

To: Senator Barbara Boxer

From: Heng Nhoung, Assistant Health Policy Analyst

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Subject: Amendments to the Affordable Care Act Targeting Healthcare Over-Utilization

Summary:

The Affordable Care Act does not adequately reduce over-utilization of healthcare. Because of this, increased access to healthcare will drive up demand and costs unsustainably. The primary goal of these policy alternatives is to minimize unnecessary utilization of healthcare. Among the three policy alternatives that I have presented, I recommend penalizing hospitals with fees for not adhering to clinically and cost-effective practices of medicine which minimize tests and procedures. This prevents utilization for profiting purposes and encourages medicine that is minimally invasive and cost-effective.

Background

The Affordable Care Act is a step in the right direction for a healthier America. It extends coverage to millions of Americans who otherwise wouldn't have been able to afford comprehensive healthcare. It prevents Insurance companies from rejecting people that need coverage the most. The big issue not receiving enough attention is that there are little provisions in the Affordable Care Act that reduce healthcare spending in the next 3-5 years. Because of this, the initial impact of healthcare reform will be costly and unpopular. Politicians will be pressured to repeal the entire law, and healthcare reform again will fail. Although much of the act will be paid by taxes on various industries (Kaiser Family Foundation), this does not solve the problem of reducing costs. Rather, it shifts costs from patients to providers to insurers. Without legislation that addresses the issue of long-term costs, the Affordable Care Act will not be able to sustain the rising costs in medicine, and more and more people will no longer be able to afford health care. Medicare is going to be the largest expenditure in the US Government's budget in the next 30 years (Congressional Budget Office)(Figure 1).

Therefore, I propose three alternative policies be introduced to congress that will incentivize patients to manage their healthcare more responsibly and minimize irresponsible clinical practices. They include: imposing fines on hospitals that fail to reduce over-utilization when audited, reducing Medicare/Medicaid payments to patients that fail to follow procedures of self-care, and increasing co-pays on patient visits that are unnecessary and could be done through more efficient means. The purpose of these policies is to decrease utilization of healthcare and make both patient and provider responsible for the care they give and receive.

Political Context

This is a national debate that has gone on years, if not decades through past failures in the Nixon Administration, and the Clinton Administration. Most Republicans do not support the bill whereas the Democrats do (Figure 2). The majority of Republicans are against the costs of the reform, and the individual mandate. The majority of Democrats are for expanding coverage to 25 million Americans are underinsured (PBS News Hour). It is extremely important that both sides of the issue are addressed so that healthcare can be expanded to cover more Americans without jeopardizing the future of the American economy.

Policy Alternatives

The first policy alternative I would like to present targets hospitals that have been utilizing the most Medicare/Medicaid. Hospitals like McAllen in Texas have demonstrated that there is a culture of spending and a desire to earn the highest profit on each patient as it spends twice the national average per patient (Gwande). There has been no provision, nor has there been investigations into why hospitals spend this much, even when counting for wage, cost of living, etc. Therefore this amendment would investigate hospitals that overspend, it would then have health experts from cost effective hospitals-like the Mayo Clinic- recommend changes in practices, and it would also warn hospitals of the consequences of not implementing the recommendations. The amendment gives CMS the power to fine hospitals a scaled annual fee based on its revenue that would not adhere to the recommendations. The pros of this alternative would be: it directly motivates hospitals to minimize utilization as modeled by cost effective hospitals. Because of that Medicare/Medicaid spending would go down, and the

overall costs would go down as well. This measure would increase revenues for the ACA and promote clinical practices that are just as effective, but much more manageable financially. Doctors would be able to treat more patients in less time, thus reducing wait times. The equity is insured as the best clinical practices are implemented nationally. However, the cons of the amendment are: hospitals unwilling to cooperate, and its effectiveness if there are confounding factors that cause some hospitals to use more expensive treatments. If insurers do not follow this policy with CMS (Center for Medicaid/Medicare Services), then hospitals will discriminate against patients who have Medicare because of the difficulty to maximize profit. But the bottom line is that it addresses the problem over spending directly and forces providers to be aware of the costs of treatment.

