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Reduce the Explosive Growth in U.S. Health Care Costs Through Rigorous Evidence About “What Works” To Contain Cost

The Problem:

1. Health care costs consume a large and rapidly growing share of GDP and the federal budget, and threaten the goal of universal health insurance coverage.

Over the past 30 years, total U.S. spending on health care has more than doubled as a share of GDP, and is projected to double again by 2035, according to Congressional Budget Office (CBO) estimates. The current share, 16% (\$7500 per person per year), is larger than that of any other major industrialized country. Federal spending on Medicare and Medicaid, which accounts for 4% of GDP today, is projected to rise to 9% by 2035. Such spending often does not translate to better health outcomes; per CBO, “Substantial evidence suggests that more expensive care does not always mean better care ...evidence indicates that much spending is not cost-effective and in many cases does not even improve health.”

These rising costs threaten the financial stability of critical government programs like Medicare Part A (predicted by the Medicare Trustees to be insolvent by 2019); and stand in the way of affordable, universal health insurance coverage, a top priority for President-elect Obama.

2. Little scientifically-valid evidence exists about how to reduce health care costs.

Many innovative and promising approaches have been proposed, such as increasing patients’ cost sharing, allowing Medicare to use its market power to contain costs, educating and/or incentivizing physicians to practice validated preventive medicine, improving disease management, increasing use of information technology, and reforming the insurance market to increase competition. Yet with few exceptions (such as those noted below), these approaches have not been rigorously evaluated to determine which are truly effective in reducing health care costs while maintaining quality, and which are not.

In particular, the number of cost-reducing strategies evaluated in well-implemented randomized controlled trials – considered the gold standard for determining what works in medicine, psychology, welfare policy, education, and other fields – is very small because such studies are rare in health care financing and delivery. Even good alternatives, such as well-matched comparison-group studies, are uncommon. Meanwhile, the less-rigorous studies that *are* often used have been shown in careful investigations to produce erroneous conclusions in many cases. Thus, for the most part, policymakers are operating in a vacuum of knowledge about which strategies to reduce costs can truly make a difference.

The Opportunity: Rigorous studies can show what works – and what doesn’t – to reduce the cost of health care.

1. Such studies, although rare, have already identified a few highly-effective strategies, such as:

- **An electronic decision support tool for doctors** – which uses clinical data from a patient’s insurance claims to identify potential errors in the patient’s care, and then alerts his or her doctor via email. This system, which is very low-cost (\$1 per patient per month), has been shown in two rigorous randomized trials in large managed care settings to reduce hospitalizations by 9%, and health care costs by \$10-\$20 per patient per month. This suggests potential annual savings of \$20 billion or more if implemented nationally. The trials also produced suggestive evidence of a sizeable increase in physician adherence to evidence-based medical guidelines.
- **Prospective payment of Medicare home health agencies** – i.e., paying such agencies a lump sum per patient – versus the usual cost-reimbursement approach. Prospective payment was shown in a large randomized evaluation in the 1990s to reduce costs to Medicare by 20% over five years, compared to cost-reimbursement, with no adverse effect on any health-related outcomes. This finding was a key factor leading to Medicare’s nationwide implementation of prospective payment for home health agencies starting in 2000.

The very existence of these few research-proven strategies suggests that a concerted government effort to build the number of such strategies, and implement them effectively, could fundamentally alter the trajectory of U.S. health care costs.

2. Such studies have also identified a few seemingly-promising strategies that do *not* work.

A recent example is HHS’s Medicare Coordinated Care Demonstration, which provides Medicare patients who have chronic conditions with case-management services aimed at coordinating care among their many physicians, fostering patients’ adherence to their doctor’s prescribed care, and encouraging preventive care. At the two-year follow-up of an ongoing randomized evaluation, none of the 15 strategies tested in this demonstration has been found to reduce Medicare costs enough to pay for the strategy, and most had little impact on quality-of-care measures. A four-year follow-up is also planned.

Proposal: That the new Administration’s health care plans, when implemented, build in a wide range of demonstration projects to reduce costs, incorporating randomized evaluations.

A few such demonstration/evaluations are currently underway, such as the Medicare Coordinated Care Demonstration (noted above) and the Medicare Health Support Program. However, a much more systematic federal effort is needed – in part because, based on past rigorous evaluations in health policy and other fields, even many promising, well-executed strategies will be found not to work. Thus a wide array of promising strategies must be tested to ensure success. Such testing could start before or during the roll-out of universal health insurance coverage, and as effective cost-reduction strategies are identified, they could be scaled up nationally.

Conclusion: Health care costs are consuming an ever-larger share of national income, jeopardizing the solvency of important government programs, and threatening the goal of universal health insurance coverage. Rigorous evaluations have succeeded in identifying a few highly-effective strategies to reduce such costs, suggesting that a concerted federal effort to grow the number of proven strategies could help stop the relentless growth in health care costs and its corrosive effect on important national objectives.