CEO Work Group on Health Reform

Building a Sustainable 21st Century Healthcare System

Both House and Senate health reform bills focus primarily on improving health *insurance,* and making it more broadly available. The political conflict over these insurance reform provisions has overshadowed little-noted provisions in the bill that provide the mechanisms for enabling systemic changes that allow our health care delivery system to provide more affordable, better integrated and higher quality health care. Unfortunately, the "scoring" by the Congressional Budget Office greatly undervalues the savings these provisions will generate and therefore has diverted attention away from the substantial patient and taxpayer benefits inherent in delivery system transformation.

When politicians rail against healthcare waste and abuse they fail to mention that most healthcare waste and abuse does not come from mismanagement or malfeasance—it is the natural result of historical payment and regulatory forces that produce perverse financial incentives and obstacles to efficient, effective care. Real reform of American health care requires a realignment of the financial incentives, and a removal of the roadblocks to better care.

The three primary reasons for the medical system's inefficiency are:

(1) It is fragmented into many small components—a legacy from the time when stand alone hospitals and solo practitioners were the norm.

(2) - Doctors and hospitals are currently rewarded for doing *something* – taking an x-ray, providing an ER visit, performing an operation – not for doing the *right thing* in the *right setting.* There are negligible incentives to deliver quality or efficiency.

(3) We have no comprehensive measurement system to determine if what we are doing for patients is healing them in the most efficient manner.

This system both inflates and obscures true costs. Both pending bills counter this in several important ways.

First, most Americans are surprised to discover that at present, there is limited measurement of quality or efficiency in any part of the delivery system. If we follow the old adage "you only manage what you measure" then apparently we are not managing the quality of the care that we are delivering. The first step in improvement requires that we get data. Under the Senate bill, payments hospitals receive from Medicare will be tied to the quality - and then to the cost-effectiveness - of the care they provide. Individual doctors and hospitals will not only be incentivized to *report* quality data, but they will finally *receive* data letting them know how their care compares to that of their peers. Quality reporting and reimbursement programs would also be implemented for other components of the healthcare system, such as home health agencies

and skilled nursing facilities. Because Medicare is the largest insurance program in the nation, changes directed at Medicare patients eventually impact the broader healthcare system.

Second, in our current system all providers involved in the care of a patient are paid separately: the doctors, the hospital, the home health agency, etc. None have any financial incentive to work together to deliver the best care plan for the patient. In fact the "fee for service" system actively discourages such coordination. Each provider along the disjointed continuum simply does their own part, and collects their payment for their activity. The result is redundancy and costly overuse. The Senate bill has a number of provisions that would allow doctors, hospitals and healthcare providers to collaborate in sharing costs, responsibility and savings in ways that our current regulations prohibit.

- Providers can choose to collaborate to build "Accountable Care Organizations" and reap the benefits of any cost savings generated from increased efficiency and coordination. At the same time, they would be required to meet quality benchmarks for clinical outcomes, costs, and patient experience. Institutions that try to game the system by avoiding the sickest patients would face sanctions.

- Physicians can also work with other providers to develop a "medical home" which would be a single point of contact for patients entering the health care system. Instead of the fragmentation of labs, testing facilities, and other ancillaries, this contact point of care management will make it easier for the patient, and create a higher quality and more efficient system of delivery. This "medical home" could be paid for managing the care of a patient across all health care services. The National Committee for Quality Assurance has already established an accreditation framework for integrated "medical homes" that could easily be extended to assess the business infrastructure necessary for this model to include risk-sharing.

- The American Recovery and Reinvestment Act provides for government funding to assist with physician and hospital conversion to electronic medical records systems if they demonstrate that they are using these records to better manage patient care. The recently proposed "meaningful use" standard provides an additional framework for assessing levels of integration and care management capability.

- Finally, the Senate bill would facilitate innovation and the sharing of best practices through ambitious pilot projects. The plan would also establish a $10 billion Innovation Center charged with testing and evaluating promising new models for healthcare payment and organization, all with the goal of raising the quality and cost-effectiveness of patient-centered care. Innovation could be accelerated by promoting pilot initiatives that reward quality and encourage collaboration so that pilot participants can learn from each other.

In other industries, producers prosper when they offer quality goods at competitive prices and are punished when they do not. Collaboration between independent entities along the supply chain is the norm. Market forces push smaller players to consolidate into better-capitalized, more efficient operations while allowing new innovators to emerge. True health reform can only

take place when the same forces that characterize other sectors are allowed to shape how healthcare is paid for and delivered to the American consumer.

As President Obama noted in his health reform address to Congress, building a new healthcare system from scratch is not a realistic option. Instead, we must make it possible for the many components of the current system to evolve to ensure a sustainable future in which patient-centered care is delivered by integrated, data-driven healthcare provider organizations, in partnership with efficient insurance companies. The current Senate bill isn't perfect. But on many of the key issues, it provides the needed framework that facilitates the needed transformation including data and incentives to measure and promote quality, the ability for healthcare providers to share the risks and benefits of collaboration, and the provision of resources for ongoing innovation.

In fact, the proposed legislation underestimates the power of its provisions. It envisions a period of eight years or more to complete the pilot programs that would lay the groundwork for larger reform. However, leading industry leaders believe that change can occur much more quickly. By removing artificial obstacles, creating a more constructive set of incentives, and encouraging innovation and collaboration between different components of the healthcare system through transition support, the time required for transformation can be reduced substantially. Combined with significant coverage expansion, real, street level health care reform can not only happen, but happen faster than policy makers believe. By unleashing the ingenuity and creativity of physicians and their partners to provide medically appropriate and affordable care for all, the system will not only improve its results, but save a considerable share of the increased costs of broader coverage. While experts will undoubtedly quibble over the details of any bill attempting to transform one-sixth of the U.S. economy, the Senate bill represents a once-in-a-generation opportunity to avert the stark and draconian consequences of inaction.

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