Another alternative to minimize over-utilization of healthcare is to reduce Medicare/Medicaid Payments to patients who return to the hospital because of their own errors in following orders by their providers. This mirrors the ACA Act which reduced Medicare payments to hospitals which admit patients for an error on the hospital's part (Kaiser Family Foundation). The pros of this alternative are: it motivates patients to take charge of their health. It reduces moral hazard by making patients aware of the consequences of not adhering to medical advice. The fees are equitable in that it complements the law which makes hospitals accountable for patient care; it also makes the patient accountable for their own well-being. However, the cons of the alternative are that patients would be deterred from visiting a doctor if they know they might lose money, when it is something they need attention. It creates the blame game on the patient and provider as both refuse to lose money from Medicare/Medicaid.

And it is not uncertain how much revenue it would bring in the next 3-5 years as patients can misreport themselves.

The final policy alternative I propose is to price deductibles based on efficient methods to incentivize patients to utilize less health care. It encourages patients to do what it takes to not go to the doctor's office to check results, get follow up, and check status. It encourages the use of email, phone, and websites to communicate between patient and provider. The deductibles would be higher on patients that insist on going to the doctor's office for inefficient reasons. This does not apply to the preventative services as those are covered under the ACA (Kaiser Family Foundation). Research has demonstrated that there is less utilization in healthcare when there is a co-pay of some sort, and that there are no changes in health outcomes (Brook RH). I want to take it further to motivate patients and providers to use time in the doctor's office more wisely and more efficiently. The pros are: increased efficiency, lower spending, less utilization of healthcare. The cons are that people who do not know how to use the Internet may get penalized, which is why there needs to be investment in education on use of technology for senior citizens/people that do not know how to use technology. This is a problem since all of Medicare constituents are senior citizens. However, this would face little political challenge because it is aimed at reducing health care costs. And it creates positive externality, as more people are able to access doctors in more urgent cases. This amendment would work closely with the implementation of ACOs to enable and empower patients because ACOs are aimed at streamlining the healthcare experience for the consumer.

Recommendation

Based on the analysis of these recommendations aimed at reducing healthcare spending, I think it is best to implement penalties on hospitals that do not adhere to cost-effective clinical practice. It is at the root cause of why healthcare costs so much in America. Hospitals are currently incentivized to add on more and more tests that don't gain any utility in the patients' health (Gwande). Therefore, penalizing the exploiters of health insurance and Medicare is the best way to deter wasteful spending in health care. The payment system has to be set up in a way that incentivizes healthcare providers to gain maximum health not profit, and with the future of ACO's coming into play, these penalties can help transition hospitals toward more accountable care that is cost effective for the future of America's economy.

Figures and Graphs

Figure 1: Government affordability: at current growth rates, health care spending will exceed revenue (Source: Government Accountability Office 2009)

