



Health Policy Snapshot

Health Care Costs

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ISSUE BRIEF

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How does the ACA control health care costs?

Takeaways:

- Many provisions in the ACA aim to curb the rising cost of health care through greater competition among health plans, taxes on high-priced insurance coverage, measures to cut fraud and other approaches.
- Policymakers and health policy experts disagree about how much savings these provisions will achieve.

Overview

The United States spent an estimated \$2.5 trillion on health care in 2009, which translated to per capita costs of \$8,086—the highest in the world.¹ Reining in health care costs is a major priority for policymakers. Yet during the debate over health reform, no clear consensus emerged about how best to do it. For that reason, the ACA contains a broad variety of different provisions targeting costs.

HEALTH INSURANCE EXCHANGES

The ACA establishes initial exchanges where individuals and small employers can buy health insurance. Exchanges have the potential to produce savings by lowering the costs of administering a health plan—particularly costs related to marketing and sales—and by creating an environment in which plans can compete for enrollees only by offering low-cost, high-quality products. If functioning correctly, the exchanges would eliminate plans' ability to cherry pick patients with the lowest risk.

Instead, they would have to negotiate pricing with health care providers, reduce their administrative costs and develop and implement approaches that could eliminate excessive use of health care resources.

TAXES ON HIGH-PRICED HEALTH PLANS

The ACA levies a 40 percent excise tax on people enrolled in plans with individual premiums above \$10,200 or family premiums above \$27,500. Its basic mechanism for cost containment is giving employers an incentive to reduce generous benefits so that premium increases are restrained.

INDEPENDENT PAYMENT ADVISORY BOARD

The ACA established the Independent Payment Advisory Board (IPAB) with the intent of forcing policy-makers to limit Medicare cost increases, something they have been reluctant to do in part because of older Americans' voting strength. From 2014--2017, any year in which the Medicare per capita growth rate exceeds the average growth in the consumer price index (CPI) and medical care CPI, the IPAB will be required to recommend Medicare spending reductions. For determination years 2018 and after, the target is pegged to per capita GDP growth plus one percentage point. The IPAB recommendations will become law unless Congress passes an alternative proposal with the same budgetary savings. The board's mandate also includes recommendations on private health spending. While not binding, these recommendations could reduce increases in private health spending.

ACCOUNTABLE CARE ORGANIZATIONS

The ACA contains measures to encourage health care providers to band together in accountable care organizations (ACOs) to better coordinate services for a group of patients, resulting in higher-quality care at lower costs. An ACO, which can include primary care physicians, specialists, hospitals or other providers, bears responsibility jointly for the cost and quality of care delivered to a subset of traditional Medicare beneficiaries. If they hit the quality targets, any savings that result are then shared among the providers. Although many details still need to be worked out, the Congressional Budget Office (CBO) has projected that this provision could save Medicare \$4.9 billion through 2019.

PROVIDER INCENTIVES

The ACA aims to incentivize hospitals to promote high-quality care and avoid unnecessary readmissions. Specifically, Medicare payments will be reduced for hospitals with high rates of potentially preventable readmissions. A hospital's readmission rate for certain conditions—starting in 2013, heart attack/failure and pneumonia are the first conditions addressed—will be compared to its expected readmission rate, and the hospital will be subject to a reduction in Medicare payments for its “excess readmissions.” The CBO estimates that this payment adjustment could save \$7.1 billion over 10 years.

PREVENTION AND WELLNESS PROMOTION

Among other steps, the ACA adds an annual wellness visit to the guaranteed Medicare benefit package, which the CBO estimates will cost \$3.6 billion over 10 years. The ACA also eliminates co-payments for preventive care visits, so that as the care the patient is seeking has been shown to provide some benefit in the future. Although the CBO estimates the provisions will have offsetting effects in terms of cost they do not assume much in long-run savings. For example, though the costs of services designed to prevent the spread of diabetes are

enumerated, the CBO does not attribute any benefits to these programs in the form of lower spending than would have occurred otherwise. There is evidence that the CBO may have been conservative in estimating the potential benefits from prevention and wellness programs.

WASTE, FRAUD AND ABUSE

The ACA significantly increases the government's ability to monitor and punish those who abuse the Medicare and Medicaid programs. According to the CBO, every \$1 invested in uncovering fraud amounts to \$1.75 in budget savings. The CBO projects that when all ACA provisions to fight waste, fraud and abuse are implemented, Medicare and Medicaid spending will fall by \$2.9 billion and revenues will increase by \$900 million over 10 years.

FUTURE OF ACA COST REDUCTIONS

Policymakers and health policy experts disagree about which of these provisions will succeed in reining in costs and by how much. Despite this disagreement, the estimates of savings by CBO actuaries offer cause for optimism. It will likely be a number of years before it is clear whether the ACA succeeded in expanding coverage to tens of millions without greatly increasing costs.

Adapted from “What are the Provisions in the New Law for Containing Costs and How Effective Will They Be?” by Stephen Zuckerman, Urban Institute, August 2010.

WANT TO KNOW MORE?

- [*What are the Provisions in the New Law for Containing Costs and How Effective Will They Be? \(RWJF and The Urban Institute\)*](#)
- [*How Will Reform Affect Health Care Costs? \(RWJF\)*](#)
- [*Implementation Timeline for New Health Reform Law \(KFF\)*](#)

¹ http://www.cms.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp