Study: Coordinated healthcare could save California $110 billion

By Chad Terhune, Los Angeles Times

California could cut $110 billion in healthcare spending over the next decade, saving the average household $800 a year, by quickly moving away from conventional fee-for-service medicine and embracing more coordinated care, a report says.

These findings released Tuesday come from the Berkeley Forum, a new group of healthcare executives, state officials and academics that studied California's healthcare market for the last year in hopes of finding ways to make care better and more affordable. The main recommendations are not entirely new, and these shifts are already underway in response to the federal healthcare law and pressure from employers to tame runaway medical costs.

But the group's report does quantify how much work remains to be done and the potential savings if major changes are made in how doctors and hospitals are paid. Health-policy experts at UC Berkeley convened this group, which included high-ranking executives from Kaiser Permanente, Anthem Blue Cross, Cedars-Sinai Medical Center and other industry players.

"This could be a game changer in the state," said Stephen Shortell, dean of the School of Public Health at UC Berkeley and a coauthor of the report. "These are the CEOs of big insurers, big health systems and large medical groups saying it's time for a change, and these are the people who can get things done."

The Berkeley Forum calls for a major shift toward “global budgets,” in which physicians and hospitals provide care under preset amounts that are adjusted to reflect the health of their patients. These payments would also be tied to providers’ performance on several quality measures.

This is similar to the “capitated” payments managed-care companies and HMOs have used for years in California. HMOs already cover 44 percent of California’s population, which is about double the nationwide rate.

Despite that high penetration, the report’s authors found that 78 percent of the state’s healthcare costs, or about $245 billion annually, are still paid through fee-for-service arrangements, which can encourage medical providers to perform unnecessary tests and procedures. The report calls for reducing the share of fee-for-service payments to 50 percent by 2022.

The Berkeley Forum also says California should double the share of the state’s population receiving integrated care from medical providers to 60% within the next decade. The most visible example of integrated care in California is Kaiser Permanente, the Oakland nonprofit that coordinates care across its hospitals and physician groups.

Other health insurers, hospitals and doctors are collaborating in similar ways through accountable-care organizations, medical homes and other initiatives that have strong backing from Medicare. Shortell acknowledged that there are “legitimate concerns” about this integration leading to higher prices as hospitals, clinics and physician groups rapidly consolidate.

The $110 billion in healthcare savings targeted by the group would amount to 2.5% of overall spending of $4.4 trillion over 10 years in California, according to the report. Those savings would mean an extra $800 annually for every California household.

Overall, the report found that 53 percent of the state’s healthcare dollars are spent on just 5 percent of the population, illustrating the high cost of treating certain chronically ill patients.

Pam Kehaly, president of Anthem Blue Cross in California, said this industrywide collaboration “puts us on a path to improving the ailing California healthcare system.”