



NEWS RELEASE

Embargoed for release:
12:01 a.m. ET, Thursday,
January 10, 2013

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COMMISSION OF LEADING HEALTH CARE EXPERTS OFFERS NEW STRATEGY TO SLOW HEALTH SPENDING GROWTH BY \$2 TRILLION OVER 10 YEARS WHILE IMPROVING HEALTH SYSTEM PERFORMANCE

Changing How Care Is Paid For, Giving Consumers Better Information and Incentives to Choose Wisely, and Improving How Health Care Markets Function Could Result in Substantial Savings for Federal and Local Governments, Employers, and Families

New York, NY, January 10, 2013—A synergistic set of policies that would accelerate health care delivery system innovation could slow health spending growth by \$2 trillion from 2014 to 2023, according to an analysis released today by the Commonwealth Fund Commission on a High Performance Health System. The report, *Confronting Costs: Stabilizing U.S. Health Spending While Moving Toward a High Performance Health Care System*, describes a comprehensive set of policies to change the way public and private purchasers pay for care, enhance consumers' choices of high-value care, and address the market forces driving up costs and estimates their potential to reduce cost growth. If implemented soon with public and private payers acting in concert, the Commission's strategic approach could over the next 10 years reduce spending by the federal government by \$1.04 trillion, state and local governments by \$242 billion, and employers by \$189 billion, compared with projected trends. Families would also realize significant savings—\$537 billion over 10 years—as a result of lower future health insurance premiums and out-of-pocket costs.

In the report, the Commission endorses the goal of holding health care spending growth to no more than the rate of long-term growth in the economy while improving health system performance. To achieve these goals, the Commission lays out a strategy that relies on three broad approaches:

- Provider payment reforms to promote value and accelerate delivery system innovation;
- Policies to expand options and encourage high-value choices by consumers, armed with better information about quality and costs of care; and
- Systemwide action to improve how markets function, including reducing administrative costs, and setting national and regional targets for spending growth.

The set of 10 policies the Commission identifies in these three areas would interact to accelerate the progress already being made to achieve a health system that delivers better health outcomes and better patient care experiences at lower cost.

“U.S. health spending has been growing far faster than wages and putting stress on families and businesses as well as federal and state budgets,” said Commonwealth Fund president and Commission chair David Blumenthal, M.D. “We know that by innovating and coordinating care, our health care system can provide better care at lower costs. The Commission report lays out a framework and set of strategies to accelerate innovation, with the potential to substantially lower federal costs while protecting Medicare and Medicaid beneficiaries.”

In the set of policies described in the report, the Commission envisions the public and private sectors adopting similar approaches to enable coherent payment reforms, positive consumer incentives, and systemwide action.

Estimates of these illustrative policies indicate that the bulk of the \$2 trillion in potential savings would come from payment reform (\$1.33 trillion in savings), with additional savings from enhanced high-value choices and consumer incentives to choose wisely (\$189 billion) and systemic actions to improve the way markets function, including lower administrative costs (\$481 billion).

Synergistic Strategy: Potential Cumulative Savings Compared to Current Baseline Projection, 2013–2023

Net impact in \$ billions*

	Total NHE	Federal govt.	State and local govt.	Private employers	Households
2013–2018	-\$686	-\$345	-\$84	-\$66	-\$192
2013–2023	-\$2,004	-\$1,036	-\$242	-\$189	-\$537

Note: NHE = National Health Expenditures.

Source: Estimates by Actuarial Research Corporation for The Commonwealth Fund. Current baseline projection assumes that the cuts to Medicare physician fees under the sustainable growth rate (SGR) formula are repealed and basic physician fees are instead increased by 1% in 2013 and held constant from 2014 through 2023.

With health care currently constituting 18 percent of the U.S. gross domestic product and expected to reach 21 percent by 2023, the Commission stresses the importance of addressing the systemic factors that drive up total health spending, not just federal spending.

“This is not just a federal problem. Indeed, in recent years private spending per insured person has risen faster than Medicare costs per beneficiary, and this is projected to continue for most of the next decade,” said Commonwealth Fund vice president and Commission executive director Stuart Guterman. “By aligning incentives for providers and consumers across the system, we can address the underlying causes of health spending growth and avoid blunt policies like the scheduled cuts in Medicare physician fees.”

