

Health Coalition Backs Cuts of up to \$2 Trillion

BY JOYCE FRIEDEN

Leaders of several health care and labor organizations who met with President Obama proposed ideas aimed at reducing the growth in health care costs by as much as \$2 trillion over the next decade.

In a letter to the president, the six organizations—the American Medical Association, the American Hospital Association, the Pharmaceutical Research and Manufacturers of America, the Advanced Medical Technology Association, America's Health Insurance Plans, and the Service Employees International Union—vowed to work as a group to help achieve the cost reduction. Among their proposals:

- ▶ Cutting costs by focusing on administrative simplification, standardization, and transparency;
- ▶ Reducing overuse and underuse of health care by aligning incentives so that physicians, hospitals, and other providers are encouraged to work together toward the highest standards of quality and efficiency;
- ▶ Encouraging coordinated care and adhering to evidence-based best practices and therapies that reduce hospitalization and manage chronic disease more effectively;
- ▶ Implementing proven prevention strategies; and,
- ▶ Making common-sense improvements in care delivery, health information technology, workforce development, and regulatory reforms.

The American Medical Association told the president that although evidence-based guidelines will be helpful in reducing costs, the reductions could be enhanced if physicians had more liability protection. "For example, if everyone who walks into the emergency room gets



President Obama called the meeting held to discuss cost savings in health care "a watershed event."

an MRI for a headache, it's a costly procedure," AMA president-elect Dr. J. James Rohack said in an interview. "We know that in some areas of the country [that test has] been done because people sued when they didn't get the test. If we create scientifically based guidelines that say not everyone needs to have the MRI for a headache, physicians have got to have liability protection so they don't get sued if they follow that guideline."

Dr. Rohack said he thought the president heard what the AMA was conveying. "Clearly, the message of defensive medicine costing dollars in the health care system was received, as was the recognition that prior attempts at tort liability by just creating global caps hasn't been successful. We are going to have to work at other creative ways of achieving the goal."

The president called the White House meeting historic. "[This is] a watershed event in the long and elusive quest for health care reform," he said after the gathering. "And as these groups take the steps they are outlining, and as we work with Congress on health care

reform legislation, my administration will continue working to reduce health care costs to achieve similar savings."

Reaction to the meeting varied. "If the savings described today occur, this may be one of the most significant developments in promoting meaningful health care reform," Ron Pollack, executive director of Families USA, a liberal consumer health organization, said in a statement. "These savings would cut projected health care costs for families and businesses, and they would enable adequate subsidies to be offered so that everyone has access to high-quality, affordable health care."

Others were less impressed. "We are very cautious about the particulars of the voluntary effort that groups proposed to the White House," said a statement from the National Coalition on Health Care, a progressive advocacy group. "Most of the measures that they cited would help to make the health care system more efficient over time, but, as the Congressional Budget Office has indicated, should not be counted on to produce substantial savings soon."

Rep. Michael Burgess (R-Texas) said he was glad that the groups were trying to work together, but he criticized the approach. "The announcement by the health industry leaders misses the mark in several areas," he said in a statement. "It promises no guarantees that Washington bureaucrats won't stand in the way of Americans getting the treatment they need when they need it; no promises that patients will be able to control their health care decisions; and no assurances that Americans will have their choice of doctors or hospitals," he said. "Until more details are revealed, I would encourage Americans to be circumspect about [the] announcement." ■

Recession Drives Private Health Spending Down, While Public Costs Continue to Rise

BY ALICIA AULT

WASHINGTON — Even as the economic downturn causes private health spending to slow, public sector health spending is rising, according to a federal analysis.

An estimated 3.4 million people may lose private health insurance coverage in 2009 and another 2.6 million may lose coverage in 2010, said Sean Keehan, an actuary at the Center for Medicare and Medicaid Services' Office of the Actuary.

Total U.S. health care spending was an estimated \$2.4 trillion in 2008—an increase of 6.1% over 2007, according to the annual projection of health spending trends published online in the journal *Health Affairs*. This year, spending is expected to grow by only 5.5%.

