

Addressing Health Care Costs: An Essential Part of Health Reform

It is impossible to have a serious discussion about health reform without considering the growing cost of health care. Health-related spending grows on an annual basis, often outpacing spending on the other goods and services that make up the United States economy. Those responsible for paying for health care—the government, employers, and families alike—increasingly feel the financial squeeze of uncontrolled health care inflation. Confronted with rising health care costs, a growing number of employers may find that they cannot afford to provide health insurance for their workforce, and more and more families may not be able to afford to purchase coverage. Simply put, any attempt at expanding coverage for all will be short-lived if health care costs are not controlled.

Women's advocates encounter both challenges and opportunities when considering how cost control fits into progressive health reform. Some health reform plans that aim to control costs may only shift more of the burden of health care costs to health plan enrollees, making it more difficult for families to afford health care when they need it. Or, federal and state government attempts to control the costs of publicly-funded health coverage programs may result in the loss of basic health benefits for the nation's most vulnerable populations. Advocates must work to ensure that cost containment does not come at the expense of access to high-quality and affordable health care for women and their families. Cost control initiatives, however, also present an opportunity for health system improvements that can result in the delivery of more efficient and higher-quality care. If implemented carefully, health reforms that address growing health care costs can ensure that health system improvements are sustained in the future.

Why Must We Consider Health Care Costs?

Health care costs are skyrocketing, and their growth far outpaces that of workers' wages. Health care costs continue to increase faster than incomes, and families spend more out-of-pocket each year for their health insurance premiums and for health care services.² Health insurance premiums, for instance, grew by 78 percent between 2001 and 2007, compared to wage growth of just 19 percent.³ Rising health care costs place a growing burden on families. In 2007, about 57 million Americans lived in families that reported problems paying medical bills, an increase of more than 14 million since 2003. Most of those people had insurance coverage. They reported challenges with paying for other basic necessities such as food, housing, and clothing, and they also reported much higher levels of unmet medical need than families without medical bill problems.⁴

Who Pays for Growing Health Care Costs?

While Americans may believe that their employers feel the greatest squeeze from increasing health care costs, economists generally agree that the growing cost of health care is coming out of employee wages in a cost-wage trade-off. In other words, the rising cost of health insurance coverage has led to smaller wage increases. Over the last 30 years, while health insurance premiums have grown by 300 percent, after-tax corporate profits have grown by 200 percent and average hourly wages for employees have actually *decreased* by 4 percent.¹

Addressing costs is essential for a sustainable health system, and for the solvency of publicly-funded health programs.

In 2005, health care accounted for 16 percent of the nation's gross domestic product (or GDP, a common measure of national economic activity). By the year 2016, health spending is projected to account for nearly 20 percent of the GDP.⁵ If health care costs continue to grow rapidly, more and more employers and individuals will find themselves priced out of the health insurance market, and unable to afford coverage at all. Moreover, the state and federal governments that pay for nearly half of all health care spending will not be able to sustain the public coverage programs they administer—including Medicare, Medicaid, and the State Children's Health Insurance Program—if costs are not contained. Or, if the costs of public coverage programs continue to consume ever larger shares of state and federal budgets, other areas of government spending, such as education or transportation, will suffer from reduced resources. Policymakers may propose cuts to public program eligibility levels (so that fewer people qualify for and enroll in the programs) as a way to address the problem of rising health care costs, but these types of cost containment measures are not acceptable health reform since they will result in greater numbers of low-income women and families without access to the health care they need.

Addressing costs can lead to a less wasteful and more efficient health care system.

Spending more on health care does not guarantee better care. Indeed, though Americans spend more almost twice as much per capita (over \$6,500 per person in 2005) on health care as citizens of other developed countries, their health is no better and in many cases is worse in comparison to these countries. As much as 30 percent of health care spending, or roughly \$700 billion, is considered wasteful because it has no value to the patient and does not improve health outcomes. Indeed, at a July 2008 Congressional hearing on getting better value out of health care, the Director of the Congressional Budget Office (CBO) declared that "health care is the least efficient sector of our economy."⁶

Cost control is inextricably linked to health care access and health care quality.

The savings that result from thoughtfully-implemented cost containment initiatives can be diverted to expanding access to health care for greater numbers of uninsured people, financing new coverage programs, or making improvements to the health infrastructure. Moreover, the savings from cost containment can lead to improved quality because—as detailed below—reform initiatives that control costs are also those that result in the delivery of more efficient health care.

Why Are Health Care Costs Increasing?

