

The background of the entire page is a close-up, slightly blurred image of the United States flag, showing the stars and stripes in a diagonal perspective. The stars are white on a blue field, and the stripes are red and white.

A Bipartisan Blueprint for Improving Our Nation's Health System Performance

February 23, 2018

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Governors across the country are leading efforts to transform their health care systems to produce better health outcomes at a lower cost to governments, employers and individuals. States play a key role in health care transformation as major purchasers of health care, as chief regulators and administrators, and as catalysts for bringing together diverse stakeholders around a shared vision for improving overall health system performance.

Governors understand that, while some issues may temporarily divide us, on most issues we can find agreement and act for the good of our states and country. This paper represents a bipartisan approach for improving our nation's health system performance, including principles and core beliefs to guide reform, as well as specific strategies that address the most urgent problems in the current system in ways that we believe will sustain broad support.

GUIDING PRINCIPLES

- **Improve Affordability:** Insurance reforms that increase access to quality, affordable health care coverage must be coupled with reforms that address rising health care costs across the health care system. Insurance reforms should be done in a manner that is consistent with sound and sustainable cost control practices.
- **Restore Stability to Insurance Markets:** Americans without access to employer-sponsored coverage or government plans need to have access to a healthy, stable and competitive market of insurers from which to choose.
- **Provide State Flexibility and Encourage Innovation:** States can develop innovative approaches that have the potential to strengthen health insurance for all Americans. Within standards that protect the most vulnerable, states should have appropriate flexibility to implement reforms in a manner that is responsive to local and regional market conditions.
- **Improve the Regulatory Environment:** As the principal regulators of insurance, states are in the best position to promote competition within state insurance markets. Federal efforts should provide appropriate standards to protect consumers while limiting duplicative or burdensome regulations and providing relief to small business owners and individuals.

CORE BELIEFS

- ***We can and must achieve multiple, complementary objectives:*** protection for all, access to high quality care, and affordable, sustainable costs for consumers and payers over time. Too often, these objectives are framed as options in opposition to each other:
 - *We can ensure Americans have high quality health care or we can reduce costs.*
 - *We can either be fiscally responsible or be generous and humane.*
 - *We can foster individual accountability or we can support people in need.*
 - *We can embrace a national vision or we can address the needs of each market.*

We reject these false choices. Other sectors of the economy have delivered greater output at lower cost over the last 30 years. We should expect the same high performance and continuous improvement from our healthcare system.

- ***The best strategies to improve our health care system address multiple objectives simultaneously,*** reconcile competing priorities, and holistically address our present and future needs.
- ***Material, lasting improvement to our health care system requires harnessing private sector innovation and competition to the benefit of all.*** When ingenuity and capital are focused on what we most value, we see incredible innovation and productivity gains. Enabling competition requires alignment of the incentives of all stakeholders with what we value, sufficient transparency, and appropriate regulation. In our current health care system, providers compete to provide more care, not necessarily better care. This misalignment of incentives, which rewards volume instead of value, is the most significant root-cause challenge in our system and addressing it should be our greatest priority.
- ***Targeted government action is justified and required when market forces, alone, will not achieve our objectives,*** such as protecting vulnerable individuals without the resources to independently secure health care.
- ***Reform must address the underlying drivers of costs and cost increases,*** including the current lack of value-based competition in our health care delivery system (e.g., hospitals, medical service providers, and pharmaceuticals) and lifestyle-induced disease.
- ***Our expectations for our health care system should be consistent nationally.*** Every citizen in every part of the country deserves a high performing system. We need a single, holistic, integrated framework to improve our system over time.

But within a national framework one size will not fit all. Many aspects of health care, such as population characteristics, market structure, and variance in local governance (e.g., tribal authorities), differ significantly across markets. The execution of a national strategy will necessarily vary by state and region.

