

Centre for Economic Performance 21st Birthday lecture series

# Health Care Reform in the US

Dr Peter Orszag

*Vice chairman of Global Banking, CitiGroup*

Professor John van Reenen

*Chair, LSE*

**LSE** events

Suggested hashtag for Twitter users: #lsehealthcare



# Health Care, Political Polarization, and Our Fiscal Future

May 2011

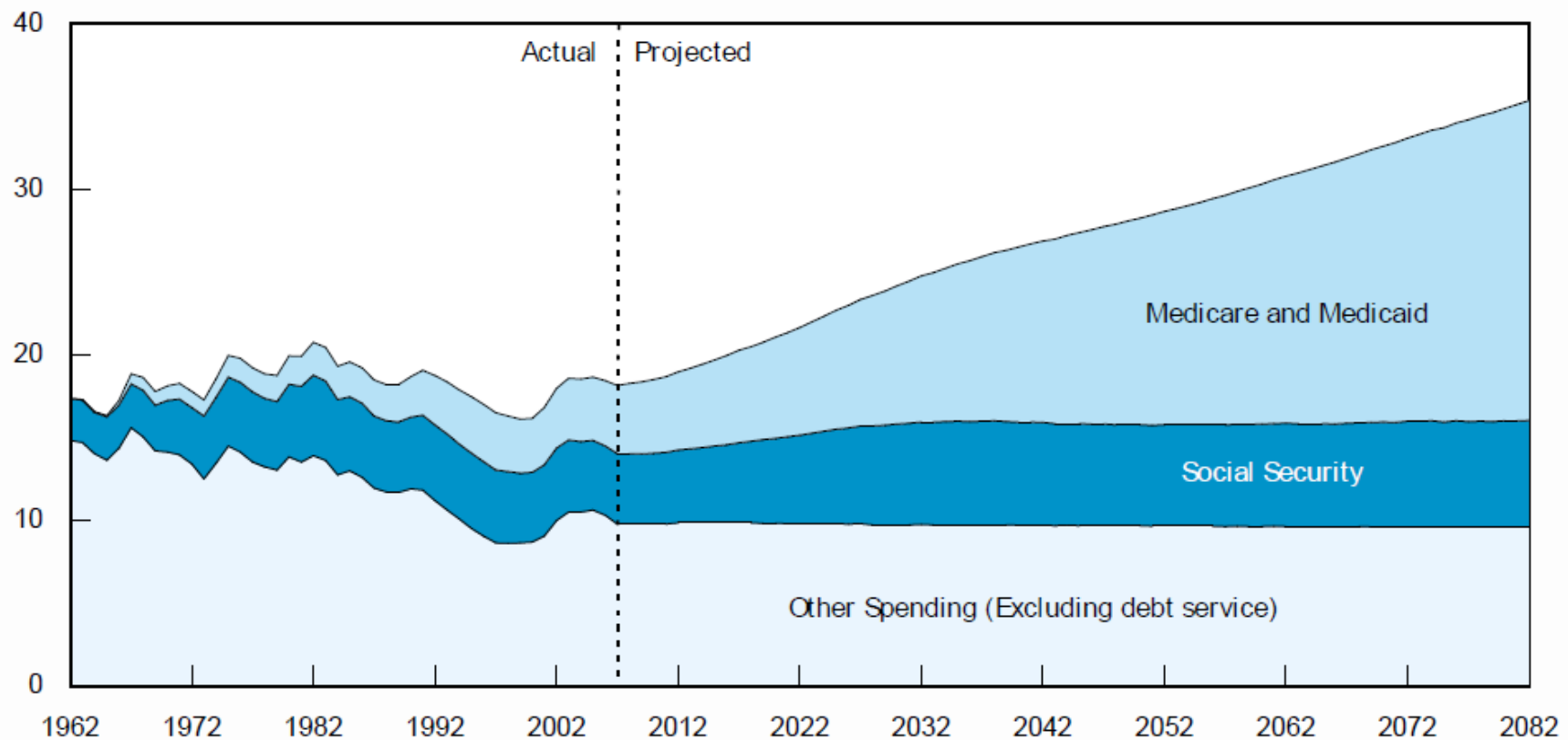
London School of Economics

Peter R. Orszag  
Citigroup



# Long-Term Fiscal Gap and Health Care Costs

Percentage Share of GDP



Source: CBO (2007)