The report, prepared for the Commission by Commonwealth Fund staff Cathy Schoen, Stuart Guterman, Mark Zezza, and Melinda Abrams, notes that, on average, the U.S. spends twice as much per person on health care as other countries yet fails to achieve the healthier lives, universal access, and better quality realized by many other wealthy countries. “We have broad evidence that much of our spending is wasteful,” said Cathy Schoen, Commonwealth Fund

senior vice president and lead author of the report. “Stabilizing health spending and targeting it in ways that improve health outcomes would free up billions of dollars for critically needed economic and social investments as well as higher wages for workers.”

Although spending growth would slow, the health care sector would continue to grow and acquire the resources needed to innovate and meet the health needs of an aging population. Families, the report notes, would be the major winners from such a strategic approach, gaining potentially better care experiences at lower costs. The report concludes that “building on the three pillars of payment reform, high-value choices, and other market reforms, the United States has the potential to accelerate health care innovation while ensuring access for all.”

The report will be available on January 10 at:

<http://www.commonwealthfund.org/Publications/Fund-Reports/2013/Jan/Confronting-Costs.aspx>.

Synergistic Strategy: Cumulative Savings, 2013–2023	
Payment Reforms to Accelerate Delivery System Innovation (\$1,333 B)	
• Pay for value: replace the SGR with provider payment incentives to improve care	
• Strengthen patient-centered primary care and support care teams	
• Bundle hospital payments to focus on total cost and outcomes	
• Align payment incentives across public and private payers	
Policies to Expand and Encourage High-Value Choices (\$189 B)	
• Offer new Medicare Essential plan with integrated benefits through Medicare, offering positive incentives for use of high-value care and care systems	
• Provide positive incentives to seek care from patient-centered medical homes, care teams, and accountable care networks (Medicare, Medicaid, private plans)	
• Enhance clinical information to inform choice	
Systemwide Actions to Improve How Health Care Markets Function (\$481 B)	
• Simplify and unify administrative policies and procedures	
• Reform malpractice policy and link to payment*	
• Target total public and private payment (combined) to grow at rate no greater than GDP per capita, with all-payer data to assess national and regional trends	
<small>*Malpractice policy savings included with provider payment policies.</small>	

Methodology: Modeling the Commission synergistic approach required specifications for policies described in the report. On behalf of the Commission, the Commonwealth Fund contracted with Actuarial Research Corporation (ARC) to estimate the potential 10 year impact from 2014 through 2023, assuming all were in place in 2013. The report describes the general approach for each policy. The ARC technical report provides details of policy specifications, data and assumptions used in the estimating the impact of the policies.

The Commonwealth Fund Commission on a High Performance Health System, formed in April 2005, seeks opportunities to change the delivery and financing of health care to improve system performance and to identify public and private policies and practices that would lead to those improvements. It also explores mechanisms for financing improved health insurance coverage and investment in the nation's capacity for quality improvement.

The Commission's members are:

David Blumenthal, M.D., M.P.P. (Chair), The Commonwealth Fund

Maureen Bisognano, M.Sc., Institute for Healthcare Improvement

Sandra Bruce, M.S., Resurrection Health Care

Christine K. Cassel, M.D., American Board of Internal Medicine and ABIM Foundation

Michael Chernew, Ph.D., Department of Health Care Policy, Harvard Medical School

John M. Colmers, M.P.H., Health Care Transformation and Strategic Planning,
Johns Hopkins Medicine

Patricia Gabow, M.D., Denver Health

George C. Halvorson, Kaiser Foundation Health Plan Inc.

Jon M. Kingsdale, Ph.D., Consultant

Gregory P. Poulsen, M.B.A., Intermountain Health Care

Neil R. Powe, M.D., M.P.H., M.B.A., San Francisco General Hospital

Louise Y. Probst, R.N., M.B.A., St. Louis Area Business Health Coalition

Martín J. Sepúlveda, M.D., FACP, IBM Corporation

David A. Share, M.D., M.P.H., Blue Cross Blue Shield of Michigan

Glenn D. Steele, Jr., M.D., Ph.D., Geisinger Health System

Alan R. Weil, J.D., M.P.P., National Academy for State Health Policy

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