Center for American Progress

How Health Reform Saves Consumers and Taxpayers Money

The Affordable Care Act Lowers Costs and Improves Quality

June 2010

Health reform's three major goals—insurance reform, affordable coverage, and slower cost growth—are all critical. But controlling costs is key to achieving the other two. Insurance that offers meaningful protection and is affordable to most, if not all, Americans, across the income scale, hinges on getting ever-rising health costs under control.

Fortunately, the Patient Protection and Affordable Care Act links the commitment to coverage with a commitment and a strategy to contain health care costs. The Affordable Care Act has multiple provisions to enhance efficiency and eliminate waste, which saves money for patients and taxpayers and improves the quality of the nation's health care.

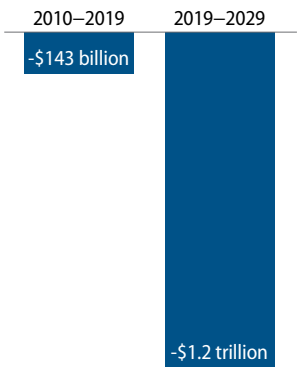
According to the Congressional Budget Office, the Affordable Care Act is fully funded, strengthens the Medicare trust fund, and reduces the federal deficit.

- Spending reductions and new revenues under the Affordable Care Act will fully pay for new benefits to help families afford coverage, and the CBO estimates they will reduce the deficit by $143 billion from 2010-2019 and by between 0.25 percent and 0.5 percent of GDP (about $1.2 trillion) from 2020-2029 (see Figure 1).

- Eliminating excessive payments to private insurers (Medicare Advantage plans) and adjusting prices and other measures to assure efficiency improvements in hospitals, nursing homes, and home health providers save about $400 billion over 10 years.

FIGURE 1

CBO finds that health reform cuts the deficit over the next two decades

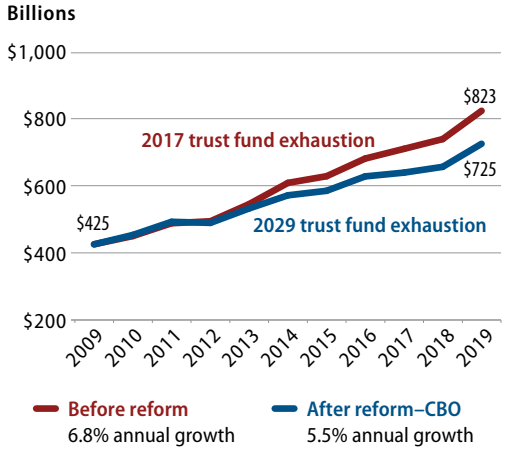


Source: Congressional Budget Office.

- CBO estimates that Medicare savings reduce the program's annual growth rate from 6.8 percent to 5.5 percent—adding 12 years of life to the Medicare trust fund (see Figure 2).

FIGURE 2

Health reform slows growth in Medicare spending, 2010–2019



Notes: Payment and system reform savings net of CLASS and non-Medicare spending and savings provisions

Source: The Congressional Budget Office, "Analysis of H.R. 4872, Reconciliation Act of 2010" (2010), available at http://www.cbo.gov/doc.cfm?index=11379&type=1.

Effective implementation of the Affordable Care Act will reduce administrative costs for small businesses and individuals.

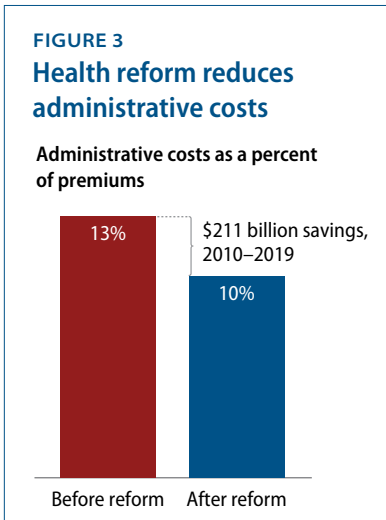
- Thirteen percent of insurance premiums currently go to administrative costs, and people buying on their own in the individual insurance market may pay 30 percent of their premiums to these costs. The Affordable Care Act sets a 20 percent limit on these costs for small firms and individuals.

- The new marketplaces or exchanges for small businesses will lower administrative costs even more. Exchanges streamline marketing and enrollment, and monitor insurer practices to give small businesses and individuals the same administrative efficiencies that only big businesses get today. That lowers administrative costs to 10 percent.

- These efficiencies are estimated to save consumers $211 billion over six years following the introduction of exchanges in 2014 (see Figure 3).

