders Favor, or View as Effective	Projected System Cost Containment Effectiveness
Establish a health insurance exchange with market rules; repeal antitrust exemption			92% ^a	++
Public health insurance plan option	-\$5	—	76% ^a	++
Institute payment innovation to reward physicians and hospitals for value not volume	-\$2	-\$8	97% ^b	+++
Require annual provider productivity improvements	-\$177	-\$151		+++
Independent board	—	-\$28	75% ^d	++
Negotiate pharmaceutical prices	-\$75	—	81% ^d	++
Increase payment for primary care services	-\$6	\$6	61% ^b	+
Cover preventive services and invest in community and employer prevention and wellness programs	\$48	\$17		+
Institute value-based benefit design linked to comparative effectiveness research			86% ^d	+
Level the playing field between Medicare Advantage plans and traditional Medicare coverage	-\$170	-\$136	77% ^b	+
Tax on premiums in excess of threshold	—	-\$149	58% ^c	+

Authors' views of long-term effectiveness in controlling total health system spending: Very effective = +++, Effective = ++, Somewhat effective = +. Health Care Opinion Leaders Surveys: ^a Dec. 2008; ^b April 2009; ^c June 2009; ^d Oct. 2009.

Source: Commonwealth Fund estimates; Congressional Budget Office, Letter to the Honorable John D. Dingell, Nov. 20, 2009; Letter to the Honorable Harry Reid, Dec. 19, 2009.

