



21ST Century Health Care Challenges:

**Unsustainable Trends
Necessitate Reforms to
Control Spending and
Improve Value**

The Honorable David M. Walker
Comptroller General of the United States

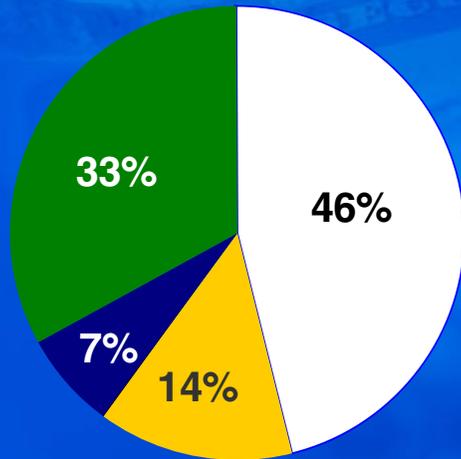
Citizens' Health Care Working Group
Salt Lake City, Utah
July 22, 2005

Presentation Overview

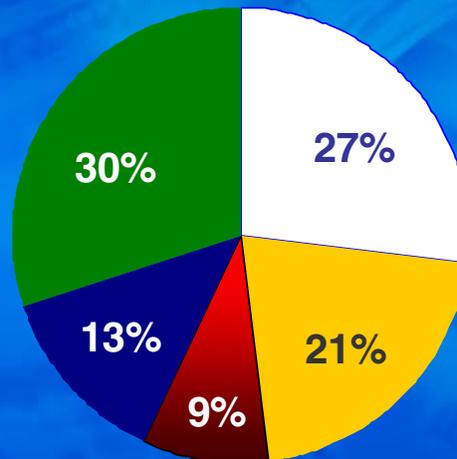
- Long-Term Federal Fiscal Outlook
- Health Care System Challenges: Cost, Access, and Quality
- Issues to Consider In Examining Cost, Access, and Quality Challenges
- Concluding Remarks

Composition of Federal Spending

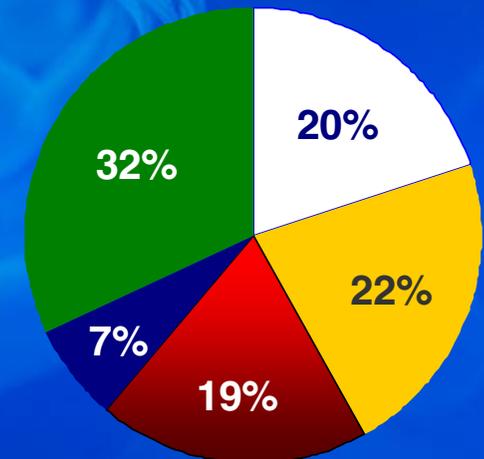
1964



1984



2004



Defense
Net interest

Social Security
All other spending

Medicare & Medicaid

Source: Office of Management and Budget.

Estimated Fiscal Exposures

(in \$ trillions)

• Explicit liabilities			\$9.1
– Publicly held debt	\$4.3		
– Military & civilian pensions & retiree health	3.1		
– Other	<u>1.7</u>		
• Commitments & Contingencies			0.9
(e.g., PBGC, undelivered orders)			
• Implicit exposures			
– Future Social Security benefits			5.7
• Obligations in excess of trust fund	\$4.0		
• Debt held by the trust fund	<u>1.7</u>		
– Future Medicare Part A benefits			8.8
• Obligations in excess of trust fund	\$8.6		
• Debt held by the trust fund	<u>0.3</u>		
– Medicare Part B benefits			12.4
– Medicare Part D benefits			8.7
Total			\$45.6

Note: Estimates for Social Security and Medicare are the intermediate 75-year estimates of the Social Security and Medicare Trustees as of January 1, 2005. All other data are as of September 30, 2004. Totals may not add due to rounding.

Source: 2004 Financial Report of the U.S. Government and 2005 Social Security and Medicare Trustees reports.