That rate of growth is expected to far outpace the nation's gross domestic product in 2009. Economists for the CMS said they predict the GDP to shrink by 0.2% this year.

Meanwhile, the health care share of GDP is expected to grow 1.4%—the biggest annual jump as a portion of GDP since economists first started tracking this indicator in 1960, said Christopher Truffer, who is an actuary with CMS.

Health spending will account for 17.6% of the GDP in 2009, according

to the report (*Health Affairs* 2009 Feb. 24 [doi:10.1377/hlthaff.28.2.w346]).

Absent any policy changes, health care is on track to gobble up one-fifth of the nation's dollar by 2018, Mr. Truffer and his colleagues said.

The economists projected that overall health spending will rise by only 4.6% in 2010, thanks largely to the mandated 21% reduction in physician payments required under the Sustainable Growth Rate target set by Medicare.

However, since Congress usually eliminates the cuts or grants a fee increase every year, the CMS economists calculated some alternative scenarios. If payments were kept constant, Medicare spending would rise 6.4%, or 3.9% faster than if the cuts went into effect. Overall national health spending would rise 5.4%, or 0.8% more.

Medicaid spending will grow 9.6% in 2009, up from 6.9% in 2008. Private health insurance benefits spending grew an estimated 5.8% in 2008, but will rise only 4.1% in 2009.

The CMS projections make it seem like cost-containment efforts are having a negligible effect on restraining overall health spending. The economists said the Medicare fee cuts would make a difference, but that they did not have the data to calculate whether other cost-containment efforts in the private sector in particular were having any effect

on restraining health spending. However, prescription drug spending has dropped as a result of insurers successfully driving an increase in the use of generic drugs, said John Poisal, deputy director of the Office of the Actuary. Overall, the public and private sector spent 3.5% more on drugs in 2008, compared with a 4.9% increase the previous year.

Overall, the nation spent \$235 billion on prescriptions in 2008. The analysts expected to see a 4% increase this year. Hospital spending is expected to grow only 5.7% in 2009, compared with a 7.2% increase in 2008.

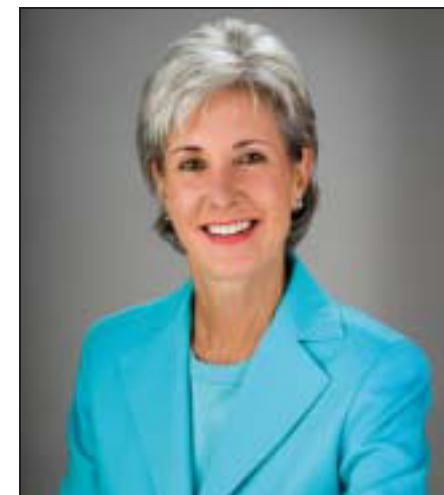
The analysts projected spending trends to 2018, but said their assumptions would change if the recession continues beyond early 2010. Their macroeconomic assumptions are based on the Blue Chip Consensus forecast, an amalgamation of the views of expert economists. That forecast predicts positive economic growth beginning in the second half of 2009.

The assumptions could change if significant health care reform occurs. CMS Chief Actuary Rick Foster has told reporters that he does not expect to see significant health reform proposals in the budget.

"I don't believe the administration is yet in the position to announce specifics or build a detailed plan," he said. ■

Sebelius Offers Perspective on Obama Plan

WASHINGTON — President Obama will not back away from the belief that a government-funded health plan must be part of a health reform plan, Health and Human Services Secretary Kathleen Se-



Kathleen Sebelius plans to work closely with congressional committees.

belius testified during her first formal appearance before the House Ways and Means Committee. "His charge to me is to work closely with [congressional] committees as proposals are being developed," she said. Ms. Sebelius, former governor of Kansas, has been applauded for her bipartisan approach to governing.

—Alicia Ault