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

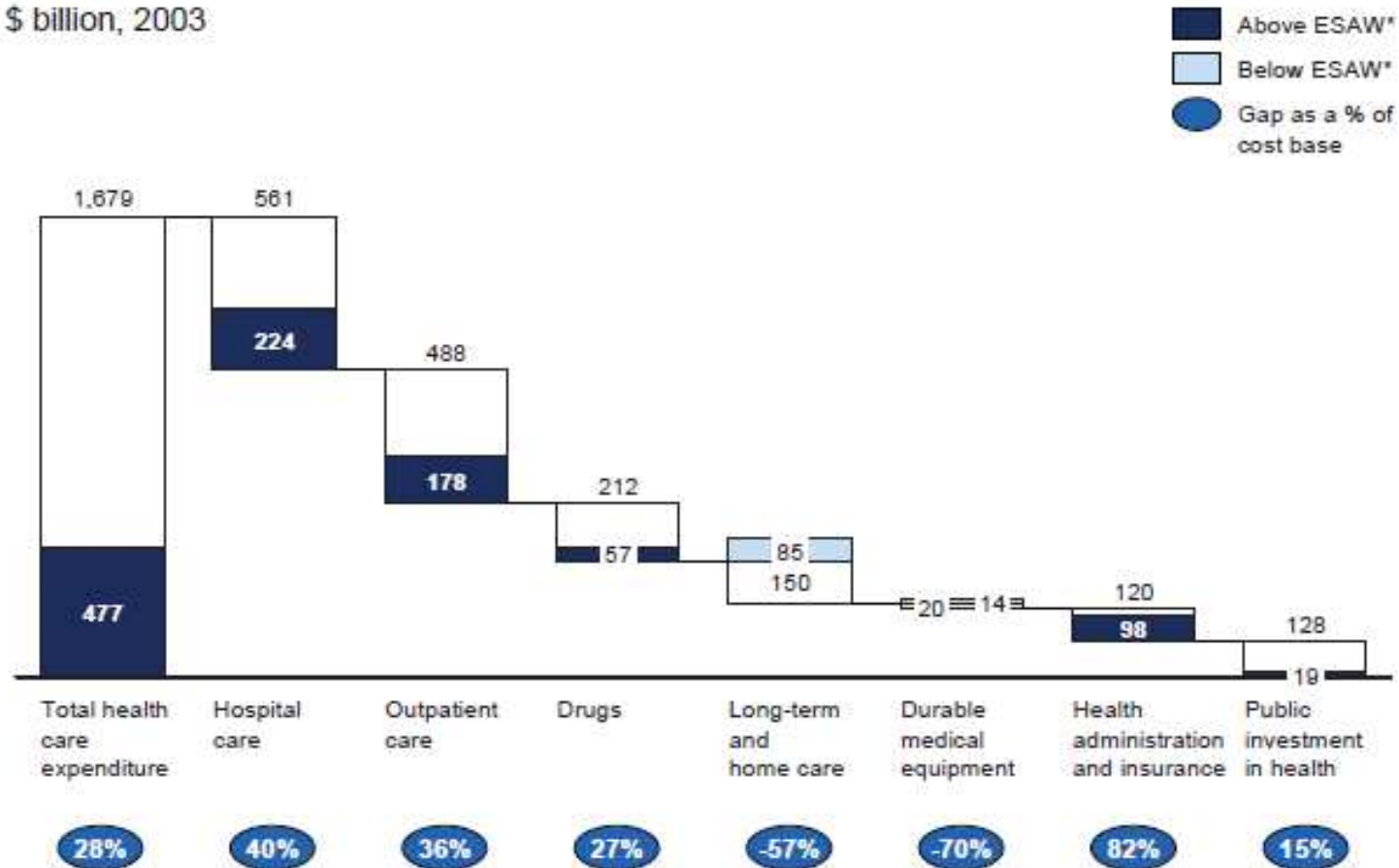
Percentage Points

	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

## Exhibit 2

### BREAKDOWN OF ADDITIONAL SPENDING IN US HEALTH CARE SYSTEM

\$ billion, 2003



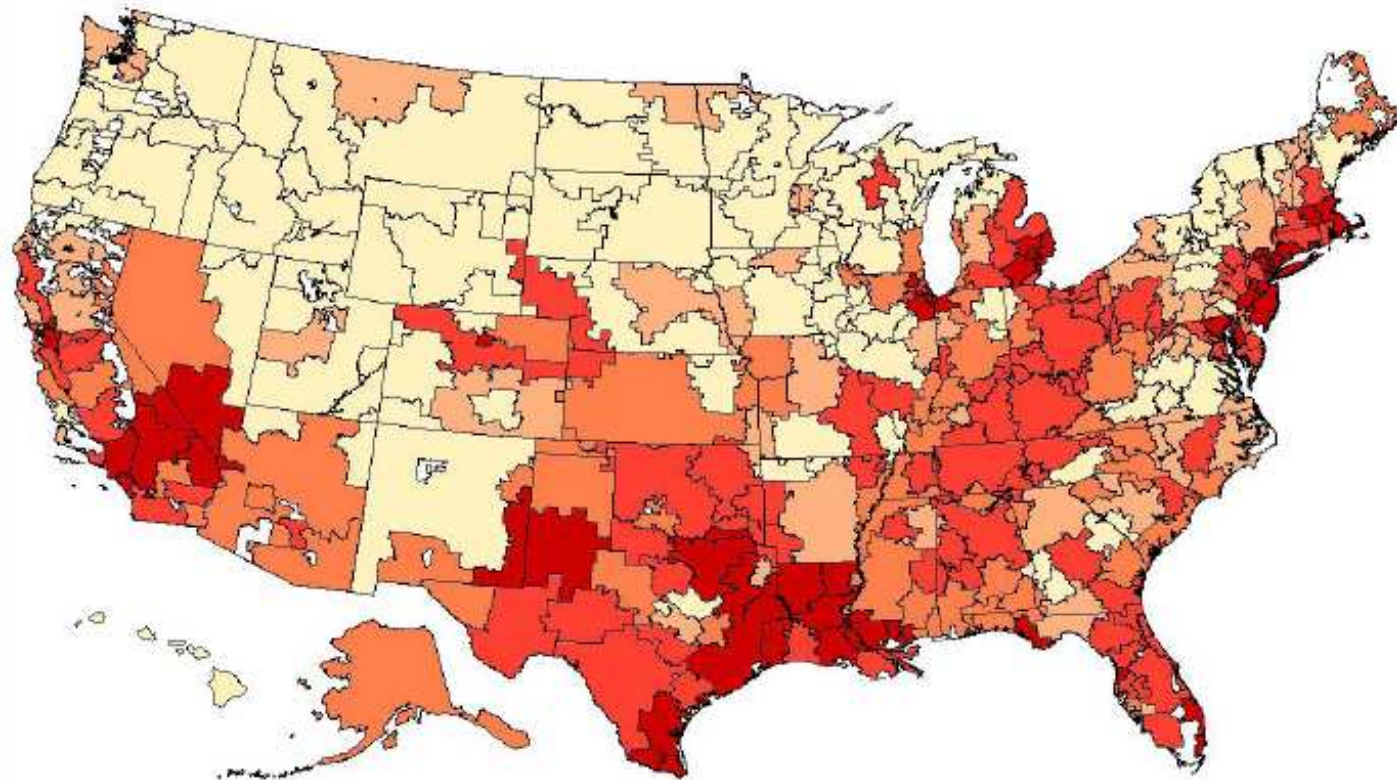
\* Estimated spending according to wealth

Source: OECD; MGI analysis





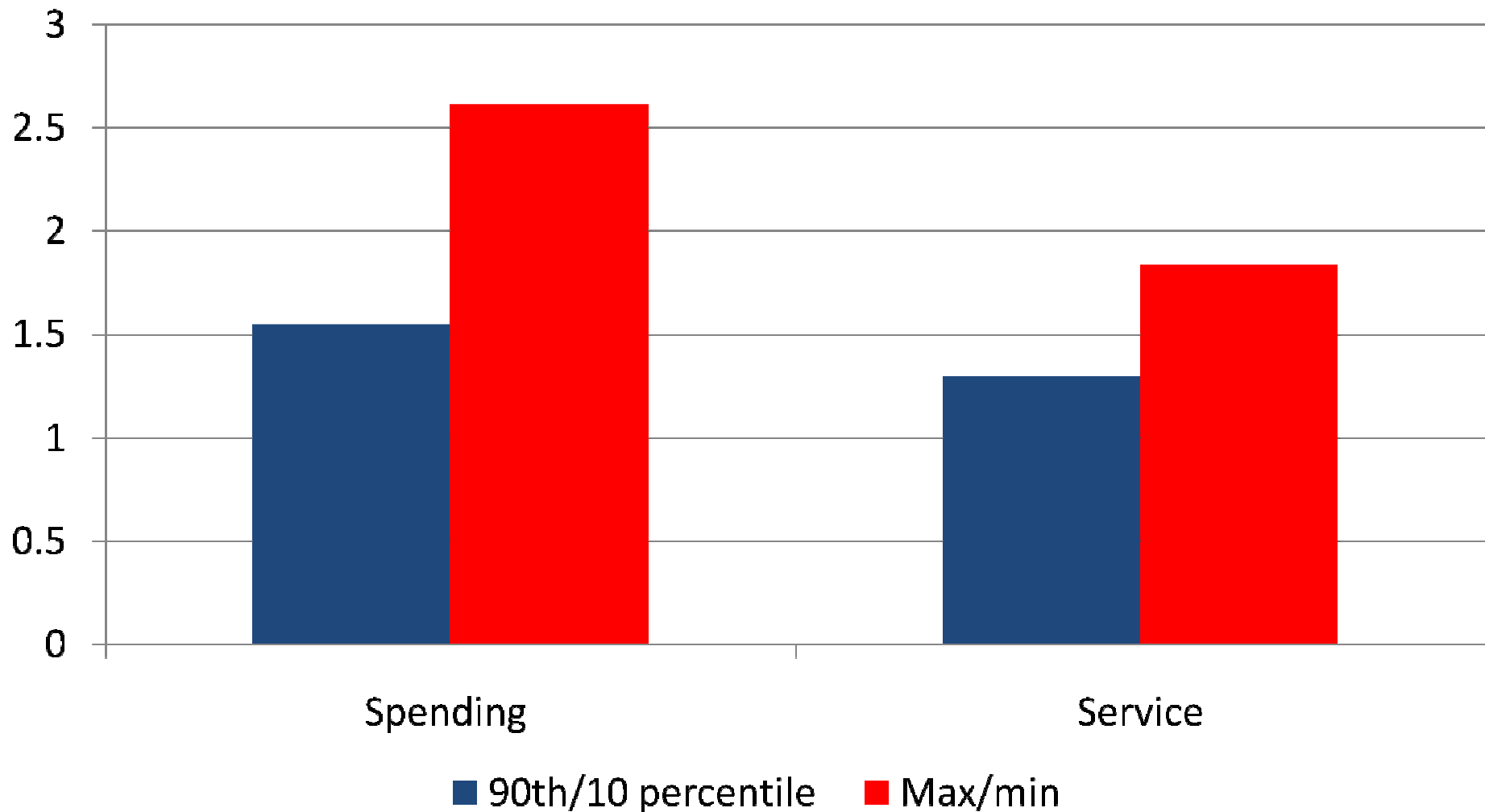
## Medicare Spending per Capita, by Hospital Referral Region, 2006



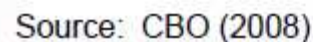
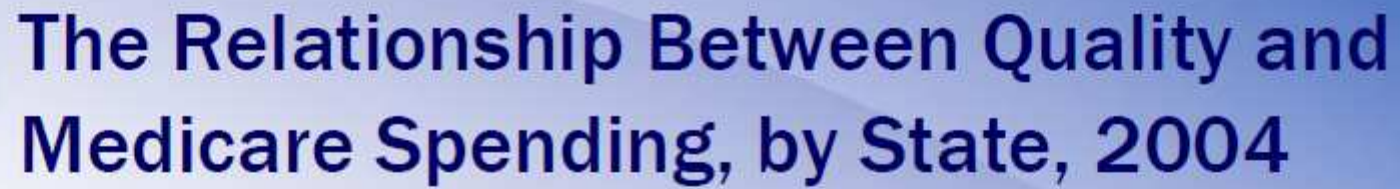
■ \$9,000 to 16,352 (57)	■ 7,500 to <8,000 (53)	■ 5,310 to <7,000 (75)
■ 8,000 to < 9,000 (79)	■ 7,000 to <7,500 (42)	□ Not Populated

Source: [www.dartmouthatlas.org](http://www.dartmouthatlas.org) (2009)

