Prepared Testimony of

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"Examining Pay-for-Performance Measures and Other Trends in Employer-Sponsored Health Care"

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Chairman Johnson, Congressman Andrews, and other distinguished members of the Subcommittee, I am Dr. Robert Galvin. I appreciate the opportunity to share the employer perspective on the topics of the day: pay-for-performance measures and other trends in employer-sponsored health care. This is an important issue and I applaud the Subcommittee for creating a forum for Members of Congress and the public to learn more. I am Director, Global Health, for General Electric. I also serve as Director, Health Care Value Initiatives for HR Policy Association's Health Care Policy Roundtable. In my position at GE I am responsible for the design, operations and financial performance of the health benefits GE offers its employees, family members, and retirees as well as for the overall health of this population. Our population totals about a million people with an annual expenditure exceeding two billion dollars.

HR Policy Association represents the chief human resource officers of more than 250 large employers. The Chairman of the Association is William J. Conaty, Senior Vice President of Corporate Human Resources for GE. The number one concern among HR Policy members is the unsustainable increases in health care costs and deficiencies in health care quality that threaten the viability of our nation's health care system. In 2003, the HR Policy Association Board of Directors created the Health Care Policy Roundtable to take decisive action using the collective influence of America's largest private employers to address health care cost and quality issues that plague both private employers and government payers. The Roundtable is chaired by J. Randall MacDonald, Senior Vice President of Human Resources for IBM. Its strategies are premised on the recognition that companies, which employ more than 20 million employees worldwide, can use their collective buying power to leverage health care market reforms within existing public policies. In turn, these reforms may provide guidance to policymakers in addressing needed changes in U.S. health care policy.

Two private sector initiatives being undertaken by HR Policy's Roundtable are relevant to the discussion today—the National Health Access program and the Regional Health Care Quality Reform Initiatives. National Health Access is a program created by a coalition of 60 companies within the Association to create improved health insurance options for workers without access to employer provided coverage, and simultaneously drive two key market principles: transparency, meaning the public release of measures of performance about doctors and hospitals, and pay-for-performance. The program has the potential to affect 3 million individuals and will launch with the first round of employers this fall. The efforts of the Roundtable's Regional Health Care Quality Reform Initiatives, which are chaired by John D. Butler, Executive Vice President, Administration and Chief HR Officer of Textron, Inc., are a critical component of the Roundtable's reform agenda and are directly in line with the focus of today's hearing. The Roundtable has worked with a number of companies and organizations in specific regions to accelerate the measurement, reporting, and dissemination of health care provider quality and efficiency data. I will describe the early efforts of one of these initiatives in Phoenix in more detail later.

The Problem

Many of us are too familiar with the problems that plague our health care system. Purchasers, providers, and patients of health care services can no longer accept the status quo. The U.S. spends significantly more on health care, both in terms of dollars per capita and as a percentage of Gross Domestic Product, than any of our trading partners, yet it is difficult to make the case that sufficient value is being derived to justify the enormous cost. At the same time it is large employers, the private sector, who bear a significant portion of the financial burden for this difference with our trading partners, and for that we suffer the competitive consequences. Health

care purchasers face double digit increases each year with no sign of a decline in costs or more manageable inflation in the foreseeable future. As such, health care is crippling America competitively and draining our federal budget.

Of equal concern is the fact that the huge resources we plow into our health care system do not provide access and high quality care for all. It is estimated that 45 million Americans are without health insurance coverage. Simply layering our existing, opaque, health care system across 45 million uninsured Americans is not the solution. This would increase overall cost without addressing the systemic flaws in our health care system. In addition to a coverage gap, there is a serious quality gap. A recent study by the RAND Corporation found that adults received recommended care only about 55 percent of the time. Clearly meaningful reform is needed. Fundamental components of the solution to these quality deficiencies lies in greater transparency and disclosure about cost and quality throughout the system, engaging consumers who have a stake in the financial as well as clinical outcome, and basing payment to doctors and hospitals on performance.

Focus of Testimony

I am fortunate to share the panel with two individuals who are very knowledgeable about pay-for-performance measures. In particular, Jeff Hanson of Verizon is an expert on the topic and as President of Bridges to Excellence, he is heading a successful practical application of a pay-for-performance model. As a result, I will focus my testimony on other efforts that employers are collectively and individually undertaking to create incentives for doctors and hospitals to improve patient care and patient outcomes. Specifically, I'll describe three emerging trends among employers: 1) purchasing aimed at finding providers that provide the best clinical outcomes at the best value; 2) efforts to inject greater transparency about the clinical

effectiveness and efficiency of providers into the health care system accompanied by a payment that rewards performance; and 3) increasing involvement of business leaders at the corporate executive level in health care purchasing. I'll also provide some examples of these trends.