FIGURE 3

Health reform reduces administrative costs



Source: David Cutler, Karen Davis, and Kristof Stremikis, "The Impact of Health Reform on Health System Spending" (2010).

The Affordable Care Act modernizes our health care payment and delivery system (see Appendix).

- Health industry leaders and experts across the political spectrum are in agreement: improving health care quality and lowering costs requires bringing health care into the information age, reforming health insurance markets, learning what works, and rewarding health care providers accordingly. Modernizing the payment and delivery system means moving payments away from fee-for-service every time a patient visits a doctor, checks out of a hospital, or is prescribed a battery of clinical tests.

- The way to get better value is to change the way we pay for care—to shift from a fee-for-service system that rewards more (and more expensive) services without regard to health benefits, to a system that rewards effective care that is provided efficiently.

- The Affordable Care Act's new authorities create a clear path for payment and delivery reform to lower costs and improve quality. The law penalizes poor performance, rewards good performance, and establishes mechanisms to innovate, evaluate, adapt, and broadly apply effective payment incentives. This path relies primarily on improving Medicare, but its initiatives explicitly extend to the private sector—recognizing that the current excessive spending and inefficiency in the health care system apply to the public and private sectors alike.

Modernizing our health care system with effective implementation of the Affordable Health Care Act will slow cost growth and reduce the deficit even more than expected.

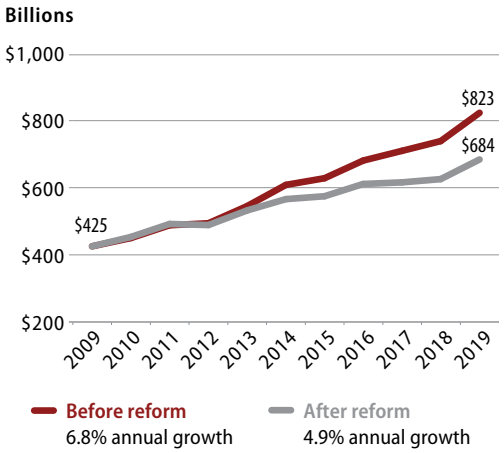
- System modernization—preventing illness, reducing administrative costs with health information technology, and coordinating care—will save $406 billion across the entire health care system and $127 billion in Medicare over and above savings from more accurate prices in the current payment system described above. These actions taken together reduce Medicare's annual cost growth over the next decade from 6.8 to 4.9 percent, saving a total of $524 billion over 10 years (see Figure 4).

- Greater efficiency across the whole system will lower annual growth in the nation's health care costs from 6.3 percent to 5.7 percent, even after taking the costs of coverage expansion into account (see Figure 5).

- Even without recognizing potential savings from modernization, CBO found that the Affordable Care Act fully pays for itself and contributes $143 billion to deficit reduction. Taking

FIGURE 4

System modernization means even greater slowdown in Medicare spending, 2010–2019

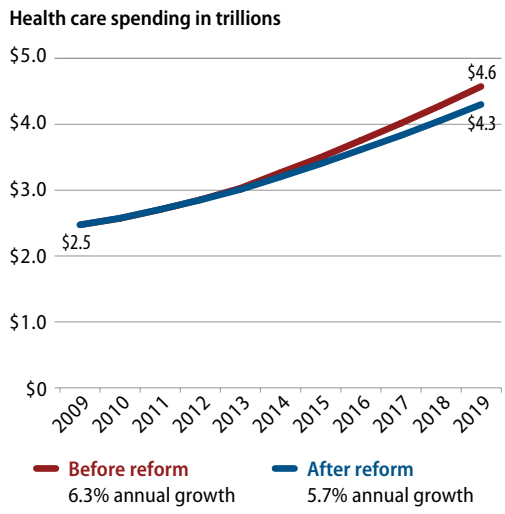


Notes: Payment and system reform savings net of CLASS and non-Medicare spending and savings provisions, difference between CBO and Cutler/Davis reflects alternative estimate of modernization.

Source: The Congressional Budget Office, "Analysis of H.R.4872, Reconciliation Act of 2010" (2010), available at http://www.cbo.gov/doc.cfm?index=11379&type=1.; David Cutler, Karen Davis, and Kristof Stremikis, "The Impact of Health Reform on Health System Spending" (The Commonwealth Fund & Center for American Progress: 2010).

FIGURE 5

Health reform with system modernization slows growth in national health care spending, 2009–2019



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

Source: David Cutler, Karen Davis, and Kristof Stremikis, "The Impact of Health Reform on Health System Spending" (The Commonwealth Fund & Center for American Progress: 2010).

