

Health Policy Forums

Betting on Bending the Cost Curve

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The April Forum speaker was Dr. Mark Pauly from The Wharton School of the University of Pennsylvania. His topic, “Betting on Bending the Health Care Cost Curve,” has been addressed by others who promise cheap, easy answers to our cost problems in health care. In contrast, Dr. Pauly emphasized the both the difficulty of bending the cost curve, and the trade-offs that our society will have to make in dealing with unaffordable medical costs.

Even if there are no easy ways to slowing the rise in health care costs, some methods are better than others. Dr. Pauly emphasized that we are in a car “. . .headed at 90 miles an hour towards a brick wall.” In other words, we definitely will stop, but hitting the wall is the worst way to stop. Turning the wheel or applying the brakes is preferable.

It may take a genuine crisis to provoke action. The most successful methods in the past—HMOs and cost sharing—have been too unpopular to remain in place. Dr. Pauly emphasized the importance of eliminating waste, but as a starting point rather than a solution to all the problems with costliness of health care.

Dr. Pauly also highlighted the benefit of policies that work in unforeseen circumstances. We should not simply implement policies that only work if everything goes according to plan. This perspective is what led him to focus on the “Cadillac tax.” If it works as intended, it will bend the cost curve. If it fails to control spending, it will automatically eliminate the tax-favored status of health insurance for the most expensive plans.

Dr. Pauly was less optimistic about other options for bending the cost curve. The success of Geisinger and Kaiser Permanente demonstrate that integrated delivery models can be successful, but there may be a limit to the number of physician-leaders available to run them. The biggest reason for pessimism is that many

Accountable Care Organizations (ACOs) are being formed by hospitals, which tend to function on the model of expensive care for sickest people. Preventative care and wellness provide great opportunities to improve health, but they may not necessarily save money.

Dr. Pauly was the most skeptical of the promise of insurance market reform to save costs. His

research suggests that there is little money to be squeezed out of the private insurance system, and that any savings will come at the cost of choice that consumers seem to value.

In conclusion, Dr. Pauly discussed Medicare costs and other public programs. While private sector cost growth is a problem, it does not generate the same kinds of distortions as public programs do. That means that many people, especially those with generous private health benefits, may be able to keep what they have. However, it also means that everyone, especially those in Medicare, will be asked to give up what they hope to get—the high technology treatments of the future. That is the price to be paid for the subsidies for lower-income health insurance included in the Affordable Care Act. Dr. Pauly emphasized that this is a painful trade-off to get a real solution to our health care financing problems.