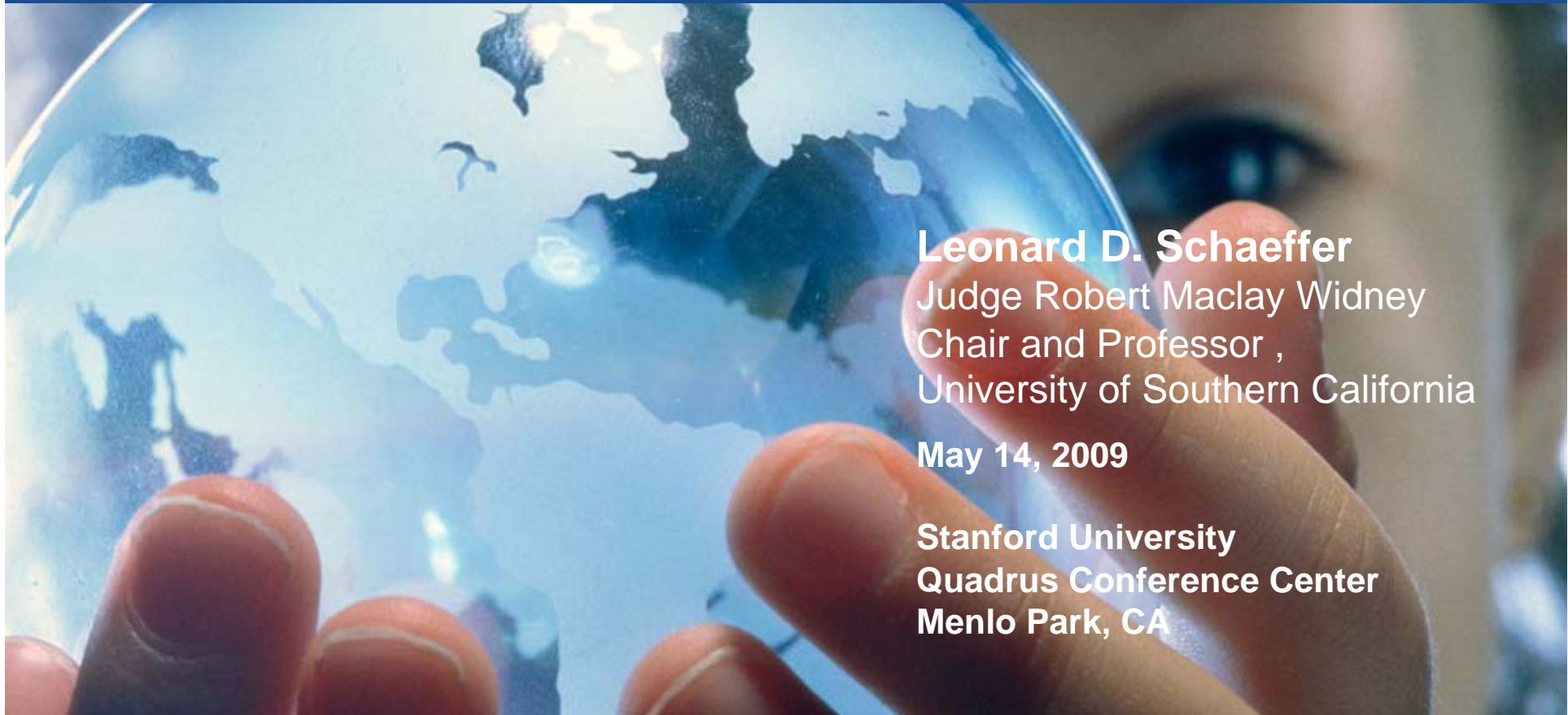


Health Care Reform: Go Bold, Tread Carefully or Make It Worse?

The Capstone Conference:
Fresh-Thinking on Health Care Reform

May 14 , 2009



Leonard D. Schaeffer
Judge Robert Maclay Widney
Chair and Professor ,
University of Southern California

