Public Policy Position

Health Care Cost Containment

ISSUE

The long-term trend of rising health care costs is consuming an increasing share of public and private budgets. Millions of people in the United States cannot afford health care or health insurance, because costs are outpacing income growth. Absent a strategy to contain costs, quality health care has been unaffordable for millions of Americans. Significant opportunities exist to reduce health care costs without compromising quality, but system wide changes also present challenges. The issue is how to change the entire health care system to contain costs and improve the quality of care?

BACKGROUND

National health expenditures in the United States for 2012 have been estimated to be $2.8 trillion and are projected to rise to $4 trillion by 2018.1 Health care costs consistently outpace inflation. Consequently, health care consumes more and more of nation’s gross domestic product (GDP) each year. American health care spending per capita is nearly 250 percent more than the average among other developed nations and 60 percent more than Norway, the second leading nation in this category.2 Furthermore, health care costs are concentrated. Just one percent of the population accounted for approximately 22 percent of total health care expenditures in 2009, and half of the population accounted for nearly 93 percent of the costs.3

Florida personal health care expenditure trends mirror those of nation. Between 1991 and 2009, Florida personal health care expenditures rose at an average annual rate of 6.9 percent, compared to the national average of 6.5 percent. In 2009, Florida personal health care expenditures totaled $132.5 billion. While the average rate of growth of expenditures for hospital and physician care coincides with national averages for those two categories between 1991 and 2009, the average growth rates for prescription drug expenditures outpaced the national average by nearly two percent.4

For several decades, health care cost containment efforts in the United States have been focused on private sector efforts at managed care and public sector reductions in provider reimbursement rates. However, consumer and provider dissatisfaction have limited the success of these approaches. Meanwhile, health care spending continues to consume a growing share of the GDP, almost doubling in the past three decades, from 9.2 percent in 1980 to 17.9 percent in 2011.5 However, between 2009 and 2011, health care spending grew about three percent annually after having risen at an average of 5.9 percent a year in the preceding decade. Policymakers are currently debating whether the recent slowdown in health spending growth results from systemic changes or belt-tightening in a sluggish economy.6 Studies suggest reductions in the rate of new technology, increased patient
cost sharing, and greater provider efficiency account for the majority of the slowdown in spending growth. Researchers are cautiously optimistic that if these trends continue from 2013 to 2022, public-sector health care spending will be approximately $770 billion less than predicted. Government actuaries and budget analysts have reduced projections of the trends in health care spending trend as a share of GDP from between seven and eight percent. Such a reduction would have an enormous impact on the national economy.

However, health care costs continue to rise faster than wages, and many Americans must choose between health insurance and more immediate needs. Premiums for employer-based coverage surged 62 percent between 2003 and 2011 as average median incomes grew by only 10 percent. Despite the approval of a sweeping health reform law in 2010, high-cost and perverse incentives remain as part of the nation’s health care system. The predominant fee-for-service system rewards providers for the volume and complexity of services they provide. However, providing complex care to a significant volume of patients over time can sacrifice quality and even do harm. Health care leaders in both the public and private sectors appear to be changing attitudes about cost containment amid an emerging consensus that health care spending trends are unsustainable and traditional cost-control approaches may have become ineffective.

To address rising health care costs, health system leaders have increased their focus on reengineering the delivery system. Suggested changes include additional coordination across care settings and providers, more effective management of chronic disease by both providers and patients, and a larger role for primary care. Research suggests patient-centered models, instead of the current physician-centered model, is the best environment in which to deliver high quality and efficient primary care. Accountable care organizations (ACOs), which may include many patient-centered medical homes (PCMH), focus on improved coordination and provide promise for a cost containment strategy. Years ago, researchers pointed to the emergence and widespread adoption of new medical technology and services as a driver behind real growth in health care spending. However, as providers have positioned themselves to engage alternative reimbursement models, consolidation in the delivery system has come to play a significant role in cost growth.

