THE INDEPENDENT PAYMENT ADVISORY BOARD AS A VEHICLE FOR SAVINGS THROUGH SYSTEM IMPROVEMENT

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Summary of Major Points

Addressing the growth of Medicare spending is a challenging dilemma. On one hand, Medicare is extremely popular and effective; on the other, Medicare spending growth threatens the program’s continued ability to fulfill its mission.

Medicare spending is driven primarily by excess cost growth throughout the health system, which also is putting pressure on state and local governments, businesses, and households. Therefore, treating it only as a Medicare issue can lead to inappropriate policies that will fail to address the problem.

The Independent Payment Advisory Board (IPAB) can serve as a useful vehicle to address these issues, by focusing attention on a broader consideration of policy imperatives. This will require a broader view of the role of IPAB and collaboration across the executive and legislative branches, and also with state and local governments, providers, patients, and private sector payers and purchasers. The emphasis should be on:

- total health care costs, rather than only federal spending;
- enhancing access and quality;
- being sensitive to distributional impacts;
- emphasizing the need to improve performance; and
- establishing coherence and alignment of incentives across the entire health system.
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Thank you, Chairman Pitts, Vice Chairman Burgess, Congressman Pallone, and Members of the Subcommittee, for this invitation to testify on the Independent Payment Advisory Board (IPAB). I am Stuart Guterman, Vice President for Payment and System Reform at The Commonwealth Fund. The Commonwealth Fund is a private foundation that aims to promote a high-performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society’s most vulnerable, including low-income people, the uninsured, minority Americans, young children, and elderly adults. The Fund carries out this mission by supporting independent research on health care issues and making grants to improve health care practice and policy.

I am glad to be able to speak to you on this topic, because I have been working on Medicare issues—particularly payment policy—for a long time, at the Centers for Medicare and Medicaid Services (CMS), and its predecessor, the Health Care Financing Administration, in the mid-1980s and again from 2002 to 2005, and at the Medicare Payment Advisory Commission (MedPAC), and its predecessor, the Prospective Payment Assessment Commission, from 1988 to 1999, as well as at the Congressional Budget Office (CBO). I have seen the problems faced by the program persist over time, despite continuous efforts to address and remediate them. I believe that we have an unprecedented opportunity—and an historic imperative—now to address these problems in a comprehensive way, which is the only way they can be solved.

The Congress faces a challenging dilemma in addressing the growth of Medicare spending. On one hand, Medicare is an extremely popular and effective federal program, and some 47 million aged and disabled beneficiaries depend on it for access to the health care they need; on the other, Medicare spending is rising at a rate that threatens the program’s continued ability to fulfill its mission, and this growth is putting increasing pressure on the federal budget as well. It will be difficult to achieving an appropriate balance between controlling costs and achieving the objectives of the program, but it is a task of the utmost importance.

Medicare and other federal health spending is largely driven by factors that apply across the health system and put pressure not only on the public sector, including federal, state, and local governments, but also the private sector, including large and small businesses, workers and their families, and others. As such, treating health care cost growth only as a Medicare issue can lead to inappropriate policies that fail to address the
underlying cause of the problem and lead to increasing pressure not only on Medicare and its beneficiaries but on the rest of the health system and the people it serves.¹

The IPAB, if used appropriately, can serve as a useful vehicle in attempting to address these issues. Rather than a usurpation of congressional authority, it should be viewed as an opportunity to focus the attention of policymakers in the executive and legislative branches (and of stakeholders in state and local governments and the private sector, as well) on action that must be taken to avoid an unpalatable alternative—taking no constructive action and allowing health care costs to continue to rise as currently projected, with no change in the way health care is financed and delivered and no improvement in health system performance. This will require a broader view of the role of IPAB (and all other available mechanisms) and collaboration among Congress, the administration, and all parties involved in the health system—a difficult proposition, but one we have no choice but to attempt. The alternative is not the status quo, but the calamitous situation toward which we are headed if we do not take appropriate action.

In this testimony, I first discuss the growth of Medicare spending in this broader context. I then describe alternative approaches that have been proposed to achieve savings in Medicare spending, and finally consider the role that the IPAB might play in facilitating the implementation of policies that could slow Medicare and overall spending growth by changing the way we pay for and deliver health care.