Another Way to Think About These Numbers

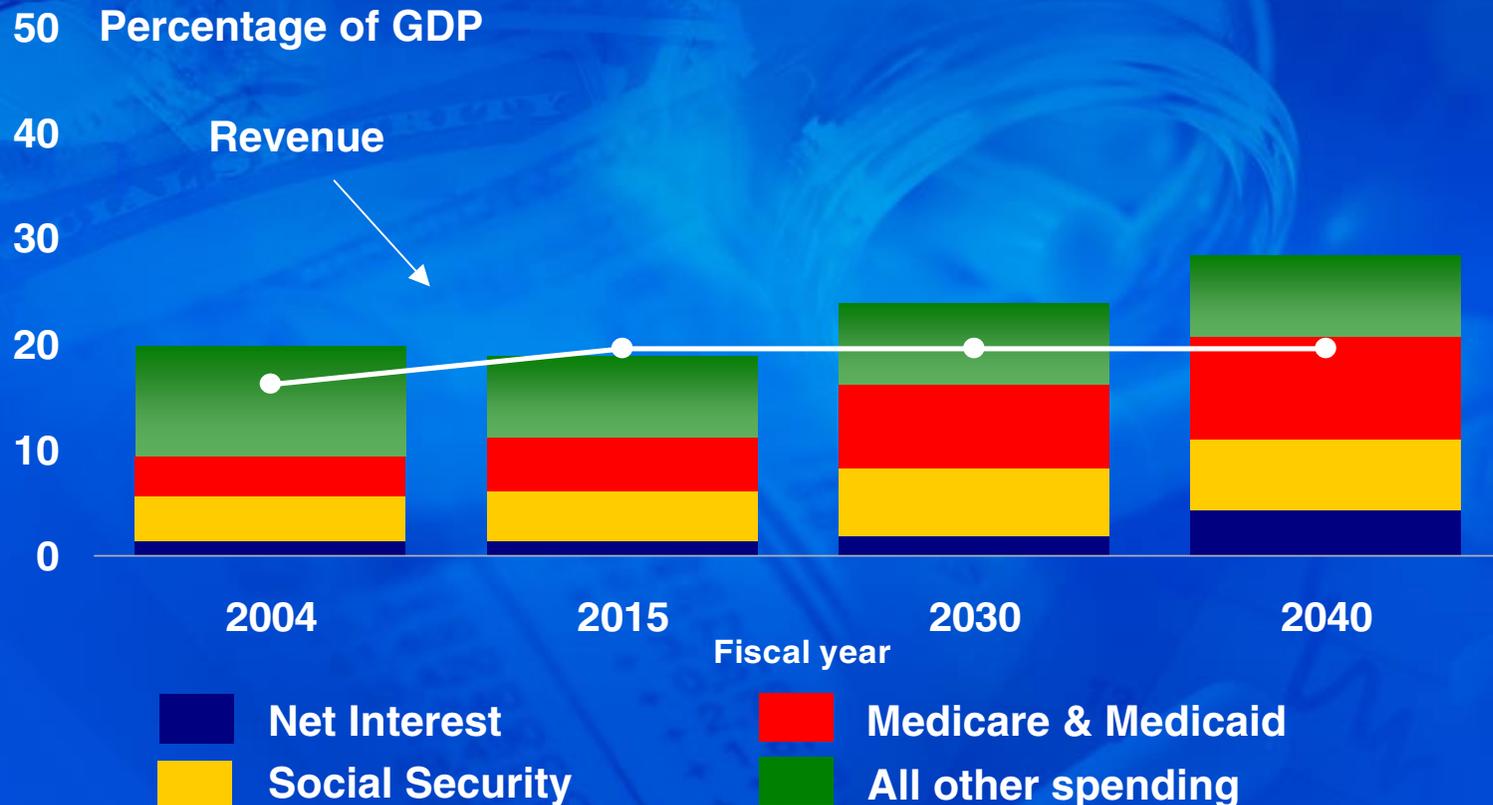
- Debt held by the public \$4.3 trillion
- Trust fund debt¹ 3.1
- Gross debt \$7.4 trillion

- Gross debt per person—about \$25,000
- The \$46 trillion in fiscal exposures is:
 - a burden of more than \$150,000 per person or more than \$370,000 per full-time worker,
 - nearly 19 times the current annual federal spending and 4 times the current annual GDP,
 - almost equal to the estimated \$48.5 trillion in total net worth, including home equity, for all Americans.

