Health System Reform – Where Are We Going?

Michael D. Maves, MD, MBA

November 10, 2011

Historic HSR Legislation Passes

We Have a Long Way to Go

Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>PE GPCI increases</td>
</tr>
<tr>
<td>2011</td>
<td>PQRI bonuses extended</td>
</tr>
<tr>
<td>2012</td>
<td>Coverage improvements for Medicare/ Medicaid preventive services</td>
</tr>
<tr>
<td>2013</td>
<td>10% primary care/ general surgery bonuses</td>
</tr>
<tr>
<td>2014</td>
<td>Medical liability alternative pilot programs</td>
</tr>
<tr>
<td>2015</td>
<td>Ban on expansion of physician hospital ownership</td>
</tr>
<tr>
<td>2016</td>
<td>Public reporting of physician performance</td>
</tr>
<tr>
<td></td>
<td>IPAB effective</td>
</tr>
<tr>
<td></td>
<td>Cantwell index</td>
</tr>
</tbody>
</table>
## ACA Provisions to retain
- Coverage expansion to 32 million Americans
- Health insurance market reforms
- Administrative simplifications
- Medicare bonus payments
  - Medicaid increases for primary care
- Improved coverage for prevention, wellness
- Liability reform demonstration grants
- Closing the Part D donut hole
- Comparative effectiveness research

## ACA Provisions to change
- More comprehensive liability reform
- Independent Payment Advisory Board
- Cost/quality value index
- Penalties for failing to report quality data
- Additional GME initiatives
- Antidiscrimination language
- Form 1099 reporting
- Hospital ownership restrictions
- Assuring HSAs are acceptable coverage

## Problematic ACA Proposals
- Dropping the individual responsibility provision
  - Undermines market reforms
- De-funding CER
  - Weakens evidence base for medical decisions
- Eliminating the Center for Medicare and Medicaid Innovation
  - Removes resources we need to test new payment models
- Using ACA repeal to finance Medicare payment reform
  - Cuts to other providers likely "non-transferable"

## ACA Regulatory Issues
- Antitrust (regulatory for now)
- Support for small practice innovators
  - ACOs
  - Center for Medicare and Medicaid Innovation
- Quality reporting
- Fraud and abuse
- Health IT/meaningful use
- Administrative simplification
The Legislative Environment

• Divided Congress
  – House Republican margin: 242-193 (94 new)
    • 22% of the House unfamiliar with our messages
  – Senate Democratic margin: 53-47 (13 new)
  – President holds the veto pen
  – Bipartisan efforts are essential
• Promises to keep from the 2010 elections
  – Eyes on the deficit
• Positioning for 2012 elections

Medicare Crisis Continues . . .

• 30% SGR cut scheduled for January 1st
• Congress has intervened to prevent SGR cuts 12 times in the past decade

Joint Committee on Deficit Reduction

• Main event for remainder of 2011
• Medicine prefers Joint Comm. To succeed/other groups prefer sequester
• Success requires focus on few priorities
• Focus on SGR and medical liability
• GME & potential physician payment cuts on watch/intervention list
Budget Control Act of 2011

• Linked debt limit increase to discretionary spending cuts
  – Total savings: $917 billion/10 years
  – Health care cuts and SGR provisions considered but not included

• Established Joint Select Committee on Deficit Reduction
  – Charged with identifying additional savings of $1.2- $1.5 trillion/10 years
  – Failure to pass triggers sequestration

Sequestration, in Brief

• 50% of savings achieved through cuts in Defense spending
• 50% achieved through cuts in other discretionary and mandatory programs
  – Medicare cuts capped at 2%
  – Social Security, Medicaid, VA, various retirement funds, and many other programs exempt from cuts

• Sequestration savings targets roughly $100 billion annually for 9 years
  – Required savings could be less if Joint Committee agrees on cuts below the $1.2 billion threshold
• Cuts applied evenly across-the-board within each category (e.g., Defense, Medicare, other non-exempt programs)

