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### Health Care

## Berwick Says Costs 'Most Urgent' Problem for Health Care System

The high cost of health care is the "most urgent" problem the United States faces in its health care system, Centers for Medicare & Medicaid Services Administrator Donald Berwick said Sept. 8.

"Our costs are too high—unsustainably high for our country," Berwick said at a *Health Affairs* journal briefing. "And the value is too low," with problems related to patient safety, effectiveness of care, and equitableness for people with lower incomes, he said.

"The problems of cost and the problems of quality are connected," Berwick noted.

Controlling health care costs through productivity improvements is more difficult than cutting payments to providers, Berwick said. However, he said, "It's just better."

### Government, Private Sector Must Be Partners

The government and private sector must be partners in reducing costs and improving quality, Berwick said. The Patient Protection and Affordable Care Act is a "rich toolbox of opportunities and levers and ideas" to improve the health care system, he said.

Berwick cited as an example the Partnership for Patients implemented by CMS under PPACA. Under the partnership, the government is investing \$1 billion to reduce hospital-acquired conditions by 40 percent and to cut hospital readmissions by 20 percent by 2013. The program is "the largest effort, I think, ever undertaken anywhere in the world—certainly in our country—to try to help health care become safer," he said.

The program is expected to save Medicare about \$30 billion over its first 10 years, he said.

CMS is implementing direct savings through payment rules and other means, Berwick said. The agency, which spends about \$800 billion a year on Medicare, Medicaid, and the Children's Health Insurance Program, is also implementing indirect savings through efforts such as reducing waste, which are harder to track, Berwick said.

Indirect savings, however, "may be more sustainable over time," he said. "Direct cost levers are always subject to debate and push-back, because we're talking about the amount of money we'll pay," he said. "Indirect changes, because they act through improvements in the care delivery system itself when appropriately managed, stay in place," and they help both public and private payers.

Coordinating care is probably the most effective way to reduce cost, Berwick said. Accountable care organizations being created under PPACA will provide incentives to coordinate care, along with new "bundled payment" systems, in which health care providers are paid for episodes of care, such as heart attacks, he said.

CMS's final rule on accountable care organizations will be issued "soon," Berwick said. That means it is "imminent," he replied to a question asking him to be more specific.

Reducing waste could cut health care spending for all payers by more than 20 percent, he said.

### Weight-Loss Program Saves \$15 Billion

Medicare could save as much as \$15 billion over the lifetimes of baby boomers, if it made community-based, weight-loss programs available to people age 60 and older who are at risk for diabetes or heart disease, an Emory University health policy professor, Kenneth Thorpe, said at the briefing.

From 1987 through 2008, about two-thirds of the growth in health care spending was due to a rise in the prevalence of treated diseases. Six conditions accounted for about 40 percent of the growth in Medicare, he

said. Diabetes accounted for the biggest increase, 8 percent of the growth in Medicare spending, he said.

"There's an enormous opportunity, I think, for the federal government to reach out earlier to improve the incoming health profile of patients coming in the Medicare program," he said, "both because it'll reduce the incidences of diseases like diabetes, and it has the potential for reducing lifetime spending in the program."

A program that has helped people lose 4 percent to 7 percent of their weight could be offered on a national basis for about \$80 million, Thorpe said. The YMCA program also reduced the incidence of diabetes among participants.

### **Concentrated Health Plan Markets Reduce Costs**

Although concentrated hospital markets lead to higher prices, health plan concentration tends to reduce costs, according to research presented at the briefing by Glenn Melnick. He holds the Blue Cross of California chair in health care finance in the School of Policy, Planning, and Development at the University of Southern California.

Hospital markets, on average, are much more concentrated in the United States than health plan markets, Melnick said. But there has also been a long-term trend of consolidation among health plans, which has raised concerns among providers that health plans may have enough market power to reduce their payments, he said.

If hospital market concentration is increased by 1,000 points under the Herfindahl-Hirschman Index measurement system, prices rise by 8.3 percent on average, Melnick said. If health plan concentration is increased by 1,000 points, prices drop 2.5 percent, he said.

"These two concentration measures have countervailing effects," Melnick said. Under the index, a measurement of 10,000 means an industry has a monopoly in a market; a measurement close to zero means a market has more competition.

Melnick said his study found that the largest reductions in health plan prices were in markets where health plan concentration was the greatest. In 35 markets where health plan concentration was above 3,200, which is a market of about three health plans of equal size, hospital prices were 12 percent lower than the most competitive markets in other parts of the country, Melnick said.

"The implications of this are: More concentrated health plan markets can actually benefit consumers by counteracting the price-increasing effects of our fairly concentrated hospital markets in the U.S.," he said.

But those benefits will happen only "as long as there is sufficient competition remaining in health plan markets to keep the health plans honest and pass on those savings to consumers in the form of lower prices," Melnick said.

There should be less focus on health plan concentration and competition, and more focus on provider market concentration and competition, he said. Provider market concentration "is contributing in large part to the increase in spending and prices that we've seen over the last 10 years."

Melnick noted that private insurers are concerned that accountable care organizations will lead to the creation of larger provider organizations. If that happens, the fear is that "prices are going to rise," he said.

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