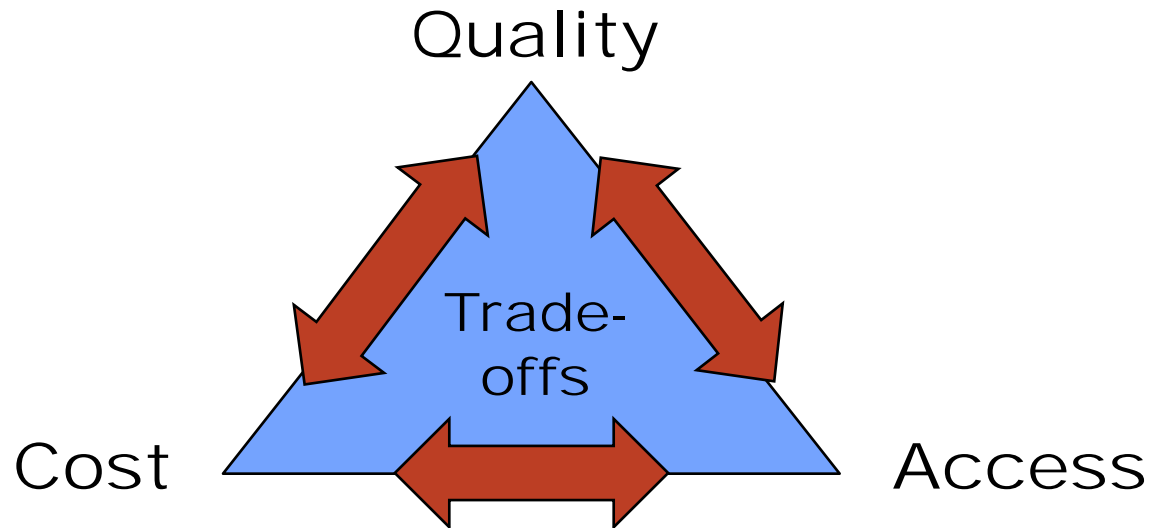
May 14, 2009

**Stanford University
Quadrus Conference Center
Menlo Park, CA**



- Agenda**
- ▶ **Health Care Landscape**
 - ❑ **What's Different Now?**
 - ❑ **What's The Same?**
 - ▶ **Prospects for Health Reform**
 - ▶ **Blended Policy Approach**
 - ▶ **Conclusion**

Health Care Policy Landscape



What We Believed

- U.S. = Highest Quality
- ∴ High Cost O.K.
- Limited Access = Market Economy

What We Know

- U.S. = Mediocre Quality
- = Highest Cost By Far
- High Cost + Bad Economy = Decreasing Access

What's Different Now?

■ **Economy No. 1 Issue**

- **U.S. in recession**
- **8.9% Unemployment; Projected 9.5% in 2010**
- **\$700+ B rescue (financial industry, auto, small biz, etc.)**
- **\$787 B Economic Stimulus bill; \$410 B spending bill**
- **\$1 T public-private bank rescue plan**
- **\$3.56 T budget resolution passed for FY 2010**
- **CBO & Commerce forecast:**
 - **Economy to further contract in CY 2009**
 - **Federal revenues expected to decline by \$166 B in 2009**

What's Different Now?

■ Democratic Control & Interest

- Henry Waxman (new Chair, Energy & Commerce)
- Pete Stark (House Ways & Means, Chair Health Subcmte)
- Max Baucus (Senate Finance Chair; Serious about reform and his own blueprint)
- Ted Kennedy (Legacy; gave up Judiciary post to pursue health care reform)
- Kathleen Sebelius (New Secretary HHS / former state insurance commissioner)
- Nancy-Ann DeParle (Office of Health Care Reform / former HCFA administrator)
- Peter Orszag (New head of OMB; wild card)

What's Different Now?

