



# Cutting Health Care Costs

## Leading Experts Propose Bold Solutions

The Affordable Care Act is the most far-reaching effort to contain health care costs to date. The new law includes an array of reforms to the way health care is paid for and delivered—reforms that reward the value and quality of care, not just the quantity of care. These signals to health care providers are already catalyzing change throughout the health care system.

But health care costs remain a major challenge. National health spending is projected to continue to grow faster than the economy, increasing from 18 percent of the economy to about 25 percent by 2037.<sup>1</sup> Even with the new law, federal health spending is projected to increase from 25 percent of total federal spending to about 40 percent by 2037.<sup>2</sup> These trends could squeeze out critical investments in education and infrastructure, contribute to unsustainable debt levels, and constrain wage increases for middle-class workers.

The Center for American Progress convened leading health policy experts—including current and former federal and state officials, executives of health insurers and hospital systems, physicians, and economists—to develop bold and innovative solutions to contain health care costs. These are their recommendations.<sup>3</sup>

---

### A systemic approach

Reforms that simply shift federal spending to individuals, employers, and states fail to address the problem—and would ultimately lead many people to forgo necessary care. The only sustainable solution is to control overall growth in health care costs. The following solutions are designed to reduce overall health care spending for both public and private payers.

#### *Promote privately negotiated payment rates within global spending targets*

Payers and providers should negotiate payment rates that would be binding for all payers and providers in a state. The privately negotiated rates would have to fit within a global spending target for both public and private payers in the state.

#### *Accelerate use of alternatives to fee-for-service payment*

Instead of paying a fee for each service, physicians and hospitals should receive a fixed amount for a bundle of services (also called bundled payments) or for all the care a

patient needs (known as global payments). Payers must accelerate use of such alternative payment methods. Within 10 years, Medicare and Medicaid should base at least 75 percent of payments on alternatives to fee-for-service payment.

#### *Use competitive bidding for all health care commodities*

Instead of the government setting prices for health care commodities, manufacturers and suppliers should compete to offer the lowest price. Medicare should immediately expand such competitive bidding nationwide—and extend it to medical devices, laboratory tests, and all other commodities. Medicare’s market-based prices should then be extended to all federal health programs.

#### *Require exchanges to offer tiered plans*

Tiered insurance plans designate a tier of providers with high quality and low costs, and reduce cost-sharing for patients who choose these high-value providers. Exchanges—marketplaces for insurance created by the health reform law—should offer at least one tiered plan with a premium discount of 10 percent or more.

#### *Require all exchanges to be active purchasers*

Both federal and state exchanges should engage in “active purchasing”—leveraging their bargaining power to secure the best premium rates and promote reforms that provide better care at lower cost.

#### *Simplify administrative systems*

Payers and providers should electronically exchange eligibility, claims, and other administrative information. A taskforce of payers and providers should set binding compliance targets, monitor use rates, and have broad authority to implement additional measures to achieve systemwide savings of \$30 billion a year.<sup>4</sup>

#### *Require full price transparency*

It is common sense that consumers should know how much something costs before treatment. All private insurers and states should provide price information that reflects negotiated discounts with specific providers.

#### *Empower nonphysician providers*

Restrictive state laws prevent nonphysician providers such as advanced-practice nurses from practicing to the full extent of their training. Making greater use of these providers would expand the workforce supply, which would increase competition and lower prices.

#### *Prohibit physician self-referrals*

Many studies show that when physicians refer patients to facilities in which they have a financial interest, they drive up costs and may negatively affect the quality of care. Such physician self-referrals should be strictly prohibited.

### *Leverage the Federal Employees Health Benefits Program to drive reform*

The program should require participating health plans to reform their payment and delivery systems—including a transition to alternatives to fee-for-service payment.

### *Reduce the costs of defensive medicine*

Under a “safe harbor,” physicians would be presumed to have no liability for medical malpractice if they adhere to evidence-based clinical practice guidelines and use qualified health information technology.

---

## What the experts are saying<sup>5</sup>

“The Affordable Care Act was the first generation of reforms to tackle cost growth. These ideas are the next generation. They provide a roadmap to make America more competitive in the global economy because as we lower health care costs, we lower the costs of hiring new workers.”

— **Neera Tanden, J.D., President, Center for American Progress**

“Ever rising health care costs reduce middle-class families’ take-home pay and threaten America’s standing in the world. These proposals would build on the health reform law to dramatically improve our health care system. As Congress looks to cut the budget—and health care spending in particular—these proposals offer a roadmap that can transform the system and produce substantial savings.”

