

ACS Industry Update

HEALTHCARE PAYER SOLUTIONS
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Company Update

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Site Profile: Cordoba, Argentina

Industry News

Redirecting Reform: Is the Operation a Success If the Patient Dies?

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Redirecting Reform

Is the Operation a Success if the Patient Dies?

By Jeffrey C. Bauer,
Affiliated Computer Services (ACS, Inc.)

A CHALLENGE FOR PAYERS FROM AN INDUSTRY THOUGHT LEADER

Payers have very good reason to be interested in the outcome of the battle to reform medical care in the United States. President Obama and key Congressional leaders have warned that all stakeholders will be asked to make some changes (that is, sacrifices) in the interests of solving the sector's problems. However, the greatest changes are likely to be imposed on reimbursement if reform follows the script that is being written in June, 2009.

Indeed, major themes of this evolving drama are that health insurance is largely responsible for the high costs of health care and that the solution is to make sure that every American has health insurance. Reformers are also taking direct aim at providers, pharmaceutical companies, and medical device manufacturers for failure to deliver medical goods and services in a cost-effective manner, but providing universal access to affordable health care is the battle cry that will presumably rally voters around the politicians who want to pass a major reform law by September. Third-party payment is center stage.

Basic economic analysis shows that this logically inconsistent focus on health insurance as both problem and solution can be dangerously oversimplified and misleading. Unless the government subsidizes universal access with massive debt—the economic equivalent of eliminating cancer with a treatment that kills the patient anyhow—extending health insurance to all will mean less coverage for everyone. Something's got to give, especially when the gross domestic product (GDP) and government tax revenues are shrinking. Indeed, if a reform package becomes law this year, reduced coverage for everyone is the closest thing to a sure bet under the current economic circumstances. Neither employers nor consumers have the resources to pay more taxes or higher premiums in a recession, so insurance coverage would quickly gravitate toward the stripped-down plans necessitated by reform that mandates universal coverage. In the absence of dramatic improvement in provider productivity (my top-priority prescription for health reform!), providers will face even more difficulty collecting enough revenue to pay their bills, and the health care system will spiral downward.

Sadly, neither politicians nor voters have spent an adequate amount of time considering the consequences of the 2009 rush to reform. Yes, the existing trends in health care are ultimately as unsustainable and destructive, as reflected in the gloomy forecast of the previous paragraph. American health care has serious problems that must be solved as soon as possible. However, reform rushed through this year will accomplish nothing positive in the long-run if it replaces the old crisis with a new one.

For example, is universal access really a move forward if it does nothing to improve the health of Americans? Will the nation really be better off if universal access increases the demand for care, but reform does nothing to increase the supply of medical services? Wouldn't many providers be forced to respond to increased demand and lower revenue by compromising the quality of care? If uninsured Americans are mandated to buy health insurance, how many will buy plans that actually improve the access to care they already have? (Although their lot is far from ideal, uninsured patients do get a lot of health care.) Many other important questions are being avoided in the rush to reform.

Health care is not just a matter of life and death. It is more important than that for the overall health of a nation, and America's admittedly imperfect health care system deserves a better solution. So here's another important question: why shouldn't better solutions come from payers? On the one hand, insurance companies and health plans are being blamed for the roadblocks that they put in the way of paying for medical goods and services. On the other hand, the reformers (with the promising exception of a few key political leaders, including the President) are largely glossing over the fact that these goods and services are provided inefficiently and ineffectively.

Payers could take the offensive in pointing out that the medical economy would implode if third parties quit reimbursing over-priced and/or low-quality health care. Pay-for-performance—the current effort to improve quality—is a very limited step in this direction, and the additional income

P4P provides is not enough to help most providers overcome the serious shortfalls they are experiencing due to the economic downturn. A better solution is needed, and it is needed soon to prevent massive business failures on the supply side of the marketplace.

One of the lesser themes in the reform debate is an area where payers are well-positioned to take the lead in creating a reform that will truly reduce health care spending and improve the quality of care—specifically, transforming third-party reimbursement from paying for procedures to paying for coordinated care that demonstrably improves the health of the beneficiaries. This movement (variously described as bundling or disease entity payment) is starting to gain traction among policy-makers, but politicians are not focused on it because it does not address the politically popular goal of reducing the number of uninsured Americans.

Because politicians are not likely to take the lead on this essential reform, payers have an opportunity to work with providers and purchasers to begin the process through creative partnerships. Reforming the way we pay for care is arguably far more important to the future of health care in our country than providing more people with traditional insurance that rewards quantity of services provided, not cost-effectiveness of overall care.

Policy-makers and politicians will ultimately grasp the importance of this transformation, but not this year. Payers still have a little time, but not much, to take ownership of this reform and do it right. Right now is the time to get serious about creating the partnerships to restructure the incentives in reimbursement, before it's too late.

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