THE FEDERAL BUDGET, MEDICARE SPENDING, AND HEALTH CARE COST GROWTH
The federal budget faces increasing pressure, with a gap between outlays and revenues that is projected to persist or even grow over time (Exhibit 1). Federal expenditures on health programs play a major role in total federal spending. In 2010, the federal government spent an estimated $820 billion on Medicare, Medicaid, and the Children’s Health Insurance Program (CHIP)—accounting for 24 percent of all federal non-interest spending.²³ Moreover, the cost of these programs is projected to increase sharply over time, driving federal spending to unprecedented levels.
There are three important things to remember in considering policies to reduce the growth of federal spending on health programs. First, Medicare, Medicaid, and CHIP are not merely line items in the federal budget—they are social programs that provide access to needed health care to vulnerable groups of Americans: the elderly and disabled, families with low incomes, and poor children. Without these programs, many of these people would not be able to get the care they need—subjecting them to increased suffering and imposing costs on society in other ways.

Second, out-of-pocket costs of health care to Medicare beneficiaries can be substantial. Beneficiaries pay premiums for Part B (Supplementary Medical Insurance, indexed to beneficiaries’ incomes since 2007) and Part D prescription drug plan coverage (except for those who qualify for the low-income subsidy). In addition, beneficiaries who use most Medicare-covered services must pay deductible and coinsurance amounts. Most beneficiaries also contribute to their Part D costs as well, with deductible and coinsurance amounts depending on the plan. These Medicare deductibles and copayments, along with payments for services that are not covered by Medicare, can exact a high cost on beneficiaries—particularly those with low incomes or in poor health. Currently, Medicare covers less than 75 percent of the average beneficiary’s total health expenditures, with Medicare beneficiaries with poor health status or low incomes vulnerable to significant
financial burdens. Cutting back on Medicare coverage or increasing beneficiaries’ responsibilities to pay for their health care costs would exacerbate this situation.

Third, most of the growth in federal health spending is attributable to increasing costs across the health system (Exhibit 2). Although the aging of the postwar “baby boom” generation into retirement often has been cited as the reason for concern about the solvency of the Medicare program, the Congressional Budget Office estimates that, in the long run, it is excess health care cost growth (cost growth per person that exceeds the growth in per capita gross domestic product) that accounts for most of the increase in federal health care spending—56 percent of the increase in Medicare, Medicaid, and Social Security combined, but 71 percent of the increase in Medicare and Medicaid. In fact, private insurance spending per insured person is projected to increase at a faster pace than federal health spending per person over the next decade (Exhibit 3).
The challenge, then, is not just to reduce the amount that the federal government spends on health care—although reducing health spending growth and the federal budget deficit is an important policy imperative. Health care costs are putting pressure not only on the federal budget, but also on:

- state budgets, as Medicaid has become the largest single line item for states, accounting for an average 22 percent of total spending in fiscal 2010 (with wide variation around that average across states);\(^6\)
- businesses, as large employers’ health care costs doubled from 2001 to 2009, while small employers struggle to provide health care coverage at all;\(^7\)
- workers, whose insurance premiums have more than doubled from 2001 to 2009—more than three times as fast as their earnings;\(^8\) and
- the unemployed, who face the loss of their coverage—60 percent of working-age adults who were uninsured at any time during 2010 reported having medical bill problems or accrued medical debt.\(^9\)

The implications of bringing health care costs under control, therefore, are much broader than the federal budget, and efforts to do so will require concerted efforts across
the public and private sectors to elicit changes in the way health care is financed and delivered—not only for Medicare beneficiaries but for all Americans.

**APPROACHES FOR ACHIEVING SAVINGS**

There are three basic approaches for achieving savings in health spending:

1. Eligibility or benefits—making changes that affect the number of people, the range of services, or the share of spending covered by the programs;
2. Payments—modifying the prices paid for some or all covered services; and
3. Utilization—reducing the number of services provided or changing the mix of services to substitute less-intensive for more-intensive care.

Various policies in each of these categories have been proposed to slow the growth of Medicare spending, with some very different implications for the participants in public programs and for the providers who serve them. These types of policies also are being developed in the private sector, involving many of the same considerations.