- ***It is more practical and less risky to build from the elements of our system that are stable.*** For example, our primary coverage and financing mechanisms – employer sponsored insurance, Medicare, and Medicaid – are imperfect and would benefit from reform, but they are also well understood and much more stable than is often believed. These mechanisms should be the foundation of efforts to expand affordable health care coverage.

- ***How we deliver reform is fundamental to its potential success.*** Lasting, high impact reform must be bipartisan, driven through an inclusive, transparent process, and necessarily involve compromise. To sustain reform, both national parties must feel ownership for reforms and their success – or failure – over time.

STRATEGIES FOR IMPROVING HEALTH SYSTEM PERFORMANCE

Payers, providers, and consumers know that we must reorient our health care system on value. To achieve this goal, we must align consumer and provider incentives, encourage more competition and innovation, reform insurance markets, expand proven state Medicaid innovations, and modernize the state and federal relationship.

Reorient the system on value

Coverage is important, and coverage reforms can help contain costs, but our nation needs to confront the underlying market dynamics that are driving unsustainable increases in the cost of care. With the support of the federal government, states are resetting the basic rules of health care competition to pay providers based on the quality, not the quantity of care they give patients. This is true in our states, where we are increasing access to comprehensive primary care and reducing the incentives for medical providers to overuse marginal or unnecessary services within high cost episodes of care. Reorienting the system on value needs to be our greatest priority. Congress and the Administration should work with states and make a clear commitment to value-based health care purchasing.

Key components:

- Measure the value delivered by all health care providers and payers in a way that is fair, technically credible, and relevant to patients and purchasers; and make this information broadly transparent to all policymakers, consumers, and stakeholders.
- Use information and incentives to drive an evolution of primary care, from being reactive, focused on individual encounters, and fragmented, to holistic care delivered by coordinated teams of clinicians empowered and accountable for the health and cost of populations over time.
- Use information and incentives to empower and hold providers accountable for the end-to-end costs and outcomes for episodes of care.
- States “lead by example” using Medicaid and state employee benefits (and to a lesser extent, individual and small group markets) as a catalyst for change, to overcome inertia, and achieve critical mass to reorient the system on value across public and private sectors.
- Federal government champions value-based care in federal programs (e.g., Medicare, MACRA Quality Payment Program, Federal Employee Benefits) and those jointly-administered with the states, aligns priorities for value-based purchasing across all federal agencies, and uses its regulatory capacity to support or partner with states and the private sector.

Align consumer incentives

Consumers play a critical role in the medical decision-making process and make multiple decisions in the path of care that ultimately impact the value of care delivered. The federal government and states can work to align consumer-focused incentives and encourage the development of tools that provide consumers with the information they need to create value in our health care system.

Key components:

- Ensure that all Americans have access to appropriate, affordable, high quality coverage independent of their health, age, gender, employment status, or financial situation.
- Build upon existing financial incentives to encourage consumers to secure coverage and prepare for potential out-of-pocket expenditures.
- Ensure that each American financially contributes to their health care consistent with their financial capacity
- Encourage responsible choices by empowering consumers with useful information and incenting healthy lifestyles and value-conscious care delivery decisions.
- Encourage the creation of new technologies and tools that will allow consumers to create value-based health care decisions.

Encourage more competition and innovation

Over the past two decades, there has been tremendous consolidation among health care providers. Consolidated provider systems can resist the kind of competition and innovation that has created efficiencies and benefited consumers in other sectors. The Federal and State governments must ensure that market competition is focused on driving better patient outcomes, increasing efficiency, and decreasing costs.

Key components:

- Encourage innovation (including cost-reducing innovation) in business, technology, and workforce models.
- Directly combat anti-competitive behavior, particularly among local hospital systems, pharmacy benefits managers, and pharmaceutical companies.
- Require greater sharing of health care data of all types across entities.
- Systematically review and rationalize federal and state regulation that may inhibit innovation and competition (e.g., credentialing, clinical trials, and prescription drug import regulations).

