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Healthcare reform moves to Congress - who's going to foot the bill?

By Curtis Rooney

The Obama Administration and Congressional leaders have begun the business of healthcare reform. This includes changing the way entitlements such as Medicare and Medicaid work. They're holding meetings and sitting through hearings, taking testimony and drawing the battle lines of debate. There is talk about the goals of expanding access, the merits of reducing costs and the virtues of improving quality. Outlines of a new public plan are under consideration. Mandating either employers or individuals to provide or obtain healthcare coverage is on the table. The big question is, of course, how to pay for it?

U.S. health spending

Back in December of 2007, the Commonwealth Fund published a paper called "Bending the Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending". It pointed out that U.S. health spending is currently 16 percent of GDP and is expected to increase to 20 percent of GDP by 2016 - or from \$2 trillion to \$4 trillion. The report focused on federal policies and stated that national health spending reform included entitlement reform. It looked at 15 federal policy options that have the potential to lower health spending relative to projected trends, including policies that would:

- Produce and use better information for healthcare decision-making.
- Promote health and enhance disease prevention.
- Align financial incentives with quality and efficiency.
- Correct price signals in health care markets.

The report concluded that "if implemented along with universal health insurance, a combination of selected options could save \$1.5 trillion in national health expenditures over 10 years, while also improving value in terms of access, quality, and healthcare outcomes." The recent White House meeting in which stakeholders representing unions, hospitals, insurers and the drug industry promised to hold down \$2 trillion in healthcare costs took a page from the Commonwealth report and upped the ante. They pledged to reduce the growth of healthcare spending by 20 percent.

Connecting the dots to universal coverage

In general, to get to universal coverage there are three ways to pay for healthcare reform:

1. Limit the tax deduction for employer provided health insurance.
2. Raise taxes.
3. Cut health spending.

While the \$3.4 trillion budget Congress recently approved for FY10 leaves many of the specific options open, the top tax-writer in the House, Ways & Means Chairman Charles B. Rangel (D-NY), has said that there is "no way" he would support taxing employer-provided health benefits. The President's budget suggested taxing the charitable deductions taken by high income earners, but Congress did not even include this item in the budget resolution. While Congress could choose to add to the deficit to cover the uninsured and pay for it later, the politics of doing so may limit this option given the red ink flowing from Washington, D.C., to pay for two wars, the bank and car company bailouts and other spending. That leaves two ways to pay for an expansion of health insurance: raise taxes or cut health spending. Because raising taxes appears to be even more unpopular than deficit spending, cuts appear to be the only choice.

The President's stimulus package included the "low hanging fruit" of potential - but so far unproven - efforts to make the system more efficient and "bend the curve" including:

- \$19 billion for healthcare information technology such as electronic health records.
- \$10 billion for cancer research to be conducted or dispensed by the National Institutes for Health.
- Over \$1 billion for comparative-effectiveness research that would evaluate how a drug or device works and not just how much its costs.

Many in the healthcare community fear all that is left in healthcare reform is spinach. This is evidenced by the Administration's plan to effectively raise \$26 billion by reducing payments to hospitals for readmissions for Medicare patients and bundling payments for "episodes of care" rather than "per service." Physicians are also due for a 21 percent Medicare cut on Jan. 1, 2010, under the current and untenable Sustainable Growth Rate formula.

The concern is that holding down costs by improving efficiency is unproven and that payment for value may be code for reductions in payment. Others fear that holding down payments for services may stunt innovation.

And now for the good news

It is not, however, all doom and gloom. For example, Dr. Gene Schneller recently published a paper entitled, "The Value of Group Purchasing 2009: Meeting the Needs for Strategic Savings". With the help of Mathematica Research, Inc., Schneller found that hospitals and other healthcare providers saved \$36 billion in projected direct price savings annually. The study demonstrates that those surveyed purchased 72.8 percent of all their goods off of a GPO contract and had anticipated 18.7 percent in average savings. Interestingly, there is room for improvement and further savings. It states that "while the average hospital purchases almost 73 percent of goods through their GPO, the range of GPO purchasing effort includes hospitals that purchase only 30 percent of their products through GPOs to well over 90 percent of all products through the GPO." Policy-makers would be wise to recognize and support

these successful private sector efforts that stabilize and reduce costs so effectively.

That said and with all that is at stake, and with so many groups effected, it will take real nerve for the Obama Administration to "bend the curve" when Congress takes up health care reform. *Curtis Rooney is president of the Health Industry Group Purchasing Association (www.higpa.org), Washington, D.C.*

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