



FY 2010 Budget and Health Care Reform: Testimony before the Committee on Finance, United States Senate

Peter R. Orszag, Director
Office of Management and Budget



Reforming America's Health Care System: A Call to Action

“The link between health care costs and the economy is undeniable.”

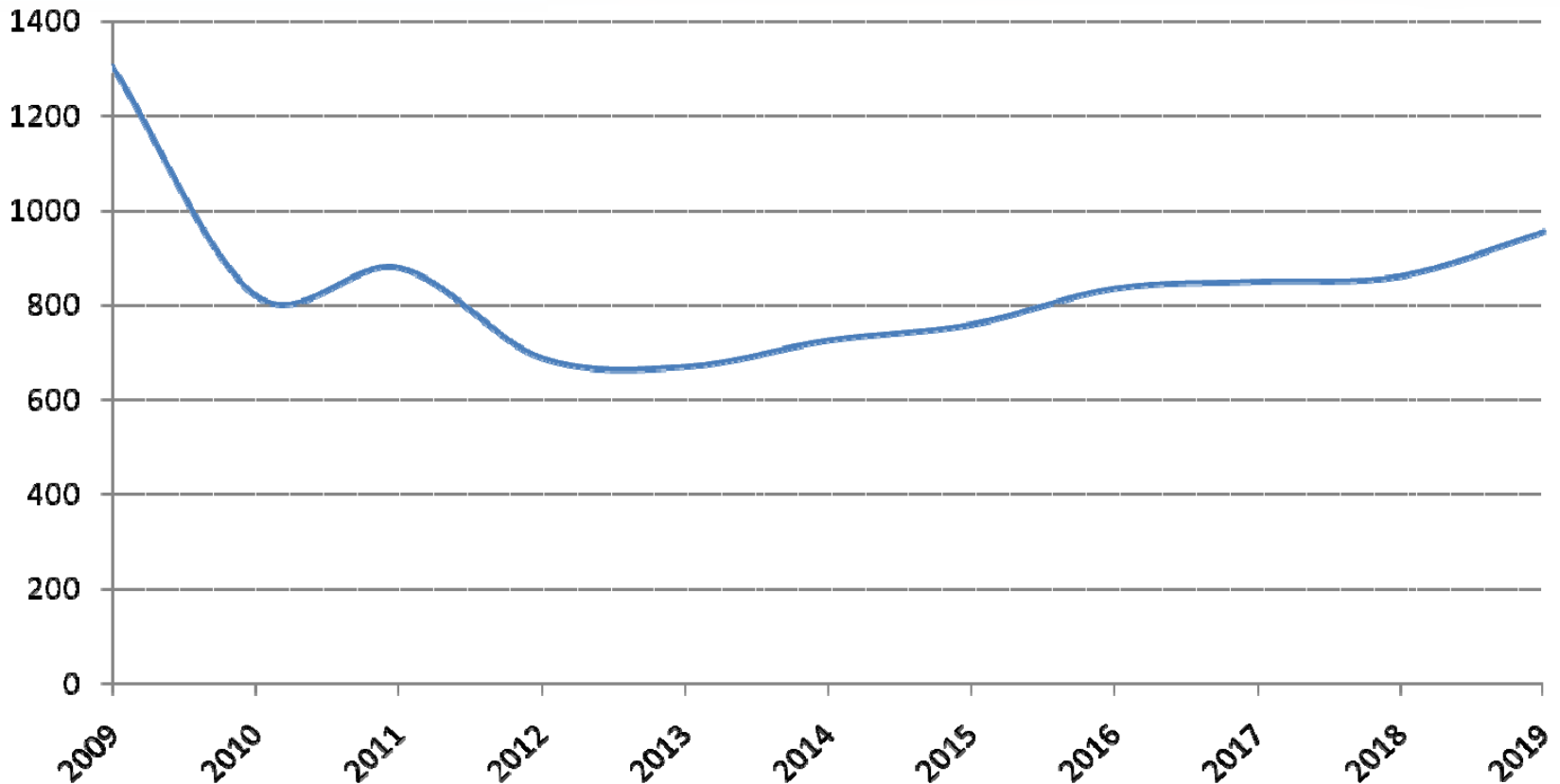
“In 2009, Congress must take up and act on meaningful health reform legislation that achieves coverage for every American while also addressing the underlying problems in our health system. The urgency of this task has become undeniable.”