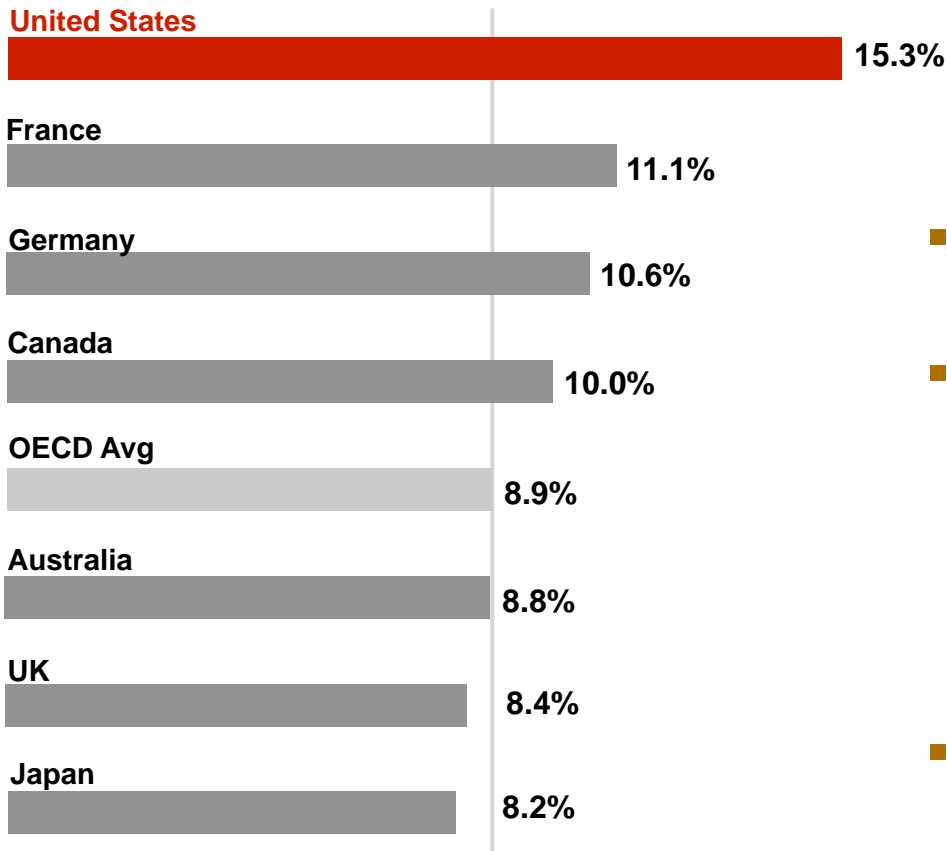
■ Improved Scenario For Legislation

- Arlen Specter party switch gives Dems filibuster-proof 60-seat majority in Senate (if Al Franken seated)
- Budget resolution includes reconciliation instructions that would make reform immune to Senate filibuster
- Senators Baucus (D) and Grassley (R) release “policy options” to control Medicare costs
- 51 Blue Dog House Democrats, wary of huge deficits, obtain Speaker’s PAYGO pledge
- Health care industry groups pledge to help cut costs \$2 trillion over ten years

What's Different Now?

Room to Improve Without Harm

Health Care Spending as a Percentage of GDP



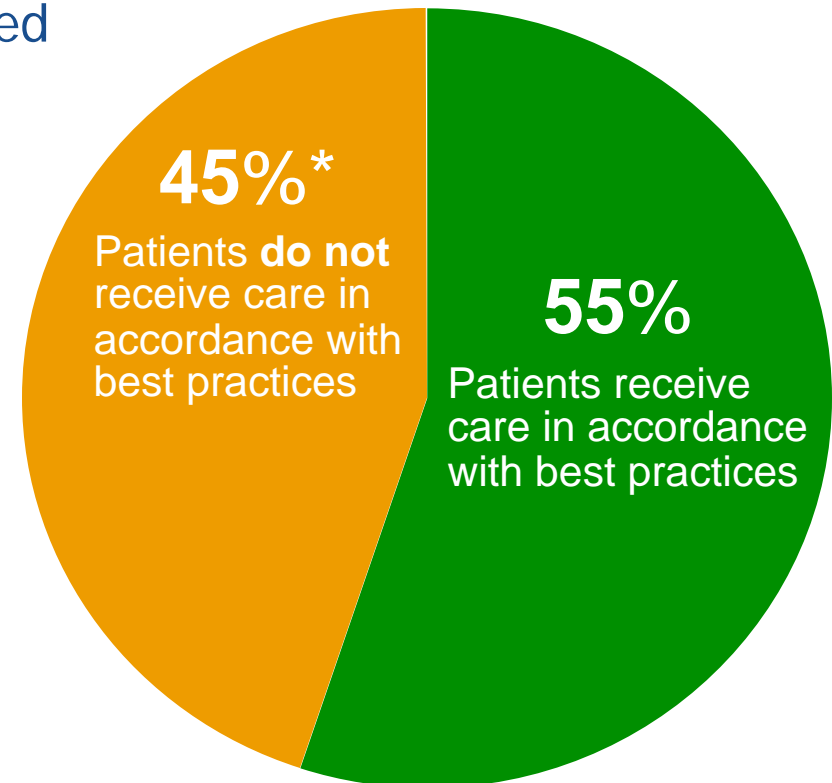
- **McKinsey study:** U.S. spends nearly \$650 B more on healthcare than expected when compared to other countries, even after adjusting for wealth, *but without better outcomes*
- Difference in spending concentrated in outpatient care
- Excess growth due to:
 - More specialist visits; higher cost per visit
 - Higher prices for technology
 - Patient demand insensitive to price
- Up to 30% of spending is unnecessary, harmful or fraudulent

Source: McKinsey Global Institute analysis; November 2008; data from 2006; McKinsey adjusts data for wealth and disease mix.

