

many Americans are not getting these effective interventions. For instance, according to the Centers for Disease Control and Prevention fewer than 75 percent of women get mammograms, and fewer than 50 percent of Americans receive any type of colon cancer screening. The President has devoted in the Recovery Act an unprecedented \$1 billion for prevention and wellness interventions. This will dramatically expand community-based interventions proven to reduce chronic diseases.

These investments made in the Recovery Act will help, in the long-run, to slow health care cost growth which is the key driver of the Nation's overall long-term fiscal gap. Specifically, the investments in information technology will provide not only higher quality of care and less hassle for patients, but also the data necessary to examine what works and what doesn't—which, in turn, will be the focus of the research on effective medical interventions. The emphasis on prevention and wellness will help reduce the incidence of diseases and chronic conditions and lead to a healthier, more productive America. All in all, these investments will create the underpinnings of a more efficient health care system—one that delivers better care rather than just more care—and will put the Nation on a much sounder long-term fiscal path.

TRANSFORMING AND MODERNIZING AMERICA'S HEALTH CARE SYSTEM

To build on these steps, the Budget sets aside a reserve fund of more than \$630 billion over 10 years that will be dedicated towards financing reforms to our health care system. The President recognizes that while a very large amount of money and a major commitment, \$630 billion is not sufficient to fully fund comprehensive reform. But this is a first crucial step in that effort, and he is committed to working with the Congress to find additional resources to devote to health care reform. The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding access, and improving quality. This past year, for instance, the President proposed to

use rescission of the high-income tax provisions. Others have proposed different ideas to finance expanded health coverage such as capping the tax exclusion for employer-sponsored health insurance, a value-added tax, or additional offsets in existing health care programs. To achieve these goals and finance reform, the President looks forward to working with the Congress over the coming year, and as he does, the President will adhere to the following set of eight principles:

- *Protect Families' Financial Health.* The plan must reduce the growing premiums and other costs American citizens and businesses pay for health care. People must be protected from bankruptcy due to catastrophic illness.
- *Make Health Coverage Affordable.* The plan must reduce high administrative costs, unnecessary tests and services, waste, and other inefficiencies that consume money with no added health benefits.
- *Aim for Universality.* The plan must put the United States on a clear path to cover all Americans.
- *Provide Portability of Coverage.* People should not be locked into their job just to secure health coverage, and no American should be denied coverage because of pre-existing conditions.
- *Guarantee Choice.* The plan should provide Americans a choice of health plans and physicians. They should have the option of keeping their employer-based health plan.
- *Invest in Prevention and Wellness.* The plan must invest in public health measures proven to reduce cost drivers in our system—such as obesity, sedentary lifestyles, and smoking—as well as guarantee access to proven preventive treatments.
- *Improve Patient Safety and Quality Care.* The plan must ensure the implementation of proven patient safety measures and provide incentives for changes in the delivery system to reduce unnecessary variability in patient care. It must support the widespread use of health information technology and the development of data on the effectiveness of

medical interventions to improve the quality of care delivered.

- *Maintain Long-Term Fiscal Sustainability.* The plan must pay for itself by reducing the level of cost growth, improving productivity, and dedicating additional sources of revenue.

Financing Health Care Reform. The reserve fund is financed by a combination of rebalancing the tax code so that the wealthiest pay more as well as specific health care savings in three areas: promoting efficiency and accountability, aligning incentives toward quality, and encouraging shared responsibility (see Table 1). Taken together, the health care savings would total \$316 billion over 10 years while improving the quality and efficiency of health care, without negatively affecting the care Americans receive. These savings include:

- *Reducing Medicare Overpayments to Private Insurers Through Competitive Payments.* Under current law, Medicare overpays Medicare Advantage plans by 14 percent more on average than what Medicare spends for beneficiaries enrolled in the traditional fee-for-service program. The Administration believes it's time to stop this waste and will replace the current mechanism to establish payments with a competitive system in which payments would be based upon an average of plans' bids submitted to Medicare. This would allow the market, not Medicare, to set the reimbursement limits, and save taxpayers more than \$175 billion over 10 years, as well as reduce Part B premiums.
- *Reducing Drug Prices.* Prescription drug costs are high and rising, causing too many Americans to skip doses, split pills, or not take needed medication altogether. The Administration will accelerate access to make affordable generic biologic drugs available through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs. In order to retain incentives for research and development for the innovation of breakthrough products, a period of exclusivity would be guaranteed for the original innovator prod-

uct, which is generally consistent with the principles in the Hatch-Waxman law for traditional products. Additionally, brand biologic manufacturers would be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as "ever-greening." The Administration will prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market. Finally, the Budget will bring down the drug costs of Medicaid by increasing the Medicaid drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, apply the additional rebate to new drug formulations, and allow States to collect rebates on drugs provided through Medicaid managed care organizations. All the savings would be devoted to the health care reserve fund.

