



# The Two Trillion Dollar Solution

Saving money by modernizing the health care system

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# Introduction and summary

The fundamental challenge in health reform is to reduce the growth rate of health care costs. If annual cost increases can be lowered, then workers' incomes will increase, labor market distortions will decline, and government budgets will move closer to balance. If we cannot "bend the curve" of increasing health care costs, then we will not be able to afford our current commitments to Medicare, Medicaid, and the State Children's Health Insurance Program, let alone the cost of covering the 45 million uninsured Americans.

The enormity of the challenge is widely recognized. So too are the fundamental ideas about how the problem should be met. These widely accepted solutions include bringing health care into the information age, reforming health insurance markets, and learning what works and which health care providers are better at what they do. Reform will also require reorienting 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. Health reform instead must move us toward value-based systems that pay for entire episodes of care, stressing prevention and not just acute treatment.

Based on a wide array of research, our best guess is that fundamental health system reform involving just three of these strategies will lead to federal savings of about \$550 billion over the next decade. First, investments in health information technology and other types of health care-provider infrastructure could bring direct federal savings of \$196 billion between 2010 and 2019, primarily through administrative simplification and the more productive use of time by physicians and nurses.

Second, creating insurance "exchanges," local or national organizations designed to act as clearinghouses for health insurance policies, could foster competition and drive down administrative costs for individual and small group policies. We estimate these reduced costs could bring in additional federal revenues of \$64 billion over the next 10 years.

Finally, payment system reforms based on the idea that quality care should be rewarded rather than just more and more expensive care would create incentives to improve quality and efficiency. This could save the federal government \$299 billion over this period, primarily by reducing the frequency and intensity of hospitalizations.

These three sets of policies together would yield overall system savings of \$1.5 trillion over the coming decade, which is consistent with the goals outlined recently by health industry

leaders and with the president's budget released earlier this year. When combined with reductions in existing overpayments—and with other promising policy innovations that we discuss throughout the paper—they have the potential to yield hundreds of billions of dollars more over the next decade and beyond.

Yet challenges remain. Some health policy experts are skeptical that the will exists in Congress to legislate real changes. The Congressional Budget Office's scores, which Congress relies on to gauge how effective particular policies will be, are low for some individual health reforms, reflecting the fact that isolated policies can't be expected to bring systemwide savings. Recognizing this, observers have asked for more specifics about how President Barack Obama's pledge during the presidential campaign to save Americans \$2,500 per family on their health care costs could be achieved.

Our analysis in this paper shows how a critical set of reforms can achieve these savings goals. We first lay out the two potential means for achieving savings—by cutting waste and inefficiency out of the “base” of current health care spending and by aligning incentives to encourage the growth of only effective health care services. We then discuss how other industries have achieved efficiency gains and the specific policies that experts agree can bring cost savings.

In the second half of the paper, we present evidence about the quantitative impact of these types of policies taken together. We sum up each section with a discussion of related strategies that have promise but to which we have not assigned savings estimate in an effort to be evidence-based and conservative in our calculations.

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