Room To Improve: Evidence-based Care

Percent of Recommended Care Received

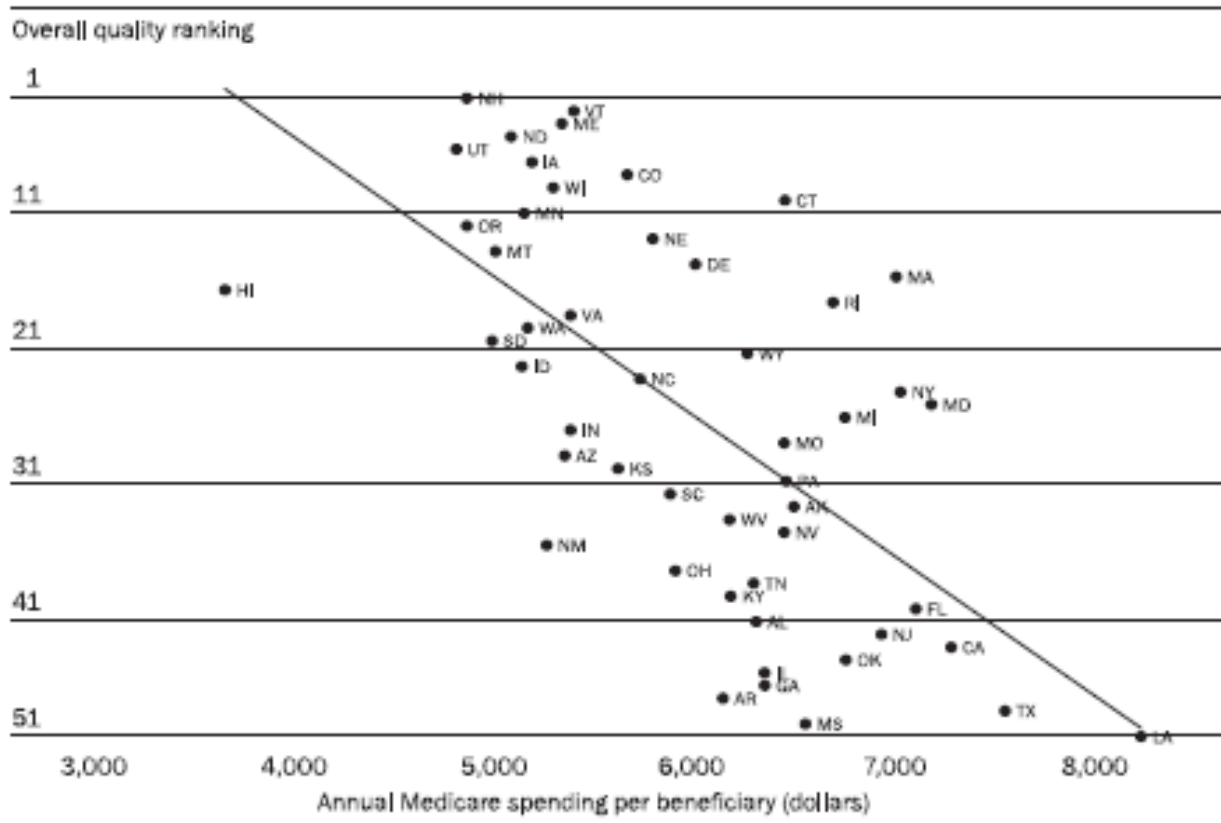
64.7%	Hypertension
63.9%	Congestive Heart Failure
53.9%	Colorectal cancer
53.5%	Asthma
45.4%	Diabetes
39.0%	Pneumonia
22.8%	Hip Fracture



"Nearly one-half of physician care is not based on best practices."

* Even worse for children: A 2007 RAND study found 53.5% of children do not receive appropriate care

