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Massachusetts Can Afford Health Care for All

Covering Everyone Comprehensively Without Spending More

Summary

The full report is now available to the media from Gina DiGravio, at (617) 638-8491.
After the embargo it will be online at
http://dcc2.bumc.bu.edu/lcmerr/aamp.htm

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SUMMARY

Massachusetts can provide health care for all its people—and save money.

In the approach to universal coverage examined here:

- Coverage would be comprehensive and secure.
- Patients and payors get a better deal, more care for less money.
- Most of the added care provided would aid people who are now partly insured.
- Cutting administrative waste frees 10 percent of health dollars to pay for more care.
- Reforms in financing and delivery of care would win other substantial savings.
- Over 80 percent of patients' out-of-pocket costs would be eliminated.
- Caregivers and patients make decisions without bureaucratic interference.
- Trustworthy payment methods enhance quality of care.
- Caregivers gain secure budgets; employers avoid continued premium increases.
- Replacing most out-of-pocket costs with public funds permits administrative savings.

In brief, we conclude that, largely because reforms would have permitted cutting 1999 administrative spending in Massachusetts health care by nearly half, or $3.6 billion, an additional $2.4 billion could have been used for actual care, while still saving $1 billion.

The apparent alternatives are not feasible:

- Adding the same benefits incrementally would cost over $5 billion more.
- Incremental strategies simply increase spending and fail to find administrative, clinical, and other savings.
- Waiting for federal action is dangerous and unnecessary. Massachusetts can afford coverage for all. The time to start planning is now.

The context—Massachusetts health care is in crisis.

- Our state's health costs are highest in the nation, 30 percent above the national average per person. If we spent at the national average, we would save $1,400 per person, or $8.7 billion statewide this year alone.

- Despite this high spending, many people are unable to afford the care they need—prescription drugs, home care, dental care, and others. Many people are also at risk because of managed care's financial incentives to provide fewer services. Still other people are at risk because of HMOs' unstable relations with hospitals and doctors.

- Although spending was already high, HMO premiums in greater Boston have risen by some 12 to 15 percent in the past year. Some employers and patients have suffered far bigger increases. Substantial further increases are expected for 2001 and for 2002.

- Despite high spending, many of our caregivers face financial distress. Many of our hospitals say they are running out of cash, one-quarter of our nursing homes are in bankruptcy, and home health agencies face financial distress.

- Despite high spending, many of our HMOs have also faced financial stress in the past few years.

- Despite high spending, less money goes to actual care than many people realize, because over one-fifth of each health care dollar today goes to administration.

- The private health insurance market has failed to make insurance affordable. Only the past decade's substantial expansions of government programs and extraordinary economic boom have prevented the number of uninsured people in Massachusetts from nearing one million.

One response to our state's health problems, popular in some quarters, is to boost spending on health care. But this will also boost financial burdens on all who live, work, and do business in the Commonwealth. More money for business as usual is not affordable.

Another response, popular in other quarters, is to insist that reform proposals are the problem. Those who respond in this way claim that reforming Massachusetts health care by improving coverage or by outlawing wrong-headed managed care practices would increase total spending. They cite several reports to buttress their claims.

We disagree that reform is the problem. The critics rely on reports that we find to be incomplete, inaccurate, or biased. We specifically find that the recent Massachusetts Taxpayers Foundation report on the costs of reform is fatally flawed in both substance and method.

Our analyses indicate that managed care, price competition, and hospital closings have failed to save money—and that alternative methods of cutting administrative and clinical waste are likely to succeed.

The critics of reform have failed to put forward proposals to contain costs, protect quality, and enhance coverage. Some of these critics instead seem to lean toward advocating more money for business as usual.

We predict that those who advocate more money for business as usual and who reject reform will lead Massachusetts medicine toward medical meltdown. That will mean more hospitals closing, more patients without insurance, and more employers bailing out of offering health coverage in favor of making only defined contributions toward health benefits. And it will mean more instability, more insecurity, more distrust in Massachusetts health care.

Although HMOs and insurors have raised premiums sharply, hospitals and doctors complain that they are not seeing higher payments. Much of the additional premiums will be used to rebuild HMO financial reserves. Some will pay for higher prescription drug spending, now rising at 15 to 20 percent yearly.

It now seems clear that the cost control proposals of recent years—managed care, price competition, and hospital closings, have not worked remotely as well as their proponents claimed.

For these and other reasons, our state has the world's most expensive health care, with many caregivers facing financial distress, and with growing concern that quality is suffering.

And all this is happening amidst the most prosperous economy in the history of the world. What will happen to our health care when we enter the next serious recession?

Spending on health care in Massachusetts is already enough to finance and deliver the care that works for all the people who need it. Ever-higher spending is not the answer.

The challenge is to make health care for all durably affordable, while protecting quality of care and the doctors, hospitals, and other caregivers whose efforts ensure quality.

Meeting this challenge requires well-designed and carefully implemented public action. Given the impossibility of anything approaching genuine free market competition in health care, the only alternative to careful government action is medical anarchy.

