



POLICY BRIEF: Cost Containment

Health care spending in Oregon and across the nation is unsustainable. For the past decade, the growth in health care spending has outpaced the overall growth in the U.S. economy. Any comprehensive health reform plan must address rising health care costs and introduce mechanisms to slow the growth in health care spending.

Experience from other countries demonstrates that there are significant opportunities to reduce spending without sacrificing quality. Many other nations pay lower health care costs per person and have better health outcomes than the United States. However, there is no single silver bullet.

In order to significantly slow spending growth, Oregon needs to re-think the way health care is delivered. Successful reform must coordinate a range of initiatives to increase efficiency and reduce spending across the system.

In its comprehensive health reform plan, the Oregon Health Fund Board presented a number of cost containment strategies. This brief presents these strategies in two groups: (1) **direct cost containment actions** and (2) **other actions required for a strategic, coordinated cost containment effort**. Some of the cost containment actions could yield savings in two to three years, while others lay the groundwork to leverage longer term cost savings. The foundational infrastructure actions may not immediately produce direct, measurable savings, but they are critical components of the broader, sustainable cost containment strategy. More detail on these proposals can be found in the complete version of the Board's report.

Direct Cost Containment Actions*

Continue to Develop and Implement Evidence-Based Guidelines and Best Practice Clinical Standards

Providers should have access to the best available evidence about various treatment options. Oregon has long been a leader in conducting and synthesizing comparative effectiveness research on new and existing technologies and treatments and developing evidence-based guidelines for the Oregon Health Plan. By expanding dedicated resources and coordinating efforts with other public and private insurance programs, the state could play a lead role in developing a standard set of evidence-based guidelines and best practice clinical standards. Uniformly applying these guidelines across the public and private sectors should lead to reductions in variation of care, more appropriate use of health resources, and higher quality of care. In addition, guidelines could be used to develop benefit packages based on the value of treatments and services. Guidelines also have the potential to reduce the practice of defensive medicine.

Potential Savings: Up to \$650 million in 3 years; Up to \$4.2 billion in 10 years

Reduce the Growth in Administrative Spending by Health Insurance Plans

The state could institute regulation on all health insurance plans sold in Oregon to limit increases in the administrative portion of premiums. These increases could be held to the Consumer Price Index or another measure of general inflation.

Potential Savings: Up to \$110 million in 3 years; Up to \$1.4 billion in 10 years

Reduce Spending on Health Care Administrative Transactions

The state could further reduce administrative spending by requiring all health plans doing business in Oregon to use common forms and processes for administrative transactions.

Potential Savings: Up to \$42 million in 3 years Up to \$350 million in 10 years

Primary Care, Prevention, and Chronic Disease Management

The state could use the integrated health home (IHH) model as a framework to redesign Oregon's health care delivery system. While this model allows for many different care settings to serve as integrated health homes, they all share common features. Integrated health homes: establish personal and continuous relationships with patients; provide team-based care; assume responsibility for providing culturally competent care for all of a patient's health needs; coordinate and integrate care received from other providers and organizations; focus on quality and safety; and provide patients with enhanced access to services. The IHH focuses on primary care, prevention, and chronic disease management, all recognized as keys to good health and significant cost savings. The state would enroll those Oregonians receiving publicly-funded health in integrated health homes and pay the IHH a fee for costs associated with care coordination and management services.

Potential Savings: Up to \$44 million in 3 years; Up to \$190 million in 10 years

Reduce Pharmaceutical Spending

The state could reduce spending on pharmaceuticals by requiring all publicly-sponsored health programs to use the Oregon Prescription Drug Program, the state's bulk purchasing effort, to provide pharmacy benefits unless an alternate arrangement demonstrated greater savings.

Potential Savings: Up to \$8.6 million in 3 years; Up to \$39 million in 10 years

Long-Term Prevention and Population Health

Reducing the burden of chronic disease and improving individual and community health will reduce the need for expensive, invasive treatment in the future. The state could enhance support community stakeholder collaboratives to develop and implement evidence-driven prevention initiatives. These initiatives would be tailored to community needs and held accountable for improving the overall health status of the community.