Employers Are Shifting to Value Based Purchasing in Health Care

Employers recognize that the purchase of health care is unique and personal for a company's workforce. There has to be a sense of trust between those making decisions on benefits and those for whom the use of the benefits is critically important. Therefore, there cannot be a perfect comparison between purchasing health care and selecting a supplier for other services. However, the basic premise of demanding high standards and holding suppliers (health care providers in this instance) accountable is transferable to health care purchasing.

It was not too long ago that the dominant employer model for purchasing health care focused on finding the lowest unit cost of care. This short-sighted approach may have resulted in short-term savings for a limited time, but did nothing to improve the overall health of our workforce. In addition, as demonstrated by the double-digit increases in health care premiums that employers have faced over the last several years, it is clear this approach failed to lower health care inflation for any appreciable time. Employer purchasing of health care is no longer simply a matter of finding the cheapest deal. This would be a disservice to employees and do nothing to address deficiencies in the system.

Employers are moving from purchasing based on cost to purchasing based on value, meaning health care that delivers optimal clinical outcomes in the most efficient manner. Experts have continuously demonstrated that there are significant differences between doctors and hospitals in how well and how efficiently they deliver medical care. At GE, our analysis shows that in every

major market that we have employees the same level of quality is available at prices that differ by 30-40 percent. Our data shows that less than 35 percent of our hospital admissions occur at hospitals that score highest on both cost and efficiency. Large employers are beginning to demand more and hold providers and health plans accountable for delivering high quality care. They are sending the message that it is no longer tolerable to accept these deficiencies.

Transparency is the Foundation of Meaningful Efforts to Lower Costs and Improve Quality

GE, along with the members of HR Policy's Health Care Policy Roundtable, believe a fundamental component of the solution to quality deficiencies lies in greater transparency and disclosure about cost and quality throughout the system, and engaging consumers who have a stake in the financial as well as clinical outcome. True market reforms can't occur when purchasers and consumers have no idea what the true cost of certain health care services and products are. Employers and employees must be exposed to the real net cost of the product or service. At a minimum, health care purchasers and consumers want to lift the veil to find out who the best health care suppliers are—including hospitals and physicians—for specific procedures. This information can then be used to provide incentives to consumers to use high performing providers and the best treatment alternatives and to pay providers differentially based on their performance.

A major positive advance over the past decade has been the development of metrics that can measure quality at the level of doctors and hospitals. While it is true that these measures are still being perfected, most private sector employers and employer organizations like the Health Care Policy Roundtable, as well as many physicians, believe that they are accurate enough for public release. Recent efforts to develop a standardized set of these measures have been successful, including the Ambulatory Quality Alliance, a collection of professional trade organizations

which recently agreed on a starter set of measures acceptable to organized medicine and health insurance companies, and the HR Policy Association which developed a more complete core set of measures. Although there is little scientific data to cite, it is common sense in the business world that what is measured is managed, and that making public the performance of doctors and hospitals will spur improvement.

Injecting greater transparency into the system is even more important as more employers and employees shift to designs that give consumers more control over their health care decisions. Health savings accounts and high deductible health plans are based on the premise that patients as consumers will be more sensitive to costs when using these products, and therefore more engaged in demanding value for their health care. At GE, when we ask our employees, over 80 percent say they want the kind of information that can be provided through available metrics and will use it to make decisions about who to see and where to go for treatment. Without transparency, consumers are denied the ability to make informed choices about the care they receive. Needed reform must have the support of both government and private payers. The business community is pleased that some government leaders, such as Mark McClellan who heads the Centers for Medicare and Medicaid Services, are embracing these concepts.

Health Care Has Gained the Attention of Corporate Executives

The experiences of the Roundtable's various Regional Health Care Quality Initiatives is an eye-opener as to what it takes to address some of the problems of our health care system. The effort has evolved to recognize that deficiencies will not be addressed unless the payers force a solution, which can only be done if they work together and exercise their leverage to achieve improvements. Health care has been the number one concern of chief human resource officers for the past several years and is likely to remain a priority concern for several years to come.

However, until now, the prevailing model has been for senior executives to delegate involvement in collaborative efforts to those at a lower level within the company. Those individuals are critical to the success of such efforts. They are skilled and knowledgeable about the specifics of benefit design and employee communications. However, without the involvement of key strategic decision-makers, there are limits to what they can accomplish.

The kind of collaboration and long range planning that is needed is unlikely to occur if left exclusively to corporate benefit managers whose primary focus is meeting the company's benefits needs in the year at hand and putting something workable in place for the following year. They often lack the decision-making authority to institute strategic change at their companies. It is essential, therefore, that chief human resource officers and other senior executives become much more involved in setting benchmarks for the purchase and delivery of health care on a broad collaborative basis, ensuring that those standards are followed, evaluating and ensuring the proper execution of market reform strategies, and creating a climate of accountability to focus all players on the objectives of lowering costs and improving the quality of care purchased for employees. The ultimate solutions for fixing the health care system will involve setting a vision for the purchasing community, reaching consensus on objectives, and executing a collaborative strategy. This can only be achieved by the direct involvement of those at the highest levels among purchasers. Just as the overall direction of the company is set by those at its highest level, the company's role in the future direction of health care must also be shaped at that level as well. The ultimate goal is to drive the health care system toward the "Six Sigma" standards that GE and many employers have embraced within their own organizations.