Health care costs are increasing for a number of interrelated reasons, including, but not limited to:

- **Growth in health care technologies.** Most health economists and analysts point to major advances in medical science as the primary factor contributing to the growth of health care spending in recent decades. The emergence, adoption, and widespread diffusion of costly new drugs, medical equipment, and skills have increased health care spending overall.⁷
- **Increasing life expectancy and incidence of chronic diseases.** Since average medical spending typically increases with a person's age, as the United States population ages and average life expectancy increases, health spending rises. Spending projections, however, indicate that an aging population will have only a modest effect on national

health care spending.⁸ The burden of chronic disease also affects health care costs, since people with chronic conditions such as diabetes, asthma, and heart disease are likely to have significantly higher average healthcare costs than people without them. As the incidence of certain chronic conditions increases, so do overall health care costs.

- **The current health care financing structure.** In the current U.S. health care system, health care providers are generally paid according to the volume and intensity of the services they deliver, rather than whether or not they keep patients healthy. This approach may not benefit health consumers, providers, or the system overall, since it provides an incentive for unnecessary care and costs.
- **Growth in health care insurance industry profits.** Between 2000 and 2005, the insurance industry's administrative expenses (i.e. costs of marketing, medical underwriting, claims processing) and profits increased by 12 percent per year. This is considerably faster than the growth rate for overall health spending during that time period. The consolidation and concentration of market power in the insurance industry over the past several years—in addition to major increases in the market share of the biggest health insurers and higher profit margins—have contributed to the steady growth of health care costs.⁹

What Are Some Ways That Health Reform Plans Can Contain Costs?

- **Health reform plans can incorporate initiatives that will improve health care quality.** High-quality health care is, simply put, the right care, at the right time, for the right reason. Health reform provisions that improve the quality of health care that women and their families receive also have the potential to reduce health care costs. These include health reforms that promote chronic disease management, and reforms that revise health care payment systems so that providers are encouraged to manage care more effectively for better health outcomes. For instance, a “pay-for-performance” pilot program administered by the Centers for Medicare and Medicaid Services (CMS) pays physicians participating in the Medicare program based on the quality and efficiency of the care they provide. The program has reported promising results, showing gains in quality of care to patients with congestive heart failure, coronary artery disease, and diabetes. Importantly, the program also reduced CMS spending.¹⁰ The “Ensuring Quality Health Care in Health Reform” section of the *Reform Matters Toolkit* explores initiatives to improve health care quality in greater detail.
- **Health reform plans can emphasize preventive and primary care.** By accessing timely preventive health services—such as immunizations, cancer screening services, or annual physical examinations—women and their families can avoid the development of more complicated and costlier health problems in the future. To encourage patients to seek the appropriate care at the appropriate time, health reform plans might incorporate “value-driven” health benefit designs that better align patient and provider incentives, by eliminating or reducing copayments for preventive and essential medical services and medications, while requiring higher copayments for specialized services that are subject to overuse.¹¹
- **Health reform plans can include initiatives that promote the widespread use of health information technology (HIT).** HIT, or the use of computers and other electronic devices to manage health information, can reduce medical errors and improve coordination of health care among providers, thereby enhancing not only the

Emphasizing Preventive Care to Improve Health and Save Costs.

In their 2007 report *Preventive Care: A National Profile on Use, Disparities, and Health Benefits*, the Partnership for Prevention highlights the fact that effective preventive care is significantly underutilized in the United States, which results in lost lives, poor health, and inefficient use of health care dollars. The report ranks several clinical preventive health services according to their cost effectiveness, measured as the health service's return on investment (the cost of a service compared to its health benefits). The most cost-effective preventive services include:

- Childhood immunizations
- Advising at-risk adults for daily aspirin use
- Smoking cessation advice and help to quit for adults
- Alcohol screening and brief counseling for adults
- Colorectal cancer screening for adults age 50 and over
- Influenza immunization for adults age 50 and over
- Vision screening for adults age 65 and over

By increasing use of just five of the preventive services examined in the report, the Partnership for Prevention estimates that 100,000 lives could be saved. More widespread preventive care would also result in the more effective use of national health resources since the country would get more value—in terms of premature death and illness avoided—for the money it spends on health care.¹²

quality but the effectiveness of care. Some analysts believe, however, that while incorporating HIT into the health care system will save costs and improve efficiency, HIT initiatives alone will only result in modest cost savings.¹³ These types of reforms must be coupled with other efforts to slow the growth of health care costs. The “Health Information Technology: A Key Component of Health Reform” section of the *Reform Matters Toolkit* explores HIT in greater detail.

