progressive policy institute • ppi

Case Studies in Innovation January 2006

The Puget Sound Health Alliance

by Eitan Hersh and David B. Kendall

In a boardroom in Seattle, a unique alliance of stakeholders in the health care system meets regularly to foment a much-needed revolution aimed at curtailing the system's costs and improving its quality of service. Representatives of some of the nation's largest health care purchasers—employers such as Boeing and Starbucks—sit beside representatives of the doctors and hospitals who provide care for their employees and the insurance companies that negotiate payments for that care. They are joined by other purchasers, unions such as the Teamsters, public officials, consumers, and health care experts. This group is called the Puget Sound Health Alliance. Its founder, Washington's King County Executive Ron Sims, realized that such an unorthodox alliance is the only way any of the stakeholders could hope to achieve the substantive reforms that they all desperately need.

Some stark findings by the RAND Corporation have sharply defined the problems they face. In a 2004 study, RAND found that patients in the Seattle area (one of eight regions studied) did not receive the recommended care from their doctors 41 percent of the time. Instead, they received wrong, too much, or too little care.[1] That snapshot illustrates the broader problems confronting the U.S. health care system as a whole: It is inordinately wasteful, expensive, and often harmful to patients. The Puget Sound Health Alliance's early successes indicate, however, that it might serve as a model for advancing practical reforms that can dramatically rebalance the skewed health care equation.

What is the Purpose of the Alliance?

One of the most perplexing features of health care policy is that many of the reasons for rising costs are surprisingly easy to identify yet profoundly difficult to address. It is no revelation that deficient communication among health care providers creates duplicative and wasteful services, preventable medical errors, and gaps in the

Eitan Hersh is a Dutko Fellow for PPI. David B. Kendall is PPI's senior fellow for health policy.

“One person with a belief is a social power equal to ninety-nine who have only interests.”
—John Stuart Mill

The Progressive Policy Institute

The Progressive Policy Institute is a catalyst for political change and renewal. Its mission is to modernize progressive politics and governance for the 21st century. Moving beyond the left-right debates of the last century, PPI is a prolific source of the Third Way thinking that is reshaping politics both in the United States and around the world.

The PPI invents new ways to advance enduring progressive principles: equal opportunity, mutual responsibility, civic enterprise, public sector reform, national strength, and collective security. Its "progressive market strategy" embraces economic innovation, fiscal discipline, and open markets, while also equipping working families with new tools for success. Its signature policy blueprints include national service, community policing, and a social compact that requires and rewards work; new public schools based on accountability, choice, and customization; a networked government that uses information technology to break down bureaucratic barriers; pollution trading markets and other steps toward a clean energy economy; a citizen-centered approach to universal health care; and a progressive internationalism that commits America's strength to the defense of liberal democracy.

www.ppionline.org

Rejecting tired dogmas, PPI brings a spirit of radical pragmatism and experimentation to the challenge of restoring our collective problem-solving capacities—and thereby reviving public confidence in what progressive governance can accomplish.

The Progressive Policy Institute is a project of the Third Way Foundation.

care of patients who have serious diseases and injuries. Likewise, it is no secret that the misaligned financial incentives for health care providers yield billions of dollars in unnecessary tests and procedures every year while encouraging little by way of prevention and control of chronic diseases. However, because the infrastructure of health services is a chaotic web of autonomous and often antagonistic units, no single entity—not even a very large employer like Boeing—has the power to catalyze major change alone.

In Washington state, Sims realized that by bringing together enough of the market share of health care purchasers, the Puget Sound Health Alliance could use its market power to push for better value from health providers and insurers, thus reducing waste. However, Sims' vision extended beyond mere cost cutting; the Alliance's main innovation is that, once they are united in a coalition, the employers can press for more comprehensive reform. This is why they have invited doctors, hospitals, and insurers, as well as experts in health care services and information technology, into their boardroom. Sims conveyed a simple, clear message to bring these groups together: Employers have an opportunity and responsibility to demand high quality, efficient health care for their employees. Such an alliance can achieve through collaboration what competition has not done, specifically:

- Set quality standards that can be applied throughout the region;
- Devise a strategy for using technology to share health care data; and
- Expand the impact of reform by implementing it on a large scale.

