



**Starting on the Path to a High Performance Health System:
Analysis of Health System Reform Provisions of the
Affordable Care Act of 2010**

Commonwealth Fund Staff

September 2010

Exhibit ES-1. Projected Savings and Effectiveness of System Reform Provisions in Comprehensive Reform Law

2010–19 (in billions)

	CBO Estimate of Budget Savings, Affordable Care Act of 2010, 03/30/09	Percent Opinion Leaders Favor, or View as Effective	Projected Effectiveness in Containing Costs
Establish health insurance exchanges		92% ^b	++
Create new nonprofit plan choices			+
Review premiums and require minimum medical loss ratios			++
Incentivize primary care and prevention	\$6	61% ^c	+
Stimulate innovative provider payment reform	-\$8	97% ^c	+++
Create accountable care organizations	-\$5	54% ^f	++
Control spending growth; IPAB and productivity improvement	-\$176	75% ^e	++
Promote quality improvement and public reporting		53% ^a	+
Encourage Medicare private plan competition	-\$201	77% ^c	+
Tax high premium health insurance plans	-\$32	58% ^d	+

Authors' views of long-term effectiveness in controlling total health system spending: Very effective = +++, Effective = ++, Somewhat effective = +. Health Care Opinion Leaders Surveys: ^a Sept/Oct 2008; ^b Dec. 2008; ^c April 2009; ^d June 2009; ^e Oct. 2009, ^f July 2010. IPAB = the Independent Payment Advisory Board
 Source: Commonwealth Fund estimates; Congressional Budget Office, Letter to the Honorable Nancy Pelosi, Mar. 20, 2010.



Exhibit ES-2. Major Sources of Savings and Revenues Compared with Projected Spending, Net Cumulative Effect on Federal Deficit, 2010–19