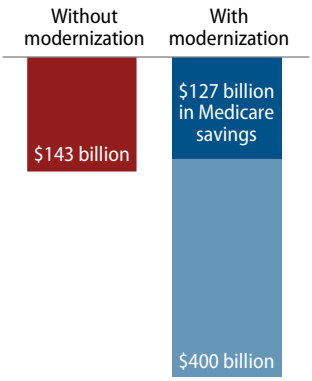
the full savings potential of modernization into account reduces the federal deficit by an additional $257 billion from 2010 to 2019, for a total of $400 billion in deficit reduction (see Figure 6).

- Achieving these modernization goals means that the health care industry would simply begin to match the performance of the bulk of American businesses as they've become increasingly efficient over the last 15 years. Doing the same in the health care industry would achieve the same level of productivity growth improvement that every other U.S. industry has accomplished in recent years.

This brief draws from "The Impact of Health Reform on System Health Spending," a joint Center for American Progress and The Commonwealth Fund report by David Cutler, Karen Davis, and Kristof Stremikis.

FIGURE 6

Health reform with modernization substantially reduces the deficit, 2010-2019



Source: The Congressional Budget Office, "Analysis of H.R. 4872, Reconciliation Act of 2010" (2010), available at http://www.cbo.gov/doc.cfm?index=11379&type=1; David Cutler, Karen Davis, and Kristof Stremikis, "The Impact of Health Reform on Health System Spending" (2010).

Health reform's path to lower cost, higher quality health care

Modernization strategy	Key provisions
Revise current Medicare payment methods to hold providers accountable for appropriate care by: • Getting the prices right. • Penalizing harmful performance. • Rewarding good performance.	• Section 3134 authorizes the secretary of the Department of Health and Human Services to review and adjust "misvalued" physician services to prevent over- or under-service. • Section 3025 requires the Centers for Medicare and Medicaid Services, or CMS, to reduce payments for inappropriate hospital readmissions. • Section 3008 requires CMS to reduce payments to hospitals in the highest quartile for health conditions acquired in the hospital. • Section 3001 requires health care acquired conditions to be publicly reported under hospital payment. • Section 3001 provides "value-based" incentive payments, or rewards, to hospitals that achieve certain performance standards. • Section 3002 rewards quality by extending physician quality reporting incentive payments. • Section 3007 modifies physicians payments based on quality of care compared to cost.
Develop new Medicare payment methods to promote coordinated care such as: • "Bundling" today's separate fees into a single payment for services associated with a hospitalization. • Providing extra payments for primary care by creating new arrangements called "medical homes" that reward providers for coordinating the care of patients with chronic illnesses. • Rewarding collaboratives of inpatient and outpatient providers, called accountable care organizations, which deliver quality care for a defined set of patients at lower-than-projected costs.	• Sections 3023 and 2704 establish "bundling" pilots of inpatient, outpatient, and post-acute payments to providers who assume joint responsibility for an episode of care. • Sections 3021, 2703, and 5404 establish medical home pilots projects. • Sections 2706 and 3022 establish accountable care organizations. • Section 3027 extends the ongoing gain-sharing demonstration. • Medicaid global capitation demonstration (Section 2705). • Section 3021 establishes a new Center for Medicare and Medicaid Payment Innovation to initiate and evaluate innovative payment mechanisms. • Section 3021 gives the secretary the authority to extend what works.
Align private insurer and Medicare payment innovations—enhancing their effectiveness and preventing cost-shifts from one payer to another by: • Giving priority to innovations that accompany new Medicare payment arrangements with similar private-payer arrangements. • Extending access to Medicare provider performance data to guide private payers' payment reform efforts. • Requiring private health plans to regularly report on their efforts.	• Section 3022 requires the CMS Innovation Center to give preference to accountable care organizations in Medicare if they make similar arrangements with private payers. • Section 3012 establishes the Interagency Working Group on Health Care Quality that will assess alignment of quality efforts in the public sector with private sector initiatives. • Section 3403 requires the Independent Payment Advisory Board, or IPAB, to report Medicare and private-sector care cost and quality information annually. • The IPAB will also make advisory recommendations to the private sector to reduce cost growth and promote quality. • Section 3015 requires private health plans to report on payment structures used to promote quality, coordination, and efficiency. • Section 2717 requires health plans in the exchange to report to what extent they've implemented payment structures that provide incentives to keep patients healthier.
Assure achievement of payment reform through an independent payment advisory board.	• Section 3403 establishes the IPAB to develop proposals on how to reduce per capita growth rate in Medicare spending if it exceeds target growth rates. Proposals become law unless Congress acts to reject them.