Reform insurance markets

Most Americans currently have access to a stable source of health insurance coverage through their employer, or from public programs, like Medicare and Medicaid. Rising costs are a concern throughout the system, but the volatility of the individual market more immediately threatens coverage for 22 million Americans. We recommend building on the strengths of the current system, and taking immediate action to stabilize the individual market.

Key components:

- Encourage more consumers to participate in plans that are available to them either through their employer or other markets (e.g., ERISA plans at large employers, small group plans, Medicare Advantage, individual market).
- Ensure lower income consumers have access to quality coverage by maximizing all available options (e.g., financial assistance, expanding Medicaid), while avoiding perverse incentives.
- Build on the August 30, 2017, [bipartisan governor's recommendations](#) to strengthen our nation's individual health insurance markets:
 - Reinstitute Cost Sharing Reduction Payments,
 - Maximize carrier participation (e.g., by exempting carriers who offer plans in underserved areas from the federal health insurance tax in those areas),
 - Maximize consumer participation (e.g., by increasing outreach to healthier individuals, and fixing the family glitch),
 - Promote appropriate enrollment (e.g., by verifying special enrollment period qualifications).
 - Stabilize risk pools (e.g., via risk adjustments, reinsurance, and risk sharing), and
 - Reduce cost through coverage redesign and payment innovation (e.g., by granting states more flexibility in choosing reference plans for essential health benefits).

Expand proven state Medicaid innovations

States have taken the lead in promoting value in their Medicaid systems. Many states are working to move away from volume-driven, fee-for-service to value-based payments and care coordination. Federal and state governments should recognize and replicate the successful track record of select states to increase quality and lower costs in state Medicaid programs.

Key components:

- Define and scale value-based care and payment models (e.g., integration of physical and behavioral health, comprehensive primary care, episodes of care).
- Invest in state-based transitions to new value-based models of care that have the potential to reduce per capita Medicaid spending over time.
- Incorporate social determinants of health into Medicaid.

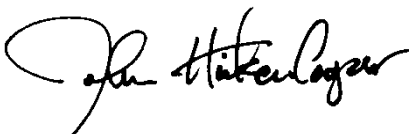
- Measure and incent health and critical social outcomes (e.g., reducing poverty, increasing employment, reducing criminal recidivism).
- Manage Medicaid risk-adjusted cost per person, over time, below national medical inflation.
- Use best practice vendor management to extract meaningful value from third parties (e.g., managed care companies, IT vendors).
- Provide a smooth transition from Medicaid to the individual market (back and forth) while reducing churn between the two.

Modernize the state and federal relationship

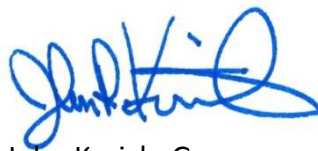
States can pursue many health care reforms without federal assistance. However, in some cases states are constrained by federal law and regulation from being truly innovative. We urge Congress and federal agencies to work with states to overcome these constraints.

Key components:

- In partnership with states, the Federal government should focus on defining and protecting a real "minimum" standard, or "floor," for health care systems in every state that maintains coverage, increases value, and protects consumers, while affording states broad independence above that floor.
- Federal government to provide leadership where a national approach is most efficient (e.g., regulation of pharmaceuticals, air ambulances).
- Fully align governance and incentives in programs shared among states and federal government (e.g., dual-eligible members).
- Explicitly recognize successful state innovations in value-based care (e.g., via the State Innovation Model program) and support other states in replicating those successes (e.g., resources, expedited waivers) while aligning Medicare as much as possible.
- Streamline administrative processes (e.g., waiver requests) to be easier, faster, more consistent, and more predictable.



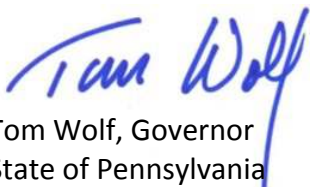
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