

## COMMON COST CONTAINMENT METHODS, MECHANISMS AND CAVEATS

Rebecca Pizzitola  
March 2008

### *Recent Cost Containment News in California*

- Sutter Health is implementing an umbrella system of providers in order to facilitate care coordination, referrals, and medical group changes.
- SB 1198 seeks to cover durable medical equipment so that certain disabled persons can maintain functionality and independence.
- Kaiser Permanente has completed installations of its HealthConnect electronic medical record system in ten of its 30 (soon 33) hospitals. It plans to finish 14 additional installations by the end of 2008.
- Blue Shield Foundation awarded \$13.1 million to fight hospital-acquired infections, estimated to result in 30,000 fewer patient days and \$60 million saved (\$15 million by hospitals).
- Google is beginning to offer consumers the ability to post their health records on the web, similar to Microsoft's HealthVault.
- Health Evolution Partners is launching a health care coalition including the California Public Employees Retirement System (CalPERS; pledging \$700 million in 2007) and other major purchasers of health care (e.g., GE, Pennsylvania Employees Benefit Trust Fund, Washington State Health Care Authority, and Wisconsin Department of Employee Trust Funds) to improve health care quality and reduce costs.

### **Major Considerations For Most Cost Containment Methods**

- Financing and Cost Effectiveness
- Political Feasibility and Opportunity Cost

### **Methods, Mechanisms and Caveats**

#### Evidence-Based Medicine, Research and Regulations

- Provides a basis for care, primarily for chronic diseases
- Reduces waste from the adoption and use of ineffective expensive medical equipment and treatments and unnecessary capital expenditures
- **Caveats:** Relies on provider consensus and clinical evidence for best practices and disease determinants, which even if established by an independent board, are partially subjective and susceptible to variability in the execution of care (and consequently outcomes). Displaces roles of insurance companies who are responsible for ultimately determining the appropriateness and necessity of care. In addition, research itself can be quite costly (i.e., for drugs<sup>1</sup>) and often even if a treatment is shown to be effective

---

<sup>1</sup> Though overall drug spending is decreasing primarily due to price growth slowing, utilization for drugs is on the rise and predicted to continue rising through 2017. This accompanies health care utilization slowing overall – with a shift from private to public care – along reduced growth



within the confines of a clinical trial, used more broadly, its effectiveness is less evident.

Interoperable Health Information Technology (HIT) System

- A method to reduce paperwork, errors and waste (e.g., through electronic prescribing, payments, referrals, and notices) and improve the efficiency and effectiveness of care through improved care access and coordination (e.g., through electronic medical records, provider-patient communication, and telemedicine) among facilities, providers and patients
- **Caveat:** Some providers may not be familiar or comfortable using this technology or trusting its security. Additionally, the startup costs for implementing HIT are quite large.

Tax Reform

- Eliminates or expands tax shelters for high deductible plans
- **Caveat:** High deductible plans may attract the healthy and wealthy, but may still reduce health spending.

Administrative Cap and Disclosure of Medical Loss Ratios

- Encourages plans to spend more on patient care
- **Caveat:** May push plans to seek other ways to obscure profits.

Guaranteed Issue, Rating Protections and the Purchasing Pool

- Discourages health plans from cherry-picking, helps spread out risk, and reduces administrative costs
- Increases access (affordability) to care for individuals and small business by having a larger body negotiating for more affordable health plans
- **Caveat:** Encourages and rewards adverse selection; pools per se have not succeeded in changing the trends on health cost increases.

Enhancing Market Competition and Choice

- **Health Plans:** Provides a broader range of plans and comparable benefit designs (perhaps interstate) with variable premiums to encourage the insured to shop for price in purchasing insurance, increasing consumer choice and buying power
- **Caveat:** Depends upon the cost differences and benefit designs between plans. Plan that offer minimal coverage at a lower cost (such as high deductible plans) may attract healthy subscribers, while those with pre-existing conditions will be attracted to more expensive plans out of necessity, hence doing little to control the rise in health costs other than to further segment the market. As a basic consideration, this method must define a benchmark(s) for minimal and comparable coverage.

---

of disposable income. See: Keehan, S. et al. (2008). Health spending projections through 2017: the baby-boom generation is coming to Medicare. *Health Affairs*.



Bulk Drug Purchasing<sup>2</sup>

- Improves the leverage of a purchasing body to negotiate lower drug prices
- **Caveat:** Requires centralized administration/collaboration. Controls price but not utilization.

Drug Reimportation, Research and Approval

- Imports the same drugs at a cheaper price
- Expedites FDA approval of generics coming to market
- Expedites FDA applications for new drugs with promising treatment results
- **Caveat:** Other countries' policies may not ensure the safety and purity of prescription drugs. Expedited approval by the FDA may not guarantee the safety of prescription drugs. Of course, as is currently done, drugs can be taken off the market later after adverse consequences are seen.

