



# The Rising Cost of Health Care: Solutions

## Ten Ways to Cut Costs, Reduce Premiums

The California Association of Health Plans (CAHP) member health plans add quality to the health system and combat rising health care costs through the use of new, more affordable products and other tools. They seek to keep health care coverage affordable by providing greater choices for consumers, more information about the cost of care and encouragement to lead healthier lifestyles. But more must be done.

Medical costs are growing two-to-three times faster than the rate of inflation.

CAHP has put together its own “Top 10” list for lowering health care costs and making coverage more affordable.



*“Lower obesity rates alone could avoid \$60 billion in treatment expenditures per year.”<sup>1</sup>*

### #1: Promote Healthy Lifestyles

Aging and obesity lead to increased chronic diseases. The high cost of treating those diseases increases all Californians’ health care bills. Health plans, medical providers, government, communities and employers can help lower costs by:

- Helping patients manage their chronic conditions before they worsen and have debilitating and costly complications
- Improving public education about living healthier lives
- Expanding health plan and employer incentives for enrollees to live healthier lives
- Increasing provider education and screening of patients

*“It is estimated that nearly 40 million cases of chronic diseases could be avoided if modest improvements are made in the prevention and treatment of disease.”<sup>2</sup>*

### #2: Encourage the Use of Proven Treatments

Physicians often don’t use medical practices, technologies and treatment approaches that have been scientifically proven to be the most appropriate and cost-effective. A 2003 RAND study found patients receive only 55 percent of treatments determined to be the “best practices” for addressing their medical conditions. Encouraging the use of “evidence-based medicine” would lead to healthier patients, better outcomes and lower costs.



*“Medicare reimbursements to hospitals would be cut by 32% and payment for physicians’ visits would fall 34% if providers everywhere followed the example of the most efficient hospitals.”<sup>4</sup>*

### **#3: Control Doctor and Hospital Costs**

The fastest growing costs in health care are physician and hospital inpatient and outpatient costs. These two areas alone drive 73 percent of the increase in overall cost. Health care providers and the government can reduce these costs, deliver better services and ensure Californians are healthier by:

- Encouraging more affordable and convenient services
- Promoting competition in physician and hospital services to promote innovation and lower costs
- Reducing regulations
- Using more contracted hospitals
- Clarifying payment requirements
- Offering greater transparency of hospital and provider costs

*“If waste in the U.S. health care system were eliminated, the Medicare system could reduce spending by at least 30%.”<sup>3</sup>*

### **#4: Eliminate Needless Regulations**

For the health plans alone, California has 44 specific benefit mandates – among the most of any state in the U.S. – which drive up the cost of insurance premiums. Every year, the California Legislature proposes more. The government, health plans, and providers can help by:

- Streamlining existing regulations
- Avoiding overly costly and unnecessary regulatory packages
- Reducing the number of paper claims through use of electronic exchanges of information

### **#5: Ban Balance Billing**

This abusive practice that places insured patients in the middle of health care disputes that ought to be handled between health plans and medical providers, needs to be banned. CAHP supports a fair process for resolving these disputes that does not put insured patients in the middle. More than 1.76 million insured Californians who visited emergency rooms in the last two years received balance bills on top of their co-pays and deductibles. The average bill was \$300. That’s a \$528 million burden on insured patients. CAHP has called for an Independent Dispute Resolution Process (IDRP) between medical providers and health plans that does not put the financial burden on consumers and places a ban on Balance Billing.



***A family of four spends \$1,788 more annually than it would if Medicare, Medicaid and private employers all paid hospitals and physicians similar rates.<sup>5</sup>***

## **#6: End Cost Shifting**

The cost of providing health care to the state's 6.4 million uninsured residents often is shifted to the 21 million insured Californians. Doctors and hospitals also charge insured Californians more to make up for the lost revenue on Medi-Cal and Medicare patients. To end this unfair practice of shifting others' costs, CAHP supports:

- Raising reimbursement rates for public programs to be equal with market rates
- Expanding enrollment opportunities in public programs and private insurance to reduce the number of uninsured
- Streamlining Medi-Cal administrative processes to lower administrative costs
- Rewarding plans and providers which demonstrate high-quality, low-cost care for all Medi-Cal beneficiaries

## **#7: Expand Clinics in Retail Locations**

These walk-in retail “minute clinics” (located in places like drug stores) can help drive down costs by offering low-cost, easy-to-access treatment. California could encourage the expansion of these clinics by:

- Eliminating its ban on the corporate practice of medicine because this forces minute clinic providers to enter into more costly ownership arrangements with physicians
- Changing California rules to allow physicians to supervise more nurse practitioners and physician assistants – as is permitted in other states – so that retail clinics can operate more economically

***“Minute clinics typically charge \$50 or \$60 for a visit, half or less of what it would cost to consult a doctor and a quarter of the cost of a visit to an emergency center.”<sup>6</sup>***

## **#8: Disclose Hospital-Acquired Infections**

Disclosure of hospital-acquired infection rates would help reduce this costly and life-threatening problem by shining a spotlight on a growing cause of death and disease. Nineteen other states require disclosure of this information. In California, the state also should fund the existing program that requires hospitals to report on how well staffers use sterile methods to insert catheters and administer antibiotics before surgery, techniques recommended by federal health authorities to help ward off infections.



## #9: Align Provider Incentives

Providers who have a financial stake in other health care services or products, or who re-sell drugs, devices, equipment and tests have a serious incentive to over-treat or under-treat patients, which ultimately increases costs. Eliminating these incentives would decrease costs. Statutes should be clarified to prohibit self-referral arrangements.

## #10: Reduce Medical Mistakes

To guard against costly and life-threatening medical mistakes, health plans, providers and the government should join forces to expand the use of e-prescribing and routine screening of prescription records. E-prescribing would help eliminate problems caused by poor handwriting and help prevent adverse drug interactions and allergic reactions to medications. Screening of prescription records would help guard against potentially harmful drug interactions.

***“Fifty seven percent of physicians reported that it was difficult to compile a list of their patient’s medications using their current medical records system.”<sup>8</sup>***

### SOURCES:

- <sup>1</sup> “An Unhealthy America: The Economic Burden of Chronic Disease -- Charting a New Course to Save Lives and Increase Productivity and Economic Growth,” Milken Institute. (Oct. 2007).
- <sup>2</sup> Ibid.
- <sup>3</sup> Maggie Mahar, “The State of the Nation’s Health,” *Dartmouth Medicine* (Spring 2007).
- <sup>4</sup> Ibid.
- <sup>5</sup> “Hospital and Physician Cost Shift: Payment Level Comparison of Medicare, Medicaid and Commercial Payers”, Milliman, Inc. (December 2008).
- <sup>6</sup> “McClinics,” *The Economist* (April 12, 2007).
- <sup>7</sup> Ibid.
- <sup>8</sup> “Uncoordinated Care: A Survey of Physician and Patient Experience.” California Health Care Foundation (2007)
- <sup>9</sup> “Preventing Medication Errors,” Institute of Medicine Report Brief (July 2006)

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***“Electronic access to test information allows results to be viewed earlier, decreases unnecessary tests, and enables more timely intervention.”<sup>7</sup>***

***“One study found that each adverse drug event that occurred in a hospital added roughly \$8,750 to the cost of the stay.”<sup>9</sup>***