In the Alliance, the economic power of the buyers is linked with a collaborative agenda for substantive reform.

How was the Alliance Formed?

Washington's King County includes nearly 2 million citizens of the greater Seattle area, a region known for being on the leading edge of the aerospace and technology industries and progressive government. In 2003, when health care costs

were rising with no abatement in sight, Sims was forced to find a way to continue providing health coverage to the employees of King County without draining the budget for essential public services. Most employers have addressed rising costs by shifting the mounting price tag onto their employees, increasing patient co-payments and reducing benefits. Aside from being a financial burden for middle- and working-class families, increasing the employee contribution fails to address the crux of the problem—existing market forces have failed to rein in high costs. Shifting costs to employees may put off a budget crisis in the short term, but only comprehensive change involving all segments of the health care system can produce true efficiency gains. Reluctant to shift the extra burden to his county employees, Sims created a health unit to identify alternative ways to lower costs.

The King County Health Advisory Taskforce—chaired by Dr. Ed Wagner, a widely respected expert on chronic illness at the MacColl Institute for Health Care Innovation, and Dr. Alvin Thompson, a medical school professor at the University of Washington—concluded that one of the best ways to reduce the growing cost of health care is to improve the quality of care provided. This philosophy is strikingly counterintuitive. Our intuition tells us that better quality means higher costs, not lower ones. Upon reflection, however, it makes sense that eliminating wasteful testing, unnecessary medical procedures, and preventable errors improves care in a way that lowers costs. The Taskforce further concluded that no one employer, public or private, could lower costs alone. With patients having many doctors at a variety of hospitals and practices, insurance companies trying to enforce their own guidelines and rules, and individual employers only representing a small percentage of the insured, no single employer could levy enough influence in the market to create big changes on its own.

The Taskforce recommended creating the Puget Sound Health Alliance as a private, nonprofit organization in December 2004 and King County provided a $150,000 start-up grant. The Alliance was to bring together the region's major employers in order to cooperatively target areas of waste, error, and miscommunication; set clear and consistent standards; and create the opportunity for patients, purchasers, providers, and insurers to solve systemic problems. Other local officials, such as Snohomish County Executive Aaron Reardon, worked to include employers and others from their areas. To fund the Alliance's efforts, the board of directors asked employers to contribute an annual membership fee of $5 per person covered. Employer contributions to the Alliance range from $500 and $200,000 per year. Health insurance plans also contribute based on their statewide enrollment.

Rachel Quinn, who was an executive fellow with the Alliance during its early days, explains that many employers were willing and even eager to join the Alliance because they knew the current growth rate of cost was unsustainable and that a small investment in the Alliance could yield substantial gains later on.[2] To date, the Alliance's membership stands at more than 80 public and private organizations, representing more than 700,000 people covered in a five county region of Washington state.

While coalitions of employers have come together in other regions of the country, such as in Minneapolis-St. Paul and the San Francisco Bay area, the Puget Sound Health Alliance is unique for two reasons.[3] For one, this is the first coalition that, from the start, has included public and private purchasers, health care professionals, and health insurance plans. Inclusiveness grants the Alliance good standing across the board,

engendering support and encouragement rather than scorn from the health care community, despite the fact that the purchasers hold the majority of power in the Alliance. Second, this is the first major health alliance launched by an elected official. As county executive, Sims has played two distinct roles as both an employer and a representative of the public at large. Unlike private health care purchasers, he is held accountable to the people of King County when he makes decisions about their health care. And as an employer, he must also look at the business side of health care and maintain a stable budget for King County.

Why Join the Alliance?

For the purchasers, the answer is obvious. Large employers contribute a substantial percentage of their revenue to employee health insurance and they want to lower their costs. Starbucks, one of the Alliance's members, made news last fall when it announced that it will spend more on employee health insurance than coffee beans. As costs rise, employers see the long-term benefit of organizing themselves and investing in the Alliance. Elected officials, such as Washington Gov. Christine Gregoire and Reardon, face the same strain on their budgets and have thus also backed the Alliance.