## MEDPAC ANALYSIS OF REGIONAL VARIATION



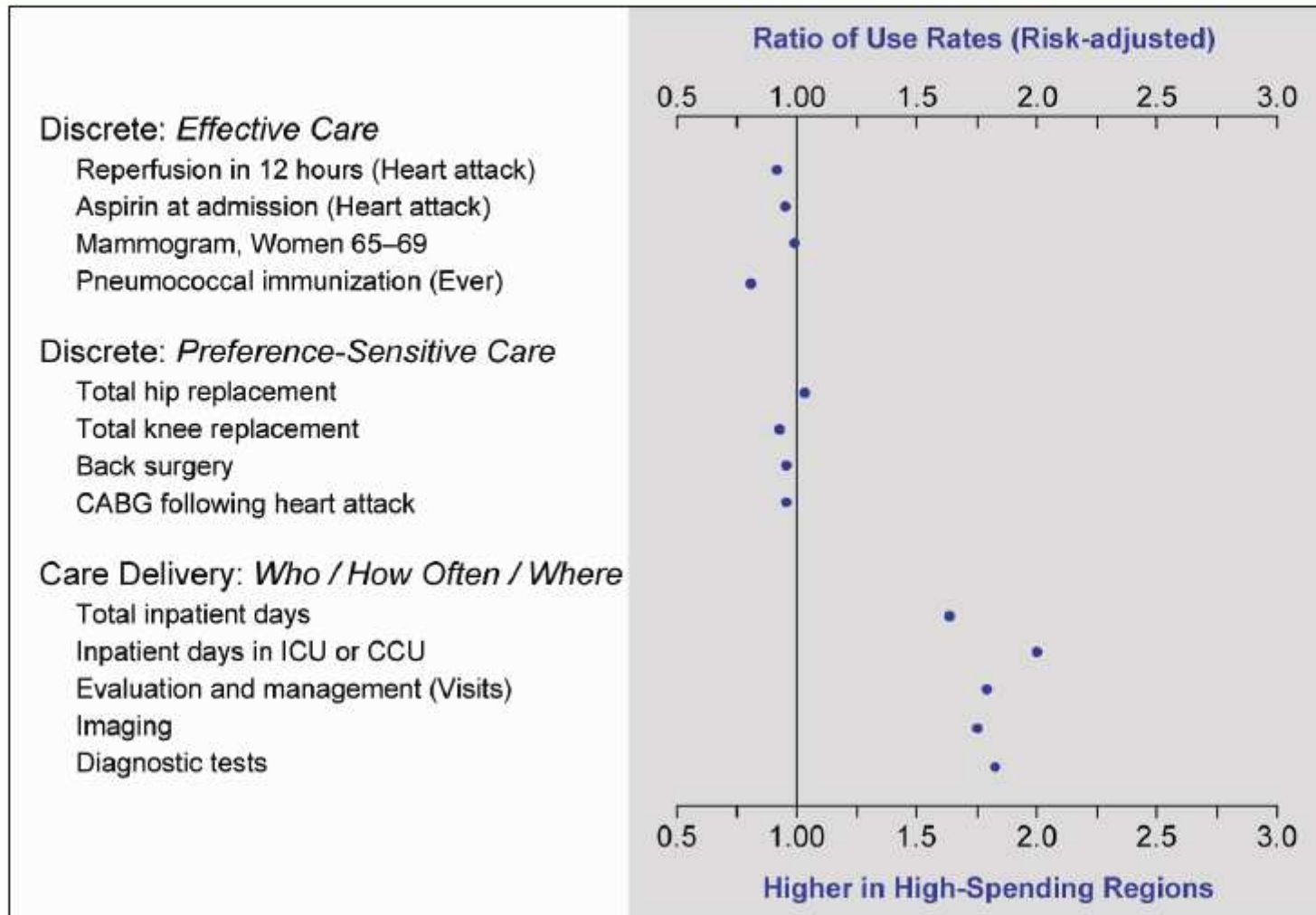
Source: MedPac,  
[http://www.medpac.gov/documents/Jan11\\_RegionalVariation\\_report.pdf](http://www.medpac.gov/documents/Jan11_RegionalVariation_report.pdf)







## What Additional Services Are Provided in High-Spending Regions?



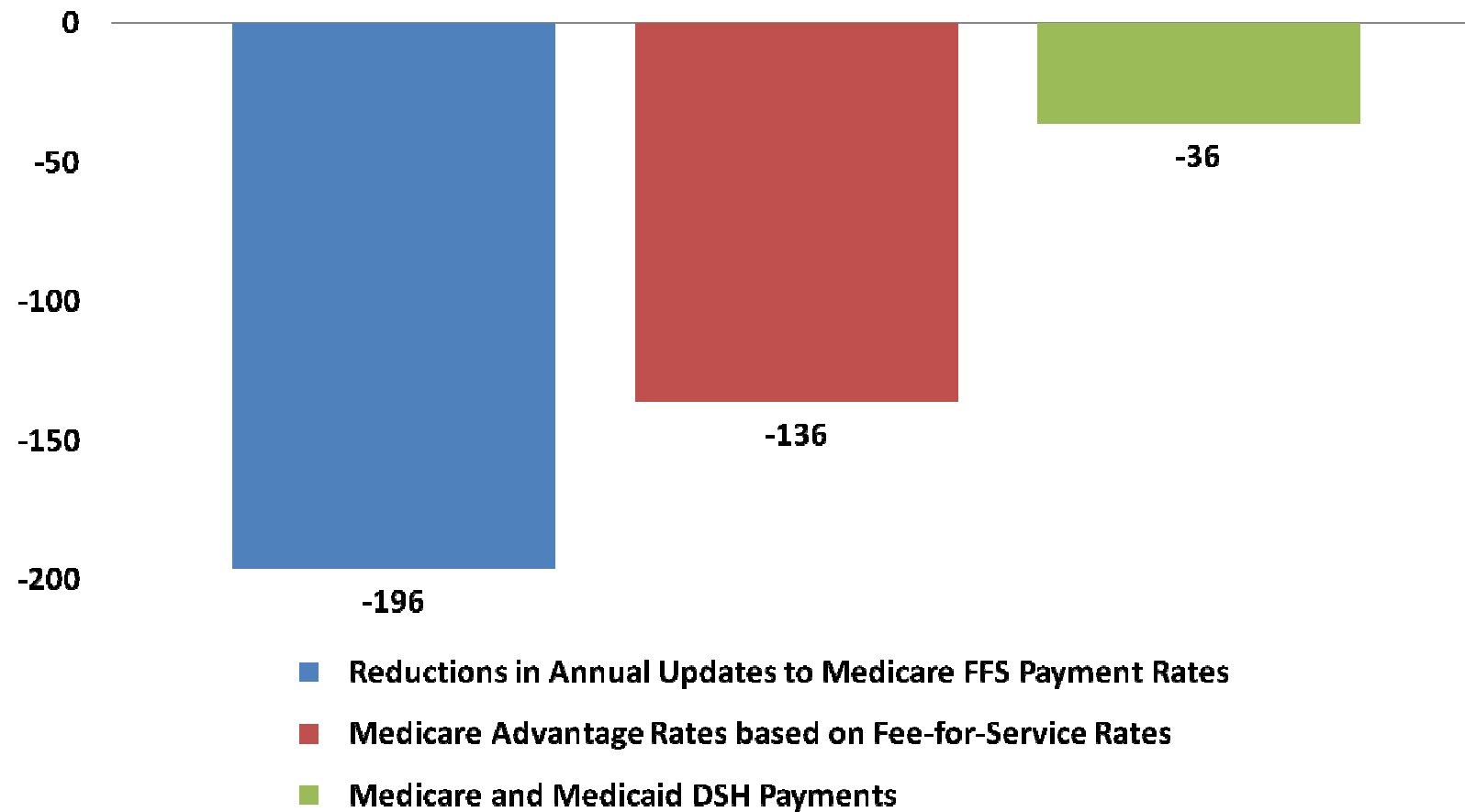
Source: Elliot Fisher, Dartmouth Medical School.

# Possible Solutions

1. Price reductions
2. Rationing
3. Consumer directed health care
4. Provider information and incentives

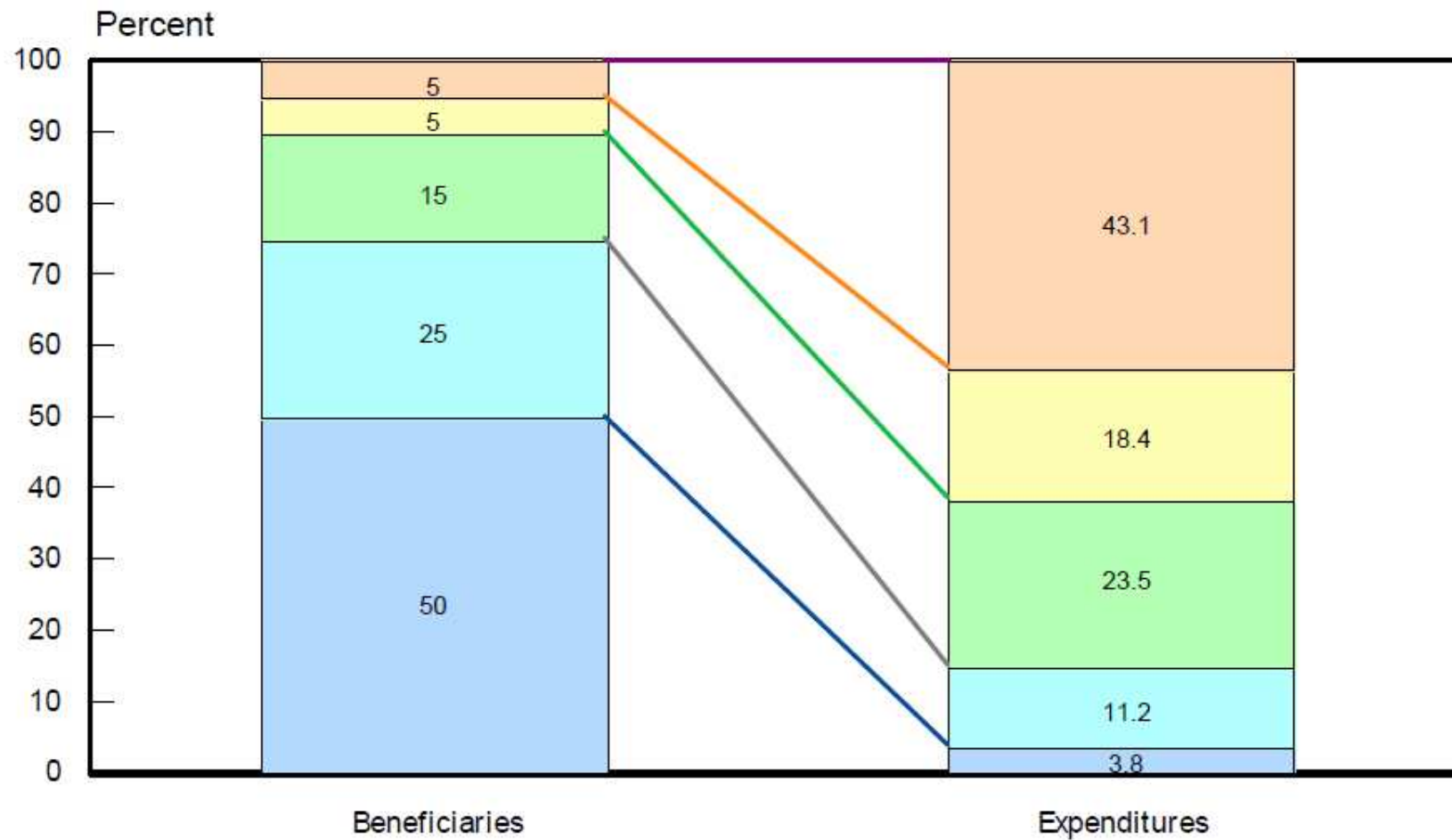
# Changes in Direct Spending, 2010-2019

## \$ Billions





## Concentration of Total Annual Medicare Expenditures Among Beneficiaries, 2001



Source: Data from CMS.

