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The Future Is Local for Health Policy

Solutions to contain healthcare costs are emerging at the grassroots level.

The challenge of rising healthcare costs in the U.S. healthcare system continues to be a prominent issue for both the public and private sectors. As congressional attention to health policy has waned since the passage of tax reform, approaches to policy development for controlling costs are needed to ignite public interest. Fortunately, new concepts and initiatives have emerged at the state level and in the employment sector, paving the way for healthcare executives to wield increased influence on health policy.

Costs and the Current Landscape

Despite the efforts of numerous stakeholders in the U.S. healthcare system to reduce healthcare cost inflation, costs continue to increase beyond the growth of the economy. Each year, the Centers for Medicare & Medicaid Services provides cost projections. In the most recently available estimate from 2016, CMS notes, “National health spending is projected to grow at an average rate of 5.6 percent per year for 2016–2025, and 4.7 percent per year on a per capita basis.

- “Health spending is projected to grow 1.2 percentage points faster than Gross Domestic Product (GDP) per year over the 2016–2025 period; as a result, the health

share of GDP is expected to rise from 17.8 percent in 2015 to 19.9 percent by 2025.

- “Throughout the 2016–2025 projection period, growth in national health expenditures is driven by projected faster growth in medical prices (from historically low growth in 2015 of 0.8 percent to nearly 3 percent by 2025). This faster expected growth in prices is partially offset by projected slowing growth in the use and intensity of medical goods and services.

“This cost increase is borne in part by consumers. A recent study by the PwC Health Research Institute for 2018 points out that “From 2011 to 2016, the average health premium for family coverage purchased through an employer rose 20 percent. In the same period, wages increased just 11 percent.”

Policy Solutions

Health policy development in the U.S. is propelled by two major influences; the first is innovation. New operating policies are frequently developed at the delivery level, such as by employers, providers and health plans, and then moved into state policy and finally adopted as national policy. The other driver is the general political dynamic

of the United States. One end of the policy spectrum suggests that improved markets are the key policy tool, and the other end proposes governmental laws and regulations, with a heavy emphasis on payment policy, as the answer. Considering the unrelenting tension inherent in the political aspect of policy, the healthcare field is fortunate to see significant policy innovation.

Employers

Of Americans who have health insurance, 56 percent receive it through their employers, according to 2015 U.S. Census Bureau data. This has led to the creation of numerous organizations whose mission is to improve employer-sponsored health insurance. One example is the Health Transformation Alliance, which consists of 41 major companies led by American Express Co., Verizon Communications Inc. and Macy’s Inc. They are focused on price transparency, transaction costs and pharmaceuticals. A new company formed by Amazon, Berkshire Hathaway Inc. and JPMorgan Chase plans to address healthcare costs for its employees.

Employers also may turn to policy institutes that develop ideas for streamlining the employer-based system. For example, the American Enterprise Institute supports studying the increased use of private insurance exchanges and changing the income tax structure to encourage the growth of defined contribution plans and the purchase of individual insurance by employees in large firms.

States

The states also are actively engaged in evaluating and enacting legislation to reduce healthcare cost inflation—for both state budgets and residents. The National Council of State Legislatures

tracks this activity nationwide and has identified recent policy initiatives that have garnered interest:

- **Purchasing health insurance across state lines.** No state has yet undertaken hosting such sales, but advocates suggest it might lower premiums.
- **Waivers.** Almost half (24) of the states have legislation pending to allow state Medicaid waiver requests to make their systems more cost-effective.
- **Additional focus areas.** Initiatives at the state government level are attempting to address drug costs, drug abuse and scope-of-practice regulation.

Federal

The Trump administration has moved the U.S. Department of Health and Human Services to increase its support for policy actions at the local level. The Center for Medicare & Medicaid Innovation continues to conduct local demonstration projects in its focus areas of accountable care, bundled payments, primary care, the Children's Health Insurance Plan, dual eligibility, payment and service delivery models, and the spread of best practices. In addition, the use of Medicaid waivers has increased with the release of new regulations related to work requirements for Medicaid recipients and acceleration of the processing of waiver requests.

Next Steps for Improvement

The Challenge

The Affordable Care Act contains policies that were targeted at reducing healthcare cost inflation. In a *Health Affairs* blog post, author Len Nichols,

PhD, a professor of health policy and director of the Center for Health Policy Research and Ethics at George Mason University, and colleagues wrote that in reviewing progress made in payment reform evaluations, they found modest gains from two key policies: accountable care and patient-centered medical homes. The authors note:

Improvement in care and cost performance takes time; identifying target patients may be more important than building capacity to provide patient-centered care to all, for some do not need it now but will be glad the capacity exists some day; savings may result in unexpected places (for example, post-acute); care transformation while bending the cost curve is hard work and requires an up-front resource investment and a shared commitment to data sharing and incentive realignment to really take hold.

However, the authors also believed these gains demonstrated enough promise that continued refinements based on lessons learned would show larger gains in the future. These refinements will necessarily occur at the operating level, not with new policy initiatives.

The Opportunity

The current policy environment is a mix of refinements in implementation

of the ACA and new policy initiatives from providers, employers, states and the federal government. All of these can frame the progress needed in combating healthcare costs. To meet policy goals, health systems are deploying advanced operational tools, including increased automation beyond the basic EHR, sophisticated analytics, process improvement using Lean and Six Sigma, and the use of evidence-based clinical guidelines. Knowledge transfer of best practices in healthcare management also is accelerating through educational resources, such as those offered by ACHE (see sidebar).

In addition, the increasing size of health systems in the wake of a new wave of mergers and acquisitions provides healthcare executives with increasing influence to shape health policy directly. These organizations can now staff their own policy departments to advance new ideas and demonstrations with employers and states. As policy becomes more directly connected to the operating world of healthcare organizations, their ability to control costs will increase, and they will achieve greater control of healthcare inflation. ▲

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ACHE Educational Resources

ACHE offers a variety of educational seminars to help leaders achieve healthcare cost savings, including:

- Achieving Speed, Spread, Scalability and Sustainability for Health Systems
- Advanced Topics in Hospital Financial Management
- Critical Financial Skills for Hospital Success
- Monetizing Quality in a Pay-for-Value World