



## Policy Brief

June 29, 2018



### Gawande Tapped to Lead Joint Health Care Venture

Amazon, Berkshire Hathaway and JP Morgan have chosen Dr. Atul Gawande to be the CEO of their [new health care venture](#), taking responsibility for the health of more than a million employees. Perhaps best known for his writing, Berkshire Hathaway credits Gawande's piece [The Cost Conundrum](#) as sparking their initial interest. The practicing surgeon has a [long history](#) of taking a microscope to the flaws of America's health system. In selecting Gawande, someone without much operational experience, the merger's leadership may be indicating that his innovative health care philosophies trump [concerns](#) around his lack of time in the C-suite. Here's a peek into the mind of the new CEO:

#### **Gawande favors collaborative research and data sharing.**

[Ariadne Labs](#), the health care innovation center that Gawande leads, is known for its focus on collaborative problem solving. At the recent Aspen Ideas Festival, Gawande reiterated that whatever is discovered through the new joint venture "has to be open to everyone."

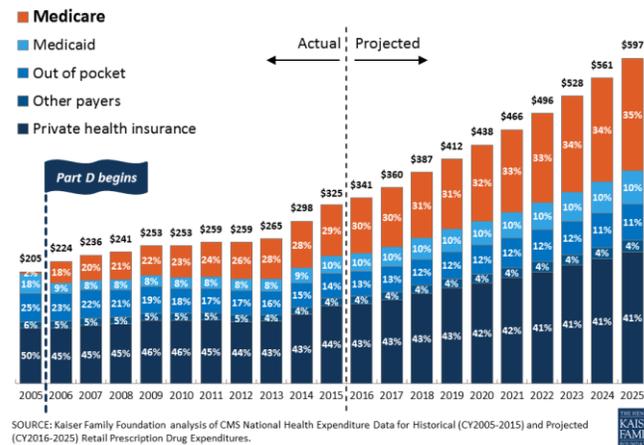
#### **Gawande blames fee-for-service culture for ballooning costs.**

Gawande has repeatedly written about the disproportionately [high cost of care](#) in the U.S. He has noted that "the wrong care is pushing out the right care," causing both unnecessary services and costly readmissions.

## Gawande sees teamwork as the way to tackle medicine’s greatest problems.

When chatting with [TED Radio Hour](#), Gawande was asked to identify the greatest problems facing health care. He responded, “We are trained, rewarded and hired to be cowboys. We’re neither trained, rewarded or hired to be members of teams.”

Total U.S. prescription drug spending, in \$ billions:



## The Rising Cost of Drugs—How Do Manufacturers Explain It?

As drug prices are expected to [increase](#) by nearly 8% in 2018, lowering drug prices is becoming a key piece of the puzzle to lower health care costs. The president’s [Blueprint](#) to lower drug prices, and increasing discussions around price transparency, are placing drug costs under the spotlight. While there may be many factors contributing to the price increases, manufacturers are [attributing it to a system](#) that incentivizes higher rebates and higher list prices. Below is more detail on *drug manufacturers’* take on the high costs of drugs:

**Drug manufacturers face high costs.** The [average cost](#) of bringing a drug to the market is \$4 billion and can be as high as \$11 billion. Additionally, [taxes](#) on prescription drugs cost the industry \$14.1 billion due to measures under the Affordable Care Act (ACA).

**Mandatory rebates and discounts put pressure on manufacturers.** In 2014, the ACA increased mandatory Medicaid rebates [from 15.1 to 23.1%](#). Manufacturers argue that commercial payers and Pharmacy Benefit Managers (PBMs) are also pressuring them for higher rebates.

**This pressure incentivizes manufacturers to increase the list price of drugs.** Raising a drug’s list price allows manufacturers to maintain profits while delivering greater rebates. [Health insurers and PBMs profit off those rebates](#) while the burden of high list prices falls heavily on uninsured patients.

