THE COMMONWEALTH FUND

From the President

February 25, 2009

Compassionate and Challenging Changes in Health Care

Last night, President Obama reaffirmed that comprehensive health reform is urgently needed to spark economic recovery, ensure all Americans are able to get the care they need, and lay the foundation for slowing the growth in health care costs. With a recognition that our country's health care and economic fate are intertwined, the president and the 111th Congress have already taken several significant steps toward ensuring affordable health coverage for millions of families and bending the curve of the country's spending on health. Reauthorization of the Children's Health Insurance Program (CHIP) and the passage of an economic stimulus package with health provisions to invest in information technology and research on the effectiveness of medications, devices, and health services represent important down payments on more fundamental change and far-reaching reform.

The president has said that the stories he heard on the campaign trail about people struggling with health care touched his heart. Tragically, there are countless stories of Americans whose lives could have been saved or disabilities averted if they had been able to afford high-quality medical care. In a recent *New Yorker* article, Atul Gawande, M.D., wrote that instances of cruelty in the health care system triggered health reform in many other countries. We may have reached the point where Americans can no longer tolerate the lack of compassion too often faced by those who are sick and unable to pay for care. As a result, many Americans are now willing to think seriously about reforms that will lead to excellent and affordable health care for all.

In response to the health and economic crisis facing the country, the Commonwealth Fund Commission on a High Performance Health System has issued a report, *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way*, that provides a strategy for achieving long-term health security and fiscal responsibility. The Commission lays out a framework for responsible and effective use of federal money that ensures funds go to improve access to care, provide savings to families and businesses, and improve the quality and efficiency of care. These reforms will guarantee affordable coverage for all, improve health outcomes, and slow health spending growth by $3 trillion over the next decade. If enacted now, these early investments will pay significant dividends, with coverage, payment, and system reform savings projected to offset the increase in annual federal spending for affordable coverage expansion by 2020.

Compassionate Changes

The Commission's report makes a compelling case for compassionate change in our health system. Most importantly, these reforms would make the health care system work better for patients and families.

Coverage and Care for All

The Path proposal would extend affordable health insurance to everyone. The number of uninsured—now at 46 million and projected to rise to 61 million in 2020—would instead fall to an estimated 4 million, or about 1 percent of the U.S. population. Even hard-to-reach individuals would likely qualify for free or low-cost coverage if they became ill and sought health care. An estimated 100,000 lives could be saved through the coverage and system reforms included in the Path framework.

Affordable Premiums

The Path proposal's approach to coverage builds on what works best in our public–private insurance system. A national health insurance exchange offering a public plan option and a variety of private plans would ensure that everyone has access to affordable coverage. Income-related premium help would be available to make sure that individuals and families in the lowest tax bracket spend no more than 5 percent of income on premiums, and that people in middle-income tax brackets pay no more than 10 percent of income on premiums. For the many Americans facing job insecurity, the insurance exchange would provide a stable and portable source of affordable coverage.

The plan also calls for opening up Medicaid and CHIP to people with incomes below 150 percent of the federal poverty level (under $33,000 for family of four). Those who currently have insurance coverage could keep it.

No Discrimination Against the Sick

Under the Path proposal, insurance plans could no longer turn people away because they have an existing medical condition or are considered to be at high risk for one. Nor would individuals with health conditions be charged higher premiums than healthy people. As a result, people in poor health who can no longer work—who today have few prospects of retaining or affording coverage—would no longer fear being without access to insurance coverage and care.

Protection from Ruinous Medical Expenses

The public plan offered through the national health insurance exchange would establish a minimum standard benefit package based on the standard option available to members of Congress and federal employees. Employer plans and plans offered through the exchange would be required to meet this standard of coverage. Deductibles would be $250 per person or $500 per family rather than the $2,000 to $10,000 deductibles found in some health insurance policies today. Preventive services and services required for treatment of chronic conditions would be covered in full.