**Eligibility or Benefits**

In the deliberations on how to address the federal deficit, a number of proposals have been advanced that would reduce Medicare spending by cutting eligibility or benefits. These include proposals to:

- raise the age of eligibility for Medicare to age 67;
- include income-test eligibility, premiums, or cost-sharing for Medicare beneficiaries;
- increase Medicare cost-sharing by instituting increased out-of-pocket requirements or prohibiting first-dollar coverage under private supplemental policies;
- convert Medicare to a high-deductible health plan tied to a health savings account; and
- convert Medicare to a voucher for purchasing private insurance, with the value of the voucher set below what Medicare would otherwise be projected to spend.

These policies should be examined carefully for their potential effects, particularly on the sickest and poorest beneficiaries.

For example, raising the eligibility age to 67 leaves a large number of 65- and 66-year-olds with the burden of obtaining other coverage. In the prereform environment, an
estimated 200,000 Americans would become uninsured under this scenario. The Affordable Care Act likely would reduce that number substantially, but the ability to obtain comparable coverage is a concern because of high premiums.\textsuperscript{10} In any case, out-of-pocket costs would increase for most of the individuals who would be affected.\textsuperscript{11} The cost of coverage available through the health insurance exchanges also would increase, because of the addition of older adults into that pool of covered lives, as would costs for employers, with older workers staying in employer-sponsored coverage, and states, with low-income individuals staying in full Medicaid coverage until they are eligible for Medicare. Finally, per-beneficiary costs in Medicare would increase, as the youngest and healthiest beneficiaries would not enter the program until they were older.

Increasing Medicare cost-sharing or converting the program to a high-deductible health plan would shift costs onto the beneficiaries who use the most services. Raising out-of-pocket-costs has been shown to reduce utilization of both unnecessary and necessary care.\textsuperscript{12} Moreover, 58 percent of total program spending is accounted for by 10 percent of Medicare beneficiaries who incur an average of $48,000 in Medicare costs. These beneficiaries incur such high costs because they are very sick, not because they are not careful shoppers.\textsuperscript{13}

Converting Medicare to a voucher program is a radical approach to slowing Medicare spending. The effects are extremely dependent on the level and rate of increase of the voucher that would be given to beneficiaries. The lower the voucher, the more savings could be generated by the proposal but the more difficult it would be for Medicare beneficiaries to find adequate private coverage without contributing a substantial portion of their own resources. CBO has estimated that the proposal adopted by the House Budget Committee would substantially reduce Medicare program spending and make it more predictable, but beneficiaries would spend considerably more than they do under the current program, threatening their access to adequate coverage and, consequently, the care they need.\textsuperscript{14} By 2022, new enrollees would have to pay at least $6,400 more out-of-pocket to buy coverage comparable to traditional Medicare, and by 2030, the portion of health care expense a typical 65-year-old would pay out-of-pocket would increase from 30 percent to 68 percent.\textsuperscript{15}

Other policies could be employed to deter the use of unnecessary or duplicative care and encourage use of lower-cost sources of care, structured to avoid merely shifting costs to beneficiaries by reformulating existing cost-sharing requirements to guide wiser patient choices. Policies along this line could include:
targeting Medicare cost-sharing on discretionary care, by reducing or eliminating copayments for essential services while increasing cost-sharing for services that are supply-sensitive (i.e., elective services, for which utilization is substantially dependent on level of availability);

• reducing Medicare cost-sharing on services over which patients have little discretion (e.g., hospitalization), while instituting modest copayments on services, such as home health visits, for which there currently is no copayment;

• value-based benefit design—eliminating or reducing cost-sharing for primary care, prescription drugs essential for the control of chronic conditions, and other services that have been shown to be beneficial and highly cost-effective;

• reference pricing—paying a price that covers the cost of the most cost-effective drug, device, or treatment for each patient’s condition, and giving patients the option of obtaining other drugs, devices, or treatments if they are willing to pay the difference in cost out-of-pocket; and

• tiered networks—reducing the cost to the patient for obtaining care from physicians and hospitals that have the same or better outcomes (e.g., lower mortality or fewer complications), but have lower costs over an episode of care.