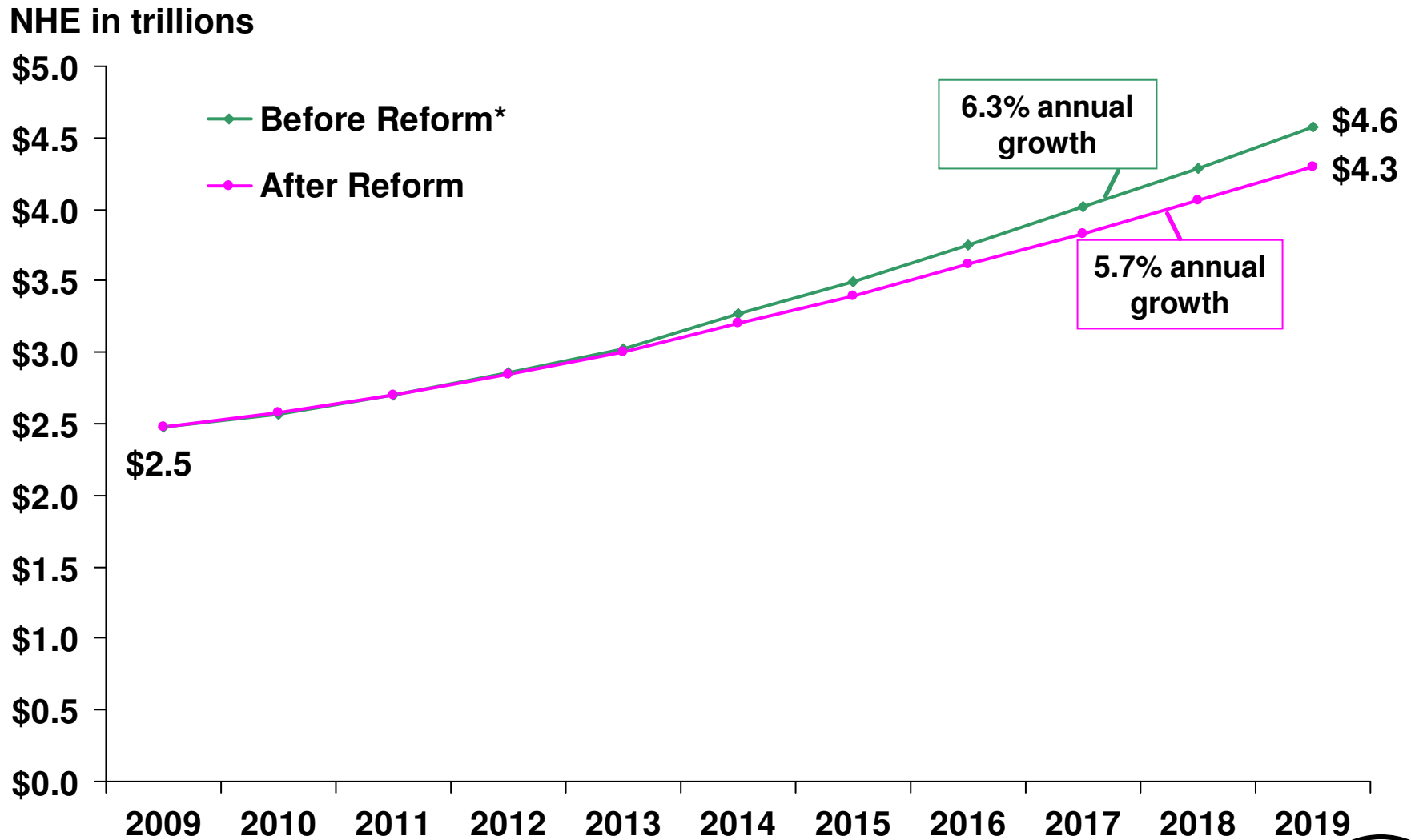
Dollars in billions

	CBO estimate of Affordable Care Act of 2010
Total Net Impact on Federal Deficit, 2010–19	–\$143
<u>Total Federal Cost of Coverage Expansion and Improvement</u>	<u>\$820</u>
<i>Gross Cost of Coverage Provisions</i>	<i>\$938</i>
• Medicaid/CHIP outlays	434
• Exchange subsidies	464
• Small employer subsidies	40
<i>Offsetting Revenues and Wage Effects</i>	<i>–\$117</i>
• Payments by uninsured individuals	–17
• Play-or-pay payments by employers	–52
• Associated effects on taxes and outlays	–48
<u>Total Savings from Payment and System Reforms</u>	<u>–\$511</u>
• Productivity updates/provider payment changes	–160
• Medicare Advantage reform	–204
• Other improvements and savings	–147
<u>Education System Savings</u>	<u>–\$19</u>
<u>Total Revenues</u>	<u>–\$432</u>
• Excise tax on high-premium insurance plans	–32
• Surtax on investment income for high-income earners	–123
• Other revenues	–277

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

Source: Congressional Budget Office, Letter to the Honorable Nancy Pelosi, Mar. 20, 2010.

Exhibit ES-3. Total National Health Expenditures (NHE), 2009–19: Before and After Reform



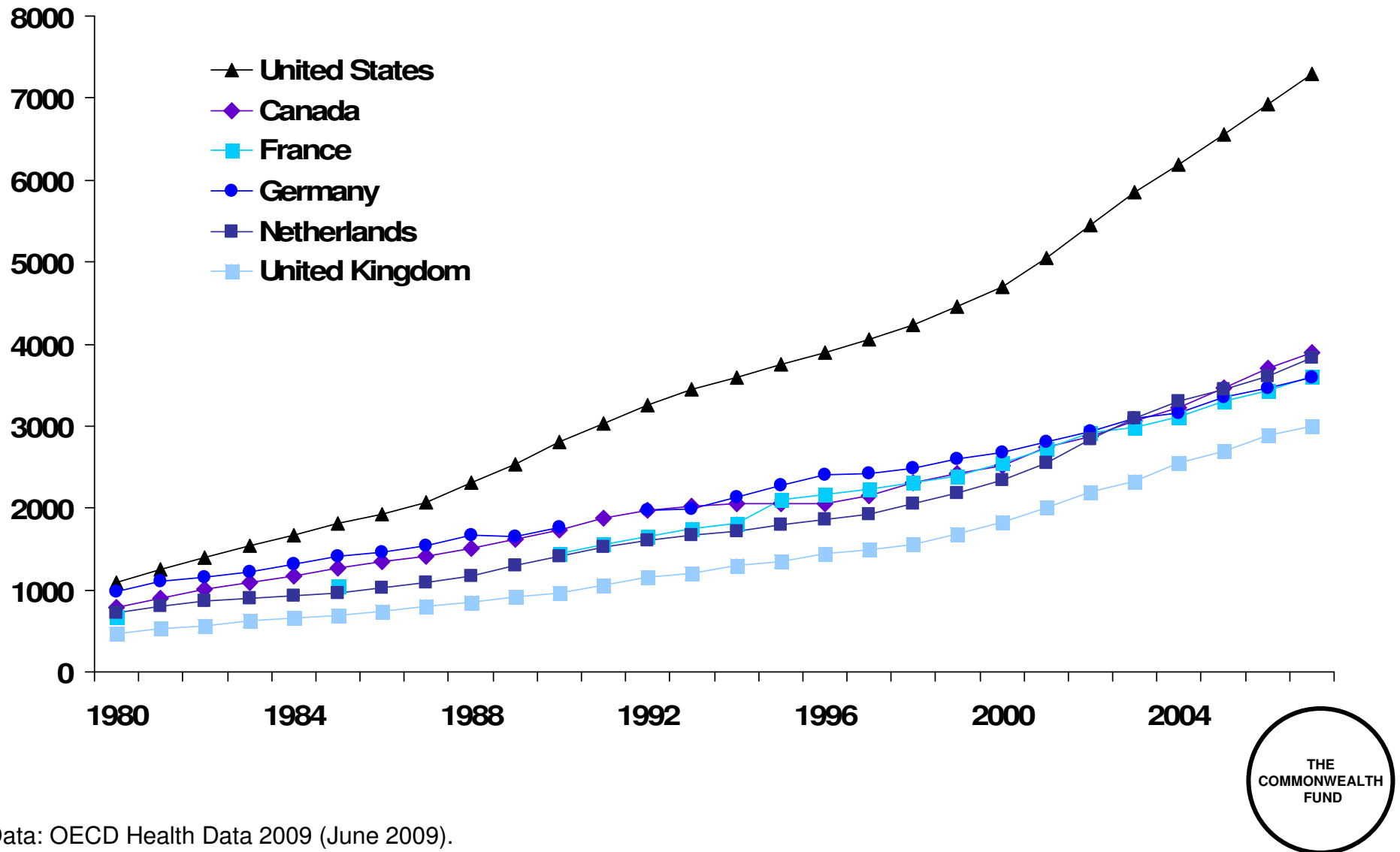
Notes: * Estimate of pre-reform national health spending when corrected to reflect underutilization of services by previously uninsured.