Family Savings

The average family would save $1,140 in 2010 under the plan, thanks to reforms that reduce administrative costs and promote efficiency in the health care system, as well as those that guarantee financial protection from health care bills. By 2020, the average family would save $2,314 annually, with families of all income levels spending less due to slower cost growth. These dollars would provide substantial relief to families that are now financially strapped because of medical bills and often have to choose between medical care and other basic necessities.

Challenging Changes

While health care providers, employers, taxpayers—and insurers and the health industry—would benefit in important ways, the Path framework includes several significant challenges and important decisions for the country to make as it moves down the path to high performance.

Health Care Providers

The most important benefit for physicians is that health insurance for all would help them deliver the care their patients need. No longer would nearly 40 percent of adults under age 65 say they do not obtain needed care because of cost. No longer would patients fail to fill a prescription or take it as indicated, fail to receive a mammogram or colonoscopy or see a specialist, or fail to come back for follow-up care because of trouble paying medical bills.

To help physicians deliver care in a way that works for patients, the Path proposal makes changes in the way health care is organized and the way hospitals and doctors are paid. All patients would be encouraged to enroll with a physician or nurse practitioner practice that meets the standards of a "patient-centered medical home" that makes care available 24/7. Such practices would be expected to be accountable for ensuring that their patients get all recommended care by using information technology and office systems to remind patients about preventive care and assisting them with obtaining needed specialty care.

These practices would be rewarded with an extra "medical home" fee paid by insurers and public programs, as well as extra bonuses for high performance in preventive care and chronic care management. Physicians would be encouraged to practice in more integrated delivery systems or virtual networks, working with other physicians, nurses, pharmacists, and other health professionals in a team approach to ensure coordination of care and shared accountability for health outcomes. This is a major change from our current isolated solo or small physician practice style of care, and will require not just funding but technical

assistance and infrastructure support. To support provider groups as they reorganize—a challenging task even for large providers—the government should fund regional or state health information exchange networks, facilities that offer after-hours care to patients from different practices, case management help, and more.

Likewise, hospitals would be accountable not only for care during the hospital stay but follow-up care for 30-days following discharge, with incentives to improve transitions in care, reduce complications, and coordinate care as patients go back home or to rehabilitation facilities or other post-acute care. Hospitals would be rewarded for reducing complications and assisting patients with recovery, as well as ensuring that post-acute services are tailored to patients' needs. To carry out this role, hospitals would need to modernize their information systems and participate in health information exchange networks that ensure prompt information about hospital and emergency room care gets back to patients' primary care physicians.

Providers who accept accountability for patient health outcomes and prudent use of resources would be rewarded. Those who provide unnecessary, duplicative, or avoidable services would face revenue losses and would need to improve their processes of care and reposition their business operations.

Health expenditures would grow at 5.5 percent annually under the proposed policies, compared with 6.7 percent under current projections. A phased approach to payment reform will give providers time to prepare for the new payment methods and allow Medicare to develop appropriate rates, methods, and administrative structures that will support greater care coordination.

Employers

Along with households and governments, employers are expected to be part of the solution to gaps in coverage, variable quality, and high costs. All employers would be required to either provide health insurance that meets minimum standards to their employees or contribute 7 percent of worker earnings, up to $1.25 an hour, toward a coverage fund for employees.

While costs will initially increase for employers who do not currently shoulder some of the responsibility for providing coverage, businesses of all sizes stand to gain under the Path framework. Reforms will slow the rise in premiums with net cumulative employer savings of $231 billion over the period from 2010 to 2020.

Taxpayers

The net effect of the Path proposal could result in higher federal taxes and lower state and local taxes. The Commission did not recommend specific federal tax changes but noted revenues that could be generated, if necessary, through taxes on health insurance, health care, luxury goods, or incomes of $200,000 or more. Indeed, the Path proposal requires initial federal investments and sources of long-term financing to achieve maximum system savings. Taxes on harmful health products, including sugared soft drinks, calorie-dense foods, tobacco products, and alcoholic beverages are included; a portion of these revenues would be shared with state and local governments to launch obesity and smoking cessation initiatives.

As designed, federal government net outlays would increase by $593 billion over the 2010–2020 period and state and local government net outlays would decline by $1.034 trillion. Other design choices—such as increasing premiums paid by states to buy public coverage for the low-income elderly and disabled—could shift more of the savings to the federal government.