— **Ezekiel Emanuel, M.D., Ph.D., Senior Fellow, Center for American Progress**

“Rising health care costs pose a direct threat to workers’ take-home pay, the federal budget, and state government finances. The key question is how we can continue the recent deceleration in health costs. These ideas—from expanding bundled payments to an innovative malpractice reform—represent a promising approach to moving toward a higher-value health care system.”

— **Peter Orszag, vice president, Citigroup, Inc.; former director, Office of Management and Budget**

“It is both important and completely feasible to reduce health care costs without any harm whatsoever to patients. Indeed, improvement of care is by far the best strategy for making care affordable. These ideas offer many helpful steps toward that goal.”

— **Donald Berwick, Senior Fellow, Center for American Progress and Harvard Medical School; former administrator, Centers for Medicare and Medicaid Services**

“This set of proposals offers a real way forward, away from the stale debates that have consumed so much of policymaking.”

— **David Cutler, Senior Fellow, Center for American Progress; Otto Eckstein professor of applied economics, Harvard University**

“These principles are a strong foundation that can set the U.S. health care system on a path of sustainable growth. Businesses in particular have an immediate need for value and innovation so that we have a health care delivery system that rewards quality and efficiency.”

— **Sally Welborn, senior vice president, benefits, Walmart Stores Inc.**

“Safely holding health industry income growth to what average Americans can afford and taxpayers are willing to pay has vexed politicians and policymakers for decades. As illustrated by this thought piece, success will likely require leverage from the market, from regulators, and from health industry leaders.”

—**Dr. Arnold Milstein, M.D., professor of medicine, Stanford University; medical director, Pacific Business Group on Health**

“The cut and shift approach advocated by many is fundamentally flawed. These ideas represent a better approach that will protect access to necessary care. Most important, they will put us on the path toward an actual health care system.”

— **Former Sen. Tom Daschle, Distinguished Senior Fellow, Center for American Progress; senior policy advisor, DLA Piper**

“The passage of the Affordable Care Act was not the last step in the push to reform our health care system. If Team USA is to succeed in the 21st century, we need to continue to reform the health care sector to lower costs and increase efficiency, while also raising the quality of care. Health care reform, as detailed in this report, can be the engine that puts our country back on track.”

— **Andy Stern, senior fellow, Columbia University; former president, Service Employees International Union**

“Achieving the full promise of the Affordable Care Act requires that we take concrete steps on multiple fronts to give patients and their physicians opportunities to make higher-value health care choices. This proposal offers a set of evidence-based, high-impact, feasible policies that will put the health care system on a more sustainable path.”

— **Meredith Rosenthal, Ph.D., professor of health economics and policy, Harvard School of Public Health**

“These ideas represent a look down the field to a health care system that controls costs and improves health at the same time.”

— **Joshua Sharfstein, secretary of health and mental hygiene, state of Maryland**

“These ideas represent a huge next step for improving our health system—they will spur innovation, new ways of thinking, and new investment. As a result, new companies will be formed, new jobs will be created, and new technology will be invented that will make our health system more reliable and the marketplace more competitive. These policies make good policy sense, fiscal sense, and business sense.”

— **Bob Kocher, partner, Venrock; former senior advisor, National Economic Council**

“We need to move more quickly toward a health care system that all Americans can afford, while increasing the quality of our lives. These ideas will help drive us down that path.”

— **Stephen Shortell, dean, University of California, Berkeley, School of Public Health**

*This work was made possible in part by a grant from the Peter G. Peterson Foundation. The proposals originally appeared in the New England Journal of Medicine.*

---

## Endnotes

- 1 Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (2012), p. 60, available at <http://cbo.gov/publication/43288>.
- 2 Congressional Budget Office, *The 2012 Long-Term Budget Outlook*.
- 3 Ezekiel Emanuel et al., A Systemic Approach to Containing Health Care Spending, *New England Journal of Medicine* (2012)
- 4 For more information, see: Elizabeth Wikler, Peter Basch, and David Cutler, “Paper Cuts: Reducing Health Care Administrative Costs” (Washington: Center for American Progress, 2012), available at [http://www.americanprogress.org/issues/2012/06/pdf/papercuts\\_final.pdf](http://www.americanprogress.org/issues/2012/06/pdf/papercuts_final.pdf).
- 5 All quotes from communications with Topher Spiro, July 2012.