¹Includes all debt held by government accounts.

Composition of Spending as a Share of GDP

Under Baseline Extended

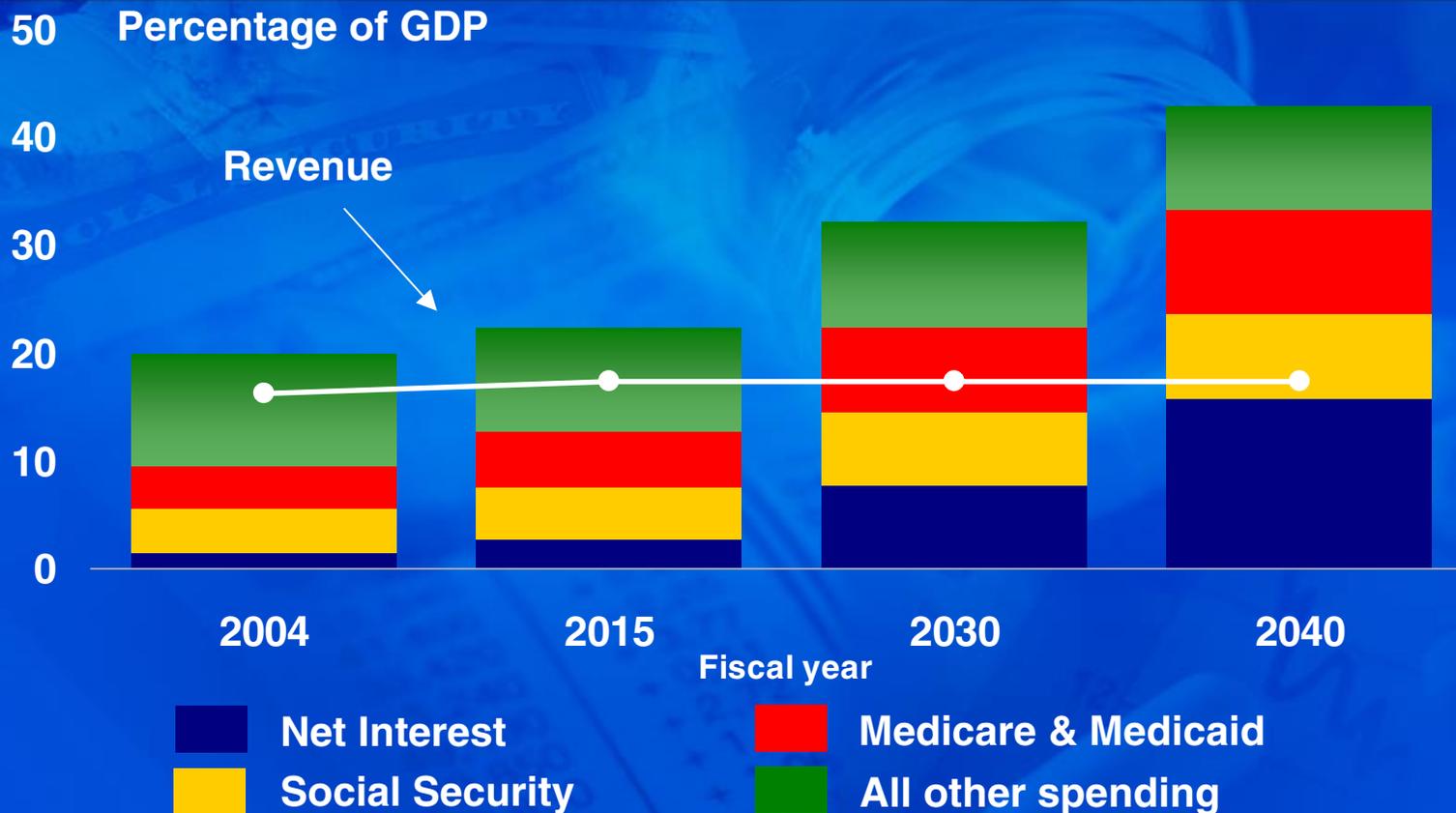


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending as much as 60 percent or
 - Raising federal taxes up to 2.5 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