All of these policies increasingly are being used in the private sector to encourage providers, suppliers, and subscribers to make better choices regarding care, treatments, drugs, and devices.

Although the IPAB currently is prohibited from addressing issues of Medicare eligibility or benefits, it could serve as a vehicle for considering how these policies could be developed and implemented not only in Medicare but throughout the health system—pulling together evidence produced by entities like the CMS Innovation Center and the Patient-Centered Outcomes Research Institute (PCORI), and in consultation with MedPAC, the Medicaid and CHIP Payment and Access Commission (MACPAC), organizations of private payers and providers, and patient advocacy organizations, as well as members of Congress and the administration.

Payments
A second category of policies that have been proposed to achieve program savings is provider payments. On average—although the relationship between Medicare and private insurers’ payment rates varies widely—private insurers typically pay providers more. Providers and private insurers have argued that prices to private insurers are higher to compensate for lower rates from Medicare and Medicaid. Recent evidence, however,
suggests that hospitals that face constrained revenues from private insurers operate more efficiently and realize higher margins from Medicare as a result.\textsuperscript{17} Under the current mechanism, while Medicare prices are administratively set, prices paid by individual private insurers can vary widely across providers in a given market area, and prices paid by different payers to individual providers can vary widely as well (Exhibit 4).

This wide array of prices for what appear to be similar services—along with precious little information about the price, true production cost, or value of alternative services—makes it difficult for the health care market to send appropriate signals to providers and consumers about how resources should be allocated, what services are valuable, and what providers can best provide them. Policies that help the market work better—such as the promotion of greater price transparency, more information about the quality and value of alternative health care strategies, and other policies to address the consolidation of market power in health care and health coverage—could be required to make sure we obtain maximum value from our health care dollars.

For example, the identification of services for which prices are high relative to a competitive market price can help bring prices in line with efficient provision of care. For example, the prices of brand-name drugs and medical devices such as hip replacements in the U.S. are about twice those in other countries. Policies to address this issue might include price negotiation for prescription drugs, medical devices, and durable medical equipment.
Variation in prices, as well as utilization, also may play an important role in driving variation in spending. Research indicates that a large portion of the difference between spending levels in the U.S. and in other countries can be attributed to price differences.\textsuperscript{18} Given the emerging evidence about the wide array of prices for the same services even within the same markets, analysis of the role of prices in driving health spending should be conducted. With the concern about consolidation of market power—even before the advent of accountable care organizations—the development of policies to deal with that trend, and to use it constructively to promote coordinated care, may be an important focus.\textsuperscript{19}

The IPAB can play an important role in bringing these considerations together. Again, focusing not just on Medicare but as these issues apply more broadly across the entire health system.

**Utilization**

Proposals to reduce utilization of services are often characterized as rationing and portrayed as denying patients to the right to life-saving care. Yet, the American public indicates in surveys that more than half (54 percent) of all patients experience duplicative tests or poorly organized care (Exhibit 5).

![Exhibit 5. Potential Waste and Inefficiency: More Than Half of Adults Experience Wasteful and Poorly Organized Care](image)

A significant body of research points to significant misuse (i.e., medical errors) and overuse (e.g., duplication of tests or unnecessary care) of services, as well as to underuse of some services (e.g., preventive services, management of chronic conditions, and other forms of primary care that can reduce ambulatory care–sensitive hospital and emergency room use), especially by low-income and other vulnerable populations. The Institute of Medicine estimated that as many as 98,000 patients die in hospitals each year as a result of medical errors that could have been prevented. MedPAC estimated that 13.3 percent of hospital readmissions within 30 days of discharge are avoidable. Another study estimated that 30 percent of payments for patients with acute myocardial infarctions and 60 percent of payments for diabetes care were attributable to potentially avoidable complications. Researchers at the RAND Corporation found that patients, on average, receive only 55 percent of recommended care for their health conditions. Ensuring the right care can not only reduce the cost of care but also improve access, quality, and outcomes.