***— Chairman Max Baucus,
Senate Finance Committee***



Inherited Budget Deficits

Billions of dollars

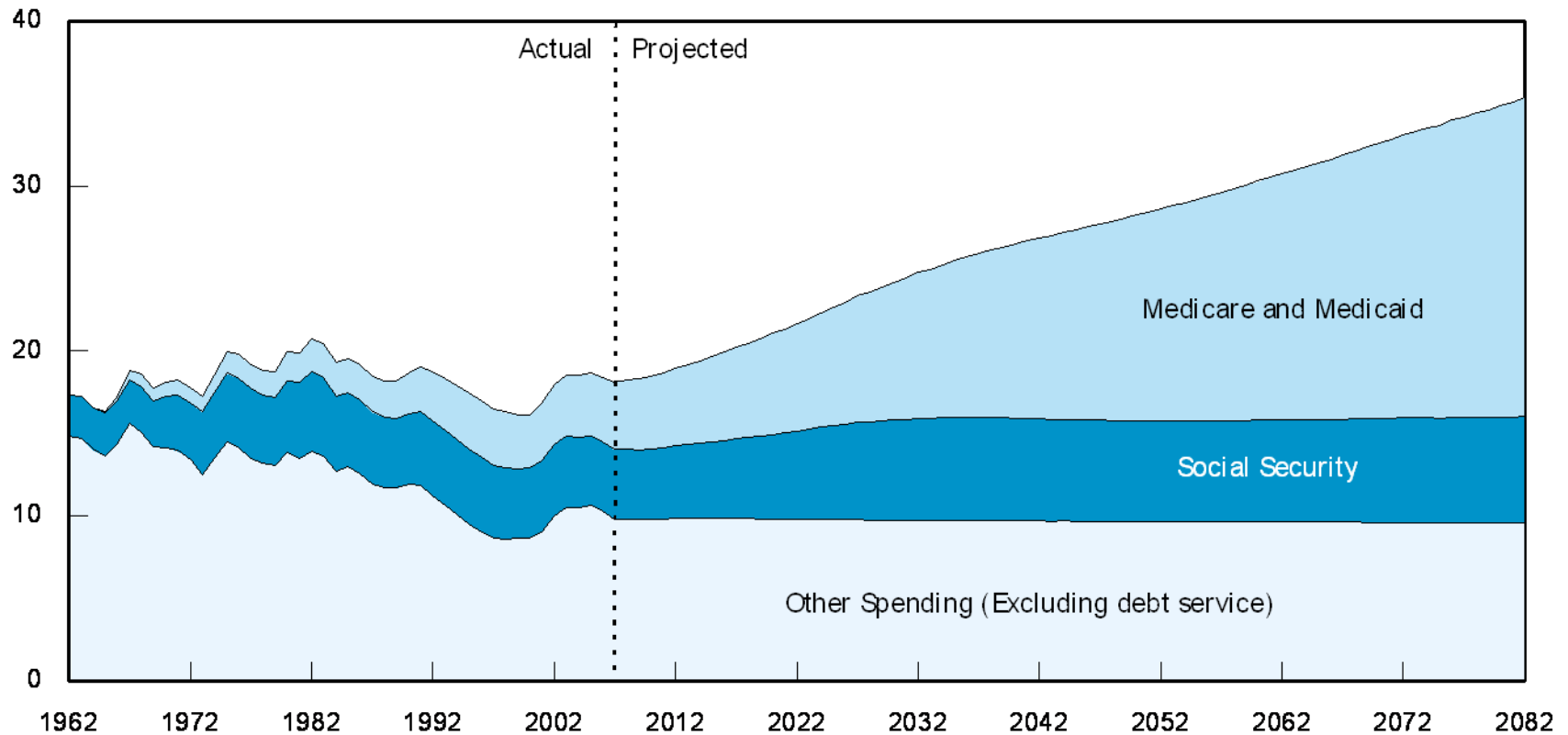


Note: Inherited projected deficits are the baseline projection of current policy minus the impact of the ARRA.



