

**April 2011****Payment Reform Will Be Key to Stemming Increasing Health Care Costs**

According to a 2010 report released by the Centers for Medicare and Medicaid Services, health care spending increased from \$75 billion in 1970 to \$2.5 trillion in 2009. The study projected spending will reach \$4.5 trillion by 2019, consuming almost 20 percent of the nation's GDP, reinforcing that the U.S health care system will remain the world's most expensive.

CMS's daunting projection is exacerbated by independent assessments that the system is mediocre in quality and plagued by a prevalence of high-cost interventions. These conclusions are fueling the growing support for payment reform that many believe is essential not only to reducing health care costs but also to shifting the system to one that rewards sound medical practices that ensure quality outcomes.

Some suggest the current fee-for-service model is the cause of escalating costs, asserting that a system that rewards volume rather than quality of care cannot be sustained. They also point to the increase in doctors investing in hospitals and expensive testing equipment, raising questions about self-referrals and the possibility of unnecessary admissions and tests.

Proponents of payment reform advocate for a system that rewards providers for improving quality of care through models such as Accountable Care Organizations (ACOs), bundled payments and other evidence-based systems. Doing so, they believe, will achieve the goal of realigning the health care system to one that is driven by patient outcomes, not by volume of services performed.

Accountable Care Organizations are groups of providers that voluntarily assume responsibility for the care of patients and share savings if they meet quality and cost benchmarks. Bundled payments would include a single payment for multiple providers in multiple care settings, for services delivered during an episode of care related to a medical condition or procedure.

Other frequently mentioned reforms include pay-for-performance models that reimburse providers if they achieve predetermined measurements of quality.

Medical homes focus on the use of a personal physician to deliver the core functions of primary care. Through this patient-centered approach, an individual has accessible, comprehensive and coordinated care, helping to avoid unnecessary hospital admissions and emergency room visits.

In tiered networks, providers are differentiated by their cost-efficiency and history of quality. Consumers who seek treatment from a provider in a higher-cost tier assume a larger percentage of the expenses associated with the care they receive. By linking out-of-pocket costs to a particular tier of providers, it is believed that consumers will become increasingly aware of costs and more involved in the selection of providers.

While moving away from the traditional fee-for-service payment model will be key to beginning a process of fundamental change, shifting away from a system driven by volume will not be enough. Payment reform must include the design of quality-based payment systems that are measured by improved patient outcomes and driven by processes to support improvement. Addressing the need for payment reform will not be easy, but experts agree it must be phased in, tested, continually updated and routinely evaluated to address unintended consequences.

**Birthdays****April**

4 – Rep. Craig Eiland  
4 – Sen. Dan Patrick  
5 – Rep. Larry Phillips  
6 – Rep. Rick Hardcastle  
7 – Rep. Alma Allen  
7 – Sen. Rodney Ellis  
8 – Rep. Byron Cook  
9 – Rep. Allen Fletcher  
20 – Rep. Jodie Laubenberg  
21 – Rep. Helen Giddings  
26 – Rep. Myra Crownover  
29 – Rep. Rodney Anderson

### **State Seeks Savings and Efficiency of Medicaid HMO Model**

Included in House Bill 1 is approximately \$600 million in Medicaid savings and increased state revenue that can be generated during the 2012-2013 biennium through expanded use of the state's HMO models and managed care strategies. The bulk of the savings would be realized as the state's Medicaid HMOs are transitioned into areas that currently use the fee-for-service and Primary Case Management (PCCM) models, neither of which are designed to control costs. Some believe the HMO savings could be even higher.

The two HMO models, STAR and STAR+PLUS, were developed in the 1990s and have produced significant savings within the Medicaid program as a result of the coordinated care and focus on prevention they offer.

The state's investment in STAR and STAR+PLUS has resulted in national recognition for the cost containment, budget certainty and accountability they offer taxpayers. Another attractive feature that state officials value is the "experience rebate" component of the managed care programs that allows the state to share in the health plan's efficiencies.

The inclusion by budget writers of the projected \$600 million in savings and additional state revenue within House Bill 1 has sent a strong message that any attempts to remove the HMO strategy will require that additional revenue be found to replace it.

### **Study Says Statewide Smoke-free Law Would Save Texas Economy \$404 Million**

A new study conducted by the Texas Health Institute, the University of Texas School of Public Health, and Texas A&M Health Science Center School of Rural Public Health concludes that the implementation of a comprehensive statewide smoke-free workplace law would save the Texas economy \$404 million in reduced health care costs and productivity savings biennially.

Within the \$404 million savings, the study found:

- More than \$108 million in reduced health care costs to nonsmokers who would not be exposed to secondhand smoke, including \$32 million in medical costs that would be averted by reducing low birth weight births in areas of Texas with only partial or no smoke-free workplace legislation.
- More than \$142 million in reduced health care costs for smokers who quit as a result of the law.
- More than \$154 million in productivity cost savings for the state's economy.

The findings of the study add to the increasing momentum for Senate Bill 355 and House Bill 670, filed by Sen. Rodney Ellis (D-Houston) and Rep. Myra Crownover (R-Denton), proposing a statewide smoke-free workplace law. Both bills have been voted out of their respective committees.

Secondhand smoke kills 46,000 Americans due to heart disease and 3,400 Americans due to lung cancer every year. Secondhand smoke exposure is the third leading cause of preventable death in the U.S., and is a known cause of lung cancer, heart disease, premature birth and low birth weight, and other health problems.

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