One way to guide the health system toward more appropriate utilization, as well as invest in services that could reduce hospitalization or hospital readmissions is to give physicians and hospitals incentives to better coordinate care, improve patient outcomes, and reduce the resources used in caring for patients. Policies that embrace this strategy include:

- incentives for primary care practices, community health centers, and health clinics to convert to patient-centered medical homes;
- shared savings for accountable care organizations;
- value-based purchasing with rewards for better quality or better patient outcomes;
- bundled acute and postacute care global fees; and
- gain-sharing for hospital inpatient physicians, which align inpatient physician incentives with hospital incentives.

The Affordable Care Act includes all of these policies, including broad authority for the CMS Innovation Center to pilot-test an array of payment and delivery system reforms. Continued funding, acceleration, and expansion of this work should be supported.

The IPAB should have the flexibility to quickly adopt and spread successful innovations throughout the Medicare and Medicaid programs and to work with private payers and other stakeholders to encourage broader adoption of initiatives that promise to reduce cost growth while improving system performance. The challenge is not the
absence of creative ideas for achieving savings while improving care, but the distractions of arguments along ideological lines that contrast market-based versus government-based solutions. In truth, a concerted effort by public programs and private payers could reduce administrative costs, leverage change, and yield more rapid transformation of the health care system.

**THE INDEPENDENT PAYMENT ADVISORY BOARD**

In the context of these issues, the Independent Payment Advisory Board can be a useful vehicle to effectively address federal and total health system spending. While the board is currently charged with identifying areas of overpayment in Medicare, its scope of authority could be broadened to include recommendations for Medicaid and private insurer payment policies. The combined leverage of multiple payers could yield price levels and distribution that are closer to what would be offered in competitive markets, as well as greatly reduce administrative burdens on physician practices and hospitals and stimulate delivery system improvement and innovation, such as better care coordination.

Similarly, the IPAB could explore the potential of reference pricing to lower spending and improve the quality and effectiveness of care that beneficiaries receive. Under reference pricing, new high-priced devices, procedures, and treatment regimens that are not shown to be more effective than existing lower-priced technologies are paid at the same level as those existing, equally effective technologies. Other countries commonly use this approach not only to save money but also to provide appropriate incentives to innovate in ways that are productive in terms of clinical outcomes.

Also within IPAB’s purview is an array of payment approaches designed to encourage providers to become more accountable for the quality and cost of care beneficiaries receive. Promising examples include bundled payment, as well as strategies that facilitate closer and more effective management of patients with multiple chronic conditions. In this regard, the IPAB can and should work closely with the new CMS Innovation Center. Previous work that my colleagues and I have published has discussed how these collaborations can be pursued both from the “top down” (that is, with others joining in initiatives developed and implemented by the federal government) and the “bottom up” (with the federal government joining in initiatives developed and implemented by local stakeholders). Collaboration with MedPAC and MACPAC, as well as entities like PCORI, organizations of private payers and providers, and patient advocacy organizations, as well as members of Congress and the administration, is critical to the success of this endeavor.
On this score, the IPAB should be considered not as a mechanism for imposing specific policies on the Congress, but instead as a vehicle for focusing attention on a set of critical issues. These issues are of the utmost importance in preserving the solvency of the Medicare program and the federal government, the ability of American businesses to compete in increasingly competitive international markets, and the ability of all Americans to access a health system that produces appropriate and effective care when they need it.

To play this role usefully, the scope of the IPAB’s authority could be broadened to include working with private sector payers to develop policies that would involve a collaboration of public and private sector initiatives to improve the organization and delivery of health care and slow cost growth. Given that the biggest driver of the projected increase in federal health spending over the coming years is excess health care cost growth, which is a problem that plagues the private sector as well as the public sector, it seems clear that the only way to control federal health spending is to control total health care costs.

CONCLUSION
The set of policies discussed here is intended to keep the discussion of health care’s role in reducing the federal deficit focused where it should be: on pursuing the kinds of improvements in health care organization and delivery that can address the underlying cause of both federal and private health spending growth. By focusing more broadly on the general increase in health care costs, policymakers can alleviate the pressure that health spending has put not only on the federal government, but also state and local governments, businesses, and families.
NOTES


9 The Commonwealth Fund 2010 Biennial Health Insurance Survey.


14 D. W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Paul Ryan: Long-Term Analysis of a Budget Proposal by Chairman Ryan, April 5, 2011.