Source: D. M. Cutler, K. Davis, and K. Stremikis, *The Impact of Health Reform on Health System Spending*, (Washington, D.C., and New York: Center for American Progress and The Commonwealth Fund, May 2010).



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

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



Data: OECD Health Data 2009 (June 2009).



Exhibit 2. System Improvement Provisions of Affordable Care Act of 2010

Affordable Care Act of 2010, 03/30/09

Insurance Standards, Plans, and Premium Review	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; review of premium reasonableness
Primary Care, Prevention, and Wellness	Primary care 10% bonus for 5 years; Medicaid payment rates to primary care physicians no less than 100% of Medicare rates in 2013 and 2014; annual wellness visit and/or health risk assessment for Medicare beneficiaries; preventive services without cost-sharing; local and employer wellness programs
Innovative Provider Payment Reform	CMS Innovation Center; Medicaid medical home designation; test bundled payment for acute and post-acute care; value-based purchasing
Accountable Care Organizations	ACOs to share savings in Medicare
Controlling Health Spending	Independent Payment Advisory Board recommendations to meet Medicare expenditure target; total system spending non-binding recommendations; productivity improvement update factor
Quality Improvement and Public Reporting	Direct HHS to develop national quality strategy, public reporting
Medicare Private Plan Competition	Level the playing field between Medicare Advantage and traditional Medicare FFS plans
Cost-Conscious Consumers	Introduce a 40% excise tax on high premium health insurance plans beginning in 2018

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.

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Exhibit 3. Payment and System Reform Savings from ACA Provisions, 2010–19

Dollars in billions

	CBO estimate of Affordable Care Act of 2010
Total Savings from Payment and System Reforms	-\$511
• Productivity improvement/provider payment updates	-160
• Medicare Advantage reform	-204
• Primary care, geographic adjustment	6
• Payment innovations	-8
• Hospital readmissions	-7
• Disproportionate share hospital adjustment	-36
• Prescription drugs	29
• Home health	-40
• Independent Payment Advisory Board	-16
• Other improvements and interactions	-75

Source: Congressional Budget Office, Letter to the Honorable Nancy Pelosi, Mar. 20, 2010.



Exhibit 4. Major Sources of Savings and Revenues Compared with Projected Spending, Net Cumulative Effect on Federal Deficit, 2010–19