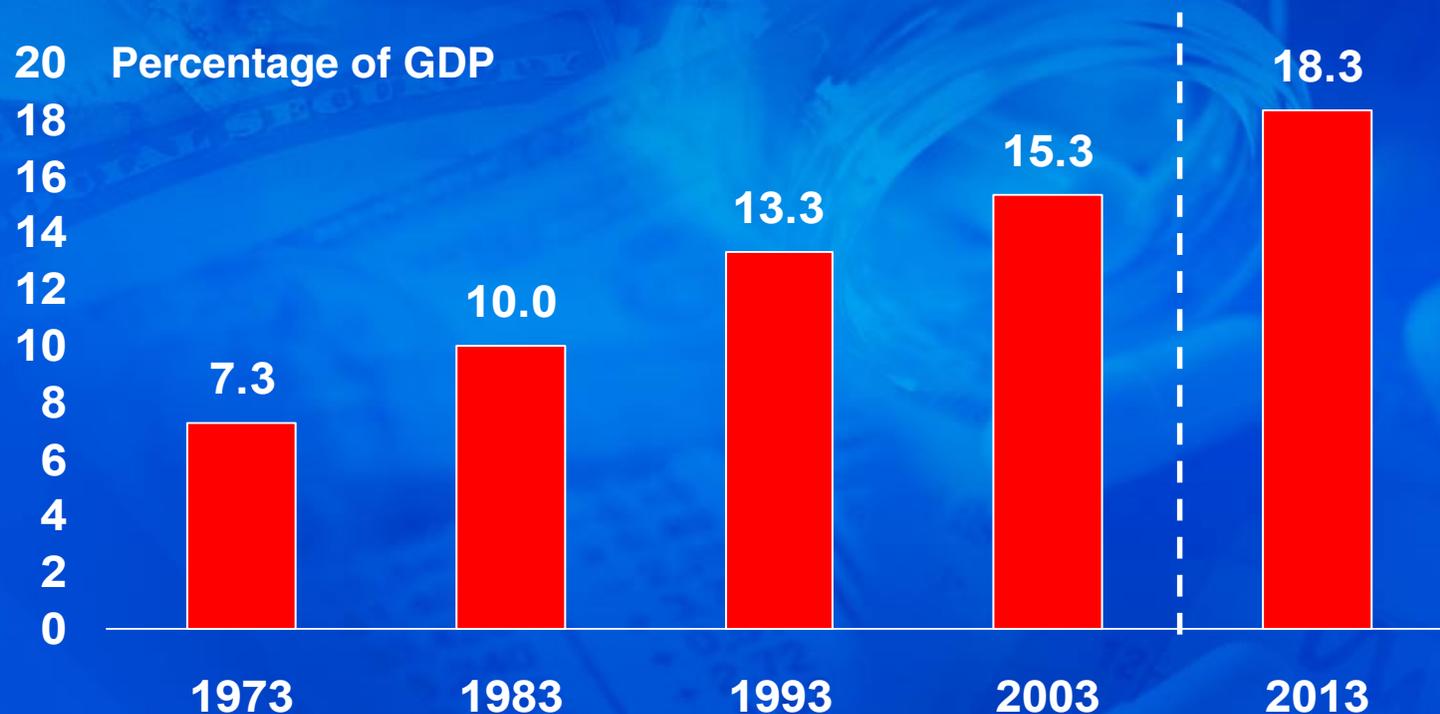
- **The Sooner We Get Started, the Better**

- Less change would be needed, and there would be more time to make adjustments.
- The miracle of compounding would work with us rather than against us.
- Our demographic changes will serve to make reform more difficult over time.