## Ryan Proposal Would Double Health Care Spending of Typical 65-Year-Old

■ Government's share   ■ Beneficiary's share

Health care spending for a typical 65-year-old in 2022, in dollars

Ryan Proposal



Current Medicare

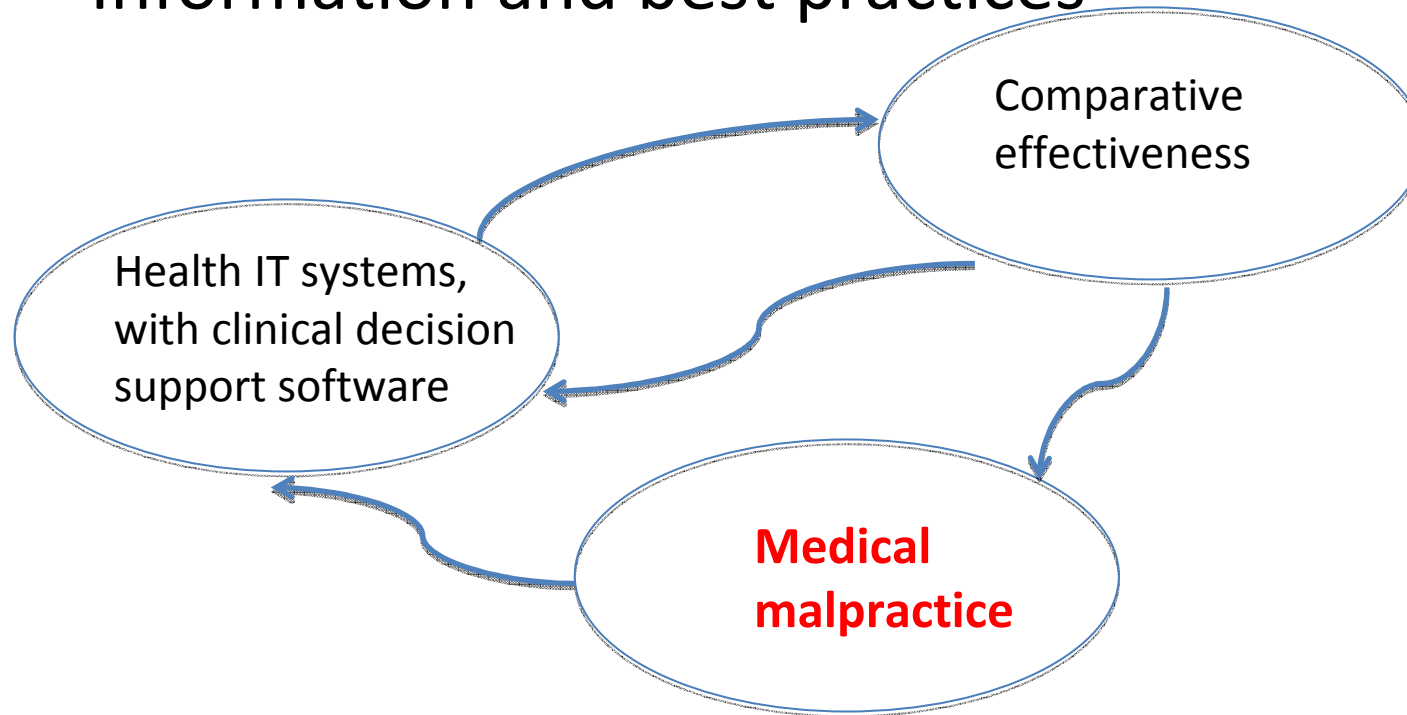


Source: Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Paul Ryan, April 5, 2011, and CBPP calculations. Current Medicare is CBO's alternative fiscal scenario.

Note: Beneficiary's share of spending includes premiums, out-of-pocket costs for covered services, and any payments for supplemental insurance.

# Addressing High Cost Cases: Provider Value Emphasis

- Information and best practices



- Delivery system structure and incentives



# Stimulus Bill

## Health Information Technology (IT)

- Provides about \$19 billion for Medicare and Medicaid health IT incentives over 5 years
- Codifies the Office of the National Coordinator for Health Information Technology to promote a nationwide infrastructure
- Provides financial incentives to encourage physicians and hospitals to use certified electronic health records (EHRs)

# Stimulus Bill

## Comparative Effectiveness Research (CER)

- Invested \$1.1 billion in CER
  - \$400 million for HHS
  - \$400 million for NIH
  - \$300 million for AHRQ
- Federal Coordinating Council for CER
  - Coordinates the CER activities of federal agencies
  - Advises President and Congress on infrastructure needs

# Delivery System Reforms

## a. Accountable care organizations (ACOs)

Groups of health care providers who take responsibility for the cost and quality of care of a population of patients. If ACOs provide quality care and reduce costs, they can keep some of the savings.

## b. Pay for performance

Value-Based Purchasing program in Medicare to promote higher quality outcomes. High performing hospitals will be paid more than low performing hospitals.

## c. Bundling

Health care providers are paid a flat rate for an episode of care, rather than billing separately for each service. Can help to align the incentives of all providers to improve coordination and quality.

## d. Hospital readmissions and hospital-acquired infections

# Center for Medicare and Medicaid Innovation

- Tasked with testing new payment and delivery systems to reduce costs and improve quality
- Requires HHS to test and evaluate “Phase I” models using certain selection criteria
- Provides for “Phase II” expansion of models
- Must be operational by January 1, 2011
- Funding: \$5 million for the “design, implementation, and evaluation of models” and \$10 billion for CMI activities from 2011 to 2019

# Independent Payment Advisory Board

- IPAB will have 15 members appointed by the President to 6 year terms
- The IPAB must put forward proposals that Medicare spending growth stays within a certain target (1 percent excess cost growth in outyears)
- Beginning in 2015 the IPAB must make recommendations to reduce Medicare spending when it is expected to exceed a target level
- Power of default and inertia
- Will it realize its potential?

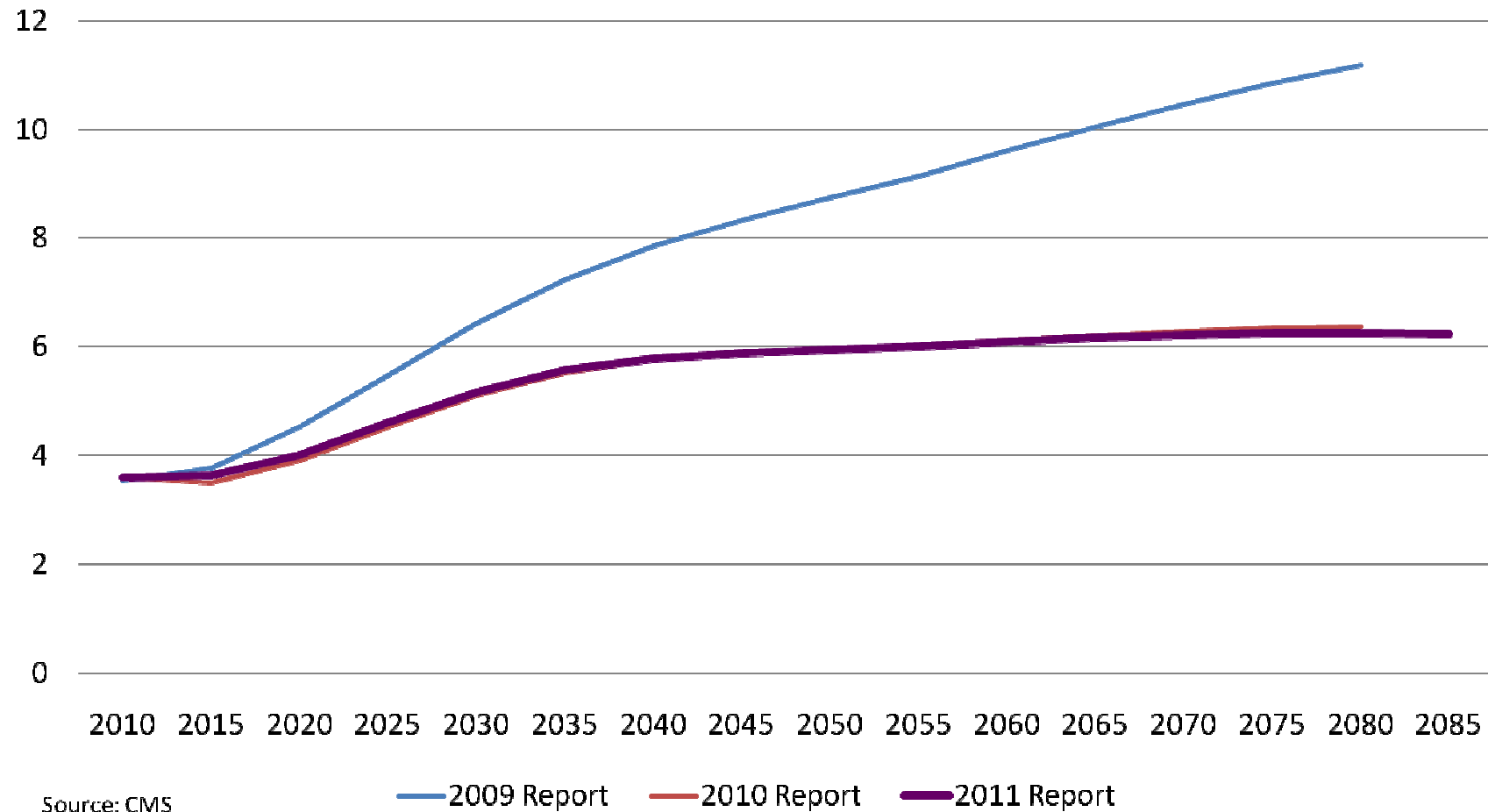
# Perceptions and Reality?

