Written by **Brian Koenig** on January 23, 2012

CBO Report: Medicare Cost-saving Programs Fall Short

In 2010, economist Peter R. Orszag and bioethicist Ezekiel J. Emanuel purported how ObamaCare's reform measures would "accomplish" the fiscal pledge of these programs:

> [The law's] pilot programs involving bundled payments will provide physicians and hospitals with incentives to coordinate care for patients with chronic illnesses: keeping these patients healthy and preventing hospitalizations will be financially advantageous.... And the secretary of health and human services (HHS) is empowered to expand successful pilot programs without the need for additional legislation.

Adding to Orszag's and Emanuel's ambitious claim that ObamaCare would reduce costs and curtail government spending, physician and journalist Atul Gawande wrote in a December 2009 article:

> The bill tests, for instance, a number of ways that federal insurers could pay for care. Medicare and Medicaid currently pay clinicians the same amount regardless of results. But there is a pilot program to increase payments for doctors who deliver high-quality care at lower cost, while reducing payments for those who deliver low-quality care at higher cost. There's a program that would pay bonuses to hospitals that improve patient results after heart failure, pneumonia, and surgery. There's a program that would impose financial penalties on institutions with high rates of infections transmitted by health-care workers. Still another would test a system of penalties and rewards scaled to the quality of home health and rehabilitation care.

According to the CBO report, which examined 10 major demonstration projects administered by Medicare, these hopeful assumptions were severely misguided. The report considered programs dealing with both managed care and value-based payments.

While the federal authority to produce cost-saving healthcare programs has been privileged since 1967, the law expanded this authority with the creation of the Center for Medicare and Medicaid Innovation. Such authority was extended by empowering the government to examine Medicare cost-saving measures and, if officials concluded they would effectively reduce costs, they could deploy these projects without congressional approval.

The managed care demonstrations are intended to improve care quality for patients with chronic illnesses and for those with medical needs expected to cost substantially more than the average patient's needs. Similarly, value-based payment demonstrations are designed to incentivize quality and efficiency by basing financial benefits for healthcare providers not strictly on the volume and intensity

of services provided.

However, despite their ambitious efforts, the demonstrations' intended results were not achieved — not even close.

"The evaluations show that most programs have not reduced Medicare spending: In nearly every program involving disease management and care coordination [managed care], spending was either unchanged or increased relative to the spending that would have occurred in the absence of the program," the report indicated.

Likewise, with value-based payment programs, where medical providers are purportedly compensated based on the quality of their work rather than the quantity, the CBO found that all but one of the programs resulted in government savings. "The bundled-payment demonstration achieved savings for the Medicare program, but the demonstrations that paid bonuses to providers on the basis of their quality scores, estimated savings, or both, produced little or no savings," the CBO continued.

However, the CBO added, the single project that produced modest savings did so only because Medicare negotiated a bundled payment that was lower than the aggregated cost of issuing individual payments to doctors — meaning, there was no evidence that the hospitals were performing more efficiently. For example, "The Heart Bypass demonstration yielded savings because Medicare was able to negotiate bundled-payment rates with the seven hospitals and the relevant physicians on their medical staffs that were lower than the separate payments that they otherwise would have received."

Most importantly, the CBO noted, if the government plans to enact similar programs, it must drastically alter the Medicare model if it has any chance of realizing meaningful savings. Moreover, the report asserted that future reform measures would face severe challenges in producing incentives for hospitals and doctors to amend their current practices:

> Demonstrations aimed at reducing spending and increasing quality of care face significant challenges in overcoming the incentives inherent in Medicare's fee-for-service payment system, which rewards providers for delivering more care but does not pay them for coordinating with other providers, and in the nation's decentralized health care delivery system, which does not facilitate communication or coordination among providers…. The results of those Medicare demonstrations suggest that substantial changes to payment and delivery systems will probably be necessary for programs involving disease management and care coordination or value-based payment to significantly reduce spending and either maintain or improve the quality of care provided to patients.

Michael Cannon, director of health policy studies at the Cato Institute, said the failures of the pilot programs are not a prompting for more government interference, but rather, they're a "consequence of government interference." If Medicare's presence in the healthcare sector wasn't so invasive, Cannon suggested, "industry lobbyists (and their servants in Congress) wouldn't have so many ways to protect themselves from competition by more efficient providers."

An effective solution to contain skyrocketing healthcare costs, most free market proponents allege, is not a series of arbitrary "reform" measures that simply tweak the outlays of government programs such as Medicare. While they might result in minimal, if any, cost savings, implementing a fundamental overhaul of these programs' anti-free-market structures is the only effective way to alleviate the costly outcomes of healthcare inflation.

In a December 2009 blog post, economist and Stanford professor Alain Enthoven described

prophetically how the President's and congressional Democrats' approach to taming healthcare costs would not be fruitful — and that soon enough, the American people would come to acknowledge that Obama's healthcare reform law is nothing but a ploy to further socialize American medicine:

> The American people are being deceived. We are being told that health expenditure must be curbed, therefore "reform is necessary." But the bills in Congress, as [physician and journalist] Gawande acknowledges [in his 2009 article], do little or nothing to curb the expenditures. When the American people come to understand that "reform" was not followed by improvement, they are likely to be disappointed.