Key Elements for Economic Security in Retirement

- **Adequate retirement income**
 - Social Security
 - Pensions
 - Savings
 - Earnings from continued employment (e.g., part-time)
- **Affordable health care**
 - Medicare
 - Retiree health care
- **Long-term care (a hybrid)**
- **Major Players**
 - Employers
 - Government
 - Individuals
 - Family
 - Community

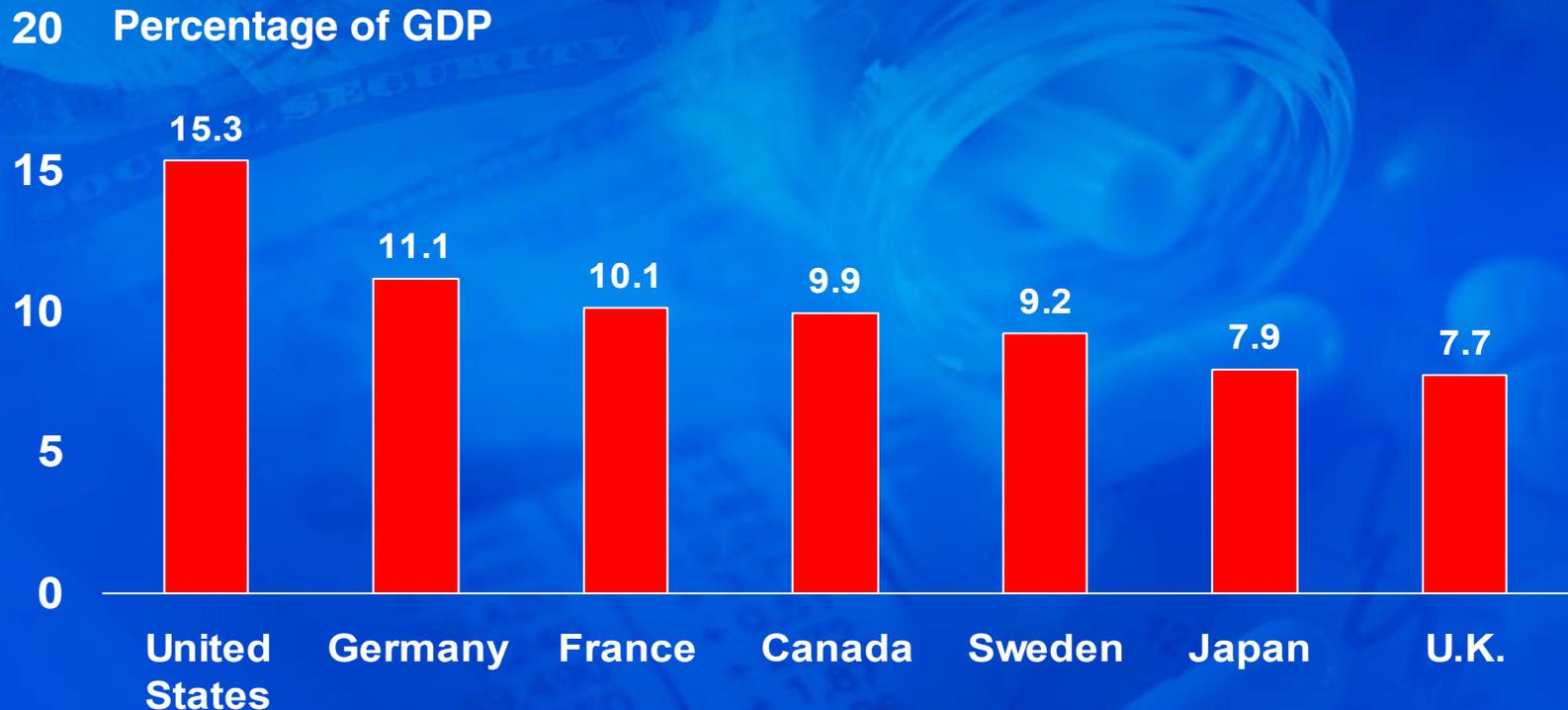
Health Expenditures Will Continue to Absorb an Increasing Share of GDP



Note: The figure for 2013 is projected.