Though the Roundtable's Regional Health Care Quality Reform Initiatives has focused its efforts at the regional level, where an immediate impact is most feasible, coalition members

understand that it is important to not lose sight of the importance of maintaining a national perspective as well. The reality is that, while change is often a great deal more achievable at the local level, the broad structure of our health care system—currently an employment-based model—will still likely be a national paradigm, enormously influenced by how federal dollars are collected and spent. For this reason, members of the Roundtable believe it is equally important that senior human resource executives play a role at that level as well. These senior executives plan for their involvement not to be simply reactive, but to entail the shaping of a vision of the ideal future role of employers in the health care system with the formulation and promotion of federal policies that achieve that ideal.

Examples of Existing and Emerging Successes in Health Care Purchasing

Individual company and collaborative efforts that incorporate the three trends described above are emerging. Some hold the promise of producing needed reform, and others that have already demonstrated considerable success. At GE, while we have not found a "silver bullet," we are proud of our progress in addressing deficiencies in the health care system through our internal purchasing system. We have learned that a combination of flawless execution of purchasing basics plus a willingness to be innovative, using purchasing clout to address fundamental problems in our health care system, yields optimal results.

The Leapfrog Group. Employers have learned that through united efforts they can successfully catalyze change. The progress achieved by private and public sector purchasers through The Leapfrog Group is an example. The Leapfrog Group is a coalition of more than 165 Fortune 500 companies and other large private and public sector purchasers of health benefits. Its members work to trigger "leaps" in the safety, quality and affordability of healthcare by supporting informed health care decisions and promoting high-value health care through

incentives and rewards. Leapfrog has identified and refined four hospital quality and safety practices: computer physician order entry; evidence-based hospital referral; intensive care unit (ICU) staffing by physicians experienced in critical care medicine; and quality index of measures of safe practices.

Leapfrog members work to trigger "leaps" in the safety, quality and affordability of healthcare by supporting informed health care decisions and promoting high-value health care through incentives and rewards. Leapfrog's strategy is for each of its members to insist on transparency and pay-for-performance in its contracts with health plans. Leapfrog recently launched its Hospital Rewards program, which is essentially a private sector version of the highly successful CMS Premier Hospital Incentive Program. If enough purchasers include the Leapfrog language in their contracts and insist that plans participate in the Hospital Rewards Program, health plans will then change their contracts with doctors and hospitals, insisting on data release and paying for performance.

Phoenix Project. One of the Regional Health Care Quality Reform Initiatives being undertaken by the Health Care Policy Roundtable in Phoenix, Arizona is just getting off the ground, but holds great promise. Several HR Policy Association member companies with a significant number of employees and/or retirees in the Phoenix region, such as GE, IBM, and Honeywell, have teamed up with health plans and health care improvement organizations to enhance the depth of information about provider quality and efficiency available to employers and consumers. Major partners in the endeavor include CIGNA, The Leapfrog Group and Bridges to Excellence. CIGNA's decision to publicly release information on a core set of performance measures, moving away from a proprietary model for measuring quality, is a groundbreaking approach that will advance transparency greatly. Recently, St. Luke's Health

Care Initiatives, an Arizona-based nonprofit dedicated to improving community health, and other national health carriers in the region have expressed interest in joining the effort.

Working together, the organizations will broaden access to standardized quality and efficiency measurements and to make that information publicly available to patients and purchasers. Phoenix partners have agreed to take the project on two paths. First, they will pursue a short-term goal of promoting pay-for-performance through existing programs such as Bridges to Excellence and The Leapfrog Group. At the same time, the stakeholders involved will work toward a more ambitious longer-term goal of aggregating data across health plans and employers on provider efficiency and quality, and making that information publicly available.

All comers are welcomed to this initiative, including additional health plans, regional coalitions and employers of all sizes. The more companies and organizations that are on board, the better our chances are for success. The Phoenix project creates a powerful and comprehensive approach to regional quality reform for care that can be emulated in other markets across the country. Though the Phoenix project will begin as a local endeavor, it can serve as a model for the sharing of data and information among employers, consumers and other health plans.

Conclusion

Consistent and dedicated efforts by employers can achieve significant improvements to our health care system despite the formidable challenges that we face. GE and the Health Care Policy Roundtable are examples of the business community's dedication to ensure that our nation's workforce receives the highest quality health care, and that health care purchasers and consumers have access to important quality information about doctors and hospitals upon which

to make important decisions. Only then can purchasers begin to pay providers differentially based on the quality of care delivered. We are encouraged that the federal government, particularly through innovations in quality improvement and an examination of moving toward pay-for-performance in the Medicare program, is taking a lead on these important issues. We welcome efforts to partner with the government to move our nation's health care in the right direction.