Dollars in billions

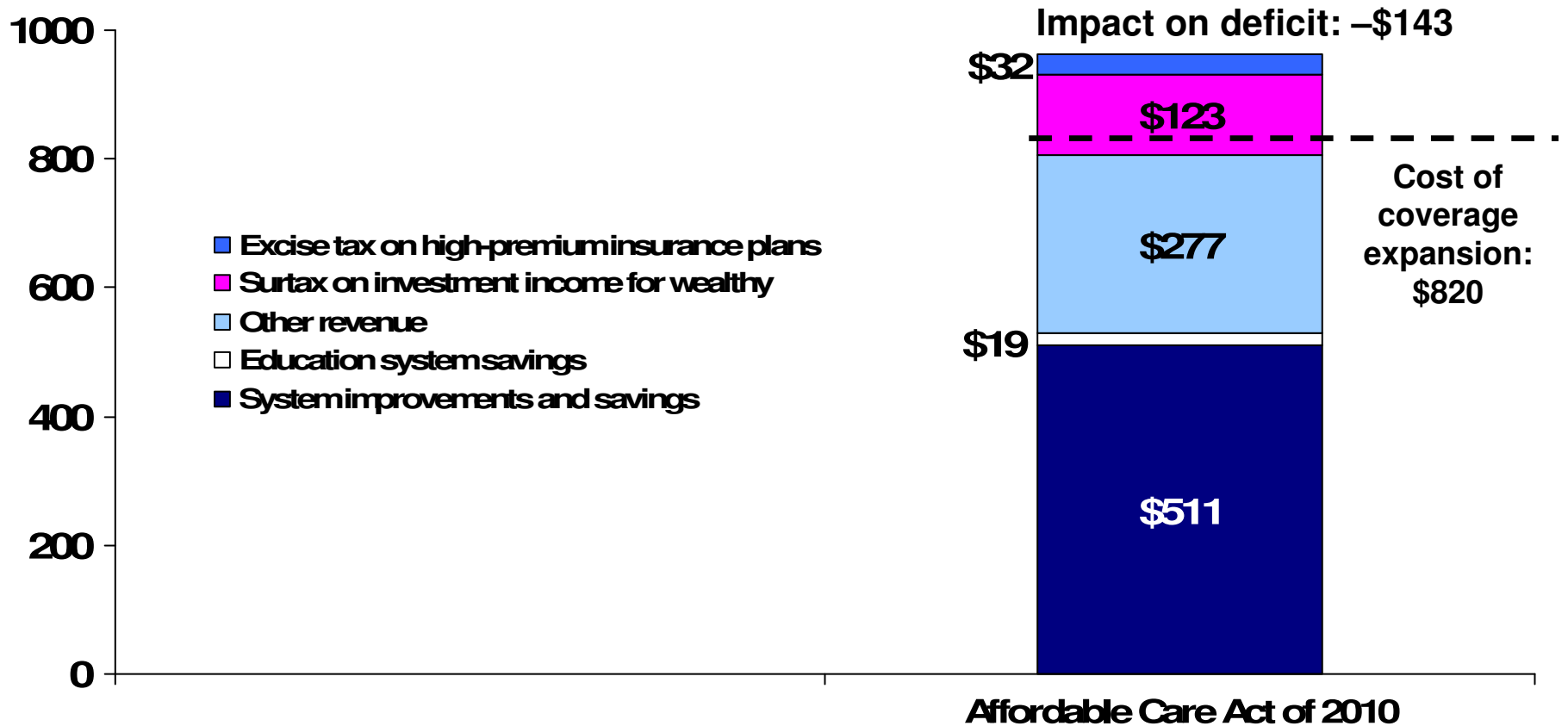
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Source: Congressional Budget Office, Letter to the Honorable Nancy Pelosi, Mar. 20, 2010.

Exhibit 5. Proportions of System Savings and New Revenue in Comprehensive Reform Law