- **Health reform plans can support the role of public coverage programs as a way to expand access to health insurance, including the creation of a public health plan option for individuals and employers.** One recent study indicates that total medical spending is much lower when coverage is provided by public health insurance programs such as Medicaid or SCHIP than when it is provided by private insurance. The study authors conclude that “efforts to expand coverage for low-income populations, whether conducted at the national or state level, would be less costly to society and much less costly to financially strapped beneficiaries if the expansions were based on public insurance like Medicaid and SCHIP.”¹⁴ Moreover, a publicly-sponsored health program that competes on a level playing field with private health insurance companies for enrollees may result in lower administrative costs, reduced health care industry profits, and greater choice and competition among plans.¹⁵

Why Must Women's Advocates Approach Cost Containment with Caution?

To ensure that health reform plans do not harm access to health care, reforms to control cost must be considered carefully. Some health proposals that seek to control costs may diminish important health consumer protections or simply shift more costs onto women and their families. These include proposals that allow insurance companies in the individual and small group markets to sell bare-bones health plans (i.e. plans that are exempt from critical

mandated health insurance benefits) offering limited health coverage, as well as so-called “consumer-directed health care” plans, which combine high-deductible health plans with tax-free health savings accounts (HSAs).¹⁶



Lessons from the States:

Opportunities and Challenges Posed by Rhode Island's Cost Control Reforms.

In 2008, Rhode Island Lieutenant Governor Elizabeth Roberts introduced a comprehensive health reform package, the Healthy Rhode Island Reform Act of 2008. Though the reform package includes some provisions to establish a universal coverage system similar to that of neighboring Massachusetts, early news reports on the Rhode Island plan distinguished the state's efforts as stressing costs as much as coverage, stating that the “plan acknowledges that Rhode Island cannot afford, financially or politically, to insure all its residents unless it can deliver healthcare more efficiently and raise money through a tax on businesses that do not provide coverage.”¹⁷ One component of the reform legislation that has already been enacted, for example, involves a statewide Chronic Care Management Program, which aims to identify eligible patients, ensure that each chronic care patient has a designated primary care provider, coordinate care among health providers, and monitor performance by establishing process and outcome measures for program participants.¹⁸

But with the same aim to control costs, Rhode Island has also applied for federal permission to transform its state Medicaid program into a block grant, whereby the state would receive an annual fixed amount for Medicaid with no additional federal funding to address unanticipated health care cost increases or enrollment.¹⁹ In exchange for accepting the block grant, Rhode Island seeks unprecedented flexibility to manage the costs of Medicaid. If approved, the state's proposal would eliminate a number of federal protections for Medicaid beneficiaries, allowing the state to make significant changes to its program without federal oversight. Many of Rhode Island's most vulnerable families would be at risk of losing coverage and services.²⁰

These two different cost containment approaches in Rhode Island demonstrate both the opportunities and challenges that women's advocates encounter when considering reforms that address health care costs.



What Can Women's Advocates Do?

Women's advocates can understand the role of costs in health reform, and ensure that reform plans address growing health care costs without harming women's access to high-quality health care.

Addressing health care costs presents a significant challenge for health reformers, as potential interventions may require new approaches to health care delivery and the establishment of new information systems. Advocates are further challenged to ensure that cost control does not harm access to health care for women and their families. Ultimately, however, health care reform that is realistic and sustainable **must** include provisions to control the growth of health care costs. In the absence of these provisions, the nation's foundation of employer-sponsored insurance will continue to erode, and women and their families will continue to struggle to afford high-quality health coverage.



For further reading, see:

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National Conference on State Legislatures, *State Health Care Cost Containment Ideas* (July 2003), <http://www.ncsl.org/programs/health/healthcostsrpt.htm>

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- 13 Bureau of National Affairs, "CBO Head Says Health Costs Hurt Today, Issue Not Linked Only to Generational Equity" (May 14, 2008).
- 14 Leighton Ku and Matthew Broadus, *Public and Private Health Insurance: Stacking Up the Costs*, Health Affairs web exclusive (Jun. 2008), <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.27.4.w318v1>
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- 16 Other sections of the *Reform Matters Toolkit* describe these types of reforms and the harmful effects they may have on women and their families.
- 17 Alice Dembner, *Care, cost stressed in R.I. initiative*, The Boston Globe (February 13, 2008), http://www.boston.com/news/local/rhode_island/articles/2008/02/13/care_cost_stressed_in_ri_initiative/
- 18 The Healthy Rhode Island Reform Act of 2008, "Health and Safety" § 1.23, Chapter 17.21.
- 19 Currently, the federal government matches state Medicaid expenditures at a fixed rate, but without a fixed limit.
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