The health insurance plans have two reasons to participate in Alliance. First, if the insurance companies' biggest customers are planning serious reform, the result could have a profound impact on the insurance business. When new guidelines and performance standards are developed, purchasers will look for the health plan that puts the new model to its best use. If a particular health plan is not contributing to the discussion and taking note of the new demands coming from purchasers, it will lose its competitive edge in the marketplace. Second, health plans want to participate because the Alliance is not just making demands but also bringing groups together to collectively reform health care in ways that individual entities could not do on their own. Data sharing, for example, which is a key facet of the Alliance's plan, requires a commitment to cooperate on the part of purchasers, plans, providers, and patients. The health plans want to share their vision of how data sharing can become viable.

The providers also have two reasons to join in the Alliance's efforts. For one, when health insurance plans make multiple and conflicting demands on hospitals and physician practices to follow practice guidelines and reporting standards, the administrative burden is severe. The Puget Sound Health Alliance affords providers the opportunity to interact directly with health care purchasers and insurance plans and offer their advice in the development of new guidelines. If the Alliance can generate a common set of practice guidelines, shared among all of the area health plans, the administrative savings for the providers could be substantial. Second, the providers join in order to strengthen the doctor-patient relationship and offer a crucial perspective on solving common problems. If, in the development its initiatives, providers are able to point out when the Alliance's ideas are inconsistent with good practice, the Alliance is better equipped to serve patients' interests.

What Is the Alliance Doing?

It is one thing to get health care leaders around the same table; it is quite another to make headway on the cost issue. To pursue its agenda, the Alliance has hired a six-member professional team, headed by Executive Director Margaret Stanley, a former executive with the California Public Employees' Retirement System.

The Alliance's reform efforts are intended to unite the economics of employment-based health insurance with business discipline and leading edge medical science—to capitalize

on the market power of large employers, bring together experts from every corner of the health care world, and utilize scientifically derived evidence on patient outcomes and best practices in order generate the most comprehensive plan possible. Under Stanley's leadership, the Alliance has assembled a number of committees and is now pursuing the following projects aimed at quality standards, data sharing, and benefit improvement:

❒ Evidence-based clinical guidelines

Health care experts have been able to identify several common health conditions that should generally be treated in a uniform way, but often are not. Without guidelines for treatment, physicians may be putting their patients through tests and procedures that do not contribute to better health. With health care providers, purchasers, and insurers in the Alliance, the cohort can decide that, based on all available research, a particular ailment ought to receive a certain treatment across the board. According to Quinn, the Alliance's "Clinical Improvement Teams" are first working on adopting guidelines for diabetes, heart disease, back pain, depression, and prescribing pharmaceuticals. Purchasers are keenly interested in reducing variation in these categories of care, which account for much of the cost in employment-based health coverage.

❒ Public reports on quality of care

Working with quality measures adopted by the Institute of Medicine in December 2005, the Alliance will produce reports, made available to the public, that measure the quality performance of providers in the Puget Sound area.[4] To do this, the Alliance is devising a method to combine and analyze health data from across the state, ensuring that the reports are accurate and useful. The Alliance will help purchasers and others apply the information in these reports to decision-making, which could result in incentives such as "pay for performance," a model whereby health care providers are paid based on quality and value. The mere public reporting of performance can motivate providers to improve in order to avoid embarrassing results or to win accolades.

❒ Personal health records, electronic prescriptions, and medical records

The Alliance will explore options to encourage greater use of electronic health information, such as patient management of personal health records and provider use of electronic medical records and electronic prescriptions. While digitizing hundreds of paper files can be a time-consuming and expensive process, the long-term benefit of having electronic records is minimizing duplicative testing and errors when doctors lack complete and accurate information about patients' health history and treatments. Likewise, the simple act by doctors of typing, rather than handwriting, drug prescriptions will help ensure that patients receive the right medication. The preventable errors caused by doctors' notoriously poor handwriting are costly and can be easily eliminated through the implementation of better technology. Studies show that for every dollar spent on prescription drugs, $1.50 is spent on curing ailments caused by erroneous prescriptions and other drug-related problems.[5]

❒ Best practices in employer benefits management

Since it is comprised of multiple large employers, the Alliance has the ability to share best practices among participants, allowing corporations, unions, and public employers to find out how others are reforming their

internal health care policies to improve care and reduce costs. An example of such an internal policy is Sims' directive that King County establish a health assessment program for county employees, one of the first such programs in the country for public employees. It is projected to shave 30 percent from the county's health care cost increases over two years.