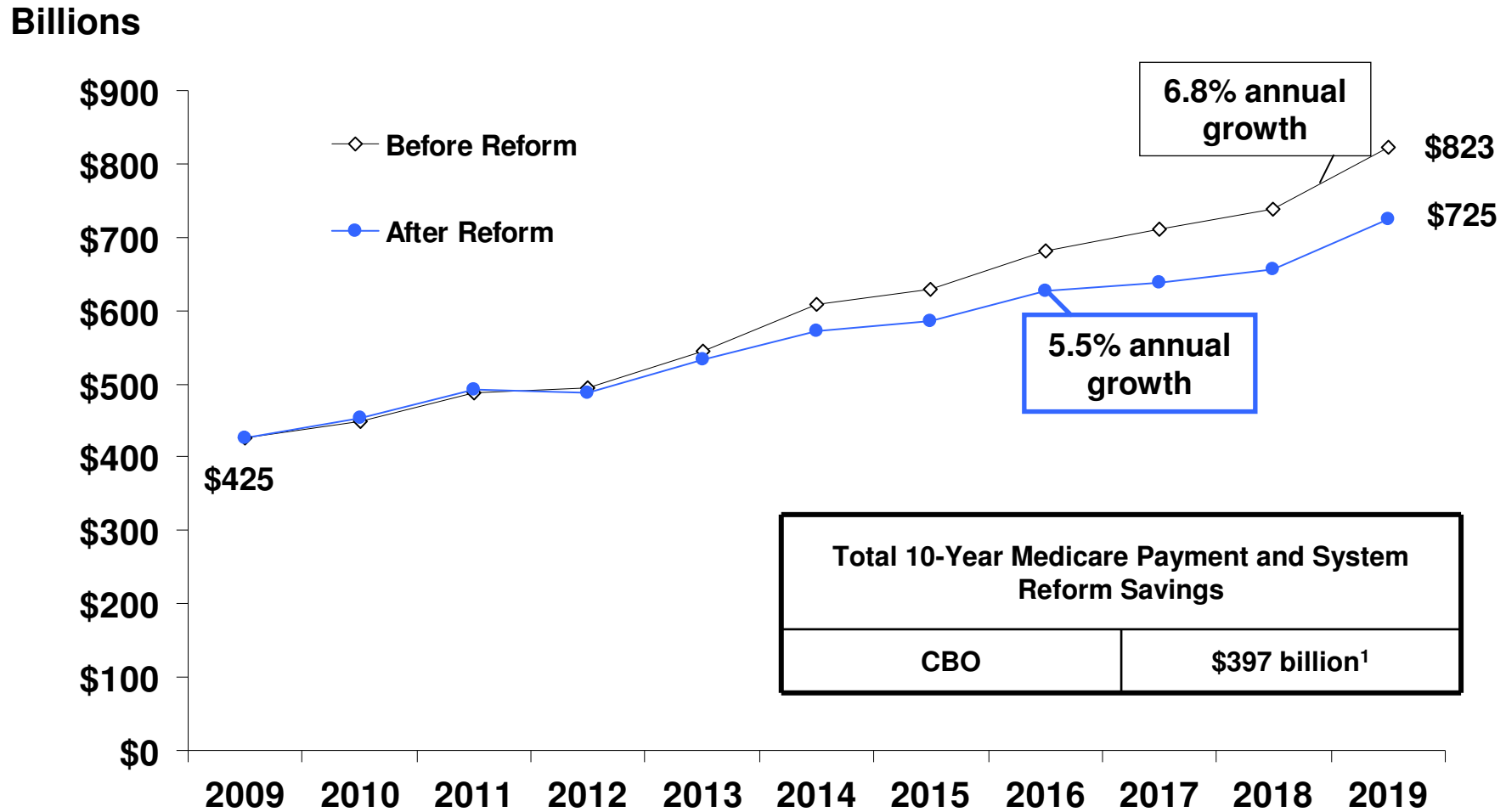
Dollars in billions



Note: Totals do not reflect net impact on deficit because of rounding.
 Source: Congressional Budget Office, Letter to the Honorable Nancy Pelosi, Mar. 20, 2010.



Exhibit 6. Medicare Spending with System Savings, 2010–19: Before and After Reform



Notes: ¹ Payment and system reform savings net of CLASS and non-Medicare spending and savings provisions, difference between CBO and Cutler/Davis reflects alternative estimate of modernization.

Source: D. M. Cutler, K. Davis, and K. Stremikis, *The Impact of Health Reform on Health System Spending*, (Washington, D.C., and New York: Center for American Progress and The Commonwealth Fund, May 2010).



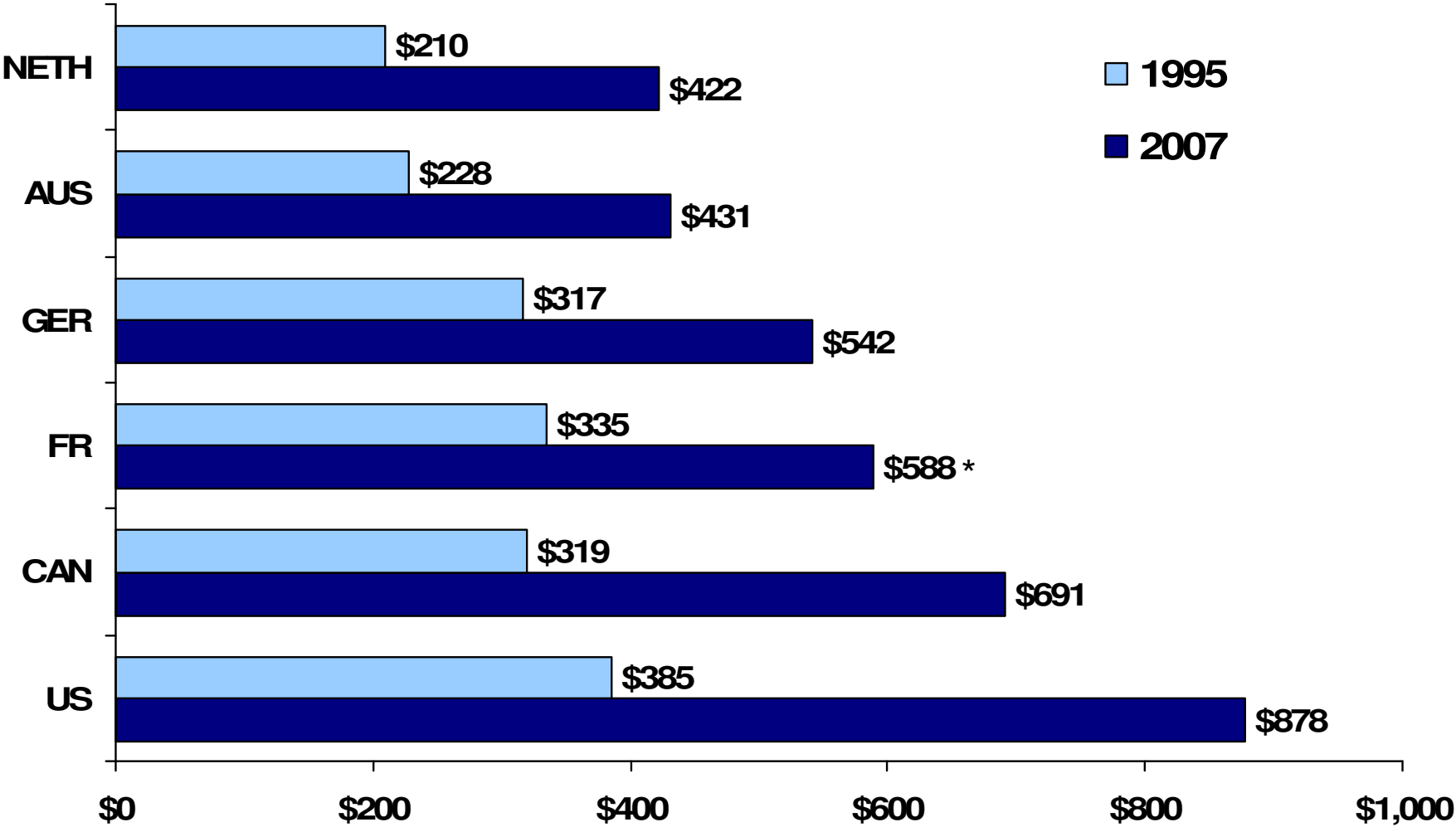
Exhibit 7. Bending the Curve: Options that Achieve Savings Cumulative 10-Year Federal Budget Savings

