



## NEWS RELEASE

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### **NEW ENGLAND JOURNAL OF MEDICINE STUDY FINDS DESPITE SLOWDOWN IN HEALTH CARE COST GROWTH, WIDELY ACCEPTED COST CONTROLS MUST BE IMPLEMENTED**

*New Analysis Finds Health Spending Rose Just 0.8 Percent Per Person in 2012, Affordable Care Act Measures Designed to Control Costs May Be Contributing to Slowdown*

New York, NY, December 25, 2013—Regardless of the cause of the recent slowdown in U.S. health care cost growth, the U.S. needs to continue to control health spending, according to a new study by David Blumenthal, M.D., and Kristof Stremikis of The Commonwealth Fund and David Cutler, Ph.D., of Harvard University. The analysis, published today in the *New England Journal of Medicine*, also finds that a broad, bipartisan consensus about strategies that will be effective in controlling costs has emerged.

According to the authors' calculations, last year health care spending rose only moderately for the third year in a row, increasing by 0.8 percent per person, slightly less than the rate of growth of gross domestic product (GDP) per capita. This trend marks a departure from the previous five decades, and may be fueled in part by payment reforms contained within the Affordable Care Act (ACA).

While analysts are divided on whether the new trend is a result of the recession or recent efforts to control spending, the authors of "Health Care Spending: A Giant Slain or Sleeping?" argue that, either way, the U.S. will need to "reengineer health services to make them more efficient—to go after the one-third of health spending that is estimated to be wasteful." Blumenthal and his coauthors outline the areas of agreement among health policy experts about the actions that are needed to achieve this goal.

#### **Understanding Slower Health Care Cost Growth**

In the analysis, the authors review the potential causes of health care cost growth—such as the use of new and expensive medical technology, rising prices for medical services, and the prevalence of inefficient care—and summarize the debate over what has changed and triggered the slowdown. According to the article, potential factors contributing to lower costs include:

- Technology slowdowns, such as fewer new blockbuster drugs and slower growth in the use of existing technologies such as cardiac procedures;
- Higher out-of-pocket costs for patients, which discourage the use of health services; and
- Incentives created through the ACA and the private sector for providers to prescribe less care, including penalties for hospital-acquired conditions and preventable hospital readmissions, along with the proliferation of accountable care organizations—in which an insurer and a group of providers share in savings that come from delivering more efficient care—and Medicare bundled payment initiatives in which a single payment covers all treatment required in an episode of care such as a hip replacement.

### **Consensus on Cost-Cutting Measures**

Blumenthal and his co-authors recommend pursuing cost-cutting approaches that have been endorsed by a wide and bipartisan array of expert groups in order to avoid rationing of health care services and manage costs long-term, including:

**Provider payment reform:** Discarding current fee-for-service payment models in favor of arrangements such as capitation or partial capitation, global budgeting, or risk-sharing arrangements such as those supported by the Affordable Care Act’s accountable care organization program.

**Reforming the delivery system:** Strengthening three areas, in particular: the usability of health information technology, care coordination for the sickest and most expensive patients, and primary care services.

**Engaging consumers in making better health care choices:** With better information and incentives, patients should be rewarded for choosing providers that have better outcomes and lower costs of care.

**Making health care data more available:** Patients should have better information about the prices providers charge as well as the quality and safety of their care.

**Reducing administrative expenses:** While standardization of billing and claims forms and processes has begun under the ACA, much more needs to be done.

“Even if spending growth stays low, our current level of expenditures is far higher than we need or can afford,” said coauthor and Commonwealth Fund president David Blumenthal. “A wide variety of studies suggests that as much as thirty percent of health spending in the U.S. is wasted.”

“Evidence seems to indicate that many of the Affordable Care Act’s payment reforms, which are moving the U.S. away from fee-for-service payment to value-based payment, are starting to bend

the health care cost curve,” said coauthor David Cutler, the Otto Eckstein Professor of Applied Economics in the Department of Economics at Harvard University. “But further reforms are needed in areas such as simplifying health care administration and engaging consumers with better information.”

The authors conclude it’s too early to say if cost growth will remain slow but emphasize that, given the already high level of current spending and evidence of waste, the private and public sectors will continue to look for strategies to contain costs even if growth stays low.

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