- First impressions matter – crucial summer of 2009
- CBO scoring versus campaign scoring

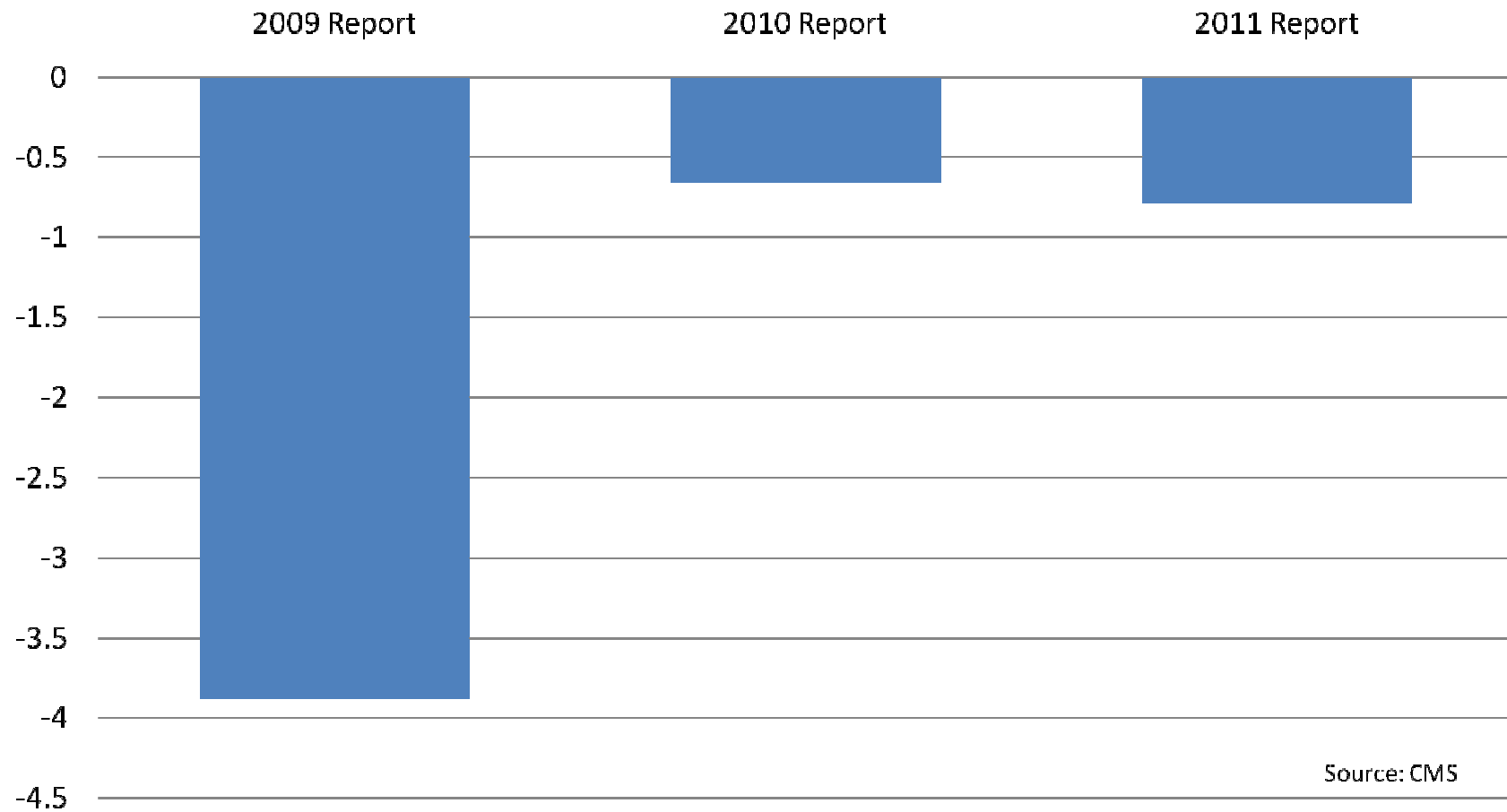


# CMS Projections of Medicare Expenditures

% of GDP



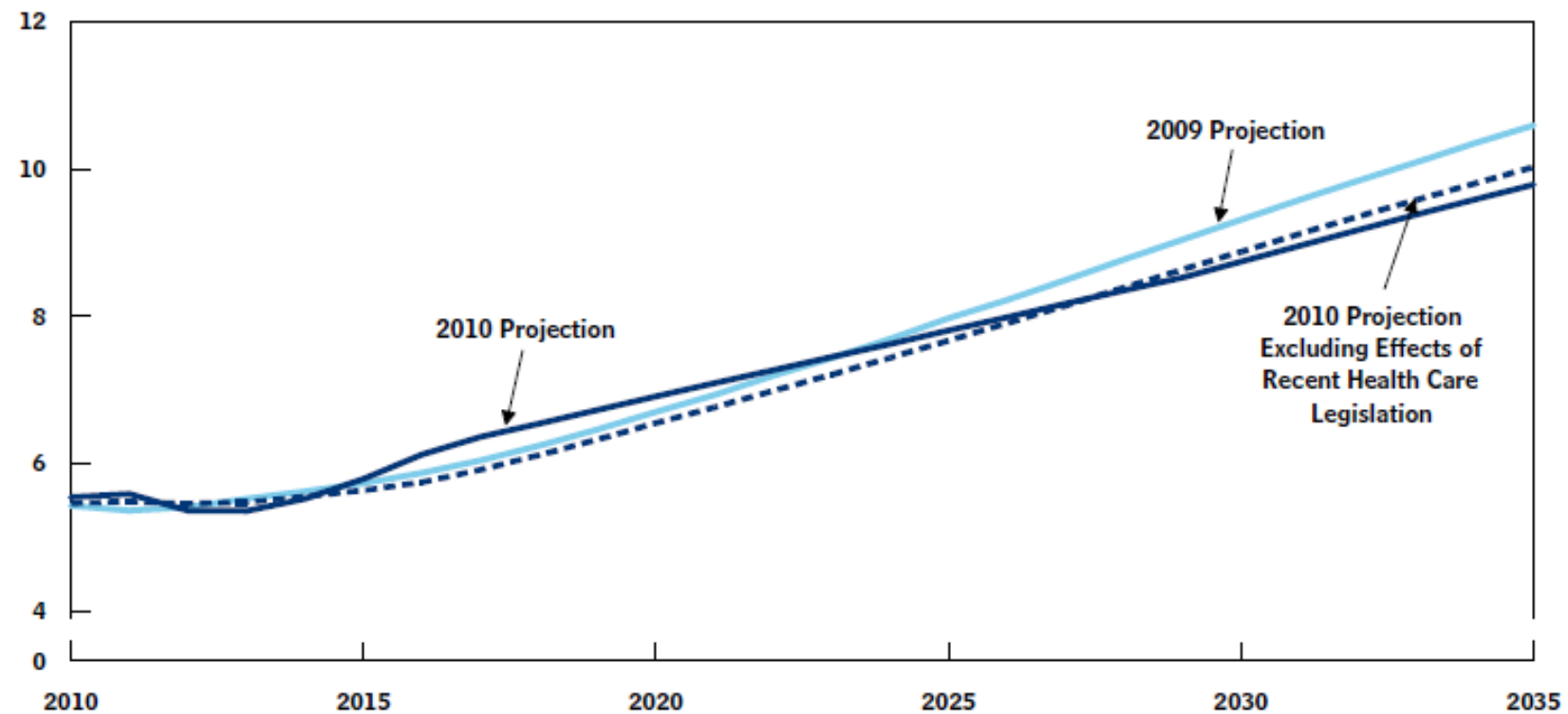
# HI 75 Year Actuarial Balance % of Taxable Payroll



**Figure 2-4.**

## Comparison of CBO's 2009 and 2010 Projections of Mandatory Federal Spending on Health Care Under the Extended-Baseline Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2020 (with adjustments for the recently enacted health care legislation) and then extending the baseline concept for the rest of the long-term projection period. (For details, see Table 1-1 on page 3.)