Rate Setting and Reimbursement

- Improves competition between facilities and providers
- Monitors facility growth in comparison to necessity
- **Caveat:** If done voluntarily, will provide little relief through weak compliance.

Increased Medicaid Reimbursement

- Improves the quality of and access to care for vulnerable populations and could reduce the cost shift to the private sector
- **Caveat:** Medicaid reimbursement still lags far behind Medicare reimbursement, and Medicaid cost and caseload continue to grow each year. Political feasibility must consider new financing for this program. No assurance that reduction in uncompensated care is reflected in price reductions for private coverage.

Infrastructure: Safety Net and Communities

- Offsets emergency department visits by expanding the number of primary care clinics
- Improves access to timely care by investing in public or private non-profit community health centers and expanding their capacity
- Improves health through local grocery stores with fresh produce, restricted drug and tobacco advertising, public health preparedness, school or worksite wellness programs, increased walking trails, etc.
- **Caveat:** Little impact on overall growth in health costs, particularly in the short term, though showing potential for large improvements in low-income population's health.

Incentives and Rewards

- Improves the quality of care: enhance efficiency and effectiveness; prevent misuse, overuse, and underuse (e.g., through P4P or wellness incentives for patients)
- Encourages individual responsibility
- **Caveat:** The incentive or reward must be valuable enough to inspire improved behaviors by medical providers and by patients.

---

<sup>2</sup> Including repealing the ban on Medicare to negotiate with drug companies.



- Increased and Tiered Cost-Sharing, Reference Pricing and Closed Formularies
  - Discourages moral hazard and greater utilization<sup>3</sup> and increases use of lower-cost providers, treatments (e.g., drugs) and facilities
  - **Caveat:** Depending on the level of cost-sharing imposed upon a given population, a beneficiary may delay care until it requires expensive emergency attention.
  
- Transparency and Malpractice Reform
  - Improves the quality/value of care through the reporting of price and performance (e.g., patient safety/errors and never events, hygiene rules, staff ratios, cost/efficiency, and health outcomes – including hospital acquired infections)
  - Promotes informed, value-based purchasing by consumers of health care
  - Improves quality and reduces incidence of malpractice events
  - **Caveat:** Much debate centers on data – determining comparable and useful measures of performance and ensuring they factor in patient risk and adequate provider reporting compliance. Patients are expected to make more informed choices, though their choices are limited by proximity and health insurance acceptance. Transparency involves making providers/facilities more competitive. This increase in competition on quality could hinder the ability of public safety net institutions to compete.
  
- Patient-Centered Care
  - Improves provider-patient relationship and increases treatment or care regimen compliance, which may decrease malpractice incidents
  - **Caveat:** Most uninsured don't have a regular source of care and limited access to a fragmented system
  
- Fraud Reduction
  - Reduces fraudulent private insurance, Medicaid, and Medicare claims. Computer profiling can better ID fraudulent patterns.
  - **Caveat:** Could be 5-10% of claims, but hard to identify and prosecute.
  
- Prevention, Disease Management, and Care Coordination
  - Prevents disease onset and progression
  - Prevents duplication, including misuse, overuse, and underuse
  - **Caveats:** Although disease management programs have been shown to be effective, care must be taken to tailor the disease management program to the particular patient or target population's treatment plan and support needs, to promote success. Further, as the most desired outcomes occur in the long term, careful attention must be paid to the incentive for health plans and providers to contribute to such a program considering frequent patient turnover in enrollment. Political feasibility and individual freedoms and protections against a paternalistic government can make expansive public health efforts (e.g., tobacco reduction, requiring restaurants to post nutritional labels and eliminate the use of trans fat) difficult to implement.

---

<sup>3</sup> This is often not related to better health outcomes, partly due to regional variation in care.



- Culturally Sensitive Education, Outreach, and Assistance
  - Encourages individual responsibility through awareness of health benefits/risks and care options
  - Increases access to and continuity of coverage through awareness of and assistance understanding and applying for public insurance and other coverage programs<sup>4</sup>
  - **Caveat:** Care must be taken to ensure solutions to proposed problems are tested, flexible and viable. For example, telling someone to quit smoking or lose weight is relatively ineffective. Telling them how and ensuring it is possible (proximal, inexpensive) for the target population to carry out the proposed behavioral change(s) is most effective.
  
- Scope of Practice
  - Allows for less costly alternatives to substitute for physician or nursing care
  - **Caveat:** Powerful interests groups representing physicians and shortages in many of the substitute professions (i.e., nursing) must be considered.
  
- Workforce Development
  - Improves care through public health, primary care and nursing shortage amelioration and quality improvement
  
- Community Makeover Grants and State and Local Innovations
  - Allows flexibility for localities to determine their needs and capacity to respond to these needs in the most effective way to serve their unique circumstances
  - Provides models for other states and communities to implement if successful

---

<sup>4</sup> Efforts may also include simplifying and eliminating ambiguity in applications for public and private insurance plans, as well as offering them in as many languages as necessary to reach the target populations. This may additionally help decrease the frequency of rescissions.