The evidence points to two recent and striking government successes in Massachusetts health care. First, Medicaid expansions have substantially reduced the number of people without insurance. Second, receivership legislation and subsequent careful action helped to stabilize the Harvard Pilgrim HMO. Market competition, by contrast, has failed to contain costs or to protect needed caregivers.

This report's analyses of Massachusetts health care indicate that public action can attain durably affordable and high-quality health care for all without increasing spending. These are our twelve main findings:

1. *Spending less: Massachusetts can afford to provide all necessary care to all its people while spending less.*

- Pooling, re-channeling, and better using existing health care dollars would have permitted saving $1 billion from 1999's estimated $36.8 billion in total payments for Massachusetts health care, even while covering everyone comprehensively.

- The savings winnable with reform would likely be even higher in future years, as health costs are rising sharply without reform. Massachusetts payors can avoid the expected rise in premiums.

- Today's strategies of managed care, price competition, and moving care out of hospitals are not containing costs, even though our state is near the top in the share

of our people in HMOs, and even though our number of hospital beds per thousand citizens is well below the national average. All who pay for care here face big cost increases.

2. *Covering everyone: Universal, comprehensive care reforms would cover everyone in Massachusetts— guaranteeing all-inclusive care, to aid today's under-insured and uninsured people. This will give us all medical security.*

- Massachusetts can act from both compassion and competence in covering all of the state's people comprehensively and affordably.

- Most citizens of the Commonwealth are under-insured today because they are unprotected against costs of long-term care and often other vital care as well. Many are in managed care plans that give financial incentives to provide less care.

- People will feel secure with guaranteed coverage. It will reduce stress, bankruptcies, job lock, and fear of job loss.

3. More care for less money: Universal, comprehensive health care with streamlined administration means more care without more cost, with more of each health care dollar actually going for care.

- In 1999 alone, the people of Massachusetts would have received approximately $2.4 billion more in actual health care services than without reform— a 9 percent rise in financing for actual patient care.

- That would support a rise of even more than 9 percent in the volume of health services used. The real (marginal) cost of serving added people is less than today's average, since caregivers can accommodate them without huge new fixed costs.

- With comprehensive coverage, we project substantially higher use of physician care, prescription drugs, home care, nursing home care, dental care, prescription drugs, and other health services.

- Funds for actual physician care alone would rise an estimated 25 percent, for example, and funds for nursing home care are projected to rise 16 percent.

- Payors, caregivers, and patients would each be getting a better deal than today.

4. Added costs of coverage: The biggest added costs and biggest volume of added services would go to fill the gaps in coverage for people who are already partly insured.

- The added costs of universal access to comprehensive benefits include $1 billion to cover the uninsured and $2.8 billion—nearly three times as much— to eliminate under-insurance.

- The $4.2 billion in total added costs would be more than offset by the savings available in a universal system with simplified administration.

- Ending under-insurance—eliminating patient cost-sharing and uncovered benefits—is projected to raise use of physician services by 17 percent, for example, and home care by 25 percent.

- Since Massachusetts has large physician and hospital bed supplies, care for more people would not cost as much per person as the average for those now insured.

5. Administrative savings: Covering everyone in one plan would win very substantial administrative savings— an estimated $3.6 billion, fully one-tenth of health spending.

- As administrative costs plunge from today's $7.7 billion down to $4.2 billion, vast resources could be reallocated from bureaucracy to care—from fat to bone and muscle.

- Using a pooled financing source for all care would, for example, eliminate the need to process millions of claims; the need to screen out patients to avoid costly ones; and the need to determine patient eligibility and benefits under many different plans. Such simplification would have saved an estimated $1.1 billion on administering coverage in 1999 and $$2.5 billion on caregiver administration.

- We calculate that fully $1.6 - $2.1 billion is being spent on financial administration of physician services alone this year. Using new evidence from inside the health care industry, we estimate that $673 - $839 million could be saved through more efficient administration of physician care alone.

6. Ending patient cost-sharing would help people by eliminating over 80 percent of out-of-pocket spending for Massachusetts health care.

- Patient cost-sharing amounts to a sick tax which most heavily burdens people with chronic or serious illnesses or lower incomes. It deters use of needed care, fails to target the true causes of high costs, and often shifts costs to caregivers as well as patients.

- Aiding under-insured people by providing comprehensive benefits, and ending deductibles, co-payments, and most other out-of-pocket spending are both affordable and very important for cutting administrative costs.