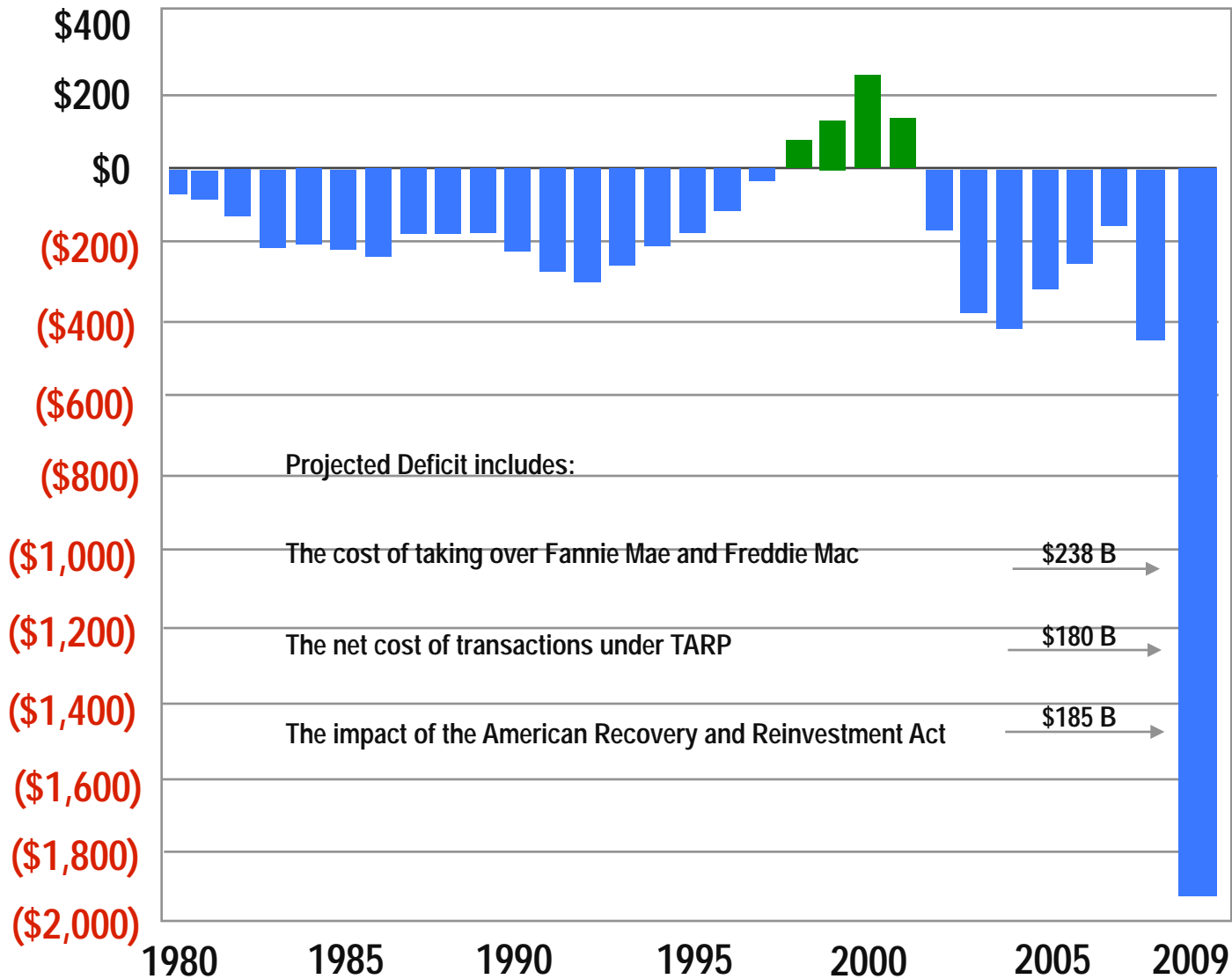
Room To Improve: Cost and Quality



“Higher spending is associated with lower quality of care.”

What's Different Now?