# Primary Fiscal Gap, % of GDP

## CBO Extended Baseline Scenario

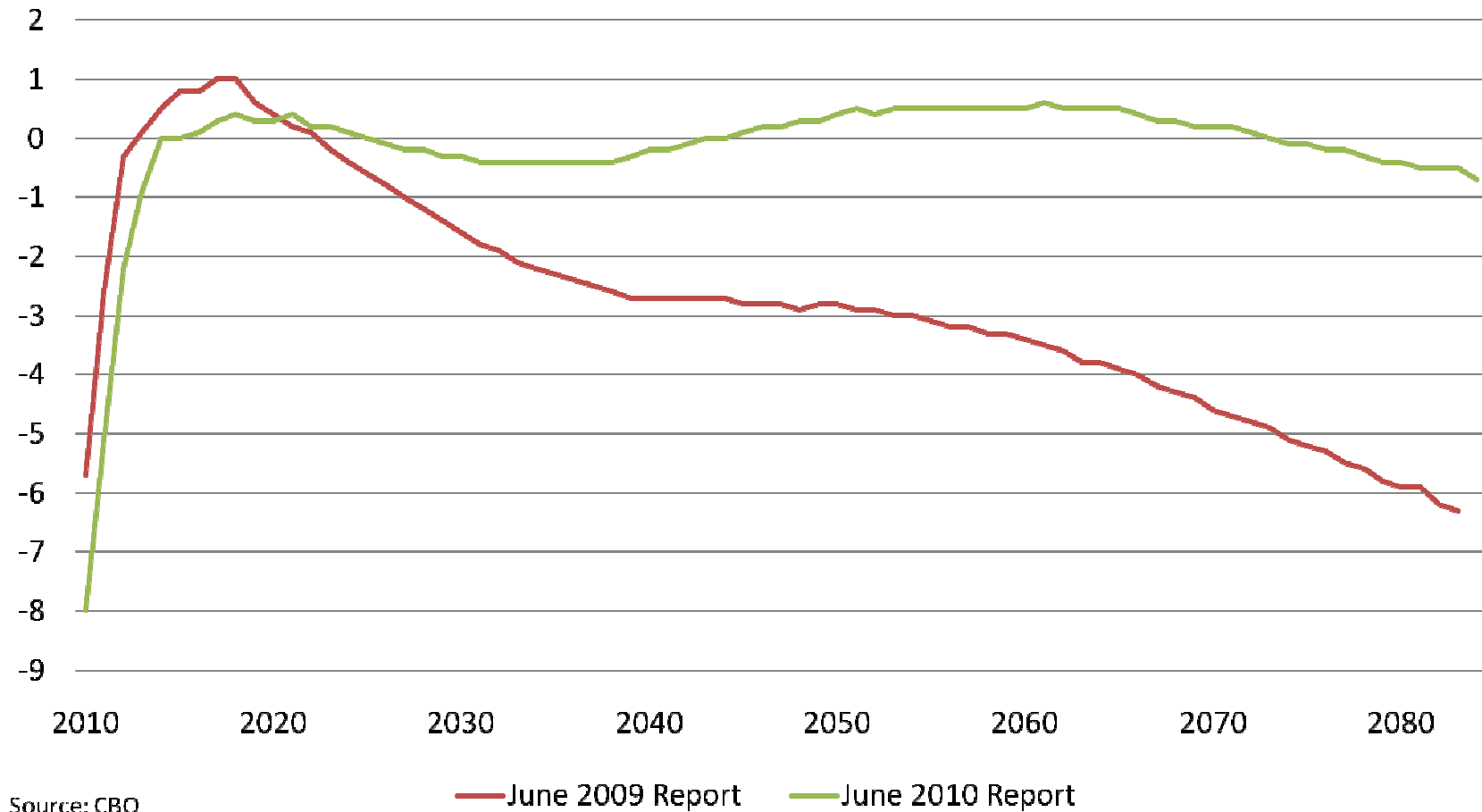
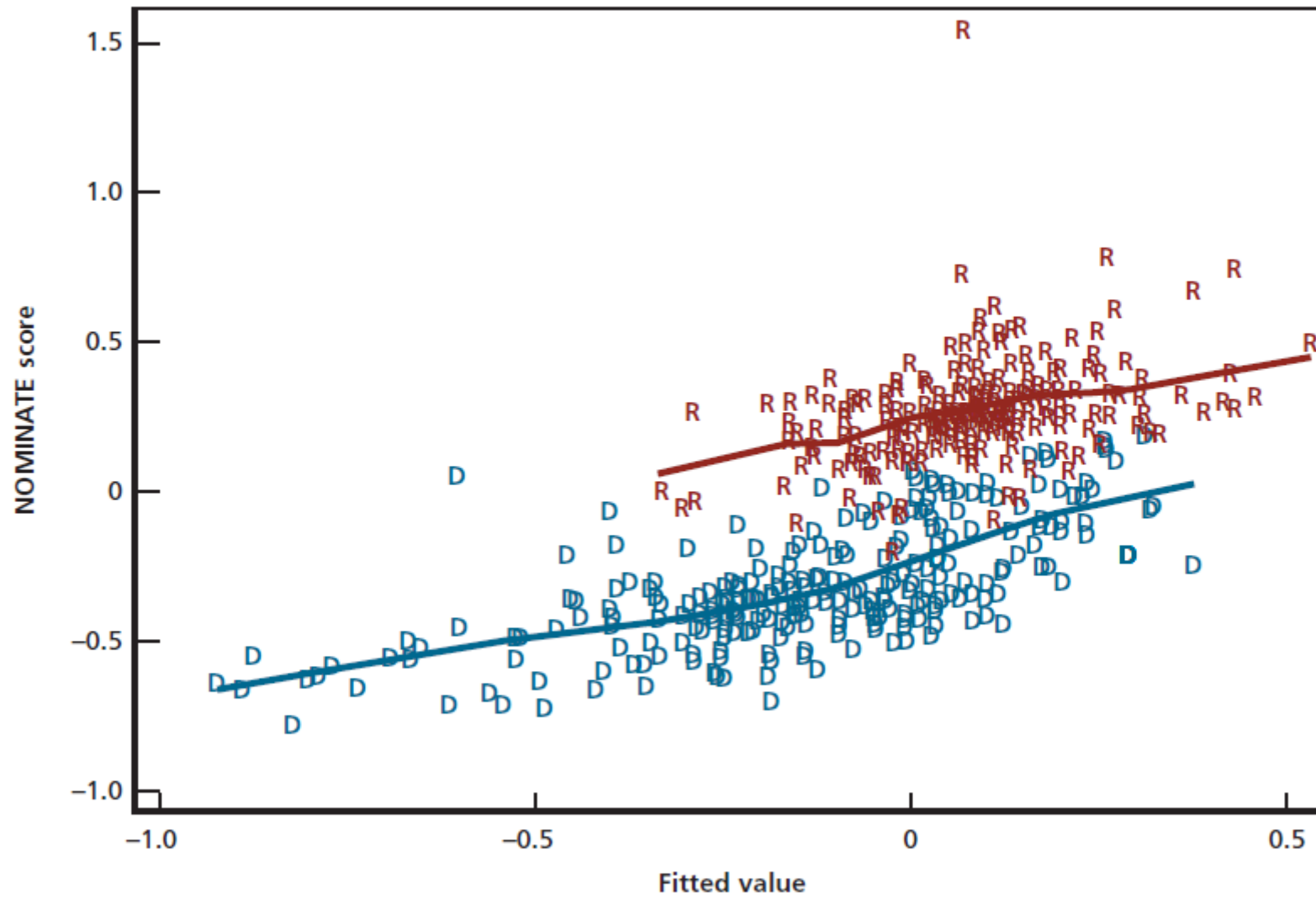