	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	—

Source: R. Nuzum, S. Mika, C. Schoen, and K. Davis, *Finding Resources for Health Reform and Bending the Health Care Cost Curve* (New York: The Commonwealth Fund, July 2009).



Exhibit 8. Pharmaceutical Spending per Capita: 1995 and 2007 Adjusted for Differences in Cost of Living



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



Exhibit 9. CBO Estimates of Major Health Legislation Compared with Actual Impact on Federal Outlays

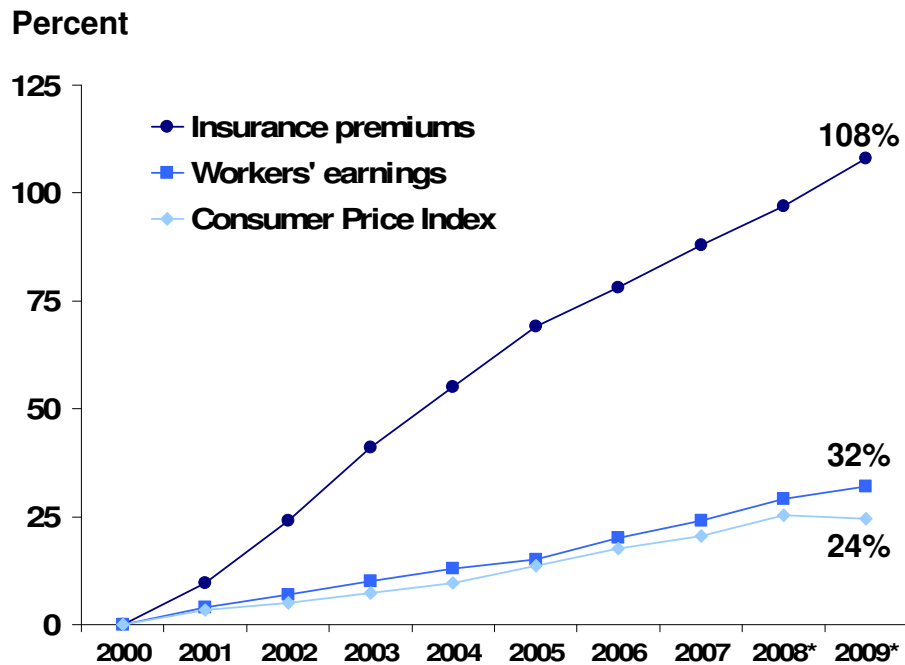
Health Provision	CBO Projection	Actual Impact
Medicare hospital PPS, 1982–1983	\$10 billion savings, 1983–1986	\$21 billion savings, 1983–1986
BBA 1997: skilled nursing facilities; home health; and fraud, waste, and abuse reduction	\$112 billion savings total, 1998–2002	Actual savings 50% greater in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