Long-Term Fiscal Gap and Health Care Costs

Percentage Share of GDP





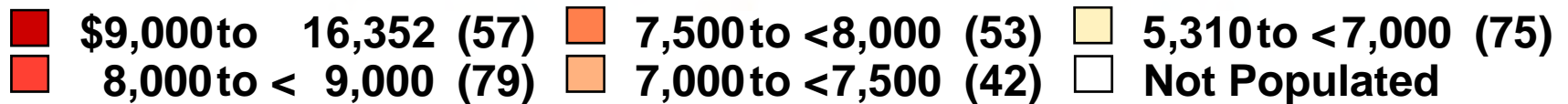
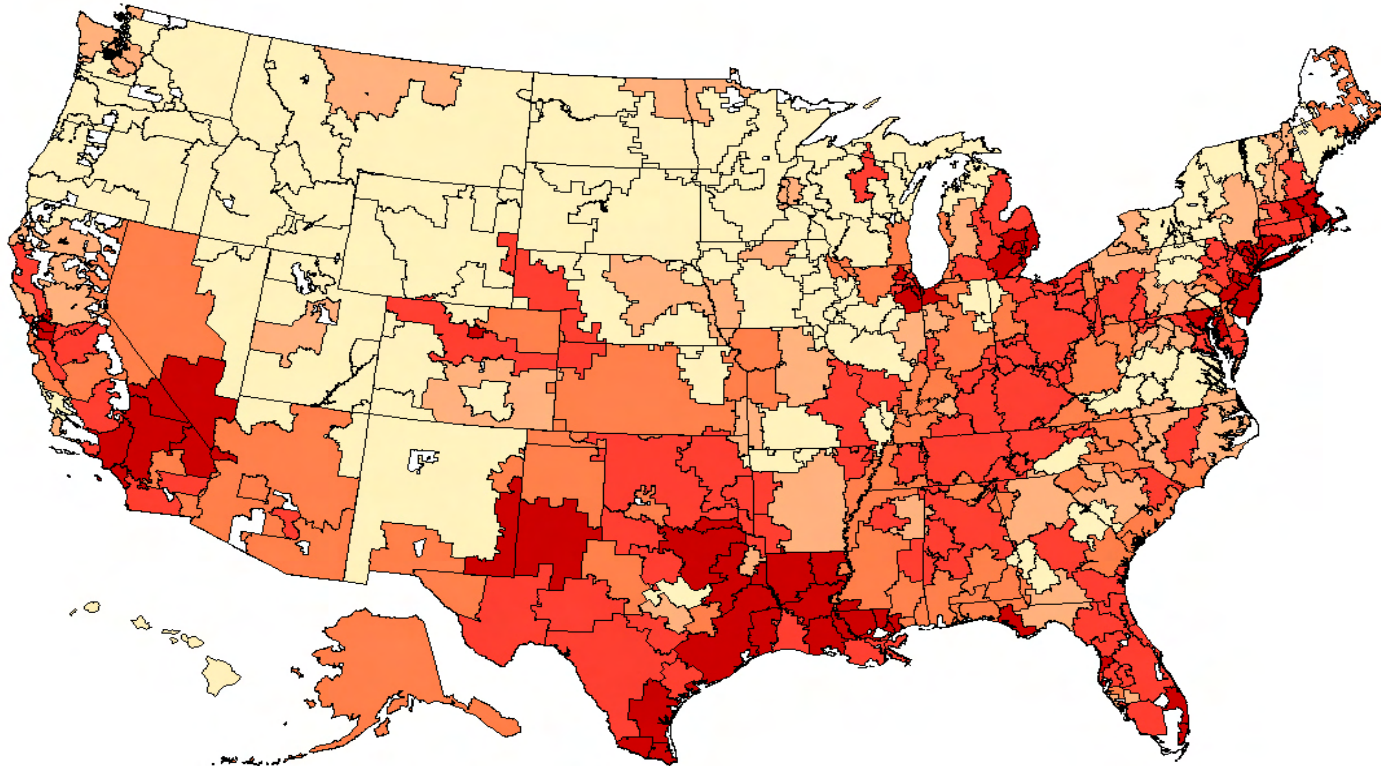
Excess Cost Growth in Medicare, Medicaid, and All Other Health Care

Percentage Points

	Medicare	Medicaid	All Other	Total
1975 to 1990	2.9	2.9	2.4	2.6
1990 to 2005	1.8	1.3	1.4	1.5
1975 to 2005	2.4	2.2	2.0	2.1