**Manufacturers argue that as list prices increase, larger discounts are given in the 340B Drug Discount Program.** The discounts given to 340B Covered Entities are tied to the increase of the drug price. As drug prices rise, so do the [discounts given](#) in the program.

Some solutions that pharmaceutical manufacturers are proposing are using [outcome-based contracting](#) that ties payment to outcomes of a drug and [promoting the use of biosimilars](#).



### **Farm Bill with Work Requirements for SNAP Passes the House**

Last week, the House passed their Farm bill, an \$860 billion package to fund federal nutrition programs. The bill imposes [stricter work requirements](#) on the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps. This could lead to many people [losing](#) their benefits. However, this policy is not a done deal. The Senate is also working on their own Farm bill, which does *not* include any changes to the SNAP work requirements. If differences remain between the bills, a Conference Committee will be put in place to reconcile the differences.



### **MedPAC Releases Report to Congress**

The Medicare Payment Advisory Commission (MedPAC), a highly influential advisory board, recently released a [report](#) to Congress with recommendations on hospital payments. While many of the proposals are not new, they reflect MedPAC's continued interest for issues such as site-neutrality and changes to the post-acute setting. The policies proposed may or may not be adopted by Congress this year but can serve as a platform for future legislative and regulatory action. To learn more about MedPAC's *proposals* and what to expect, click [here](#).

### **Alex Azar at Washington Post Live**

Health and Human Services Secretary Alex Azar gave an update on his work at the Washington Post's Health 202 Live event. While Azar did not deviate much from his [previously outlined](#) agenda, it did serve as a great crash course on his priorities for those who may not be as familiar. Azar again emphasized his focus on lowering drug prices, allowing for more choice in the insurance market via less comprehensive health plans and reducing health care spending. Check out the [full video](#) of the one-on-one or [click here](#) to skip to sections of interest.



## **CMS Announces Initiatives to Combat Medicaid Fraud**

This week, [CMS announced](#) several initiatives to improve the integrity of the Medicaid program by focusing on state flexibility and accountability. CMS will give states more control of their Medicaid programs but will largely increase oversight over the states through audits. The initiatives seek to reduce Medicaid fraud and curtail program costs. Below are key takeaways from the initiatives:

- States that have expanded Medicaid will undergo more audits.
- State audits will be based on spending on clinical services and quality improvement versus administration and profit, including Managed Care rates and Medical Loss Ratios (MLRs).
- Audits will ensure states are not enrolling ineligible beneficiaries.
- CMS will be utilizing advanced analytics and other innovative solutions to improve payment data and maximize program integrity.



## **A Look at The Federal Register**

**CMS Requests Information on Stark Law.** CMS has issued a [Request for Information](#) on how to reduce regulatory barriers associated with Stark and support the shift to value-based care. The Agency included questions related to Stark exceptions in Alternative Payment Models and approaches to modifying the definition of “fair market value.” Comments are due August 24<sup>th</sup>.

**Final Rule to Expand Association Health Plans (AHPs).** The Department of Labor (DOL) released a [final rule](#) to expand AHPs, which allow employers to band together and purchase health coverage for their

employees. The AHPs will *not* be subject to the coverage and consumer protections under the Affordable Care Act. Because these plans tend to be cheaper, more healthy and young individuals are expected to drop their coverage in the Health Insurance Exchanges and sign up for AHPs. As a result, the Congressional Budget Office projects that average premiums will increase by up to 3% in the Health Insurance Exchanges.

## **IN OTHER NEWS**

[An Insider's View of the Myths and Misconceptions Behind 340B 'Reform'](#) – STAT News

[CVS Adds Home Delivery With Help from Post Office](#) – The Wall Street Journal

[What's in the House Bills to Address the Opioid Crisis](#) – Scientific American

[Azar Blames PBMs for "Broken System" at Senate Finance](#) – Fierce Healthcare

[Senate HELP Committee holds Third Hearing on 340B Program](#) – Association of American Colleges