

# Toward a 21st-Century Health Care System: Recommendations for Health Care Reform

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The coverage, cost, and quality problems of the U.S. health care system are evident. Sustainable health care reform must go beyond financing expanded access to care to substantially changing the organization and delivery of care. The FRESH-Thinking Project ([www.fresh-thinking.org](http://www.fresh-thinking.org)) held a series of workshops during which physicians, health policy experts, health insurance executives, business leaders, hospital administrators, economists, and others who represent diverse perspectives came together. This group agreed that the following 8 recommendations are fundamental to successful reform:

1. Replace the current fee-for-service payment system with a payment system that encourages and rewards innovation in the efficient delivery of quality care. The new payment system should invest in the development of outcome measures to guide payment.
2. Establish a securely funded, independent agency to sponsor and evaluate research on the comparative effectiveness of drugs, devices, and other medical interventions.
3. Simplify and rationalize federal and state laws and regulations to facilitate organizational innovation, support care coordination, and streamline financial and administrative functions.
4. Develop a health information technology infrastructure with national standards of interoperability to promote data exchange.

5. Create a national health database with the participation of all payers, delivery systems, and others who own health care data. Agree on methods to make de-identified information from this database on clinical interventions, patient outcomes, and costs available to researchers.

6. Identify revenue sources, including a cap on the tax exclusion of employer-based health insurance, to subsidize health care coverage with the goal of insuring all Americans.

7. Create state or regional insurance exchanges to pool risk, so that Americans without access to employer-based or other group insurance could obtain a standard benefits package through these exchanges. Employers should also be allowed to participate in these exchanges for their employees' coverage.

8. Create a health coverage board with broad stakeholder representation to determine and periodically update the affordable standard benefit package available through state or regional insurance exchanges.

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**T**he FRESH-Thinking project ([www.fresh-thinking.org](http://www.fresh-thinking.org)) convenes a multidisciplinary group of scholars who collaborate to comprehensively study the specific, detailed challenges to health care reform. This group represents diverse sectors of the health care system and beyond—physicians, health policy experts, health insurance executives, business leaders, hospital administrators, economists, and others. Through the FRESH-Thinking project, the authors met in a series of 8 workshops to delineate “essential foundations” necessary for fundamental reforms in the U.S. health care system.

Despite diverse perspectives and policy positions, the group agreed that the United States must create a health care system that provides all Americans access to an affordable, standard benefits package. We must simultaneously build the capabilities, infrastructure, and incentives to ensure that all Americans receive high-quality care. Through an iterative process of debate and comment, we found common ground on 8 fundamental policy recommendations to achieve these aims.

In formulating the recommendations, we achieved consensus on the following underlying observations and

principles: First, the main problems of the U.S. health care system—coverage, cost, and quality—are well understood and well documented. Second, improving access alone is insufficient. Most discussions about reforming the system primarily focus on how to finance expanded coverage. Sustainable reform, however, must substantially change both the financing of care and the systems for organizing and delivering care. Finally, doing nothing is not an option. Maintaining the status quo in health care represents a significant threat to government finances, the economy, Americans' standard of living, and our nation's future.

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Dialogue on health care reform

It is impossible to solve the problem of access to health care services without fixing the financing system. But without fixing the delivery system, it is impossible to solve the cost and quality problems in a sustainable manner. Escalating costs will undermine access, and poor quality will add costs and undermine the overall value of health care coverage. Patchwork and haphazard incremental changes have not and will not create a sustainable system. Reform requires a systematic, goal-directed process; new programs and policies must offer a coordinated and coherent approach, and they must reinforce each other. For instance, a health information technology infrastructure and better outcomes measures are necessary to pay physicians and other providers on the basis of results, but merely providing the infrastructure without reasons for clinicians to use it will simply add expense.

Reform of the health system will not occur overnight. We must find a place to start. Mindful of the urgency, we have formulated these 8 recommendations as an essential foundation to achieve needed fundamental reforms regardless of the particular policy options chosen. Some of the recommendations pertain to reform of the delivery system and others to reform of the financing system.

## REFORM OF THE DELIVERY SYSTEM

*1. Replace the current fee-for-service payment system with a payment system that encourages and rewards innovation in the efficient delivery of quality care. The new payment system should invest in the development of outcome measures to guide payment.*

Current payment mechanisms reward the provision of narrowly defined services and increased product volume, independent of appropriateness or health outcomes. Instead, payments should be linked to improving patient outcomes, reducing racial and other disparities in outcomes, increasing efficiency, and moderating the growth in the cost of care. Linking payment to outcomes will require continued investment in the systematic development of outcomes measures.