Medicare Spending per Capita, by Hospital Referral Region, 2006

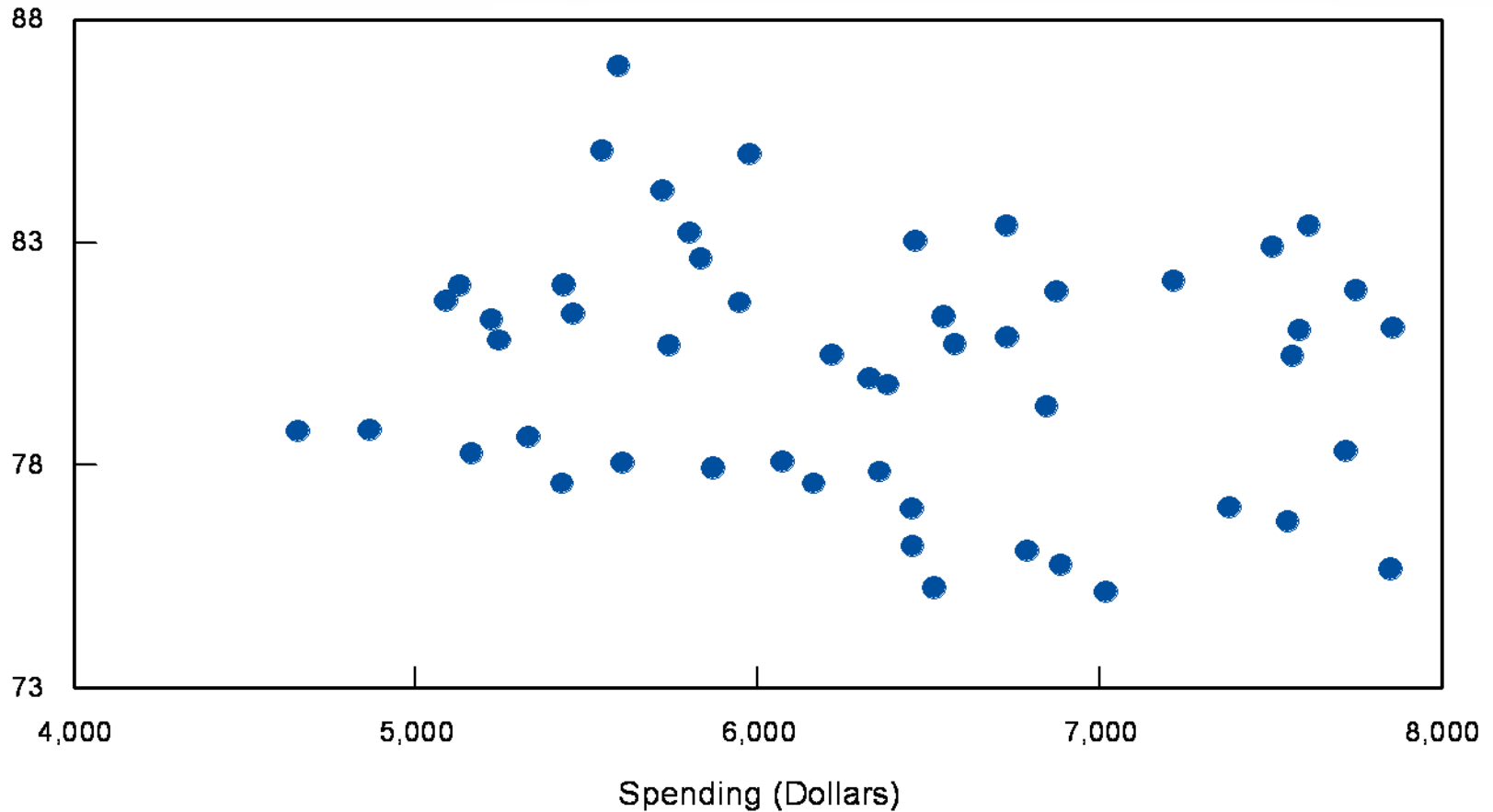


Source: www.dartmouthatlas.org



The Relationship Between Quality and Medicare Spending, by State, 2004

Composite Measure of Quality of Care





The Uninsured

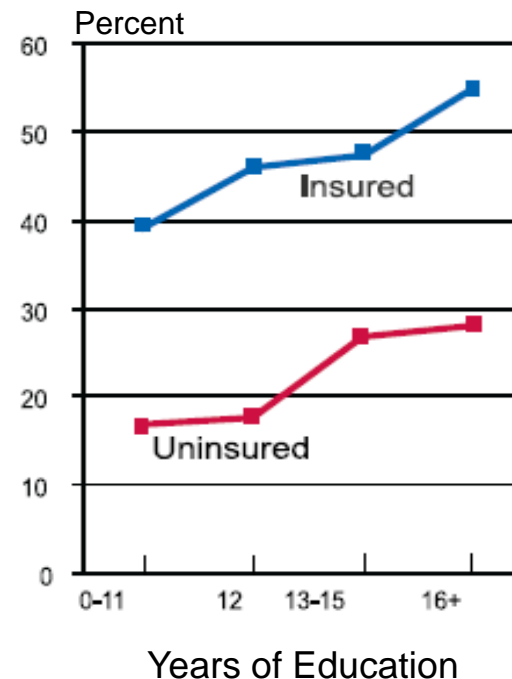
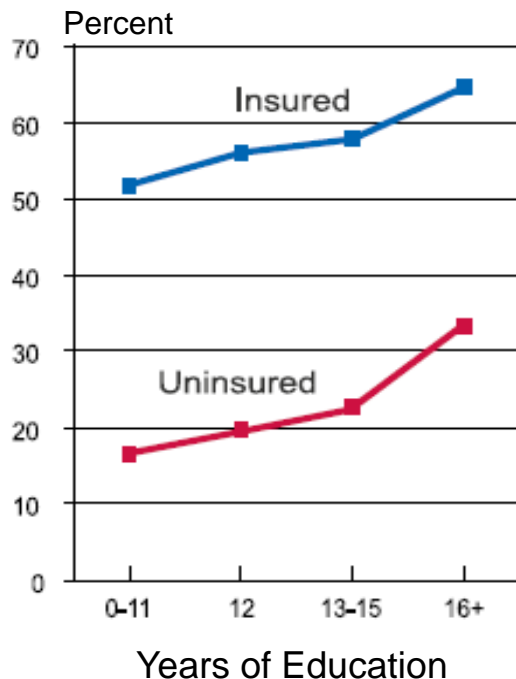
There are millions of Americans who have insufficient or no health care insurance.

- 45.7 million Americans are uninsured
- 86.7 million Americans were uninsured for some period of time during 2007 or 2008
- In 2007, nearly 70% of the uninsured lived in families headed by a full-time worker
- 8.1 million uninsured children
- In 2007, 17 million insured Americans spent more than 10 percent of their salary on health care
- 25 million Americans are underinsured, meaning that they do not have enough coverage to keep costs in check