Effective 2006, King County employees will have the option of receiving a personalized assessment of their diet and lifestyle habits, and a set of recommendations to improve their health outlook. Participating employees pay a smaller share of their health plan costs than employees who do not participate. Other employers in the Puget Sound Health Alliance will be able to find out about such initiatives, share information about their success, and work together for broader and better implementation of reform.

A National Model?

Regional coalitions like the Puget Sound Health Alliance are crucial to the future of health care reform. If every metropolitan area in the country established an alliance as organized, inclusive, and ambitious as the Seattle group, patient care would improve, costs would fall in line with benefits, and the looming threat of corporations cutting employee health care benefits might be averted. "Fixing America's Health Care System," a recent paper by the Progressive Policy Institute, suggests several ways the federal government can encourage and support the establishment of regional coalitions.[6] First, Medicare should be administered at a regional level. With regional directors managing the federal program, alliances like the one in Washington could gain momentum and bargaining power by including in their ranks the decisive public health care purchaser. Indeed, Medicare is the only major segment of the health care sector not participating in the Puget Sound Health Alliance. Second, the federal government should encourage regional alliances by offering performance-based grants that reward groups of employers that work with a broad coalition to improve care and reduce costs. Third, the federal government should step up efforts to create a secure electronic channel to share standardized health data.

Innovative efforts like that of the Puget Sound Health Alliance hold the potential to strengthen the health care system and give America hope that first-rate health care can be viable and sustainable in this country. All parties in the business of providing health care to Americans should follow the lead of the Puget Sound Health Alliance and work in parallel to speed improvements elsewhere. The evidence is clear enough to act. It is time to start similar efforts throughout the country.

Endnotes

[1] Across the eight regions studied, patients did not receive the recommended care 46 percent of the time. With a failure rate of 41 percent, Seattle ranked the best among all eight communities. "The First National Report Card on Quality of Health Care in America," RAND Health, 2004, *http://www.rand.org/pubs/research_briefs/RB9053-1/index1.html*
.[2] Quinn, Rachel, Health Policy Liaison, Office of King County Executive Ron Sims, telephone interview with authors, October 17, 2005.
[3] For more information: Buyers Health Care Action Group, *http://www.bhcag.com/*; Pacific Business Group on Health, *http://www.pbgh.org/*.
[4] "Performance Measurement: Accelerating Improvement," Institute of Medicine of the National Academies, December 1, 2005, *http://www.iom.edu/CMS/3809/19805/31310.aspx*.
[5] Ernst, F.R. and A.J. Grizzle, "Drug-Related Morbidity and Morality: Updating the Cost-of Illness Model," Journal of the American Pharmaceutical Association," vol. 41, March/April 2001.
[6] Kendall, David B., "Fixing America's Health Care System: A Progressive Plan to Cover Everyone and Restrain Costs," Progressive Policy Institute, September 22, 2005, *http://www.ppionline.org*.

First-Class Mail
U.S. Postage Paid
Permit 244
Washington, DC

Find this and other policy reports at **www.PPIONLINE.org**, *the official website of the Progressive Policy Institute.*

Now on PPIonline.org:

- ❒ Peaks and Valleys: Colorado's Charter School Landscape
  Todd Ziebarth
- ❒ A New Clean Air Strategy
  Jan Mazurek

Also from PPI's Health Priorities Project:

- ❒ Fixing America's Health Care System
  David B. Kendall
- ❒ Parity-Plus: A Third Way System to Fix America's Mental Health System
  Art Levine

If you would prefer to receive future reports via email, please contact the PPI Publications Department at **publications@ppionline.org.**