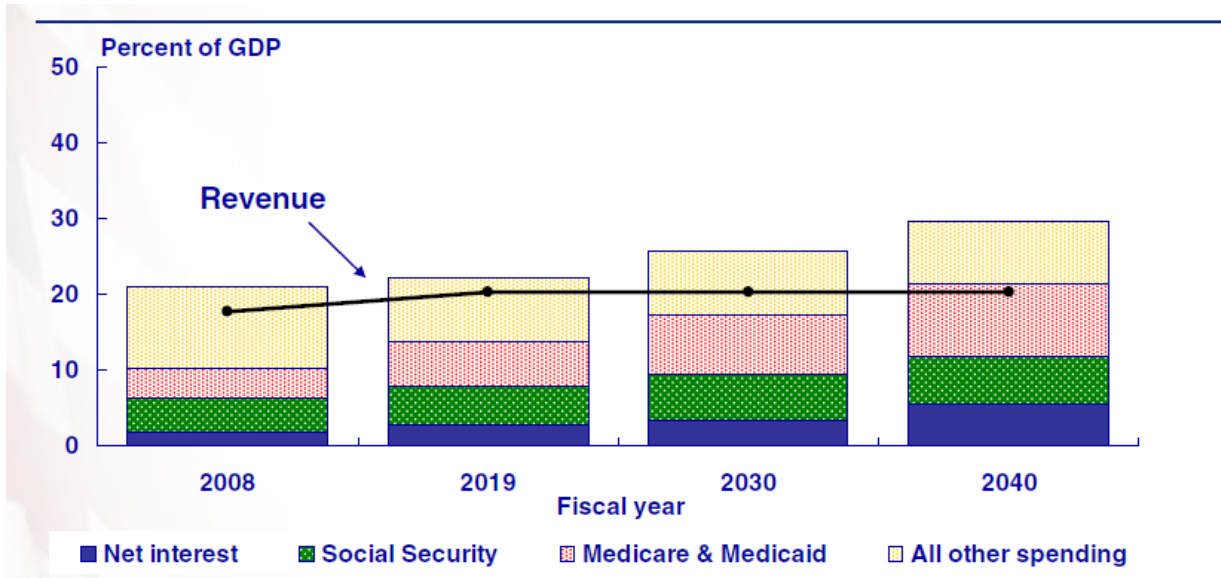
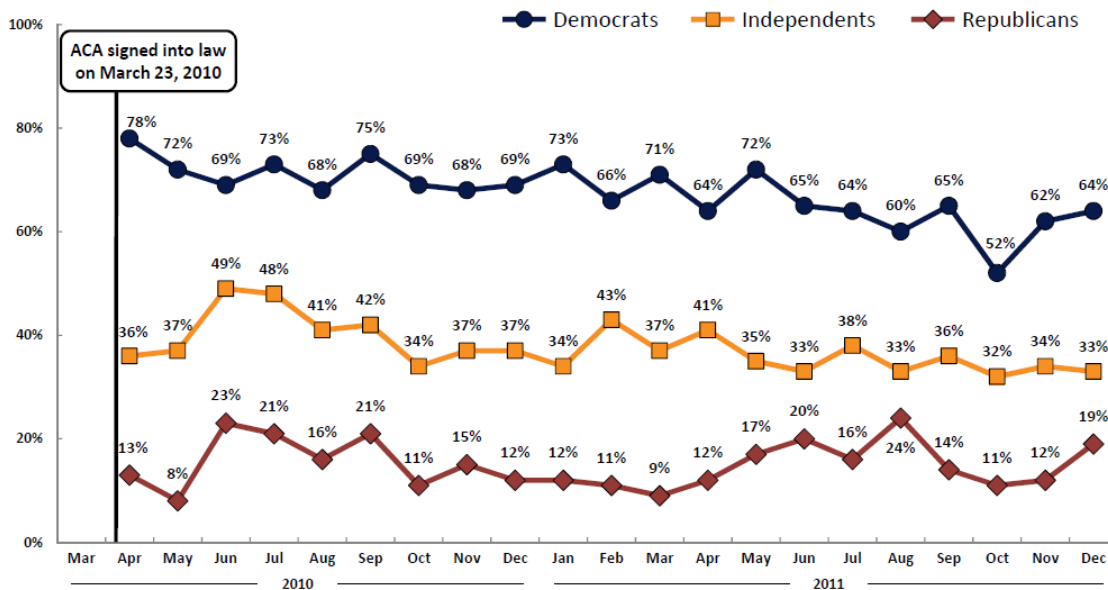


Figure 2: Democrats favor the law more than Republicans (Source: Kaiser Family Foundation 2011)

Percent who say they have a favorable opinion of the health reform law:



Sources

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