

Health System Reform

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Why do we need reform?

- ▶ High and growing costs
 - ▶ health spending has increased from 5% of GDP in 1950s to 16% today
 - ▶ Flat of the curve
- ▶ Rising numbers of uninsured
 - ▶ who pays?
- ▶ Disparities in health by race and income
- ▶ Only major industrialized country that does not provide universal access to health care

Excerpt from President Obama's Online Town Hall on 3/26/2009

Now, the question is, if you're going to fix it, why not do a universal health care system like the European countries? I actually want a universal health care system; that is our goal. I think we should be able to provide health insurance to every American that they can afford and that provides them high quality.

So I think we can accomplish it. Now, whether we do it exactly the way European countries do or Canada does is a different question, because there are a variety of ways to get to universal health care coverage.

A lot of people think that in order to get universal health care, it means that you have to have what's called a single-payer system of some sort. And so Canada is the classic example: Basically, everybody pays a lot of taxes into the health care system, but if you're a Canadian, you're automatically covered. And so you go in – England has a similar – a variation on this same type of system. You go in and you just say, "I'm sick," and somebody treats you, and that's it.

The problem is, is that we have what's called a legacy, a set of institutions that aren't that easily transformed. Let me just see a show of hands: How many people here have health insurance through your employer? Okay, so the majority of Americans, sort of – partly for historical accident. I won't go into – FDR had imposed wage controls during war time in World War II. People were – companies were trying to figure out how to attract workers. And they said, well, maybe we'll provide health care as a benefit.

And so what evolved in America was an employer-based system. It may not be the best system if we were designing it from scratch. But that's what everybody is accustomed to. That's what everybody is used to. It works for a lot of Americans. And so I don't think the best way to fix our health care system is to suddenly completely scrap what everybody is accustomed to and the vast majority of people already have. Rather, what I think we should do is to build on the system that we have and fill some of these gaps.

And I'm looking to Congress to work with me to find that optimal system. I made some proposals during the campaign about how we can lower costs through information technologies; how we can lower costs through reforms in how we reimburse doctors so that they're not getting paid just for the number of operations they're doing, but for whether they're quality outcomes; investing in prevention so that kids with asthma aren't going to the emergency room, but they're getting regular checkups.

So there are a whole host of things that we can do to cut costs, use that money that we're saving then to provide more coverage to more people. And my expectation is, is that I will have a health care bill to sign this year. That's what we're going to be fighting for. That's what we're going to be striving for.

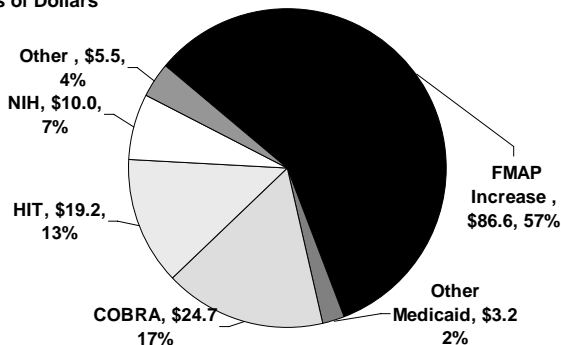
American Recovery and Reinvestment Act (ARRA)

Health care provisions:

- ▶ Temporary increase in the federal matching percentage for Medicaid
 - ▶ 1pp increase in UR leads to 1 million more Medicaid-CHIP enrollees and 1.1 million uninsured
- ▶ Subsidize COBRA premiums
 - ▶ COBRA is a law which requires employers to continue providing the employer-based health insurance to those leaving their job, but the former employee must pay the full cost (including what the employer provided when employed)
 - ▶ ARRA says govt will pay 65% of premium for those laid off (with certain eligibility requirements)
- ▶ Provide incentives to providers to invest in health IT
- ▶ More NIH funding for research
- ▶ Various other investments in infrastructure

Distribution of Health Funding in ARRA

Billions of Dollars



Total Health Spending = \$149.2 billion

SOURCE: Detailed Summary of ARRA from the Appropriations Committee and Senate Finance and Ways and Means Committees. <http://www.speaker.gov/blog/?p=1694> and White House Summary. Total costs of ARRA = \$787 billion.

Stimulus Goals and Achievements

- ▶ spend money fast (64% spent by Sep 2010)
- ▶ give to those who are hardest hit (Cobra, Medicaid)
- ▶ give to those who will spend it (Cobra, Medicaid)
Better than tax cuts that go to savings mostly
- ▶ do some long-term good (HIT, NIH, infrastructure)

One complaint: doesn't change how government spends money

What did President Obama propose during his campaign?

- ▶ Expansion of Medicaid/CHIP – DONE
- ▶ Individual mandate for children, subsidizing those who can't afford it
- ▶ National Health Care Exchange: negotiates prices for private health insurance plans for individuals and small businesses
- ▶ Bar private insurers from rejecting people due to pre-existing conditions
- ▶ Offer everyone option of government health plan
- ▶ Electronic medical records
- ▶ Promote 'evidence-based medicine'
- ▶ Encourage healthy living (sin taxes, company gym regulations, smaller 'nudges')
- ▶ Play or pay: all large employers must provide insurance or contribute toward cost

Contentious Point: Public Health Insurance

- ▶ Private insurers don't like it because of crowd-out, and they cross-subsidize public programs; may lobby against ala 'Harry and Louise'
 - ▶ Hospitals enjoy profit margin of 48% on private insured patients; lose 44% on Medicaid patients
- ▶ Many argue admin costs are cheaper in public (Medicare) but unfair comparison; private insurers:
 - ▶ must build provider networks of low-cost, quality providers; Medicare doesn't exclude providers
 - ▶ must negotiate rates; Medicare fixes prices as regulation
 - ▶ combat fraud; Medicare spends < 0.02% on antifraud measures although payment errors are likely \$33+ billion/year
 - ▶ must market; Medicare does not

Two opinions

Tyler Cowen

- ▶ innovation is worth the cost
- ▶ intangible benefits (small discomforts, everything possible done)
- ▶ fix some problems, don't set up national health insurance
 - ▶ insurance and employment
 - ▶ insurance companies and profit
 - ▶ electronic medical records
 - ▶ emergency rooms and poor
 - ▶ measures of quality

Two opinions

Robert Kuttner

- ▶ Free market is the problem
 - ▶ firms game the system (risk selection, limiting services, constraining payments, shifting costs to patients) → undertreatment
 - ▶ resources allocated to profit opportunities rather than medical need → overtreatment
 - ▶ population-based approach is not profitable
 - ▶ doctors spend less time with patients, patients have incentive to not see doctor
 - ▶ ration care through uninsurance, preexisting conditions, deductibles, shorter visits
- ▶ National health insurance is better because
 - ▶ big risk pool
 - ▶ incentive to do population-based approach b/c everyone is covered