

Eliminating Excess Costs in Health Care and Thoughtfully Redeploying the Savings Achieved

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Summary

- The following three slides identify several areas where large-scale savings can occur in health care
 - Fully and fairly assess the consequences of giving unfettered fee-for-service a pink slip
 - Test mandatory enrollment of dual eligibles into a well-coordinated system of coverage implemented by a small number of competitively selected managed care organizations (MCOs)
 - Also test mandatory enrollment of “Medicare only” beneficiaries into a small number of competitively selected MCOs in several selected market areas
 - Ensure that research on different treatment approaches includes both clinical effectiveness and cost effectiveness comparisons
 - Avoid paying for massive profit margins due to “value pricing”
- The last slide provides a suggested framework for optimally reinvesting the savings
 - A new book by Jack Meyer, “Investing in Public Health: A Life-Cycle Approach,” demonstrates the trade-offs that occur due to excess spending on health care, and inadequate investments in health.
 - The book provides a valuable framework for redeploying the money we can save from eliminating excess health spending, redirecting this spending towards programs that can greatly enhance health status

Protecting Fee-For-Service as an Assured Coverage Option is a Devastatingly Costly Policy Approach

- We ensure, for our entire Medicare population, that the traditional fee-for-service model of coverage be an available option. Politically, we have failed to even *test* mandatory coordinated care models for dual eligibles or Medicare-only beneficiaries. What is the downside to giving this approach a fair test?
 - Mandatory enrollment into well-designed, closely monitored coordinated care systems of coverage has been used extensively in the Medicaid arena and has worked well.
- Medicare's coordinated care programs can also benefit from testing a competitive procurement model – where just the few MCOs best meeting the government's needs are selected
 - Currently, Medicare Advantage accepts *every* entity that successfully completes the application process, resulting in an unwieldy number of participating health plans.
 - The competitive procurement model has also often been used in Medicaid coordinated care to better achieve quality, access, and cost-containment objectives.

Costs of Alternative Treatments Need to be More Visible and be More Regularly Considered

- Comparative effectiveness research (CER) funding explicitly forbids assessing/comparing the *cost* of different approaches.
- If an approach is minimally better clinically -- but much costlier (often several times more expensive) – how is it poor public policy to at least consider the cost dimension?
 - We need to avoid “paying too much for too little” in these situations
- We tend to insulate physicians and patients from the costs -- and from even *knowing* the cost differences -- of alternative approaches (different prescription drug therapies, for example).
 - This occurs even though significant cost differences exist across alternative treatments and products that are highly similar and often identical clinically.

“Value Pricing” Greatly Exacerbates the Government’s Costs for New Health Technologies

- Value pricing involves establishing payments primarily based on what would have been spent in the absence of a new product or service, rather than primarily based on the cost of providing the product or service.
 - For example, if a new medication eliminates the need for certain transplants to occur, an optimal “value price” from the manufacturer’s perspective would strive to come in slightly below the cost of a transplant.
- Paying someone’s “value price” is a repeated public health policy failure.
 - What is the public policy advantage of paying a massive (sometimes well over 100%) profit margin to providers of specialized products and services relative to the cost of production and distribution?
 - Outside of health care, the reward for introducing an improvement on existing products is substantial market share at a reasonable percentage profit margin – not substantial market share *plus* a massive percentage profit margin.
 - Ample research and innovation occurs in other sectors – despite there being “only” a market share and reasonable margin (not a “value pricing”) motive.

Reinvesting Health Care Savings to Achieve Optimal Health

- Excerpts from Jack Meyer's book, "Investing in Public Health: A Life-Cycle Approach" are conveyed below (all quotes below are from page 50)

"The result of this "never ever say no mentality" is an explosion of spending, and the direct consequence of this refusal to say no, or even to question, is that we end up saying no to many people with serious and under-funded needs. So "the answer is always yes" approach to health care slams the door on children and adults with many other important needs."

"... we routinely ration access to Head Start slots, heating assistance for the elderly, and housing assistance for our neediest residents."

"Never saying "no" over here means always saying "no" over there. No one has yet repealed the law of scarce resources."

"The focus must be on "making prudent investments in health" rather than a plea for more money. We need to show that the goal is better health, and that we can get a better "ROI" by investing in clean air, immunized children, tobacco cessation, and obesity reduction than we can get by investing in the umpteenth diagnostic imaging machine..."

Contact Information and References:

Dr. Jack Meyer is a Managing Principal in the Washington DC office of Health Management Associates. Jack's book, "Investing in Public Health: A Life-Cycle Approach" is available at <http://bookstore.xlibris.com/Products/SKU-000911048/Investing-in-Public-Health-A-LifeCycle-Approach.aspx>

Joel Menges is Chief Executive Officer of The Menges Group, based in Arlington, Virginia. The Menges Group's publications, including all the 5 Slide Series reports, are available at www.themengesgroup.com. Joel's report discussing the value of testing mandatory enrollment of dual eligibles into selected MCOs is available at: <http://www.sncservices.com/Achieving%20Optimal%20Care%20Coordination%20for%20Dual%20Eligibles-%20FINAL.pdf>