

# Health Care Costs: Solutions from HCFO Research

## Objective Evidence to Inform Policy

As policymakers seek to address the nation's burgeoning deficit, they are ultimately confronted with how to rein in rising health care costs. Complicating the problem is the fact that policymakers, hospital executives, employers, consumers and others may use the single phrase "health care costs" to refer to several very different ideas, including the costs of health care services, their prices, reimbursements to providers, health insurance premiums, and patients' out-of-pocket spending. Distinguishing among trends in costs, prices and overall health care spending is just a first step in addressing the overarching issue.

The complex challenges around health care costs, prices and spending have been topics explored through HCFO's portfolio of funded research throughout the program's 24-year history. While the specific issues addressed in these studies vary widely, the work falls into three general categories: 1) research that examines the cost or payment impact of existing policies; 2) research that examines strategies to reduce health care costs; and 3) research that looks at issues of cost and spending more generally. The information presented here is not intended to be a comprehensive list of relevant HCFO work, but rather a helpful guide for identifying policy-relevant research on these topics. Details about the grants, including study findings, can be accessed by clicking on the grant titles below. A complete list of HCFO-funded research on costs and cost containment is available [here](#).



**In these HCFO-funded studies, researchers examined existing policies to better understand their fiscal implications and to assess whether evidence suggests that policy changes are needed.**

### **Examining the Impact of the Outpatient Prospective Payment System on Hospitals' Medicare Volume and Outpatient Care.**

Jennifer Mellor, Ph.D., College of William and Mary. The researchers studied the effects of the Medicare Outpatient Prospective Payment System to determine whether the payment system led hospitals to (1) shift from Medicare patients toward those with other coverage, and (2) shift from outpatient toward inpatient care for conditions that can be treated in either setting.

### **Impact of State Medicaid Policy Changes on Nursing Home Hospitalization.**

Vincent Mor, Ph.D., Brown University. The researchers studied the impact of bed hold policies on the rate of hospitalization of nursing home residents, as well as on whether residents returned to their originating nursing homes following hospital discharge. The work also quantified the financial implications of changes in state bed hold policies.

### **Measuring the Costs of Defensive Medicine in the United States: Phase II.**

William Thomas, Ph.D., University of Southern Maine. Using a database of tort signals and health claims data, the researchers measured the degree to which fears of medical malpractice litigation motivates physicians to practice positive defensive medicine, which includes ordering tests, procedures, and/or medications that offer little or no clinical benefit to patients.

### **Effect of Decreased Emergency Department Access on Patient Outcomes.**

Yu-Chu Shen, Ph.D., Naval Postgraduate School Graduate School of Business and Public Policy. The researchers analyzed whether hazard rates of shutting down trauma centers are higher due to financial pressures or in areas with vulnerable populations, such as minorities or the poor.

### **Small Area Variation in Medicaid Utilization and Expenditures: Implications for Cost Containment and Quality of Care.**

Richard Kronick, Ph.D., University of California San Diego. The researchers investigated variation in Medicaid services and payments across state Medicaid programs and across hospital referral regions within states, exploring the implications of these variations for cost containment options.

### **Measuring the Costs and Benefits of Medicare Private Fee-for-Service.**

Steven Pizer, Ph.D., Boston VA Research Institute, Inc. The researchers measured the effects of Medicare payment changes on private fee-for-service plan decisions regarding market entry, benefit design, and premiums, and analyzed the effects of changes in benefits and premiums on enrollment.



### Medicaid Long-Term Care Programs: Simulating Rate Setting and Cross-Payer Effects.

Anthony Tucker, Ph.D. and Tricia Roddy, M.H.S.A., Maryland Department of Health and Mental Hygiene. The researchers examined the implications of cross-program effects of Medicare and Medicaid in long-term care, including an array of potential factors that would affect the calculation of capitation payment rates.

### Waiting for Outpatient Care and Choice in Financing.

Julia Prentice, Ph.D., Boston VA Research Institute, Inc. The researchers examined how long wait times for medical appointments have resulted in individuals exiting health care systems with lengthy waits and paying more to access alternative systems with shorter waits. They explored whether these time/cost

tradeoffs affect how individuals choose among health care financing options.

### Economic Impact of Adverse Health Events on the Uninsured Near Elderly.

David Dranove, Ph.D., Northwestern University. In order to better understand the indirect effects of lack of insurance on individuals' financial well-being, the researchers assessed how insurance status affects personal wealth and earnings in the population nearing age 65 that have a heightened probability of adverse health but have not yet qualified for Medicare.

### Reimbursement Policy and Cancer Chemotherapy Treatment and Outcomes.

Joseph Newhouse, Ph.D., Harvard Medical School. The researchers examined the impact of changes in Medicare payment rates for chemotherapy drugs under the

Medicare Prescription Drug, Improvement, and Modernization Act, estimating the effect of the payment reduction on incentives to prescribe chemotherapy, the probability of using chemotherapy, and the choice of chemotherapy agents administered to newly diagnosed cancer patients.

