



# Connie Nelson, Consultant, Public Strategies Group

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

June 17, 2011

**Present :** Dave Broden (phone); Paul Gilje, Sallie Kemper, Ted Kolderie, Dan Loritz, Tim McDonald, John Mooty (phone), Wayne Popham (phone), Clarence Schallbetter, Sandy Vargas

**Summary of meeting :** *Connie Nelson, consultant with Public Strategies Group, describes the report, "Beyond the Bottom Line", which the group prepared for a cohort of Minnesota foundations. While the original report proposes several public-sector reforms, this interview focuses on health care issues, including paying for positive health outcomes and eliminating tax breaks for employer provided insurance plans. The recommended reforms could result in health care savings of nearly \$1 billion a year.*

**A. Welcome and introductions** - Connie Nelson, Partner Emeritus with The Public Strategies Group ("PSG"), has been closely involved with the crafting of the consulting firm's "Bottom Line" reports on state finances. She has also led design processes in the areas of child protection, property tax equity, child support collection, health consumer advocacy, and wastewater treatment. Prior to joining PSG in 2004, Nelson was an 18-year veteran of state government having served as Assistant Commissioner of the Minnesota Department of Revenue and fiscal analyst with the Minnesota House of Representatives.

## **B. Discussion**

Nelson opened the interview by stating that a collection of Minnesota foundations have courageously come together to bring forward ideas that could offer alternatives in the present budget controversy to cutting services or raising taxes.

"They gave us a tough challenge back in 2009," she said. "They told us: 'You have six weeks to find ideas that have the capacity to significantly affect the state budget - and improve public services.' We did this-we found many opportunities for improving public value."

Then she continued, PSG went deeper on nine areas, and produced the report, Minnesota's Bottom Line (MBL). This year the Foundations revisited the ideas covered by MBL, and chose to highlight seven with particular potential. This additional research was published March 2011 as Beyond the Bottom Line (BBL) ( <http://tinyurl.com/69q25e3> ).

"We think of redesigning as rethinking a system anew," she said of The Public Strategies Group. Redesigning isn't planning-it is looking for a few breakthrough ideas that will torque a new change. It includes examining incentives lying deep down in the system.

The goal of Public Strategies Group, in their work with other clients and on this project particularly, is to improve the ratio between results citizens receive and public dollars spent. Both parts of that ratio need to be visible, Nelson said, and continually reexamined.

She then described some ideas from Beyond the Bottom Line, pertaining to the subject of this interview-health care.

### **Buy health, not sickness, by changing incentives.**

"Minnesota has an opportunity to spend \$2 billion less in the 2013-14 biennium by buying health rather than sickness," Nelson said. This savings relies on two fundamental ideas: health care payment reform, and reduction of health-related tax "expenditures".

Addressing payment reform, Nelson asked, "What if Minnesota took its portfolio of publicly paid state health care and thought of that as one purchasing block?" The state could use this buying power to purchase health and wellness-instead of just buying a series of procedures to treat someone who is ill. To hasten a move toward this approach, BBL urged taking advantage of the health insurance exchanges recently authorized by the new federal health care law. The law requires insurance exchanges to be in place by 2014, and states can obtain funds for developing their own exchanges. No one wants the alternative, she said, which would be waiting until the Federal government steps in to do it for us.

"The bottom line in health is that the price we pay is too high. The costs are not sustainable, and are bankrupting businesses, individuals and the state." Nelson said that her perspective for why the cost is rising so quickly is that we are paying by the episode of illness. Doctors and other medical providers are going to determine how they can make money within the constraints of any health care insurance schema, she said, and they're going to conduct their practices accordingly. So the state needs to find out how to pay for wellness and provide the right incentives to providers toward that end.

She argued that fundamental payment reform is needed. To implement payment reform, she said, 30 percent of the market is needed to tip the way payments are made. That is, payment reform will not start to gain widespread acceptance until 30 percent of health insurance is structured in this new manner. Minnesota could reach 30 percent with its public purchasing alone. (All public health purchasing - at the state, county, school district levels - for public employees and people served under public programs constitutes approximately 2 million covered lives). She hopes that other employers would join in, until the whole marketplace is "tipped" toward buying health outcomes.

A participant asked Nelson whether she has a sense of how much of the growth in total health payments is due to volume increase, with people getting older and needing more care, versus cost increase?

A lot of it is a result of the aging population, she replied-because the most expensive year is the final year of life. But, it's also because we all want access to every test, every procedure, every specialist -

without realizing that higher spending is not correlated with better outcomes, according to two generations of Dartmouth research.

"Coming down to the mechanics of a new system," a participant asked, "what are the two or three major questions that have to be answered in the process of lowering the total cost of care?"