Summary Table

PROJECTED 1999 MASS. HEALTH CARE COSTS, WITHOUT AND WITH REFORM	**($ billions)**
∗ BASELINE: 1999 cost of care for Massachusetts beneficiaries (residents plus workers from out of state), without major reform or policy changes	**$36.8**
With reform: • with comprehensive coverage for all, • without insurance companies, • without patient cost-sharing, • with reforms in financing and delivery of health care	
ADDED COSTS: $4.2 billion in new costs with reform	
Bring uninsured to average service use rates for people without public coverage	+ $ 1.0
Added service use for all when fill gaps in benefits and end patient cost-sharing	+ $ 2.8
Better care coordination, services for people with disabilities, and data collection	+ $ 0.4
Total of added costs	+ $ 4.2
Total cost for full coverage for all, before savings	$41.0
SUBTRACTED SAVINGS: $5.2 billion in new savings with reform	
Savings in administration of coverage	- $ 1.1
Savings in caregiver administration	- $ 2.5
More appropriate use of hospital care	- $ 0.8
Negotiating prescription drug prices	- $ 0.5
Budgeting construction and equipment	- $ 0.2
Total of subtracted savings	- $ 5.2
∗ Total cost of care for Massachusetts beneficiaries after reform	**$35.8**
Change from baseline without reform (- 2.8%)	**- $ 1.0**

(Note: Numbers may not add exactly to totals because of rounding.)

7. Clinical and other savings: Conservatively, reforms will win an additional $1.6 billion more in non-administrative savings— through more appropriate use of hospital care, negotiated drug price cuts, and capital budgets.

- As shown in the summary table above, total savings of $5.2 billion more than offset the cost of new coverage. Savings from streamlining administration combined with

moderate clinical and other savings can, when captured and recycled, amply finance needed care for all.

- As a back-up, system-wide budgets will ensure costs stay within desired limits.

- Caregivers will be paid in ways that make the budgets real.

- Total health spending in Massachusetts is more than in many entire wealthy nations, so the state's purchasing power should suffice to win substantial price cuts from makers of prescription drugs and other medical supplies.

8. Quality will be enhanced: Covering everyone and ending today's financial pressures on caregivers to do less will protect quality of care, restoring trust. While caregivers will have to spend carefully, $36 billion is ample in Massachusetts to finance all the care that works for all the people who need it.

9. Incrementalism is unaffordable: ***Incremental coverage improvements are better than none— much better— but inevitably cost more money. Incremental measures to achieve universal, comprehensive coverage would be unaffordable, requiring health spending of at least $41 billion—over $5.2 billion above (14.5 percent above) what Massachusetts needs to spend to win coverage for all.***

10. Alternative financing: Regressive insurance payments must be stabilized and then reduced. Out-of-pocket payments must be cut. Today's $6.4 billion in out-of-pocket payments for Massachusetts health care effectively amount to a tax on people who get sick.

- Private insurance premiums should be frozen at today's levels, with employers required to maintain their constant dollar payments. The real or inflation-adjusted burden of paying these premiums will drop each year.

- Annual increases in payments for health care would be financed with public dollars. This will raise the money in more fair ways. It will also help to hold down health care spending.

- Some $3 billion in out-of-pocket payments should be replaced with broad -based state taxes. Doing so would shift less than one-twelfth (8.3 percent) of health spending from private to public spending.

- Substituting taxes for out-of-pocket payments is vital to winning immediate health care for all and lower administrative costs. Using one pool of money to pay for all care is essential to slashing administrative waste and to capping overall costs.

- Reforms described in this report would save an additional $1 billion, as noted earlier.

11. Benefiting us all: Insuring the uninsured is just one vital gain that comprehensive reforms would bring. Many aspects of such reform would benefit us all.

- All of us would be able to receive more care at lower cost.

- Cutting health care costs will free up money in family, business, charitable, and government budgets to meet many other pressing needs. And having healthier people will strengthen the Commonwealth in countless ways.

12. Delay is dangerous: Massachusetts cannot afford to wait for Congressional action. Nor can this state afford to wait for a crisis. Beginning to plan now for such comprehensive reforms is essential to avoid great harm to the state's people, to the trustworthiness of care, and to hospitals, physicians, nursing homes, home health agencies, and other valued health care resources.

- Today's cost control strategies are failing. More money for business as usual is not affordable.

- Higher costs will mean more cuts in coverage.

- Caregiver financial distress is growing.

- Delay is unnecessarily costly.

- Congress will not soon legislate health care for all and cost control— in part because states' economies, health costs and delivery, and share uninsured vary so widely.

- This state should not and cannot wait for unlikely Congressional action, since state-level reforms to cover everyone are clearly feasible without spending a penny more.

- State reform is the only likely path to universal coverage and cost control for years to come.

In summary, health care for all is affordable, and achieving it can be a win for all parties because current spending is already enough. Massachusetts can have health care security, health care freedom, and lower costs.

<u>Security</u>

- for patients and families, knowing that needed care is covered, and that caregivers no longer are rewarded for giving too much care or too little care
- for employers and employees, knowing that costs are capped and predictable

- for needed caregivers, knowing that their revenue budgets are stable, fair, and sufficient.

Freedom

- for patients, to select the caregivers they choose
- for caregivers and patients, to choose care without bureaucratic interference
- for workers, to choose their jobs without worrying that they will lose coverage
- for employers, to focus on running their business, not on searching for health plans.

Lower costs

- cuts in administrative waste and other reasonable savings are enough to offset the cost of expanded coverage and to reduce health care spending overall
- developers of cost-reducing medical technologies would rewarded
- advocates of higher health care spending must compete with advocates of other good things—including many others that are also vital to improving the health of citizens of the Commonwealth.