Deficit financing in the early years can be justified as part of an economic recovery program because expanded health insurance coverage will help stimulate the economy and create jobs, as well as contribute to better health and productivity. Making important investments in coverage, payment, and delivery reform now will reap savings in the long term. These actions, taken together, have the potential to bend the curve of our unsustainable spending on health and generate systemwide savings of $3 trillion over 10 years.

Insurers

Perhaps the most challenging change is the proposed shift in the role of private insurers. Insurers would be required to provide coverage to all—healthy and sick alike—on the same terms. In addition, they would need to compete with a public plan that would be offered to all individuals and employers at a premium at least 20 percent lower than current premiums in the individual and small-business market.

To compete against a public plan with lower administrative costs and greater leverage over provider prices, private plans would need to bring added value, improved quality, and greater efficiency through tools available to them, such as

selection of provider networks, utilization management, and benefit design. Some private insurers may adopt the public play innovations in payment – as they earlier adopted Medicare payment methods. This would provide even greater impetus to delivery system changes to improve quality and efficiency.

The public plan option is key to system savings. The Path report shows that $0.8 trillion would be saved by the coverage, payment, and system reforms without a public plan option, while $3 trillion would be saved with a public plan. The public plan is critical to lower administrative costs and ensure that savings from payment reform are passed on to employers and workers.

Under the Path proposal, an estimated 108 million Americans would retain private coverage, compared with the 178 million now covered by private plans. The net "loss" of private coverage is based on the assumption that private insurers will not alter their business operations to compete effectively with the public plan—an assumption that may well be proven wrong. Moreover, like Medicare, the public plan would contract with private insurers to administer claims for the 106 million people enrolled through the public plan, which would be a major expansion of administered services business.

Integrated delivery systems that are able to provide higher quality care more efficiently—through their own hospitals and physician group practices—would experience a major expansion of enrollment, with over 50 million enrolled in such systems of care. Private insurers that are not linked to integrated delivery system may try to emulate some of practices that lead organized care systems to achieve savings, such as funding nurses in physician practices to help patients with chronic conditions.

Health Industry

Any reform with the potential for $3 trillion in savings in a sector of the economy that is otherwise expected to spend $42 trillion represents a major shift to stakeholders. Pharmaceutical companies, for example, could expect to be paid lower prices for many of their medications as the government becomes a more active purchaser of prescription drugs. In addition, research on comparative effectiveness may find that certain new drugs do not offer added benefits, making public programs and insurers unlikely to pay more for the new drugs.

There are also business opportunities for the health industry. The uninsured will be able to afford needed medications. Currently only 40 percent of adults with hypertension, for example, have that condition controlled. New information systems and incentives for chronic care management could lead to a major increase in use of effective medications.

The almost universal adoption of information technology and health information exchange networks envisioned by the Path report—and given an important jumpstart by the economic stimulus legislation—will also provide business opportunities for the health industry. Accelerating the adoption and use of effective health information technology—with the capacity for decision support and information exchange across care sites—is required to bring about needed change in our care delivery system.

These investments will yield significant returns. The Path report estimates total system savings of $261 billion over 2010–2020 from increased use of health information technology, and $634 billion in savings from comparative effectiveness research and its application to health insurance benefit, coverage, and payment decisions. Rather than denying patients effective care, utilizing value-based benefit design based on comparative effectiveness research will facilitate the use of safe, clinically proven care within the system and provide the information needed to improve value.

Health Security and Long-term Fiscal Responsibility: A 2020 Vision

Although politically difficult, there is an urgent need to move in new directions. The comprehensive reforms proposed by the Commission will spark economic recovery, put the nation back on a path to fiscal responsibility, and ensure that all Americans are able to get the care they need and deserve. The cost of inaction is high. The nation needs national leadership and public–private sector collaboration to forge consensus to move in positive directions. With both an historic political opportunity and a clear path toward a high performance health system that works for all Americans, the time has come to take bold steps to ensure the health and economic security of this and future generations.