

Project Number: SDR 97-001-1

Project Title: Evaluating Cost for Veterans Health Care

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**Background/Rationale:**

Vouchering VA health care is frequently offered by critics as a means to reduce U.S. health spending and improve quality and access for veterans. This project asked the question, "What would it cost to provide the same healthcare benefits as the VA using Medicare as the surrogate payor?" Implications are important to policymakers interested in national health care expenditures.

**Objectives:**

To identify and quantify all VA services and price them under a Medicare or surrogate payment strategy. The hypothesis is that total VA budgets are less than the expenditures for those same services under a payment system similar to Medicare.

**Methods:**

All patient care at six VA medical centers, provided October 1, 1998 through September 30, 1999 was processed according to approved payment criteria and compared to costs in VA's CDR, reconfigured to reflect Medicare cost categories.

**Findings/Results:**

The market value for VA services at the study sites in FY 1999 was \$974 million, 21% greater than VA's cost of \$806 million. Nationally, VA's costs were \$18.8 billion; estimated market value, \$22 billion. The greatest estimated savings were for pharmacy and special programs. Expanding patients' access to care by privatizing VA hospitals would cost U.S. taxpayers at least 20% more. The estimate is conservative because VA provides a richer benefit package at lower cost than U.S. veterans could get under current Medicare regulations if VA were to buy in to its program. U.S. medical education would also have to be restructured to accommodate the 9% of medical residents trained in VA facilities.

Coding accuracy at the six VA sites, for billing purposes, was equivalent to private sector in inpatient, outpatient and nursing home care.

**Impact:**

Findings and results have been incorporated into national information technology initiatives. Comparison of costs allows policymakers to examine services with the greatest potential public liability under a voucher system. Overall results apply to evaluations of other public health care systems.