2009 Deficit at \$1.84 Trillion = 12.9% GDP

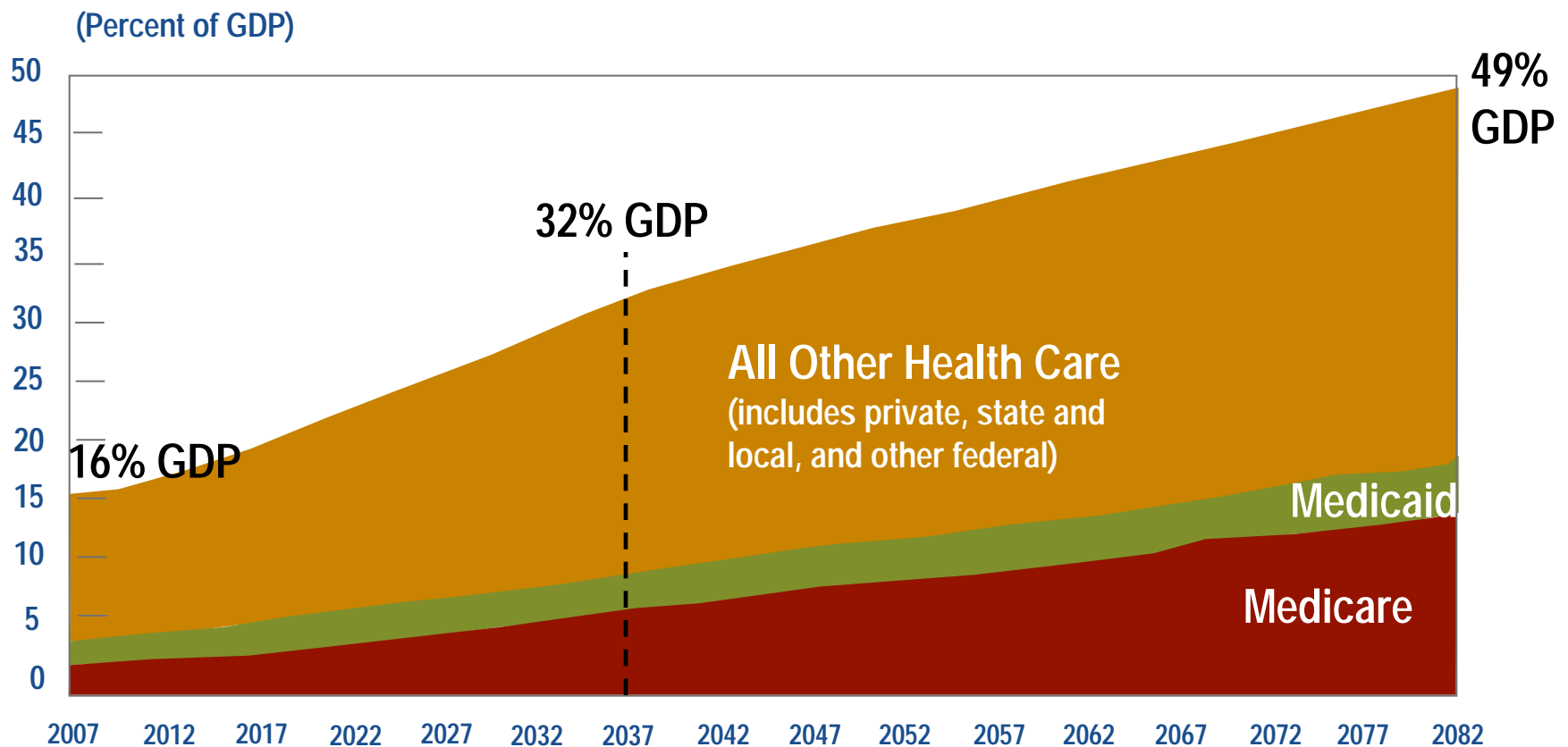


What's The Same?

- **Health care costs are high and continue to rise**
- **Since 1970, health care costs have grown on average ~2.5 percentage points faster than GDP**
- **Massachusetts experiment validates expanding access increases costs**
- **Rising health care costs drive deficits over time¹**

What's The Same? Rising Health Care Costs Significant Threat To Economy

Projected Spending on Health Care as a Percentage of Gross Domestic Product (GDP)





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- ▶ Health Care Landscape
 - ▶ **Prospects for Health Reform**
 - ❑ **Post-Election Realities**
 - ❑ **Short-term**
 - ❑ **Long-term**
 - ▶ Blended Policy Approach
 - ▶ Conclusion

Post-Election Realities: Roadblocks to Reform

Obama Campaign Plan Faces Multiple Challenges

- Children mandate
- Employer pay or play
- Medicaid / SCHIP expans.
- Public plan offering & Nat'l insurance exchange
- Low-income subsidies
- Government reinsurance for high cost cases
- System change: HIT, payment reforms



- Dem. Party Consensus
- Bipartisanship
- Public Support
- Employer Support
- Financial challenges
- Effective leadership

Short-Term: Piecemeal Expansion, Not Reform

**Economic
Stim. Bill**

+

**SCHIP
Expansion**

=

**Bigger
Problem**

- \$87 B to help states pay Medicaid costs
- \$24.7 B for 65% subsidy of COBRA premiums
- \$32.8 B SCHIP expansion for 4.5 years

Total: \$144.5 Billion for Coverage Expansion

- (Also: \$19 B for HIT; \$1 B for prevention/ wellness; \$1.1 B for comparative effectiveness research; \$10B for biomedical research)

“Temporary” expansions make system transformation more difficult; Hard to reverse gov’t program expansions