Example of $54.67B Sequestration in non-Defense Spending (2013 estimate)

<table>
<thead>
<tr>
<th>Sequestrable Base ($640B)</th>
<th>Applied Sequester ($54.67B)</th>
</tr>
</thead>
</table>

• If applied across-the-board, would require 8.5% cut in non-exempt, non-Defense programs
• 2% limit on Medicare cut produces 35% cut in other non-exempt programs
• If Joint Select Committee achieves spending goals below $1.2 trillion, non-Medicare programs likely to benefit first from sequestration relief

Potential Winners & Losers in Joint Committee Process

Potential winners:
• Defense industry
• Farming industry
• Physicians

At-risk for losses:
• Hospitals, PhRMA, other providers
• Medicare beneficiaries (cost/benefit perspective)
• Low-income program beneficiaries
Opportunities & Challenges for Physicians

Opportunities:
• Size and scope can bear the burden
• Financial offsets still available
• Financial offsets more viable
• Escalating cost of short-term fixes argument gaining hold
• Simpson-Bowles deficit commission, Gang of 6, others have paved the way
• Procedural protections

Challenges:
• View that SGR repeal represents spending increase not suited to this vehicle
• Targeted physician cuts may be included
• Other programs of interest may be cut (e.g., GME)
• Working close to Jan. deadline
• Other stakeholders have simple message/ more resources

BCA Timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 14, 2011</td>
<td>Standing committee recommendations due</td>
</tr>
<tr>
<td>Nov. 23, 2011</td>
<td>Deadline for Joint Committee vote</td>
</tr>
<tr>
<td>Dec. 9, 2011</td>
<td>Standing committee reports due on Joint Committee</td>
</tr>
<tr>
<td></td>
<td>recommendations</td>
</tr>
<tr>
<td>Dec. 23, 2011</td>
<td>Deadline for House and Senate votes, procedural</td>
</tr>
<tr>
<td></td>
<td>protections end</td>
</tr>
<tr>
<td>Jan. 1, 2012</td>
<td>29.5% Medicare physician payment cut takes effect</td>
</tr>
<tr>
<td>Jan. 15, 2012</td>
<td>Joint Committee recommendations must be enacted to</td>
</tr>
<tr>
<td></td>
<td>avoid sequestration</td>
</tr>
<tr>
<td>Jan. 2, 2013</td>
<td>OMB orders sequestrations needed to make required</td>
</tr>
<tr>
<td></td>
<td>cuts</td>
</tr>
</tbody>
</table>

“Super Committee” Changes Game

• 12-member committee must find $1.2 – 1.5 trillion in deficit reduction measures by Nov. 23rd
• Congress to conduct up-down vote Dec. 23rd
Several Outcomes Possible

- Super Committee proposal includes SGR repeal and Congress approves it
- Super Committee proposal passes, but does not include SGR repeal
  - One week left to prevent 30% SGR cut on Jan. 1st
- Super Committee misses deadline or Congress votes against their proposal
  - $1.2 trillion in automatic cuts
  - Includes 2% cut for all Medicare providers

MedPAC Proposal

Would eliminate SGR, but . . .

- Institutes 17% cut to non-primary care physician payment, followed by 7-year freeze
- Calls for 10-year freeze on primary care services performed by primary care physicians, and 17% cuts for all other services

Costs of Medical Liability

- Almost two thirds of suits either dropped or ruled in favor of physician
- Defensive medicine adds $70-126 billion to health care costs every year

Opportunity for MLR Reform

- Comprehensive MLR would reduce deficit by $62.4 billion over 10 yrs.
- National Commission on Fiscal Responsibility and Reform also recommends MLR
- Deficit reduction process creates procedural privileges
Message to Congress

- A credible deficit reduction package should include full repeal of the SGR
- Recent bipartisan proposals have achieved over $4 trillion in savings while repealing the SGR
- Recent “SGR patches” have increased the size of future cuts & the cost of full repeal
- Medical liability reforms will lower health care costs by curbing meritless cases and reducing the practice of defensive medicine.