### Physicians' Responses to Variations in Medicare Fees for Specific Services.

James Reschovsky, Ph.D. and Jack Hadley, Ph.D., Center for Studying Health System Change. The researchers examined how physicians' provision of specific medical services to Medicare fee-for-service beneficiaries responds to variations in Medicare physician fees for those services, physicians' characteristics, and to local market factors.



**In these HCFO-funded studies, researchers examined strategies designed to reduce the current cost burden on the health care system.**

### Factors Influencing the Success of Value-Based Insurance Design Programs.

Niteesh Choudry, Ph.D., Brigham and Women's Hospital. The researchers examined value-based insurance design plans (VBID) implemented by CVS Caremark, a large pharmacy benefit manager, evaluating the impact of different VBID characteristics on patterns of adherence, discontinuation, and use of statins.

### Generic Substitution within a Class of Drugs for Medicare Part D Plans.

Jack Hoadley, Ph.D., Georgetown University. The researchers examined the extent of generic drug use in Medicare's stand-alone drug plans for cholesterol drugs, antidepressants, and hypertension drugs, and determined whether plan-level benefit design, formulary design characteristics and the program's overall design are associated with the use of generics.

### The Patient and System Benefits of Value-Based Insurance Design.

Matthew Maciejewski, Ph.D., Duke University. The researchers examined a BlueCross BlueShield of North Carolina program that eliminated copayments for generic medications and reduced copayments for brand-name medications for certain conditions. The objective of the project was to explore the business case for value-based insurance design and to inform benefit design changes and cost-containment strategies being considered by insurers and Medicare.

### Large Employers Use of Workplace Health Clinics.

Ha Tu, Ph.D., Center for Studying Health System Change. The researchers explored the workplace health clinic model in order to better understand the full spectrum of employer strategies concerning workplace clinics, the barriers faced by employers, and the impact of different strategies and models on cost containment and care delivery.

### The Costs and Benefits of Health Information Technology: Computerized Physician Order Entry.

Jeffrey McCullough, Ph.D., University of Minnesota. The researchers measured the quality and cost effects of computerized physician order entry (CPOE) systems in order to assess the direct value of CPOE, as well as the value it creates in conjunction with complementary technological and organizational investments.

### Can Disease Management Control Costs?

Randall Brown, Ph.D. and Deborah Peikes, Ph.D., Mathematica Policy Research. The researchers tested the ability of disease management and care coordination programs to control health care costs among Medicare beneficiaries, examining which features make certain programs effective, for which target populations, and how they can be replicated.

**Medicare Spending, Disparities, and Returns to Healthy Behaviors.**

Bruce Stuart, Ph.D., University of Maryland at Baltimore. The researchers examined persistently low-cost Medicare beneficiaries and determined the extent to which healthy behaviors, preventive services, race, and socioeconomic status are related to low spending, with the goal of identifying which disease states and beneficiary segments show the greatest

promise for improved compliance and persistency in use of preventive therapies.

**Cost and Efficiency in Treating High-Cost Medicare Beneficiaries: The Role of Physician Practice and Health System Factors.**

James Reschovsky, Ph.D., Center for Studying Health System Change. The researchers examined key physician practice and market

characteristics that may contribute to high costs and inefficient care in the Medicare program, with the goal of identifying potential policy levers that can influence cost effectiveness in the delivery of medical care to high-cost Medicare patients.



**These HCFO-funded studies address broad issues related to cost and spending.**

**The Incidence of Financing National Health Spending.**

Patricia Ketsche, Ph.D., Georgia State University and Kathleen Adams, Ph.D., Emory University. The researchers examined who actually pays for health care expenses and the distribution of costs across the mixed public/private financing system. The goal was to provide policymakers with a better understanding of the implications of various revenue-generating systems for the equitable distribution of the financing of the health care system.

**Defining Affordability for the Uninsured and People with Chronic Conditions.**

Lisa Clemans-Cope, Ph.D. and Cynthia Perry, Ph.D., The Urban Institute. The researchers used alternative measures of affordability (health care spending falling below a given standard of spending as a percent of family income) to: 1) describe the availability of affordable health insurance among the currently insured and uninsured populations; and 2) explain why take-up of health insurance varies, given affordability.

**Medical Spending and Health of the Elderly.**

Jack Hadley, Ph.D., George Mason University. In order to assess the marginal contribution of increased medical spending on health status, the researchers explored (1) whether elderly people who spend more on medical care have better health outcomes than people who spend less; (2) whether the marginal effect of medical care spending on health varies across subpopulations of the elderly; and (3) whether Medical spending has an effect on health at the margin.

**Sources of Health Care Cost Growth.**

Laurence Baker, Ph.D., Stanford University School of Medicine and Anne Royalty, Ph.D., Indiana University – Purdue University Indianapolis. The researchers studied the sources of cost growth among the privately insured and explored which policies or benefit designs will be more effective in reducing spending. They also explored whether costs are driven more by increased utilization of certain types of services or by increases in the prices of particular services.

**Variation in Health Care Cost Growth.**

Michael Chernew, Ph.D., Harvard Medical School. The researchers investigated factors related to variation in cost growth in the Medicare and commercial sectors, with the goal of providing knowledge to support development of cost containment approaches that address cost growth.