HEALTH FINANCING

COMMISSION ON INVESTMENT IMPERATIVES FOR A HEALTHY NATION

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The way the U.S. health system operates more often rewards the number of treatment services, fragmentation, discontinuity, and short-term financial returns over prevention, long-term health, access, continuity, and system performance. *Anchoring Health Financing on Better Outcomes: System Drivers and Opportunities for Reform* identifies the structural drivers behind that misalignment and outlines practical policy and market strategies that public and private stakeholders can use to better align financing with the outcomes people should expect from the health system.

Why Health Financing Reform?

The financial incentives at work throughout health and health care are not consistently aligned with the outcomes people expect or deserve. Despite decades of policy innovation and rising health care spending, the nation continues to lag behind peer countries on measures of access, affordability, and population health. Prevailing payment structures, particularly fee-for-service, reward volume and intensity of services rather than prevention, coordination, or long-term health, contributing to systemic inefficiency, waste, and persistent gaps in care.

Many financing models have been tested over the past two decades, but most have not yet moved beyond specific populations, care settings, or demonstration projects. Without broader structural reform, financial incentives will continue to prioritize illness treatment over wellness, reinforce fragmentation and high costs, and fail to ensure accountability for outcomes.

Reasons for Misalignment

This paper identifies three interconnected structural drivers that perpetuate misaligned financial incentives. Together, they reinforce patterns of investment and decision making that are not consistently aligned with high-quality, affordable, and accessible health care.

Financing that favors treatment over prevention
Financing mechanisms favor acute and procedural care rather than upstream investments in prevention and population well-being. Fee-for-service payment rewards service volume and intensity while offering limited support for prevention, care coordination, or addressing social drivers of health.

Fragmented system design
Fragmented coverage and payment arrangements limit coordination and impede a population-based, integrated, or harmonized approach to care. The system's evolution into a set of largely independent payment approaches implemented by numerous government and commercial payers breeds conflicting incentives and administrative burden, making it difficult to align financial incentives around shared goals system-wide.

Diffused oversight and accountability
Dispersed authority across federal, state, and private actors leads to inconsistent rules, competing incentives, and administrative complexity. Variation in coverage policies, payment models, and regulatory requirements increases costs, diverts providers' attention from direct patient care, and limits the nation's ability to pursue a cohesive, system-wide strategy for performance improvement.

Opportunities to Mobilize Efforts

Certain policy and market strategies illustrate practical opportunities available to both public and private stakeholders. Progress will depend on coordinated action across sectors and the thoughtful context-specific application of these approaches.

Emphasis on financing reform
Align financing to reward prevention, primary care, and long-term health.
- Rebalance payments to strengthen primary, specialty, and long-term care.
- Support long-term investments in individual and community health.
- Expand flexibility for evidence-based non-clinical health improvement services.
- Advance global budgets and total cost of care models.
- Accelerate payment models that reward prevention and community-based care.

Integrated system design
Reduce fragmentation by strengthening coordination, accountability, and system-wide alignment.
- Create national and regional accountability for system performance.
- Align policies across health, public health, education, social, environmental, and economic sectors.
- Expand financing options that improve access and continuity of coverage.
- Reduce coverage disruptions that hinder long-term investments in health.

Coordinated oversight and policy
Reduce complexity and improve accountability by better aligning financing policies and oversight.
- Better coordinate public financing programs.
- Promote consistent payment across comparable care settings.
- Streamline financing regulations and oversight.

Each lever involves tradeoffs related to cost, feasibility, political support, and timing. Many of the most influential strategies are held by government, reflecting its central role in shaping health financing—not a call to expand its authority. The paper emphasizes that meaningful progress depends on coordinated action by both government and private-sector leaders, each using the tools available to them to advance a shared vision for better health system performance.

Path Forward

The nation needs a more intentional approach to aligning financial incentives with health system performance. Incremental changes to isolated policies will not be sufficient. Lasting progress will require addressing the structural drivers that consistently produce misaligned incentives and fragmented accountability.

Achieving this vision will require coordinated action across public and private health system stakeholders to align incentives, reduce fragmentation, and strengthen accountability. By activating a strategic set of policy and market strategies, health financing can become a powerful driver of improved outcomes, greater efficiency, and a health system that works more effectively for individuals and communities.

Download the discussion paper at nam.edu/perspectives.

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