Potential Savings: Up to \$103 million in 3 years; Up to \$1.3 billion in 10 years (if \$10 per person per year was invested in public health)

Institute Common Contracts

State-sponsored health plans (OHP, PEBB, OEBC, FHIAP) currently cover about 20% of Oregonians. By combining the purchasing powers of these plans and adopting common contracting standards, Oregon could drive down the rates it pays, reduce waste, and improve quality. A public employees' health cooperative could be created to encourage state agencies, counties, cities and other local governments to use the common contract standards, thus expanding the benefit.

Potential Savings: Cannot be estimated

Facilitate Statewide Use of Health Information Technology (HIT)

Health information technology allows for the comprehensive management of electronic medical information and its secure exchange between health care consumers and providers. However, the high cost of purchasing, implementing, and maintaining health information systems make it difficult for many of Oregon's practices to use them. To ensure that patient information is available at the right time and place, the state could facilitate the widespread adoption and use of HIT by creating a purchasing collaborative. This entity would help small and rural providers negotiate more affordable prices, implement subsidies and/or payment policies to promote adoption of HIT, and develop a strategic plan for creating a statewide system of health information exchange.

Potential Savings: Up to \$990 million in 10 year (Note: Investment in the initial three years is likely to be greater than savings during this time)

Other Actions Required for a Strategic, Coordinated Cost Containment Effort

Oregon Health Authority

By consolidating health policy, regulation and purchasing under an independent citizen commission, Oregon could coordinate and implement long-term cost containment efforts. The Authority would oversee the following initiatives, which contribute to overarching cost containment goals:

- An All-Payer, All-Claims Data Collection Program
- A Quality Institute
- Community Collaboration
- Health Insurance Exchange
- Financial Reporting
- Payment Reform
- Workforce Development
- Medical Liability Reform

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Coverage Expansion

Expanding coverage to low-income adults and children will reduce uncompensated care, expand access to primary and preventive services, and likely save money in the long-term. Expanding coverage will require a long-term state investment.

Cost Containment Efforts in Other States

While some states have taken a piecemeal approach to cost containment, other states have implemented more comprehensive and coordinated efforts.

Massachusetts has acknowledged that the state's coverage expansion would be unsustainable without a focus on cost containment. In August 2008, the Governor signed a bill focused on cost containment, transparency, and efficiency. The cost containment initiatives included: payment reform; an integrated health home demonstration project; efforts to educate providers about the clinically appropriate use of lower-cost pharmaceuticals; loan forgiveness and new reimbursement schemes for primary care providers; and policies to expand the use of interoperable electronic health records.

Vermont's Health Care Affordability Act of 2006 sought to increase affordable coverage while controlling rising health care costs. Vermont's quality and efficiency initiatives, aimed at improving health and controlling costs, include efforts to improve chronic care management, wellness and prevention, patient safety. They also include data collection and reporting measures to increase transparency, and the use of health information technology.

Minnesota has also implemented a range of cost containment efforts that the state has projected will cut costs by 12% by 2015 (when measures against the cost projections of spending without reform.) This includes the development of a system to give incentives to providers who deliver high-quality evidence-based care, as well as the development of tools to help consumers compare cost and quality and incentives to encourage consumers to choose low-cost, high-quality providers. Other efforts have been established to increase transparency around pricing and capital construction costs. In addition, by the end of 2009, all health care providers and payers will have to comply with uniform billing procedures. All prescriptions will have to be electronically prescribed by 2011 and all hospitals and providers will be required to have interoperable health records in place by 2015. The Minnesota Department of Health and Department of Human Services will establish a certification for integrated health homes by July, 2009 and health plans will be required to pay a care coordination fee for members enrolled in integrated health care homes starting in 2010. In addition, a statewide health improvement program has been created to reduce the percentage of people in Minnesota who are overweight and who smoke.

Note: Cost saving estimates assumed that annual spending on health care would continue to increase at the 2006 growth rate of 6.7%; however, a recent Health Affairs article reported that spending in 2007 actually increased at 6.1%.

Additional Resources

- See the Oregon Health Fund Board Final Report, "Aim High: Building a Healthy Oregon, November 2008" for details on cost containment policies and methodology for potential cost savings estimates. Cost containment recommendations can be found on pages 16-22 and 128-139. http://www.oregon.gov/OHPPR/HFB/docs/Final_Report_112908.pdf
- Kansas Health Policy Authority website. <http://www.khpa.ks.gov/DEFAULT/AboutUs.htm>