



How the Federal Government Can Save \$100 Billion or More in Health-Care Costs

Alternatives to Blunt, Misguided Policies That Merely Shift Costs

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The Affordable Care Act was a landmark law—and not only because it guaranteed access to affordable health insurance for millions of Americans. The law was also a sweeping effort to contain skyrocketing health-care costs.

Still, concern about rising health-care costs and the effect on the federal budget has only continued to grow since the law was enacted. That's why the Center for American Progress recommends a package of reforms that have the potential to save the federal government \$100 billion or more in a decade. We offer them as alternatives to reforms that save the federal government money only by shifting costs.

The Affordable Care Act: Far-reaching reforms to contain costs

The Affordable Care Act included an array of reforms to the way health care is paid for and delivered. These reforms reward the value and quality of care, and not just the quantity of care:

- Reducing payments to hospitals with high rates of preventable readmissions and hospital-acquired infections
- Creating pilot programs to bundle payments together for multiple providers as an alternative to paying a fee for each service
- Creating accountable care organizations—teams of providers accountable for all of a patient's care—that will coordinate care and share the savings

- Linking payments for hospitals and physicians to performance on quality measures—so-called value-based purchasing
- Creating an independent payment advisory board to recommend additional proposals to slow Medicare spending and improve the quality of care
- Creating a patient-centered outcomes research institute to identify what works best to improve the quality of care and outcomes
- Creating an innovation center to develop and expand innovative payment models to improve the quality of care and reduce costs

Such reforms to the payment and delivery system are essential to reducing health-care costs over the long term—and the ACA made a substantial down payment.

In fact, the ACA will reduce the federal deficit by \$127 billion in this decade according to the most recent estimates of the nonpartisan Congressional Budget Office.¹ More importantly, the CBO concluded that the ACA will continue to reduce deficits over subsequent decades indefinitely. In addition, growth in Medicare spending is projected to slow down because of the ACA.²

That the ACA will achieve such results—even while insuring an additional 34 million Americans—is a truly remarkable achievement.

Win-win reforms to modernize the health-care system

But even with the ACA's substantial savings, future growth in health-care costs is a looming threat to the federal budget and economy over the long term.

Consider that national health spending is projected to continue to grow faster than growth in the economy, increasing from 17.7 percent of GDP to 19.8 percent of GDP in 2020.³ This growth in health-care costs will drive federal deficits over the long term. CBO projects that federal spending on mandatory health programs will increase from 25 percent of total federal spending (excluding interest) to almost 40 percent of total federal spending by 2030.⁴ This rise in health spending as a share of the federal budget will squeeze out critical investments in education and infrastructure.

With this in mind, the Center for American Progress recommends a series of additional reforms to modernize the payment and delivery system that will build upon the momentum generated by the ACA and reduce health-care costs even further. These reforms are a win-win: They will reduce costs and also improve the quality of care and the efficiency of the health care system.

Medicare should immediately expand the Acute Care Episode program—which bundles payments for cardiac and orthopedic procedures—nationwide. Medicare should then completely replace fee-for-service with bundled payments for all procedures and primary care by 2016. CBO estimates that bundling payments for hospital care and post-acute care would save Medicare almost \$19 billion in a decade—assuming full implementation in six years.⁵ Others estimate that bundled payments would save Medicare much more: \$63 billion in a decade.⁶ For primary care physicians, CBO estimates that replacing a portion of fee-for-service with a fixed payment for each beneficiary would save Medicare \$5 billion in a decade.⁷ In total, therefore, these proposals would save Medicare substantially more than \$25 billion in a decade.

Medicare should immediately implement competitive bidding for durable medical equipment, prosthetics, orthotics, and supplies nationwide, and expand the program to include laboratory tests. The CMS Office of the Actuary estimates that the current program will save Medicare more than \$17 billion in the first 10 years.⁸ Accelerating implementation and expanding the program to include additional goods and services will increase that savings substantially.

The Department of Health and Human Services should require electronic eligibility, claims processing, and payment, as well as centralized physician credentialing. Estimates suggest that these administrative simplification measures could reduce total health-care costs by about \$40 billion per year. If only a fifth of this savings accrues to the federal government, it would save \$80 billion in a decade.

Medicare should not pay extra for technologies that are more expensive but no more effective than other available technologies. If a treatment has a less costly alternative that produces the same clinical outcomes, Medicare should reimburse only the price of the less costly alternative. CBO estimates that applying such a policy to *only one treatment*—for osteoarthritis—would save Medicare almost \$500 million in a decade.⁹ Applying the policy broadly to all treatments with equivalent alternatives has the potential for significant cost savings.

Together, these reforms have the potential to reduce the federal deficit by \$100 billion or more in a decade, as scored by CBO. Many experts believe that the actual savings to the federal government would be orders of magnitude greater.¹⁰ And of course, the total savings to the health care system would be much greater. The briefs that follow describe these reforms in greater detail.

Such reforms are vastly superior to misguided policies that do not actually reduce health-care costs, but merely shift those costs to vulnerable groups. For instance, raising Medicare's eligibility age would produce savings for the federal government—but only by shifting costs to seniors, employers, and states.

It would be folly to support such reforms, which do not solve the problem. Rather, the focus should be on reforms that reduce health-care costs across the system—for families, businesses, states, and the federal government. Only reforms to the payment and delivery system have that potential.

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Endnotes

- 1 Statement of Douglas W. Elmendorf, Director, “CBO’s Analysis of the Major Health Care Legislation Enacted in March 2010,” March 30, 2011, available at: <http://www.cbo.gov/ftpdocs/121xx/doc12119/03-30-HealthCareLegislation.pdf>. CBO estimated that health reform would reduce the deficit by \$210 billion. Of that, the CLASS Act’s voluntary long-term care program—which will not be implemented—accounted for \$83 billion.
- 2 Centers for Medicare and Medicaid Services, Office of the Actuary, “National Health Expenditure Projections, 2010-2020.”
- 3 Ibid.
- 4 Congressional Budget Office, “Long-Term Budget Outlook” (June 2011). Calculations using Supplemental Data.
- 5 Congressional Budget Office, “Budget Options, Volume 1: Health Care” (2008), Option 30.
- 6 John Holahan and others, “Containing the Growth of Spending in the U.S. Health System” (October 2011), Table 8.
- 7 CBO, “Budget Options Volume 1,” Option 38.
- 8 Centers for Medicare and Medicaid Services, “Next Steps for Expansion of the Medicare Durable Equipment, Prosthetics, Orthotics, and Supplies Competitive Bidding Program” (2011).
- 9 CBO, “Budget Options Volume 1,” Option 43.
- 10 Melinda Beeuwkes Buntin and David Cutler, “The Two Trillion Dollar Solution: Saving Money by Modernizing the Health Care System” (Washington: Center for American Progress, June 2009). Buntin and Cutler estimate that payment reforms will save the federal government almost \$300 billion in a decade.