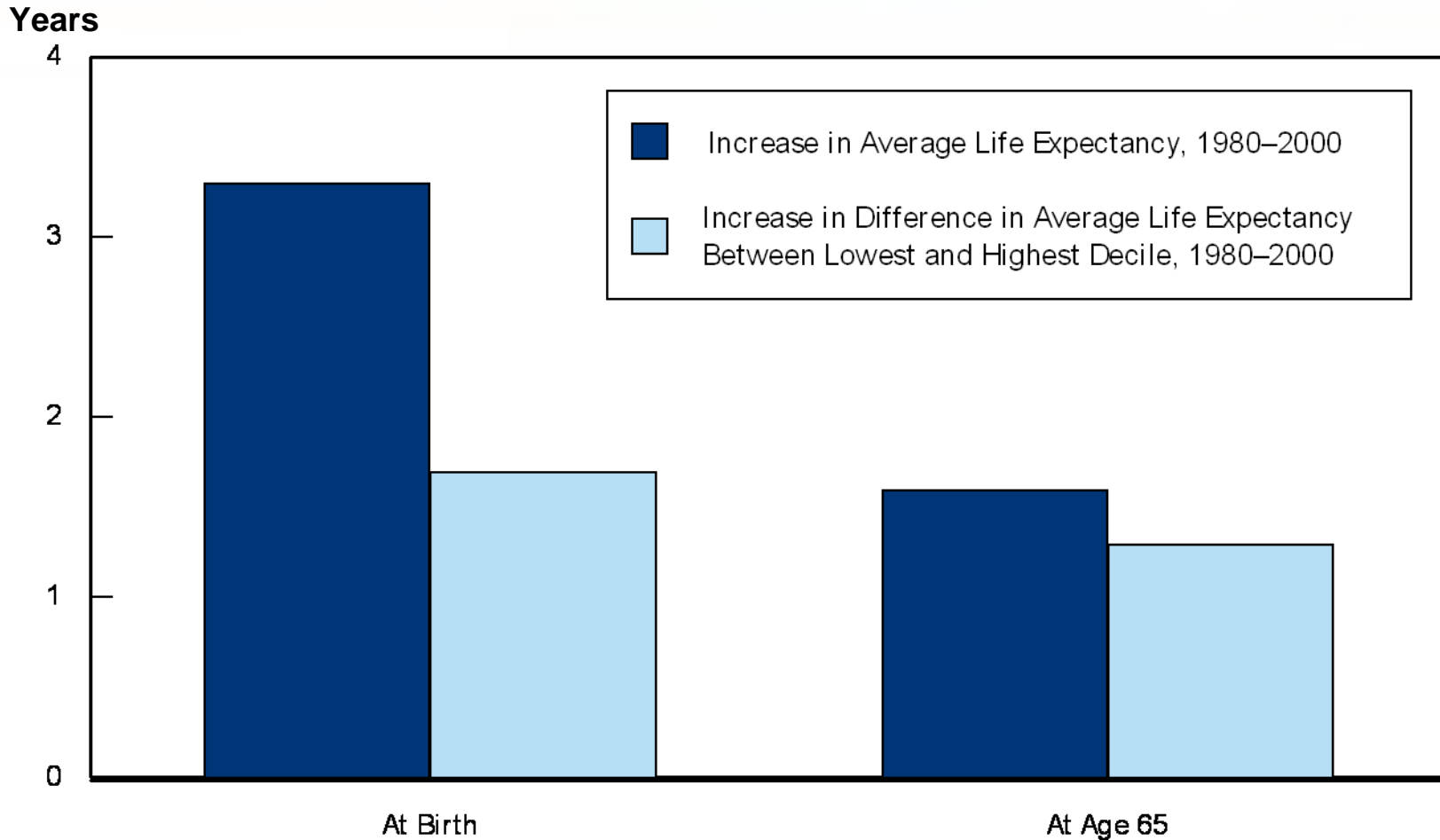
The Uninsured (cont.)

The impact of insurance and educational status among whites on having had a mammogram in the past year (left) or recommended colorectal cancer screening (right):





Increase in Life Expectancy and Increase in Difference in Life Expectancy, by Economic Status





Eight Principles of Reform

The President looks forward to working with Congress to create and enact comprehensive reform to accomplish the following goals:

- **Protect families' financial health**
- **Assure affordable, quality health coverage for all Americans**
- **Provide portability of coverage**
- **Guarantee choice of doctors**
- **Invest in prevention and wellness**
- **Improve patient safety and quality of care**
- **End barriers to coverage for people with pre-existing medical conditions**
- **Reduce the long-term growth of health care costs for businesses and government**



Six Fundamental Steps Toward Reform

The Administration has already taken crucial steps to contain costs, expand coverage, and reform our broken health care system.

- *Reforms that stabilize the system:*
 - Signed CHIP to provide health care to an additional 4 million uninsured children on average in CHIP and Medicaid by 2013
 - Protected health coverage for 7 million Americans through COBRA



Six Fundamental Steps Toward Reform *(cont.)*

The Administration has already taken crucial steps to contain costs, expand coverage, and reform our broken health care system.

- *Reforms that lay the groundwork for “bending the curve” over the medium to long term:*
 - Invested \$19 billion in Health IT to help computerize Americans’ health records
 - Devoted \$1.1 billion in funding for comparative effectiveness research to arm physicians with data on what works and what doesn’t
 - Allocated \$1 billion for prevention and wellness interventions to help reduce the impact of chronic diseases and reduce costs



Six Fundamental Steps Toward Reform *(cont.)*

The Administration has already taken crucial steps to contain costs, expand coverage, and reform our broken health care system.