Nelson replied that she believes a task force convened by Governor Pawlenty came pretty close to focusing on those questions. "Total cost of care" is not a new idea," she said, "it just hasn't been completed." The key, she contends, is rooted in competitive bids from providers, based on both health outcomes and price. To do so, three main issues need to be addressed:

1. Who is going to be in a purchasing block?
2. Do they agree to operate by the same rules (i.e. basic benefit set, buying outcomes)?
3. Can they structure common risk-adjusted populations as a basis for bidding?

And, all the experimentation the health care plans and providers have been doing in Minnesota - around health care homes, total cost of care and shares in savings - position Minnesota well.

Sandy Vargas, guest and President of the Minneapolis Foundations commented on the positioning of the new BBL report during the interim. "As we have moved forward, we have hired a lobbyist and PR strategist. We were naïve in the first round (with The Bottom Line), thinking that all we had to do was hand these brilliant ideas to the public officials and they would be taken up."

Now, she said, the foundation leaders "have made a concerted effort to meet with the leadership on both sides, and both sides are interested."

A participant commented: Imagine if you could get a group of people to come together and petition the government to underwrite an effort to devise something that could be a model for the rest of the nation.

### **Improve results and Save money through redesign of medical assistance.**

Health care costs including medical assistance for the poor is growing at 8.5 percent per year, Nelson said. Meanwhile, health outcomes received for Minnesota's Medical Assistance payments of \$5 billion a year are not visible. We don't hear if the health status of people on Medical Assistance has been maintained, improved, or worsened. BBL says it is time to redesign MA -to achieve better health outcomes at a dramatically reduced rate of expenditure growth. To a question about seeking the waiver from federal regulations regarding Medicaid-and whether Minnesota should instead redesign the system itself-Vargas commented that the issue has been politicized too much, so she is not sure the foundations would be involved with it.

Even so, "Just think if we could move from talking about unfunded mandates, to talking about un-mandating funds. It is possible-Rhode Island has an effort working on it."

### **Seize the initiative in the design of Minnesota's health exchange.**

Every state by 2014 must create health care exchanges. Each state is given a tremendous range of opportunity to choose how they design it.

"A health care exchange is a market," Nelson said. "One way to think about it, a Minnesota way, is as a farmer's market where you come to a common site to see many options for purchase. Another way is to view an exchange is as an opportunity for the leverage it provides: for each group that comes in to provide service you can demand results on performance. The health insurers, plans, and providers will have influence in how the exchange is designed, but we have the opportunity to build in the kind of incentives that will ultimately lower overall costs."

Nelson added, "The health exchanges need design work now. Even though 2014 sounds far away, it's right around the corner."

### **Address health tax expenditures.**

"There's one thing in the BBL report that can be done right now, for this biennium's budget," Nelson said, "and that's the elimination or capping of the health insurance tax 'expenditure' or exclusion. This 'tax expenditure' is the exclusion of employer-paid health insurance premiums from an employee's taxable income. This part of an employee's overall compensation is not currently taxed. Minnesota could lead the way by placing a cap on the amount of this benefit that is tax exempt in Minnesota, or by eliminating the exemption entirely.

If the purpose of this tax expenditure was to encourage employers to purchase insurance as part of a compensation package for employees, she argued, the evidence doesn't support that it has been effective. And if the purpose was to help low-income people, the evidence doesn't support that either.

If this exemption were eliminated, Nelson said, it would save approximately \$1 billion per year in otherwise foregone state taxes. With this change the value of the non-exempt employer contribution would be treated as taxable income for the employee.

Once that income is taxed, a participant asked, do the corporations continue to buy the health care for their employees?

"That will be a question," Nelson replied. "But, for employers, there would be no reason to drop or add health care due to this change. There will be many new questions that come up-it hasn't really been fully debated."

Is there any other state leading on this kind of change? "No, I have looked around. Several recent Federal budget task forces have called for exactly this. But no one else at the state level has done it, to my knowledge."

One important result of this change would be to expose the true cost of health care to consumers and put greater pressure on providers and consumers to contain costs. Tax expenditures do not receive the same kind of scrutiny as other areas of spending, and they often cover up the true costs of services. Removing this exemption would help Minnesotans understand the full per capita "bite" that health care takes.

## C. Closing

We need to ask what vision we have for the state, Nelson said, and work to innovate toward that. The Bottom Line and Beyond the Bottom Line were intended to start conversations, and to provide opportunities for action. But there is much more work that can be done, she insisted.

Beyond the Bottom Line contains additional ideas, including some that would embed redesign as a practice into our public systems. Some ideas are brand new; several have been contemplated before; none has been completed. At its core, each intends to offer *hope* that even in this fiscal challenge can still come better ways to meet the needs of Minnesotans. Even if not these specific ideas, we'd love the civic caucus to say: " *We need more ideas like these. We're signing up for redesign.* "

Thank you to both Nelson and Vargas for the visit.