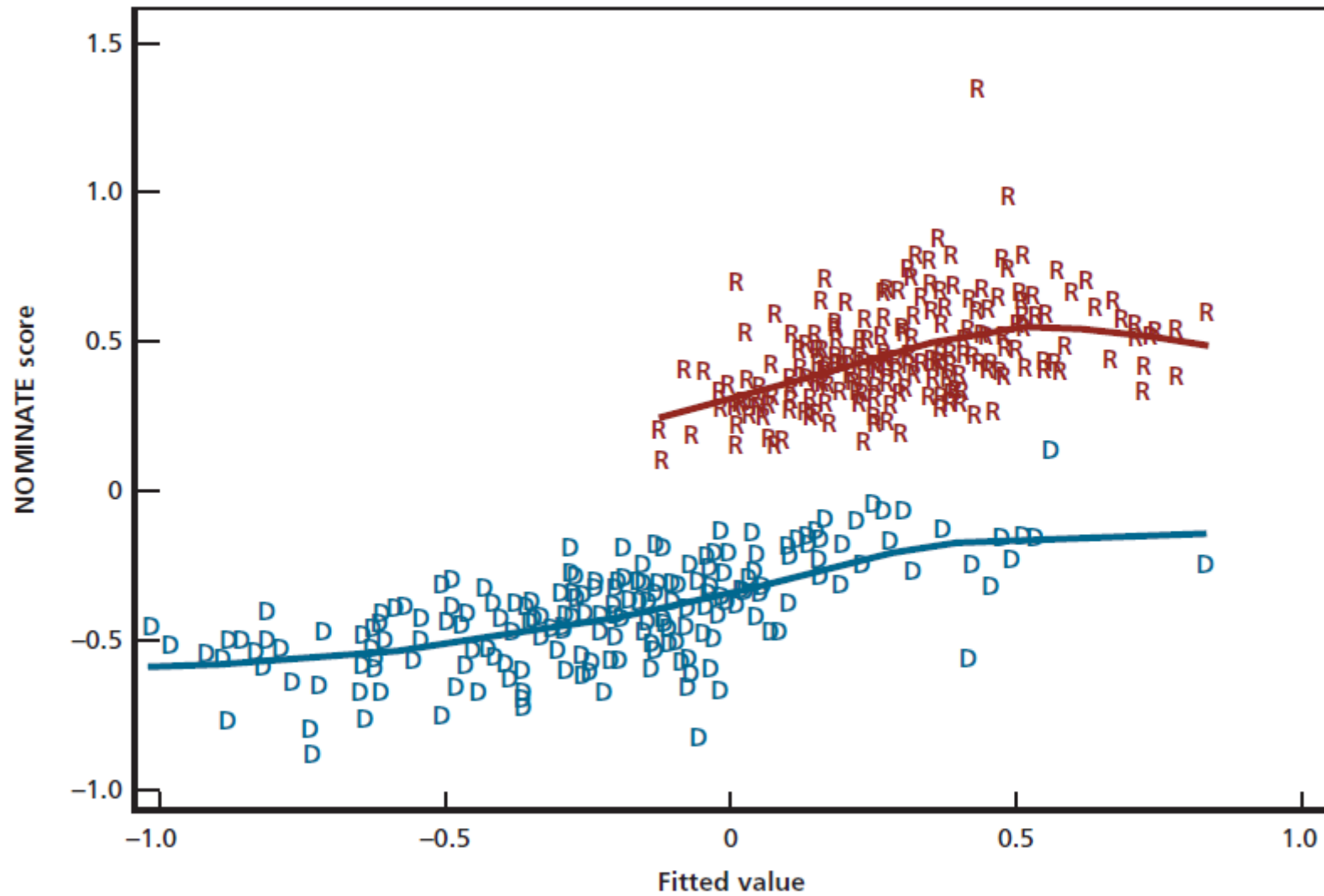
Figure 5  
NOMINATE Versus District Characteristics, 1973



SOURCE: McCarty, Poole, and Rosenthal, 2006.

RAND OP291-5

Figure 6  
NOMINATE Versus District Characteristics, 2003

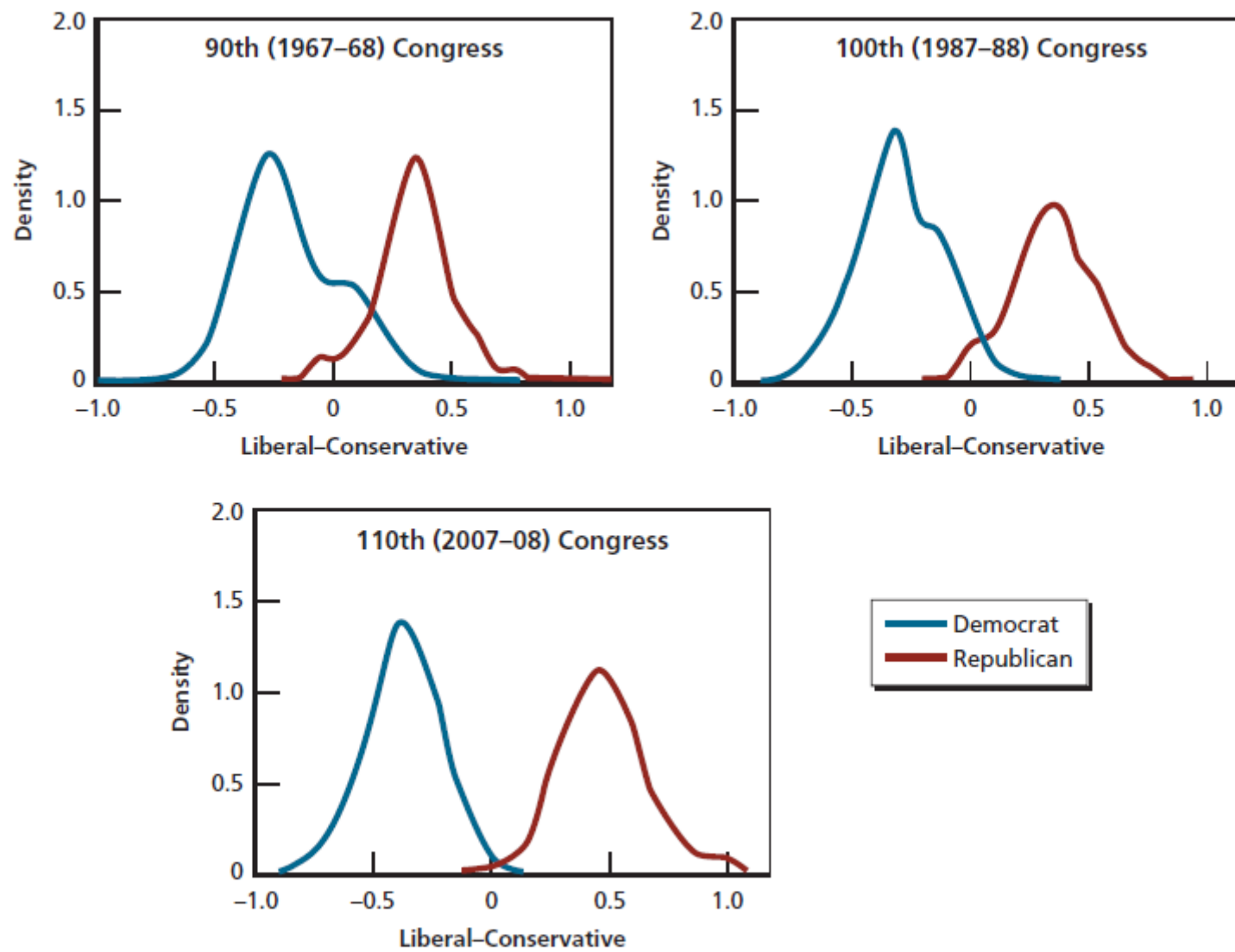


SOURCE: McCarty, Poole, and Rosenthal, 2006.

RAND OP291-6



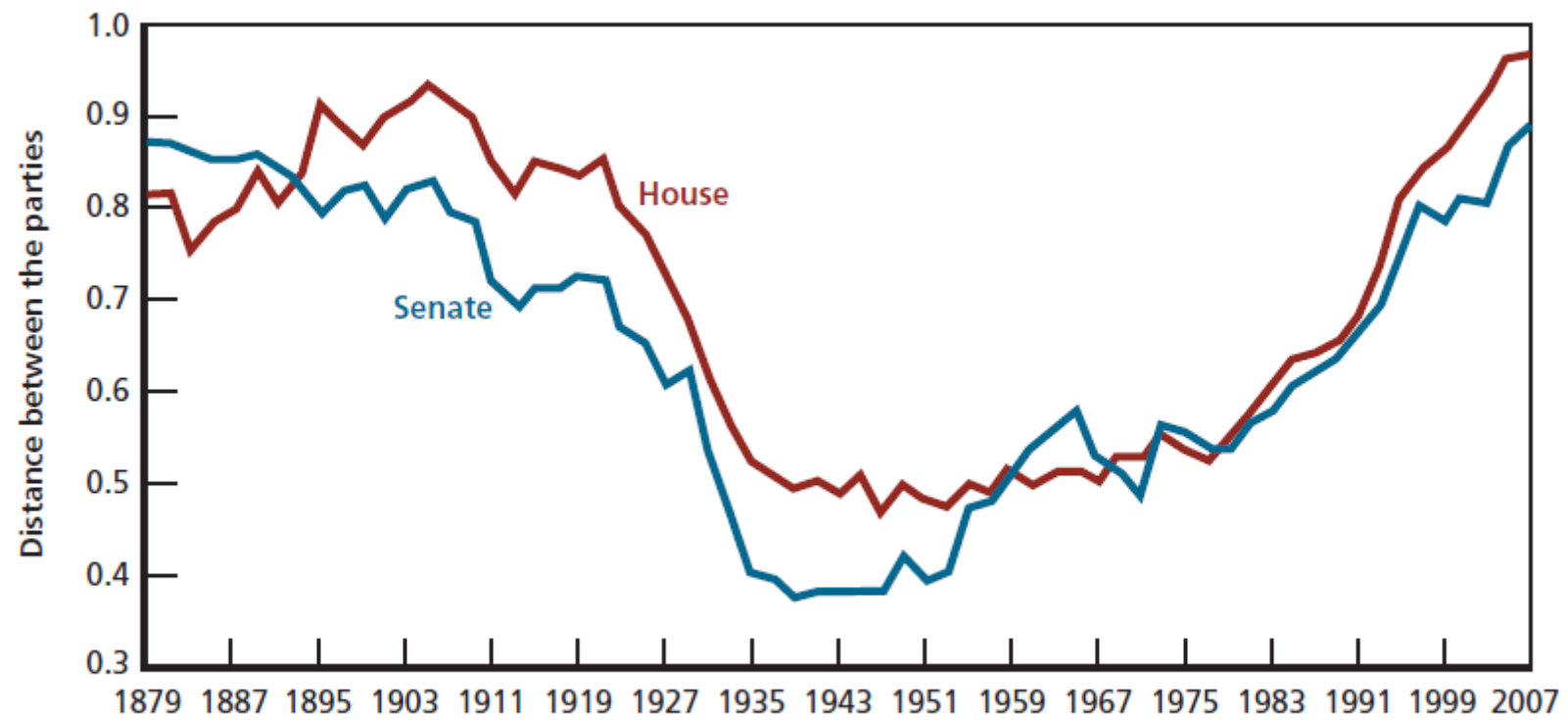
Figure 7  
Polarization in 90th, 100th, and 110th Congresses



SOURCE: Carroll et al., 2008.