- *Reforms that enhance the size of our highly trained health work force:*
 - Allotted \$500 million in the Recovery Act (and have proposed an additional \$330 million in the Budget) for sufficient and well-trained doctors, nurses, and other health professionals



Commitment to Health

The FY 2010 Budget underscores the President's commitment to lowering health care costs and expanding coverage to all Americans by establishing a \$634 billion Health Care reserve fund over 10 years.

	2010	2011	2012	2013	2014	2010-14	2010-19
Federal Health Savings	-1.8	-5.1	-18	-24.5	-34.3	-83.7	-316
<i>Aligning incentives toward quality</i>	0	-0.4	-1.3	-1.7	-2.1	-5.4	-20.5
<i>Promoting efficiency/ accountability</i>	-1.8	-4.3	-16.2	-22.2	-31.5	-75.9	-287.4
<i>Encouraging shared responsibility</i>	0	-0.4	-0.6	-0.7	-0.8	-2.4	-8.1
New Revenues	--	-11.1	-30.8	-33.5	-35.5	-110.8	-317.8
Subtotal: Reserve for Health Reform	-1.8	-16.2	-48.8	-58	-69.8	-194.6	-633.8
<i>Additional resources and new benefits, to be determined with Congress</i>							
Net Cost - Reserve Fund	0	0	0	0	0	0	0



Aligning Incentives Toward Quality

The current health care system tends to reward quantity over quality. We can save money and increase quality of care by shifting this focus.

Improving care after hospitalizations and reduce readmission rates

- **ISSUE:** Nearly 18% of hospitalizations of Medicare beneficiaries resulted in readmission. Many readmissions are avoidable with the proper post-hospitalization care.
- **FY 2010 Budget:** Bundle payments to include the 30 days of care after hospitalization and penalize hospitals with high readmission rates*

* Readmission penalties would be for patients with targeted conditions who are readmitted within 30 days after their hospitalization.



Aligning Incentives Toward Quality *(cont.)*

The current health care system tends to reward quantity over quality. We can save money and increase quality of care by shifting this focus.

Expanding the hospital quality improvement program

- **ISSUE:** Evidence suggests that there is significant room to improve quality in hospitals
- **FY 2010 Budget:** Reward quality of care by linking a portion of Medicare payments for acute in-patient hospital services to hospitals' performance on quality measures.



Aligning Incentives Toward Quality *(cont.)*

The current health care system tends to reward quantity over quality. We can save money and increase quality of care by shifting this focus.

Reform the physician payment system to improve quality and efficiency

- **ISSUE:** The current payment system focuses on more care, not better care.
- **FY 2010 BUDGET:** Support comprehensive but fiscally responsible reforms to the payment formula



Promoting Efficiency and Accountability

Billions of dollars a year are wasted on inefficiencies in payment systems and administrative overhead. Streamlining these processes will make health care more cost-effective.

Reducing Medicare overpayments to private insurers through competitive payments

- **ISSUE:** Medicare overpays Medicare Advantage plans by 14% more than FFS on average.
- **FY 2010 BUDGET:** Replace the current payment mechanism with a competitive, market-driven system. This would save more than \$175 billion over 10 years and reduce Part B premiums.



Promoting Efficiency and Accountability *(cont.)*

Billions of dollars a year are wasted on inefficiencies in payment systems and administrative overhead. Streamlining these processes will make health care more cost-effective.

Reducing drug prices

- **ISSUE:** Prescription drug costs are too high and they are rising faster than CPI.
- **FY 2010 Budget:** Accelerate access to more affordable generic biologic medications and prevent collusion between brand name and generic drug manufacturers to ensure greater access to generic prescriptions.



Promoting Efficiency and Accountability *(cont.)*

Billions of dollars a year are wasted on inefficiencies in payment systems and administrative overhead. Streamlining these processes will make health care more cost-effective.

Improving Medicare and Medicaid payment accuracy

- **ISSUE:** Billions of dollars are lost to overpayments and fraud in the Medicare system. The Medicaid program is also susceptible to payment errors.
- **FY 2010 Budget:** As part of major program integrity efforts, provide \$311 million in FY 2010 to CMS to focus on program vulnerabilities, and to identify and reduce excessive and inappropriate payments. With a five-year investment of \$1.7 billion, about \$2.7 billion can be saved over that same period.



Next Steps

The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding coverage, and improving quality.