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Policy Consultation and Analysis

Medicaid at the Crossroad: Policy Options to Maintain Expansion and Reduce the Federal Deficit

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Premise

There is an alternative to the proposed 2019 budget, which is based on the Graham-Cassidy bill that failed in the fall of 2017. It requires new thinking and consideration of various demonstration projects that have demonstrated a path to reduction of medical inflation. Adoption will require leadership from the center of the political spectrum in an era where common ground is often allusive.

Background

The 2019 budget debate affords the opportunity to refocus the political debate **from funding or defunding the current health care delivery/business model to a serious and creative reexamination of the care/business model itself**.

What is needed for that kind of refocus to take place? How can we get the health care sector to do what businesses in almost every sector of our economy are already dong in earnest: redesigning their own business models in the face of a rapidly changing and disruptive environment? **The policy objective is to expand access while reducing the total cost of care inflation rate to a sustainable level**. ACOs and Coordinated Care Organizations alone are not the solution. Yet, these experiences offer a space and a new context to reframe the current debate and begin a different conversation.

Healthcare industry will need to help lead this debate and provide new policy models for Congress to consider. Leadership will be required to forge an effective solution. A vacuum of industry leadership could create an environment in which a partisan political system and/or the market will prescribe a solution. **The escalating national debt—which now exceeds $20 trillion—coupled with the need to pay for the recent $1.5 trillion tax cut—will relentlessly increase pressure on congress to reduce the cost of federal health care programs.** These programs—especially Medicare and Medicaid—have become the primary driver of the debt as the intersection of an aging population, a hyperinflationary medical system and medical technology swells the ranks of the elderly, increases the incidence of chronic disease and provides ever-more expensive ways to treat them. **Over the next ten years, the CBO estimates that interest alone on the national debt will total $5.2 trillion under current law, making it the third largest "program" funded by the federal government.** By 2046 it will be the second largest program.

This current situation is unlikely to continue indefinitely. As American economist Herbert Stein once expressed in what has become known as "Stein's Law:" "If something cannot go on forever, it will stop;" or, "Trends that can't continue, won't." Or, as we used to say in the ER, "All bleeding stops." Absent proactive leadership, there is an increasing likelihood the U.S health care system is going to be disrupted.

Political Disruption

At some point, Congress will have to get control of the total cost of health care as a matter of fiscal stability and national security. Without leadership to refocus the discussion on a revised health care business model, the primary option on the table will be to continue funding reductions to providers with significant impacts on 17.8% of the US economy.

Embedded in this approach is the increased probability that the federal government will reduce payments to meet the health care needs of low income Americans, shifting that responsibly and the associated cost to states and private sector employers. States could disenroll millions from Medicaid and employers will continue shifting the cost to individuals through higher premiums, copayments and deductibles. This is one kind of disruption.

Market disruption

The other possibility is the introduction of new health care business models that disrupt the traditional health care market sector in much the same way as Amazon has disrupted the retail industry; Air B&B has disrupted the hotel industry; and Uber has disrupted the taxi industry. All three of these companies took advantage of the fact that, in the words of Thomas Freidman, connectivity has become "fast, free, easy for you and ubiquitous." **Some market disruption is inevitable as generations accustomed to receiving low-cost, readily accessible, customer-centered service will drive healthcare providers to change.**

Over 77% of Americans have smart phones connecting them to the internet, giving individuals access to instant information and instant communication. This unprecedented degree of connectivity, plus "big data"—the ability to analyze huge volumes of information to uncover patterns, trends and preferences in behavior—allows companies to develop a "custom grade experience," tailored to customers and patients.

There are many companies seeking to apply these same strategies to the health care industry, which is one of the few sectors of our economy that is ripe for redesign of its business model. Healthcare has an opaque pricing structure and an outdated, complex claims processing infrastructure, making it difficult to compare cost and quality. Unlike most industries—where digitalization and the computing power of the cloud have lowered cost, improved quality and made products and services more accessible to more people—**technology in health care has gone in the opposite direction: increasing cost and reducing access. A sort of "Moore's law" in reverse.**

Five months ago, Amazon, Berkshire Hathaway and JPMorgan Chase announced that they were planning to set up a new company to offer transparent, lower cost health care to their U.S. employees—a company "that is free from profit-making incentives and constraints." Dr. Atul Gawande has been named CEO of this health venture and will began work July 9. The selection of Gawande—a surgeon, author, and health care thought leader—adds credibility to this ambitious project. While the future of this venture remains uncertain, **large sectors of the business economy are moving to eliminate their subsidy of public health programs, minimizing the use of hospitals and reducing their overall cost of care. These new models could take large swaths of revenue out of traditional vertically integrated healthcare systems.**

Some of the new business model disruption may come from within the industry. Kaiser recently developed a model for sophisticated ambulatory centers that would provide high-level surgical services such as orthopedics and cardiac catheterization, and major diagnostic technology, including sophisticated imaging and clinical laboratory services. **The intent of this model is to maximize the use of observation care (non-acute) with the explicit goal of reducing the use of contracted hospital services by 50%.**

The Approach to Solution

The combination of the federal budget deficit and these new business model pose a challenge to the status quo. This constellation could pose a special threat to the delivery of care to the nation's most vulnerable populations – seniors and low income. Today almost 40% of the nation's total healthcare bill is covered by public programs. For many hospitals, almost 70% of the budget comes from Medicare and Medicaid. **The challenge is to shape the change in a way that gets to a larger policy solution, which protects these populations, while making the delivery system more efficient.** That is the conversation we need to jump start.

In the attached documents an approach, based on the concept of coordinated care, a risk-sharing model, an evidence-based set of benefits with flexibility to address social determinants of health, and a global budget indexed to a sustainable rate of growth. **Over the past five years, this model has reduced medical inflation to less than 3.5% while expanding access, and maintaining quality, outcomes and patient satisfaction. If applied nationally, one recent study** (attached as Exhibit A) **projects a net ten-year cumulative total funds savings of approximately $740 billion**, split between the federal and state governments.