RAND OP291-7

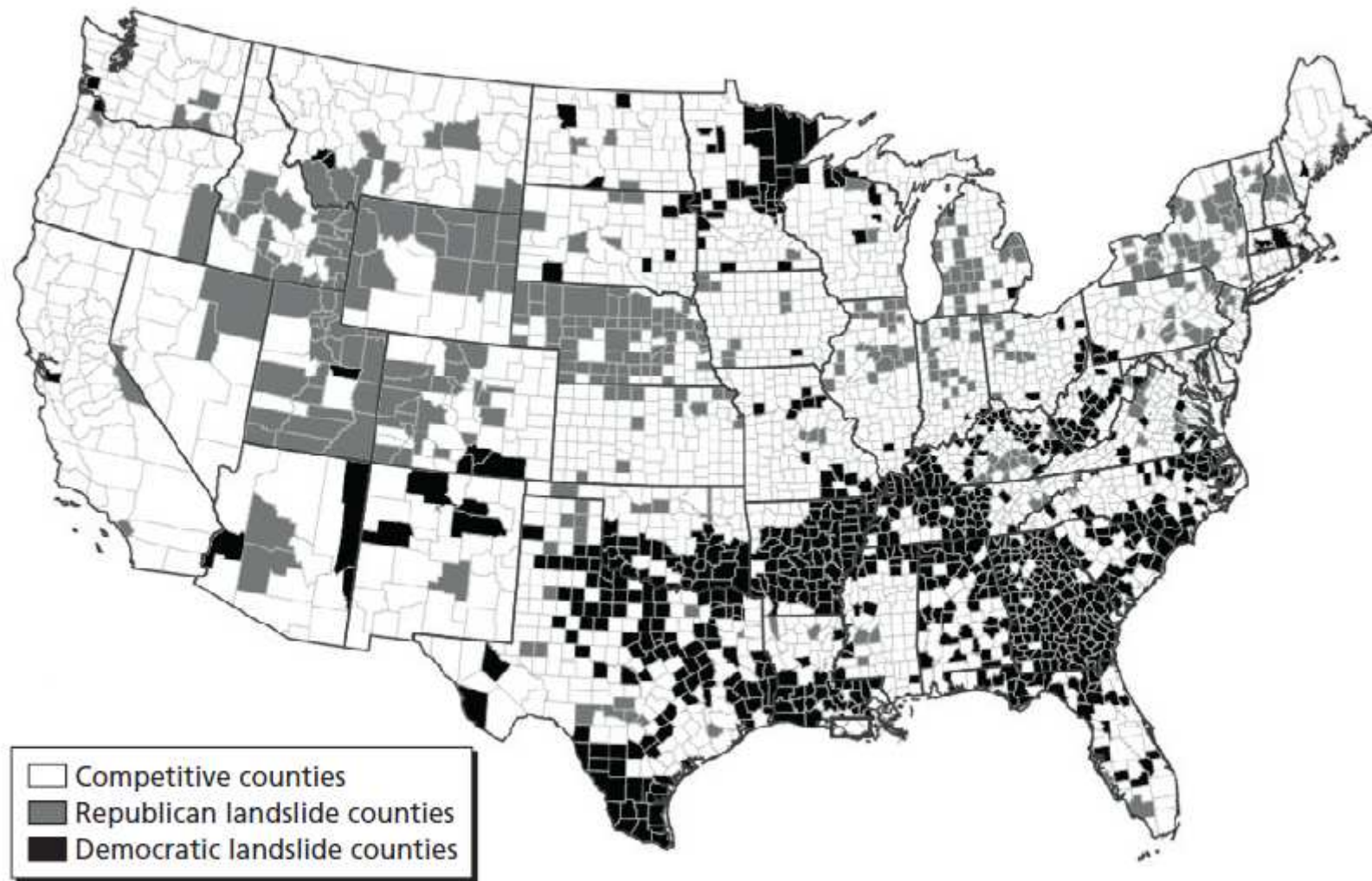
Figure 8  
Party Polarization, 1879–2007



SOURCE: McCarty, Poole, and Rosenthal, "Polarized America" Web site, no date.

RAND OP291-8

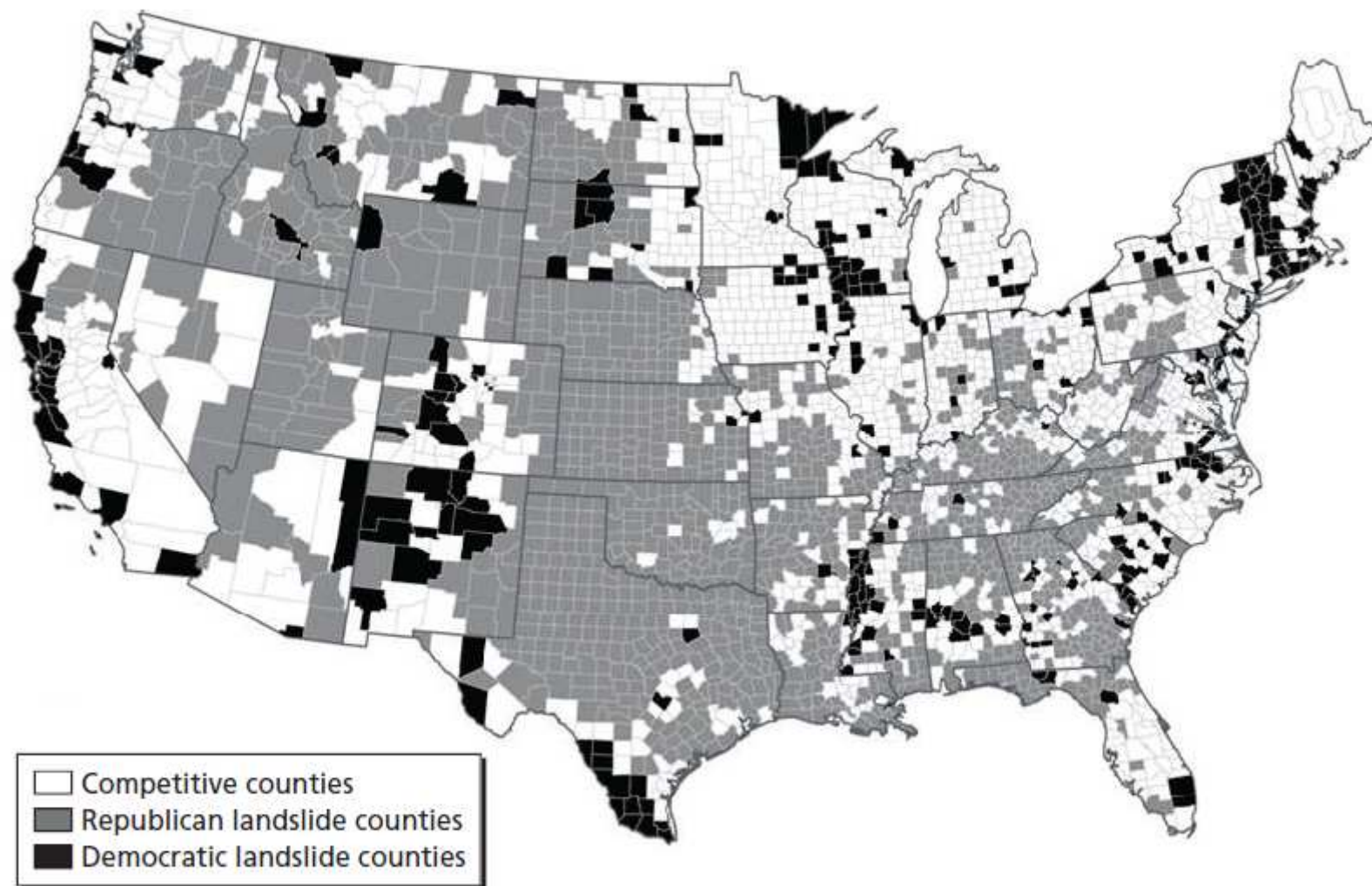
Figure 11  
1976 U.S. Election, by County



SOURCE: Bishop, 2008. Used with permission.

RAND OP291-11

Figure 12  
2008 U.S. Election, by County



SOURCE: Bishop, personal communication. Used with permission.

RAND OP291-12

Centre for Economic Performance 21st Birthday lecture series

# Health Care Reform in the US

Dr Peter Orszag

*Vice chairman of Global Banking, CitiGroup*

Professor John van Reenen

*Chair, LSE*

**LSE** events

Suggested hashtag for Twitter users: #lsehealthcare

