

## Small Business Prescription for National Healthcare Reform

### Cost Containment

#### What is the issue?

**Costs** are the most serious problem that most small businesses face in the current healthcare system. Small business health insurance premiums are increasingly unaffordable, having risen 113% over the last 9 years<sup>1</sup>—a growth rate of nearly 9% annually. If these trends continue, the rise in premiums will make a bad situation even worse. In addition to the forces driving healthcare costs in general, small businesses face other challenges, including the extra premium paid (due to higher selling and administrative costs for insurers in the small group segment, the lack of purchasing power by small businesses and the lack of consumer choice to drive price competition among insurers).

#### The goals

We need to slow the growth of overall healthcare costs to make coverage affordable and to improve the competitiveness of small businesses. An ambitious but realistic target is to hold the **annual increase in basic healthcare costs to CPI+2%**.<sup>2</sup> With regard to federal government expenditures, any new reform proposal should be **budget neutral over the next 10 years**, and it should result in a net **decline in the federal deficit in years 10-30**. This will require a slowing of the increase in government expenditures for healthcare as well as responsible measures to increase revenue.

#### The strategy

There are many opinions about the best approach to containing costs. Some believe that a market-based approach is best, arguing that reducing regulation and using competitive market forces will result in lower costs. Others are skeptical that these forces will work effectively given the special nature of the healthcare market, and they believe that government must exert its purchasing power to hold down costs.

We believe that market forces can be useful, but unregulated markets in health insurance and healthcare are unlikely to be effective in reducing costs and could even be harmful, especially to small businesses and individuals. We believe that government can play a useful role, but it's unlikely that government purchasing alone will be effective in holding down costs. The most promising approach combines the **best elements of the market forces and government oversight strategies** to create a managed marketplace, or exchange, where there is **healthy competition** among insurers and providers. In this approach, the government's role is to ensure that the market operates efficiently and equitably. Ideally, this strategy will encourage healthy competition based on price and reduce competition based on risk selection, thereby strengthening incentives among insurers and providers to lower costs. This will translate into lower premiums for individuals and small businesses.

<sup>1</sup> Kaiser Family Foundation/HRET Employer Health Benefits Annual Survey, 2008.

<sup>2</sup> Consumer price index: See <http://www.bls.gov/cpi/>.

## Initiatives to slow the growth of healthcare costs

We need to slow the growth of overall healthcare costs in order to make coverage affordable and improve the competitiveness of small businesses. Specific actions that are likely to have the most impact include:

### *Government initiatives*

- Infrastructure—conducting comparative effectiveness research and setting IT standards for electronic health record systems and secure information exchange.
- Transparency and public reporting—gathering and publishing user-friendly data on the cost and quality of insurers and providers, which would help consumers make well-informed decisions
- Insurance reform—instituting guaranteed issue and rating rules to reduce unhealthy competition based on risk selection. This will in turn encourage insurers and providers to compete based on efficiency and cost effectiveness.
- Insurance exchange—creating a robust structured marketplace that offers choices of health plans to individuals and small businesses, thereby increasing healthy competition among insurers and providers. In addition, an exchange will reduce the extra premium paid by small businesses, and reduce the volatility (year-to-year changes) in health premiums, by pooling small business buying power and gaining economies of scale.
- Provider payment reform—creating an independent Medicare advisory council with broader authority to recommend payment structures that reward health outcomes and minimize incentives to provide unnecessary medical services. These changes are likely to be adopted by private insurers, which will slow the growth in health costs generally.
- Other savings in Medicare and Medicaid—adopting key elements of the President’s budget proposal:<sup>3</sup>
  - Adjusting payment updates for hospitals by incorporating expected productivity improvements
  - Correcting the overpayments in the Medicare Advantage program
  - Adjusting disproportionate share payments in Medicare and Medicaid as more people obtain health insurance under comprehensive reform
  - Reducing spending under Medicare and Medicaid for prescription drugs
  - Adjusting payments for home health services by tying them more closely to costs
- Malpractice reforms—for example, providing legal protection for providers who use evidence-based best practices
- Reduction of waste, fraud and abuse

### *Insurer initiatives*

- Provider payment reform—moving away from the fee-for-service payment system that rewards volume of service rather than outcomes
- Value-based benefit design—designing new benefit structures that encourage the use of health screening and preventive services, provide incentives for the cost-effective management of chronic conditions, and introduce consumer cost-sharing for preference-

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<sup>3</sup> Summarized in David M. Cutler and Judy Feder, “Financing Healthcare Reform”, Center for American Progress, June 2009.

sensitive services (e.g., choosing a brand-name drug vs a generic version), while protecting people from catastrophic costs

- Adoption of standardized eligibility, claims and other processes to reduce administrative costs

#### *Provider initiatives*

- Evidence-based best practices—using comparative effectiveness research to make the appropriate diagnosis and treatment decisions in consultation with their patients, with a special emphasis on prevention and management of chronic conditions.
- Adoption of electronic health record systems and streamlined administrative practices

#### *Group purchaser (i.e. business and public) initiatives*

- Value-based purchasing—setting contracting standards for health plans, e.g., quality thresholds, use of new provider payment structures and other incentives to improve efficiency and quality (e.g., use of electronic health records, evidence-based clinical guidelines, disease management)
- Choices—offering different health plans, not just varieties of co-pays and deductibles
- Competition—encouraging healthy competition among health plans and providers, based on efficiency and quality, not just risk selection and underwriting.
- Benefit design—using value-based benefit designs to encourage employee engagement and personal accountability through appropriate levels of cost sharing
- Information—providing data on providers' quality and cost, as well as education and coaching for employees to enable them to be well-informed users of the healthcare system
- Wellness—encouraging and supporting healthy behaviors and lifestyles for employees

#### *Consumer initiatives*

- Adoption of healthy behaviors and lifestyles
- Becoming well-informed and active purchasers of health insurance and healthcare

It is important to note that government policy can help “bend the cost curve,” but substantial progress will depend on concrete actions by all stakeholders, including insurers, providers, group purchasers, and consumers. These initiatives must be pursued together; the whole is greater than the sum of the parts. If done right, they could reduce the rate of increase to a level closer to the general inflation rate.

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