Short-Term: Most See Health Care As Lower Priority

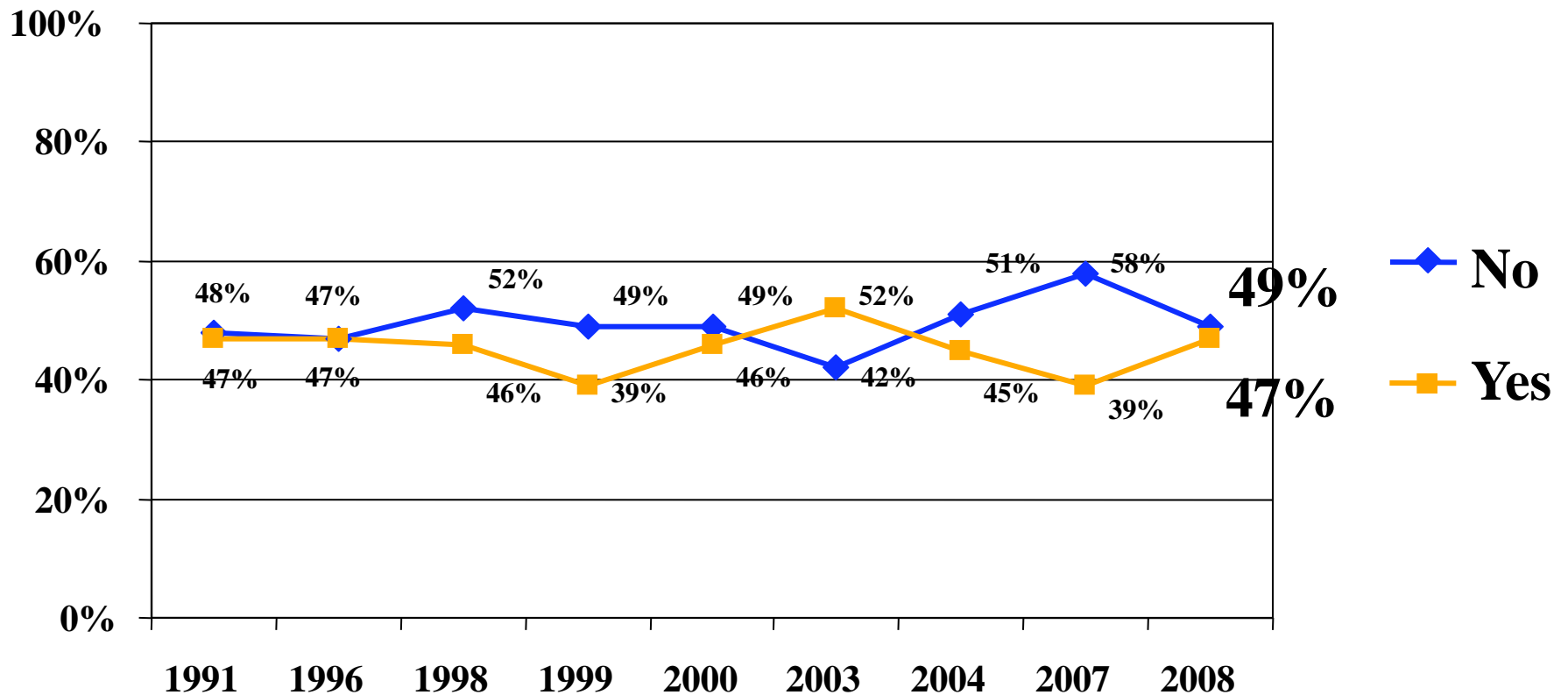
Americans concerned about different issues

Besides the economy, which issue should be the highest priority?

■ Health Care	36%	
■ Energy	22	} 64% did not cite health care as highest priority
■ Iraq	15	
■ Relations with Allies	13	
■ Afghanistan	9	

Short-Term: Public Split On Paying More

Would you be willing to pay more— either in higher health insurance premiums or higher taxes— in order to increase the number of Americans who have health insurance, or not?



Short-Term: Deficit Spending O.K.

Support High If Government Paying

Would you favor the following spending increases, even if it means *raising the federal budget deficit*?

THOSE IN FAVOR:

- | | |
|---|-----|
| ■ To make health care more accessible and more affordable | 76% |
| ■ To build and repair roads, bridges and infrastructure | 75 |
| ■ To develop new clean-energy technology | 74 |
| ■ To provide financial support to U.S. industries hurt by the mortgage crisis and problems on Wall Street | 36 |

Long-Term: New Environment for Broader Agenda

Economic
Recovery

Campaign
Promise

More
middle class
uninsured

Support for
reform /
deficit
increases

No Longer “Unthinkable”

- **Public Plan to Compete with Private Insurers**
 - Medicaid
 - Medicare buy-in
 - FEHBP buy-in
- **Incremental Improvements**
 - Payment reform
 - Comparative effectiveness
- **“Fed. Reserve” H.C. Board**
- **Single Payor**
 - Medicare-for-all
 - Global budget



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 - ❑ Pragmatism vs. Ideology
 - ❑ Big Risk
 - ▶ Conclusion

Pragmatism vs. Ideology

- **Two approaches dominate debate on h.c. reform¹**

1. Market strategy proponents:

- Insurance market and tax reform
- Competition and consumer choice
- HIT & Transparency

2. Regulatory strategy proponents:

- Government control of costs / spending caps
- Leveraging federal programs
- Establishing best practices

- **A pure market system or pure regulated system is unlikely in our country**

Blended Strategy

Individual Mandate

Increasing Access

- Automatic Medicaid / SCHIP enrollment
- High risk pools to socialize bad risk
- Medicaid eligibility for poor adults
- Federal subsidies (e.g. refundable tax credits for low-income)
- Insurance regulation