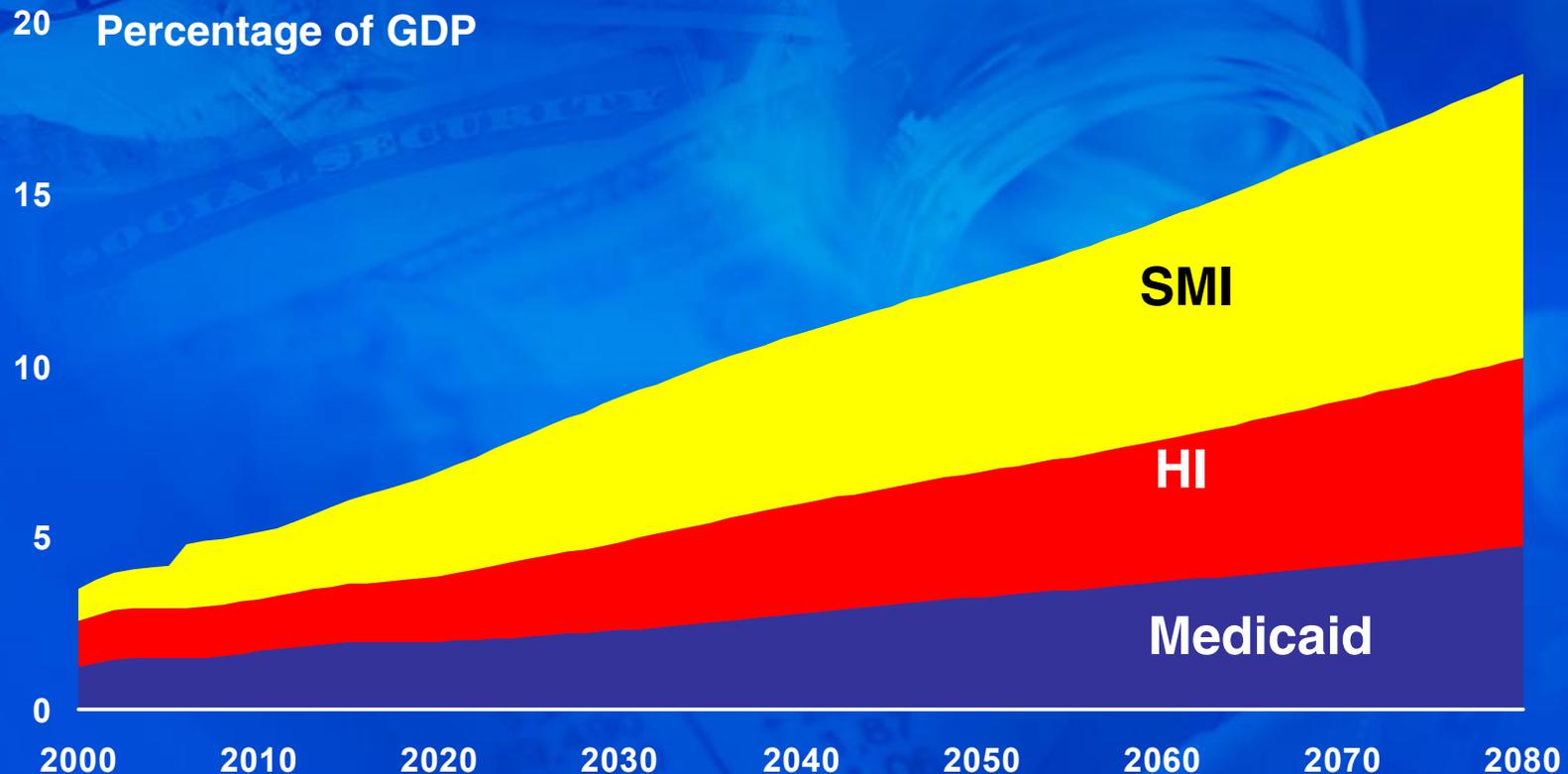
Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.

The United States Exceeds Other Industrialized Nations in Total Health Spending as a Percentage of GDP



Note: Data for Sweden, Japan, and the United Kingdom are from 2002. All other data are for 2003.
Source: Organization for Economic Cooperation and Development (OECD) Health Data 2005.