Current efforts are laudable, but they should be augmented with the development and rigorous evaluation of additional pilot and demonstration projects that use different payment mechanisms, such as bundled or global payments and capitation, as well as new ways of organizing and delivering care. These projects must use clear performance criteria so that the system rewards the approaches known to improve patient outcomes or save resources and terminates those that compromise patient outcomes or increase the cost of care. Because of their important role in the health care system, Medicare and Medicaid can lead the efforts in payment reform.

*2. Establish a securely funded, independent agency to sponsor and evaluate research on the comparative effectiveness of drugs, devices, and other medical interventions.*

Data are lacking on the effectiveness of medical interventions and processes of care. An independent agency not subject to interest-group pressures should sponsor both

analyses of existing data and new research on the effectiveness, comparative effectiveness, and cost-effectiveness of health care diagnostics, therapeutics, procedures, and processes of care. All public and private payers (including self-insured organizations) benefit from such assessments and should contribute resources to funding the agency. The data, analytic methods, and evaluative criteria used should be transparent and the results of its research widely disseminated to the public, physicians, government agencies, insurers, and other health care providers to inform health decisions.

*3. Simplify and rationalize federal and state laws and regulations to facilitate organizational innovation, support care coordination, and streamline financial and administrative functions.*

Both federal and state laws and regulations provide inconsistent requirements that frequently inhibit reform of the health care system, especially the coordination of care among various providers and more effective use of physicians, nurses, and other providers. Reform should include, but not be limited to, state laws and regulations governing the corporate practice of medicine doctrine and scope of practice limitations. The states should retain authority for enforcement of provider licensure, credentialing, and consumer protections. Federal and state laws should be revised to allow gain-sharing in situations with bundled or aggregated payments that improve patient outcomes, reduce disparities, or enhance efficiency.

*4. Develop a health information technology infrastructure with national standards of interoperability to promote data exchange.*

Effective deployment of health information technology is essential for collecting data on outcomes to guide quality improvement. A successful health information “superhighway” requires the rapid development and implementation of national standards for interoperability and exchange of electronic data to facilitate the collection and sharing of data on health care quality, outcomes, and cost throughout the health care system.

*5. Create a national health database with the participation of all payers, delivery systems, and others who own health care data. Agree on methods to make de-identified information from this database on clinical interventions, patient outcomes, and costs available to researchers.*

Most health plans and health care providers do not effectively use existing data to improve the efficiency and quality of care. The expansion of health information technology recommended above will provide additional sources of valuable data. To effectively use these data in improving the health care system, national standards should be implemented for combining the data to ensure consistency and comparability. Researchers using transparent and established methods should have as much access as possible, but patient confidentiality and an appropriate level of proprietary interests should be protected.

## REFORM OF THE FINANCING SYSTEM

6. *Identify revenue sources, including a cap on the tax exclusion of employer-based health insurance, to subsidize health care coverage with the goal of insuring all Americans.*

Everyone is aware of the tens of millions and growing numbers of uninsured Americans. More than 70% of these Americans lack insurance because they cannot afford it. Revenue sources, including but not limited to savings from capping the tax exclusion of employer-based health insurance, taxing tobacco, and redirecting existing health resources, should be mobilized to ensure coverage for all Americans.

7. *Create state or regional insurance exchanges to pool risk, so that Americans without access to employer-based or other group insurance could obtain a standard benefits package through these exchanges. Employers should also be allowed to participate in these exchanges for their employees' coverage.*

Because of risk selection and underwriting, the small group and individual insurance markets perform poorly. Exchanges in which insurance companies offer a standard benefits package with guaranteed issue, portability, and renewability and no exclusions for preexisting conditions can expand the offerings to small groups and persons at lower rates. Along with mandatory coverage for standard benefits, the exchanges must implement risk-adjusted payments to minimize adverse selection. These mandates on insurance companies must be matched by mechanisms to ensure complete participation of those eligible to prevent the accumulation of only high-risk persons within the exchange. Potential mechanisms include substantial subsidies, possibly combined with enforceable mandates. Employers should be allowed to participate in these exchanges for their employee coverage.

8. *Create a health coverage board with broad stakeholder representation to determine and periodically update the affordable standard benefit package available through state or regional insurance exchanges.*

For insurance exchanges to operate efficiently with competition on cost and value, they must have standard benefits packages. Design of these standard benefits packages will entail attention to many technical details and tradeoffs. An independent board with broad input would be best able to formulate options for standards benefits packages that Congress and the current administration could accept or reject. These packages could also define the base coverage that employer-based plans must meet to be eligible for tax exclusions. Individual participants should have the option to purchase packages with more coverage.

The challenge of creating consensus is significant but surmountable. The FRESH-Thinking project demonstrates that, despite diverse backgrounds and interests, people can agree on fundamental elements that will provide a solid foundation

for a health care system. The essence of these elements is the reform and modernization of how we both finance and deliver health care to ensure real value—better quality care and improved health of Americans at sustainable growth in costs.

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