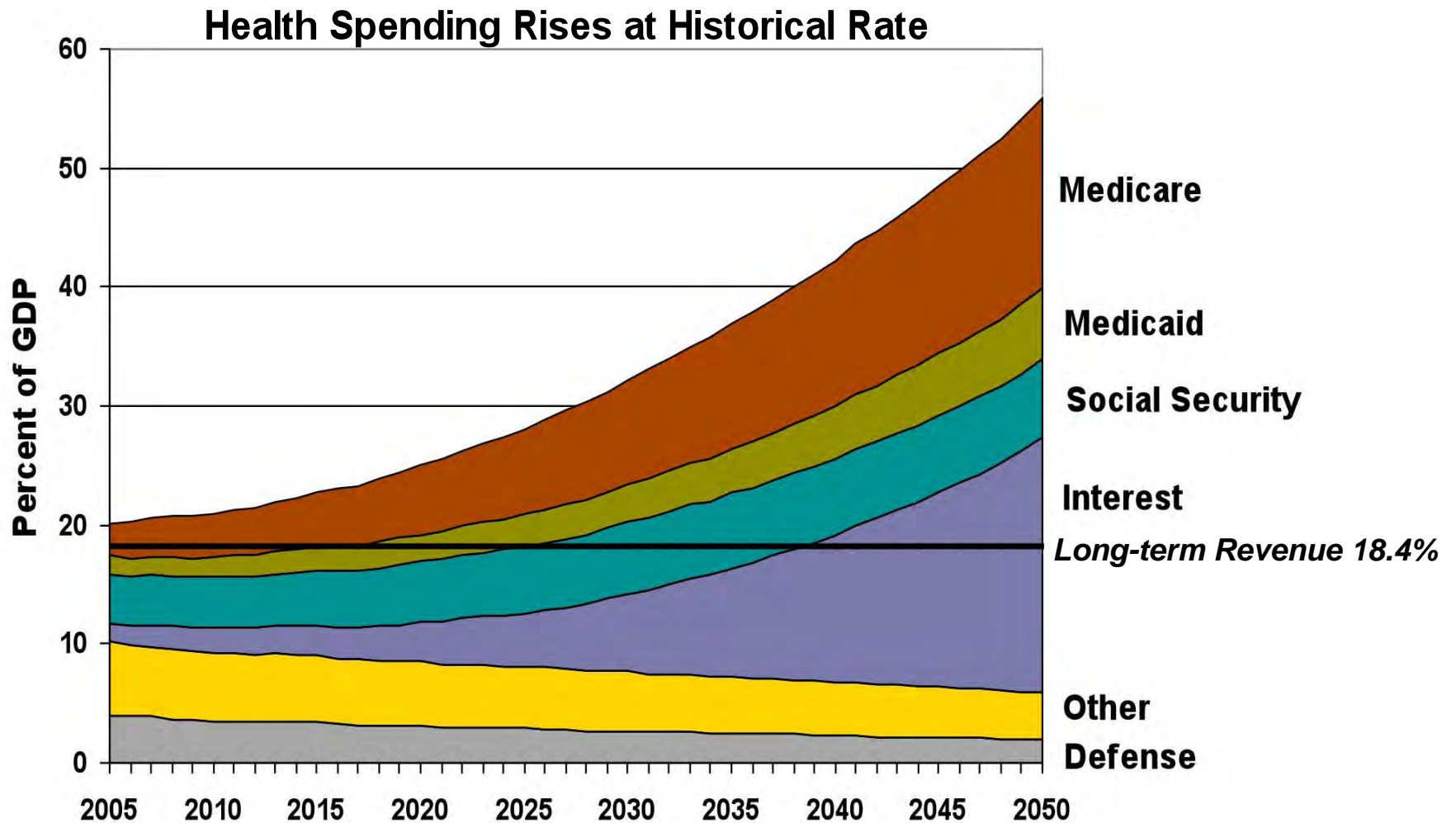
Containing Costs

- Leverage Fed. programs:
 - Payment reform:
 - ↓ Specialists
 - ↑ Primary care
 - Pay for evidence-based care
 - Bundled payment for episodic acute care
 - Don't pay for mistakes
 - Require electronic connectivity
- Cap tax deductibility for employers; limit exemption for employees

Improving Quality

- Federal HIT initiatives
- Independent Commission to establish best practice treatment protocols
- Private & public sector P4P programs
- Federally-supported research on comparative effectiveness
- FDA post-marketing surveillance

Big Risk: Economic crisis drives coverage expansion; future deficit crisis brings bigger cuts



Conclusion

- Historically, the politics of health care have prevented meaningful change
- Today, the piecemeal approach may be the biggest threat
- We must transform the underlying delivery system to impact quality and costs
- Unless costs are controlled, budget hawks will combine forces with national security experts and set future health policy by default
- Blended policy is best approach for successful reform
- Expansions without system reform mean uglier choices ahead, including potential for swift and massive cuts

Caveat: In a crisis, the unthinkable becomes possible