Medicare and Medicaid Spending as a Percentage of GDP

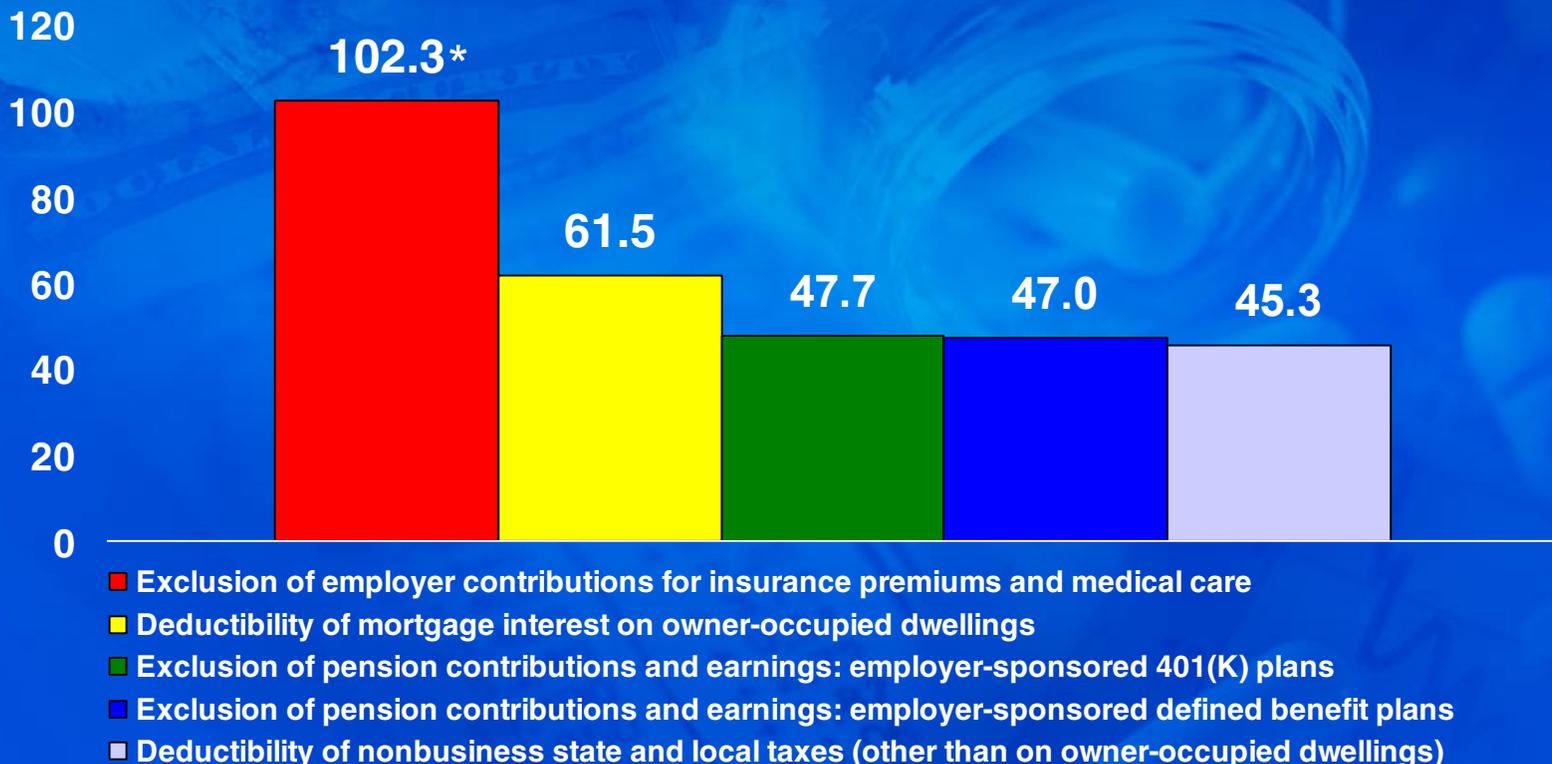


Note: Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2005 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2004 (estimated)

Dollars in billions



Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.
* If the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$153.5 billion.

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*.

Rising Health Care Costs Have Many Implications

- **Direct Implications**

- Increased spending by federal, state and local governments
- Increased competitive pressures on American business
- Increased financial and family implications for individuals
- Increased cost and practice implications for providers

Rising Health Care Costs Have Many Implications

- **Indirect Implications**

- Slower workforce growth
- Additional off-shoring pressures
- Additional part-time versus full-time workers
- Slower cash-wage growth
- Reduction in retiree health coverage, pensions, and other benefits
- Slower growth in revenues from individual income taxes and payroll taxes

Health Care System Challenges

- **Access**

- Access to basic health care coverage remains an elusive goal for nearly 45 million Americans without insurance.
- A growing percentage of workers are losing their employer-based coverage.
- Many more millions of Americans are underinsured or have lost some of the benefits their health plans previously afforded.
- State budget crises have caused many states to limit covered benefits or curb efforts to expand Medicaid coverage to uninsured populations.

