Health Reform Breakfast Discussion:

Where Will the Money Go?
Overview

• 3 Pillars of Health Reform
  • Expanded Access to Health Insurance
  • Cost Containment (i.e., Entitlement Reform)
  • Quality Improvements/Delivery Reform
• Providers impacted by each component of reform
Expanded Access to Health Insurance
Range of Proposals to Expand Access to Insurance

- Medicaid expansion
- Low-income insurance subsidies
- Insurance “exchange”
- Insurance market reforms
- Individual/employer insurance mandates
- Changes in tax treatment of insurance
- Public health insurance plan (House version)
Public Health Insurance Plan

- House Bill only
- Establishes government-run health insurance program to compete with private insurers
- HHS Secretary negotiates payment for health care providers and items and services
- Rates for services may not be lower than Medicare rates or higher than average rates paid by other qualified health plans under insurance exchange
- Medicare providers presumed to be participating – unless they opt out

Medicare-like FFS proposal

Lower administrative costs

Heavily opposed by private plans
## Potential Impact of Public Health Plan on Hospitals, Physicians

**Impact on Hospital and Physician Net Income in 2010 (billions)**

<table>
<thead>
<tr>
<th></th>
<th>Hospital Income</th>
<th>Physician Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Firms Only</td>
<td>All Firms Eligible</td>
</tr>
<tr>
<td><strong>Assuming Medicare Payment Levels</strong></td>
<td></td>
<td></td>
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<tr>
<td>Payment Level Reduction</td>
<td>-$10.7</td>
<td>-$58.0</td>
</tr>
<tr>
<td>Payments for Previously Uncompensated Care</td>
<td>$22.0</td>
<td>$22.0</td>
</tr>
<tr>
<td>Net Change</td>
<td>$11.3</td>
<td>-$36.0</td>
</tr>
<tr>
<td>Change as a Percent of Total Revenue</td>
<td>1.0%</td>
<td>-4.6%</td>
</tr>
</tbody>
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|                      |                  |                 |                   |                   |
| **Assuming Midpoint Payment Levels (i.e., between Medicare and Private Payer Rates)** |                 |                  |                   |                   |
| Payment Level Reduction | -$6.1           | -$29.3           | -$4.8            | -$19.8           |
| Payments for Previously Uncompensated Care | $22.0           | $22.0            | $3.0             | $3.0             |
| Net Change           | $15.9           | -$7.3            | -$1.8            | -$16.8           |
| Change as a Percent of Total Revenue | 2.0%            | 0.9%             | -0.5%            | -3.1%            |

Source: The Lewin Group estimates using the Health Benefits Simulation Model (HBSM).
Cost Containment
“Make no mistake: health care reform is entitlement reform.”

-- President Obama, April 14, 2009
National Health Expenditures per Capita and Their Share of Gross Domestic Product, 1960-2007

NHE as a Share of GDP

- 1960: 5.2%
- 1970: 7.2%
- 1980: 9.1%
- 1990: 12.3%
- 1997: 13.5%
- 1998: 13.6%
- 1999: 13.7%
- 2000: 13.8%
- 2001: 14.5%
- 2002: 15.3%
- 2003: 15.8%
- 2004: 15.9%
- 2005: 16.0%
- 2006: 16.2%
- 2007: 16.2%

Projected Federal Spending Under One Fiscal Scenario

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: The figure, from the December 2007 Long-Term Budget Outlook, portrays CBO's "alternative fiscal scenario," which deviates from the agency's baseline projections to incorporate some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.
Sources of Growth in Projected Federal Spending on Medicare and Medicaid

Percentage of GDP

Effect of Excess Cost Growth Alone

Interaction

Effect of Aging Alone

2007  2022  2037  2052  2067  2082
Geographic Disparities in Medicare Spending

Medicare Reimbursements Per Enrollee
2006 Medicare Reimbursements by Hospital Referral Region

BTW, heaviest spending correlates with OIG Fraud ‘HEAT’ zones

Major FWA investment likely
Medicare Physician Fee Schedule/SGR Reform

• Sustainable Growth Rate (SGR) formula requires CMS to adjust Medicare physician fee schedule conversion factor/update based on how actual Medicare spending compares to spending target

• Congress has repeatedly overridden formula to avoid payment cuts

• SGR formula will result in 21.2% cut in 2010 rates unless Congress acts
Medicare Physician Fee Schedule/SGR Reform

• Congress passed 2-month freeze (rather than 21.2% cut) while reform legislation is pending

• Senate Finance Committee HIRE Act would extend freeze until October 1, 2010
Bills Stalled, Hospitals Fear Rising Unpaid Care

President Obama says he aims to keep trying. But what happens if the health care legislation cannot be revived, and tens of millions of uninsured Americans continue without coverage?

For the nation’s hospitals, at least, the cost of doing nothing in Washington translates into tens of billions of dollars each year in medical bills that go unpaid by patients with little or no
Cuts to Specific Providers

Example: Imaging Services
Quality Improvement
Health Care Quality Improvements

- U.S. spends greater percentage of GDP, almost twice per capita on health care compared to other major industrialized countries, yet:
  - America scores 65 out of 100 on 37 indicators of health outcomes, quality, access, equity, and efficiency
  - America ranks last out of 19 industrialized countries in unnecessary deaths
  - America ranks 29th out of 37 countries for infant mortality (tied with Slovakia and Poland, below Cuba and Hungary)
  - 2003 RAND study: adults receive recommended care for many illnesses 55% of time, children 47% of time
Relationship Between Quality And Medicare Spending, As Expressed By Overall Quality Ranking, 2000–2001

**Overall quality ranking**

1

11

21

31

41

51

Annual Medicare spending per beneficiary (dollars)

3,000 4,000 5,000 6,000 7,000 8,000

Health Reform Provisions to Improve Quality/Reform Delivery Systems

- Expand Use of Medicare Payment Policy to Drive Quality
- Overlaps Cost Containment Provisions
  - Develop quality measures for hospital, physician payment purposes
  - Enhance pay-for-performance
  - Decrease hospital readmissions
  - Promote collaboration among providers (bundling, gainsharing)
- Public reporting of provider performance data

Data Aggregation
Consortia
Critical Mass
Public reporting
Expanded quality measurement
EHR’s
Meaningful Use
e-Prescribing