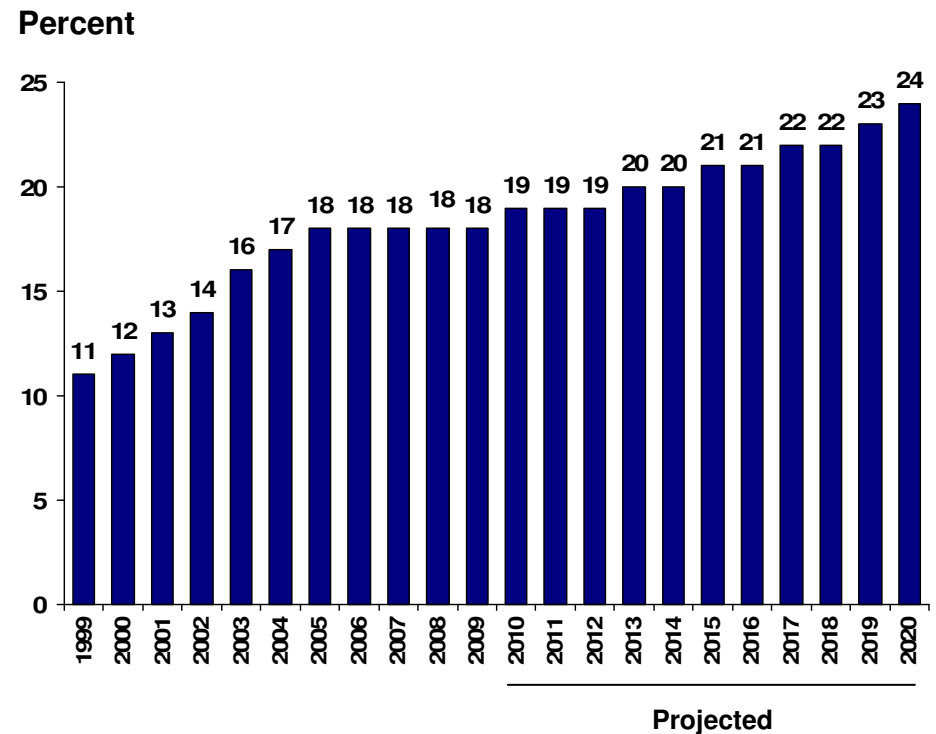
Source: J. Gabel, “Congress’s Health Care Numbers Don’t Add Up,” *New York Times*, Aug. 25, 2009.

Exhibit 10. Premiums Rising Faster Than Inflation and Wages

Cumulative Changes in Components of U.S. National Health Expenditures and Workers' Earnings, 2000–09



Projected Average Family Premium as a Percentage of Median Family Income, 2008–20



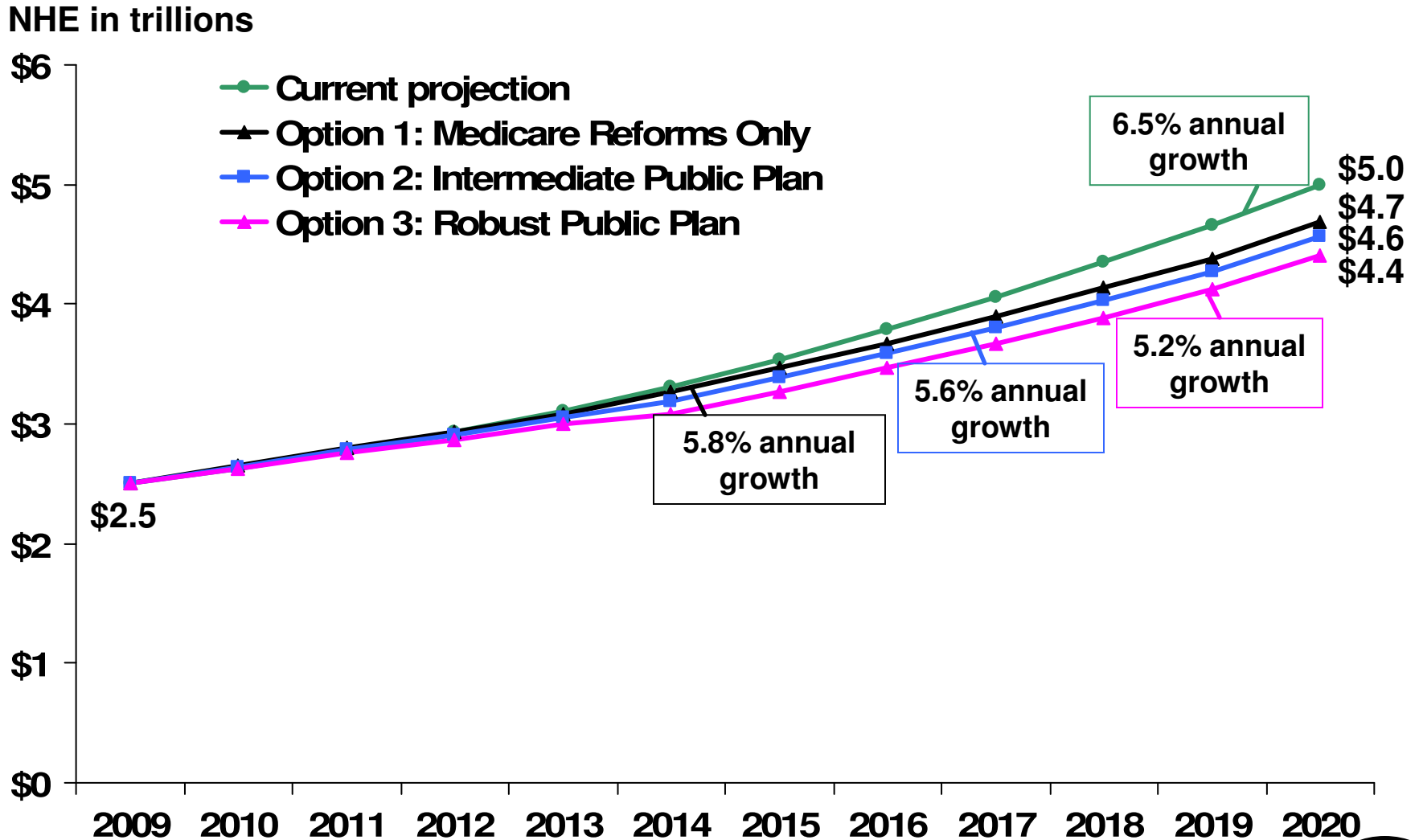
* 2008 and 2009 NHE projections.