Health Care System Challenges

- **Quality**

- Relative to other nations, U.S. performs below par in such measures as rates of infant mortality, life expectancy, and premature and preventable deaths.
- Quality is uneven across the nation with a large share of patients not receiving clinically proven effective treatments.
- Uniform standards, or best practices developed from evidence-based medicine, remains an unrealized goal.
- Adequate clinical information and widespread use of information technology are lacking, contributing to medical errors and other quality problems.

Issues to Consider in Examining Cost, Access, and Quality Challenges

- In reforming our health care system, the public needs to be educated about the differences between **wants**, **needs**, **affordability**, and **sustainability** at both the individual and aggregate level.
- Ideally, health care reform proposals will
 - align **incentives** for providers and consumers to make prudent choices about health insurance coverage and prudent decisions about the use of medical services,
 - foster **transparency** with respect to the value and costs of care, and
 - ensure **accountability** from health plans and providers to meet standards for appropriate use and quality.

Issues to Consider in Examining Cost, Access, and Quality Challenges

Fundamental System Reform Questions

- Since health care wants are unlimited, can we define a core set of “basic and essential” services? How do we define “basic and essential” and who decides what is included in the core set? How do we provide for enhanced options and choices beyond the “basic and essential” services?
- What is the appropriate allocation of responsibility for financing health care—currently shared in mixed proportions by government, employers, and individuals?
- What incentives are needed in our health care system for (1) providers to make prudent medical decisions based on benefit and cost and (2) consumers to become more sensitive to the benefits and costs of health care services?

Issues to Consider in Examining Cost, Access, and Quality Challenges

Potential Areas of Inquiry:

- Should growth in government-sponsored health programs be limited through the use of budget tools that require action to be taken when spending exceeds specified targets?
- Should federal tax preferences for health care be revised? For example, can tax incentives be redesigned to better encourage individuals, especially employees, to control health care costs?
- How can an insurance market be created that adequately pools risk and offers alternative levels of coverage from which individuals can choose?

Issues to Consider in Examining Cost, Access, and Quality Challenges

Potential Areas of Inquiry:

- How can an information infrastructure be developed that provides prompt and reliable data to monitor cost, quality, and system integrity?
- Should efforts to control health care spending focus on a case management approach for people with chronic conditions, who account for the largest share of health care spending?
- How can we leverage technology and promote standards of medical practice in order to improve health care quality, enhance consistency, and reduce cost? For example, could payment reforms be designed around uniform standards of medical practice for selected procedures and services?

Issues to Consider in Examining Cost, Access, and Quality Challenges

Potential Areas of Inquiry:

- How can the federal government best leverage its purchasing power for health care products and services?
- How can increased costs attributable to the recent Medicare prescription drug bill be controlled? For example, in addition to modified cost-sharing options and leveraging the government's purchasing power, should reimportation of selected drugs be allowed from certain countries?

Issues to Consider in Examining Cost, Access, and Quality Challenges

Potential Areas of Inquiry:

- Should early retirees and possibly others be allowed to purchase a “basic and essential care” policy through Medicare? Should this option be combined with raising Medicare’s eligibility age?
- How can our international agreements encourage the equitable sharing of financial responsibility for developing pharmaceuticals and other medical technologies that are currently financed through public expenditures and higher U.S. prices?

Conclusion

Our challenge is huge and growing bigger every day. There are no easy answers and tough choices will be required. All those undertaking reform should consider taking their own Hippocratic oath to “do no harm.” Specifically, do not make the long-range financing imbalance worse. In addition, we must recognize that comprehensive reform of our health care system is needed and is likely to be incremental.



21ST Century Health Care Challenges:

**Unsustainable Trends
Necessitate Reforms to
Control Spending and
Improve Value**

The Honorable David M. Walker
Comptroller General of the United States

Citizens' Health Care Working Group
Salt Lake City, Utah
July 22, 2005