Other factors contribute to unnecessary cost such as lack of standardized and manageable quality standards, lack of care coordination, excessive fraud, waste, and abuse, and a flawed tort law system that encourages overutilization. For obvious reasons, it is difficult to measure fraud or waste precisely. The federal government estimates fraudulent billings to public and private health care payments comprised three to 10 percent of total health spending in fiscal year 2009, or $75 to $250 billion. Defensive medicine is one of the largest drivers of waste. Fear of litigation prompts physicians to perform diagnostic or
therapeutic procedures that are not medically necessary but may serve as protection from a medical malpractice claim. Estimates regarding the overall annual medical liability system costs, including defensive medicine, range from $56 billion to $210 billion. Furthermore, the cost of medical malpractice insurance has caused some doctors to eliminate certain services, flee certain states, or cease practicing medicine entirely. A 2010 analysis by the research arm of the Florida Legislature determined expanding the scope of practice of non-physician practitioners could save the state’s health care system millions of dollars annually. While the savings impact associated with wider use of nurse practitioners and physician assistants is limited and remains inconclusive, expanding the primary care workforce by allowing non-physician practitioners to practice to the full extent of their licenses holds promise for greater access and cost containment.

Consumers want information and tools to help them make decisions that lead them to the best and most accessible care. Research shows that presenting cost data to consumers along with understandable quality information and highlighting high-value options help them understand that high cost does not always equate to high quality. Furthermore, there is great need to improve the understanding of consumers with respect to the concepts of “medical evidence” and “quality guidelines.”

Another factor that will have a larger impact on health care costs is lifestyle and healthy behaviors. One study asserts that 87.5 percent of health care claims are due to an individual’s lifestyle. Obesity now affects nearly 13 million or 17 percent of all children and adolescents in the United States - triple the rate from just one generation ago. The growing number of obese children and adolescents affected by type 2 diabetes is becoming an important public health problem. Unless adults and children adopt healthier behaviors, more people will have expensive chronic conditions for a longer period of time. There is convincing evidence that wellness programs lower medical costs and improve health.

**PUBLIC POLICY POSITION**

*Maintain competiveness in the delivery system.* Alternative care and reimbursement models such as the ACO and PCMH offer opportunities for improved coordination, quality outcomes, and cost containment. However, the delivery system must maintain an environment that demands price and quality transparency and invites healthy competition within a market so consumers have choice. Consumers must have efficient access and be privy to value-added innovation. This will be especially important as the health care system experiments with alternative care and reimbursement models.
Public Policy Position

Health Care Cost Containment

Support tort liability reform that provides an avenue of pursuit for legitimate liability claims while allowing for appropriate access to efficient, quality health care. Florida Blue supports limits on non-economic damages, enhanced standards for expert witnesses, robust rules of evidence, and substantial, enforceable sanctions for frivolous and unfounded litigation. Patients who have suffered from medical malpractice should receive compensation, and doctors who repeatedly provide negligent care should not be licensed to practice medicine. However, proposals that subject doctors to severe penalties for medical malpractice may hamper access to affordable health care and should not be enshrined in the state’s constitution.

Maximize efforts to drive fraud, waste and abuse out of the system through aggressive law enforcement, tort reform and engaged consumers. Policymakers have offered numerous proposals to achieve significant cost containment by reducing fraud, waste, and abuse. Hundreds of billions of dollars could be saved if the health care system reduced even a portion of the money wasted on fraudulent and unnecessary health expenditures.

Provide education, tools and resources to consumers to drive quality improvement and healthier behaviors. Currently, price is the primary cue for quality for many consumers. Tools and education along with the guidance of providers motivated to provide quality care are essential to assisting consumers in making informed health care decisions. There should also be incentives and penalties to stress personal responsibility in leading a healthy lifestyle. However, economic and other societal barriers should be mitigated to allow those who are disadvantaged an opportunity to engage a healthier lifestyle.

Provide incentives to expand the capacity of the primary care workforce and support legislative and regulatory efforts to allow non-physician practitioners to practice to the full extent of their licenses. Policymakers should follow best practices for scope of practice and physician supervision requirements to expand access, enhance quality, and increase affordability.

REFERENCES

External References


Public Policy Position

Health Care Cost Containment

22 American Institute for Preventive Medicine, “The Health & Economic Implications of Worksite Wellness Programs,” 2008, An American Institute for Preventive Medicine Wellness White Paper, p. 5, citing the
Public Policy Position

Health Care Cost Containment

Indiana University-Purdue University, Fort Wayne (IPFW) Study, 2006.