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 11. Total National Health Expenditures (NHE) 2009–20: Current Projection and Alternative Scenarios



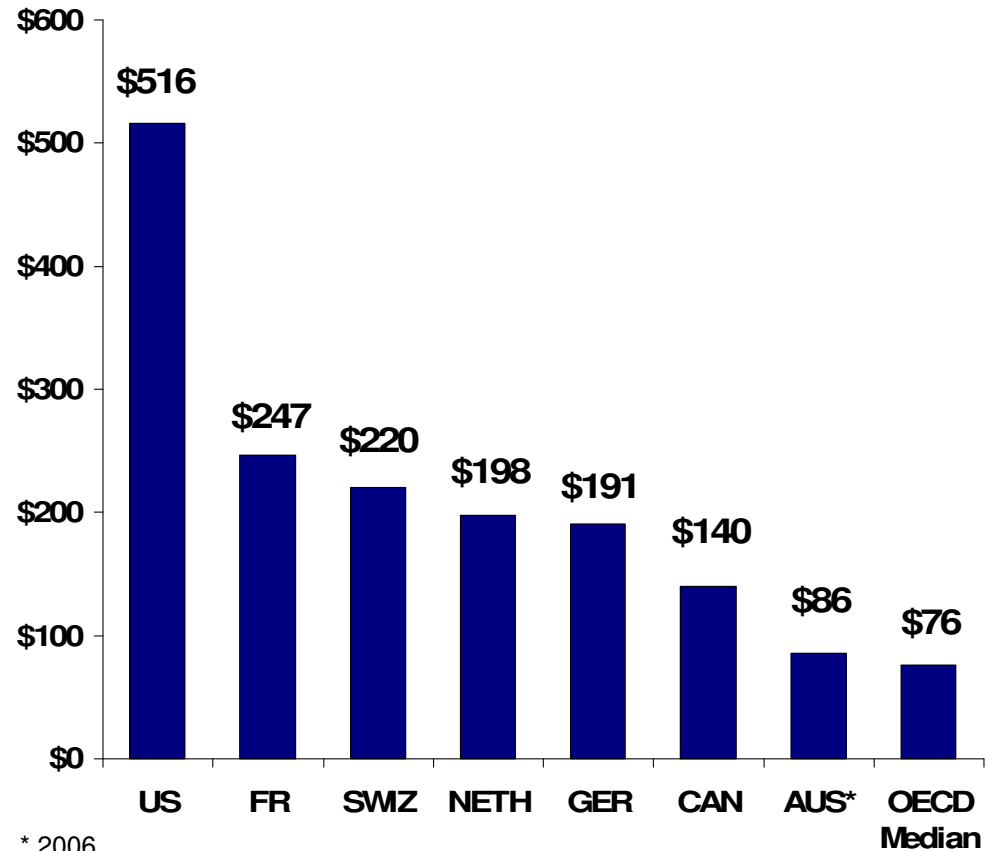
Source: C. Schoen, K. Davis, S. Guterman, and K. Stremikis, *Fork In the Road: Alternative Paths to a High Performance U.S. Health System* (New York: The Commonwealth Fund, June 2009).



Exhibit 12. 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 13. 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 14. Projected Savings and Effectiveness of System Reform Provisions in Comprehensive Reform Law

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