- *Improving Medicare and Medicaid Payment Accuracy.* The Government Accountability Office (GAO) has labeled Medicare as "high-risk" due to billions of dollars lost to overpayments and fraud each year. The Centers for Medicare and Medicaid Services (CMS) will address vulnerabilities presented by Medicare and Medicaid, including Medicare Advantage and the prescription drug benefit (Part D). CMS will be able to respond more rapidly to emerging program integrity vulnerabilities across these programs through an increased capacity to identify excessive payments and new processes for identifying and correcting problems.
- *Improving Care after Hospitalizations and Reduce Hospital Readmission Rates.* Nearly 18 percent of hospitalization of Medicare beneficiaries resulted in the readmission of patients who had been discharged in the hospital within the last 30 days. Sometimes the readmission could not have been prevented, but many of these readmissions are avoidable. To improve this situation, hospitals will receive bundled payments that cover not just the hospitalization, but care from cer-

Table 1.

Reserve for Health Reform

| \$ in billions | 2010 | 2011 | 2012 | 2013 | 2014 | 2010-14 | 2010-19 |
|--|-------|-------|-------|-------|-------|---------|---------|
| Federal Health Savings | -1.8 | -5.1 | -18.0 | -24.5 | -34.3 | -83.7 | -316.0 |
| Aligning incentives toward quality | 0.0 | -0.4 | -1.3 | -1.7 | -2.1 | -5.4 | -20.5 |
| Promoting efficiency/accountability | -1.8 | -4.3 | -16.2 | -22.2 | -31.5 | -75.9 | -287.4 |
| Encouraging shared responsibility..... | 0.0 | -0.4 | -0.6 | -0.7 | -0.8 | -2.4 | -8.1 |
| New Revenues | | -11.1 | -30.8 | -33.5 | -35.5 | -110.8 | -317.8 |
| Subtotal: Reserve for Health Reform | -1.8 | -16.2 | -48.8 | -58.0 | -69.8 | -194.6 | -633.8 |
| Additional resources and new benefits, to be determined with Congress | | | | | | | |
| Net Cost—Reserve Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

tain post-acute providers the 30 days after the hospitalization, and hospitals with high rates of readmission will be paid less if patients are re-admitted to the hospital within the same 30-day period. This combination of incentives and penalties should lead to better care after a hospital stay and result in fewer readmissions—saving roughly \$26 billion of wasted money over 10 years. The money saved will also be contributed to the reserve fund for health care reform.

- *Expanding the Hospital Quality Improvement Program.* The health care system tends to pay for quantity of services not quality. Experts have recommended that hospitals and doctors be paid based on delivering high quality care, or what is called “pay for performance.” The President’s Budget will link a portion of Medicare payments for acute in-patient hospital services to hospitals’ performance on specific quality measures. This program will improve the quality of care delivered to Medicare beneficiaries, and the higher quality will save over \$12 billion over 10 years. Again, the money saved will be contributed to the Reserve Fund for health care reform.
- *Reforming the Physician Payment System to Improve Quality and Efficiency.* The Administration believes that the current physician

payment system, while it has served to limit spending to a degree, needs to be reformed to give physicians incentives to improve quality and efficiency. Thus, while the baseline reflects our best estimate of what the Congress has done in recent years, we are not suggesting that should be the future policy. As part of health care reform, the Administration would support comprehensive, but fiscally responsible, reforms to the payment formula. The Administration believes Medicare and the country need to move toward a system in which doctors face better incentives for high-quality care rather than simply more care.

- *Reducing Itemized Deduction Rate for Families With Incomes Over \$250,000.* Lowering health care costs and expanding health insurance coverage will require additional revenue. In the health reform policy discussions that have taken place over the past few years, a wide range of revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with the Congress to enact health care reform. The Administration’s Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent—and the initial reserve fund would be

funded in part through this provision. This provision would raise \$318 billion over 10 years.

Restoring America's Place in the World and Keeping America Safe

Just as a strong economy bolsters our standing in the world and enhances our national security, strong leadership in the world helps us thrive in an interdependent, global economy. The line between economic policy and foreign policy is now very hard to draw. In the past, our greatest threats came from distant countries with armies and navies who engaged us in direct battle. Now, our open, interdependent world that makes it so easy to do business, travel, or communicate with people from all over the globe also makes us vulnerable to new threats and security challenges. As we all learned on September 11th, a small band of terrorists has the ability to kill thousands of civilians who are just going about their lives. Dangerous weapons, including nuclear materials, could fall into the hands of terrorists. Programmers sitting in their local coffee shop could launch cyber-attacks on the Pentagon, the CIA, or key parts of our security infrastructure. A small nation thousands of miles away which slips into chaos and anarchy could become a failed state that incubates terrorists and regional conflict. An outbreak of a deadly infectious disease in a rural, undeveloped corner of the world can quickly make its way to our biggest cities.

America alone cannot defeat these threats, but neither can the world defeat them without America. That is why the Administration will invest in our Armed Forces and our wounded warriors to ease the burdens of two wars and multiple deployments, while also asking more of our allies in Afghanistan and elsewhere. And it is why the Administration will increase investments in other elements of our national power—like diplomacy, economic development, and education—so that we end the reliance on our military alone to defeat emerging threats. In addition, the Administration will make critical investments for America's veterans to make sure that they receive the funding and the care they deserve for defending this country.

Taken together, this will restore America's leadership role in the world after years of disregarding our allies and ignoring the values that have earned America respect the world over. Already, the President has pledged to close the detention facility at Guantanamo Bay, Cuba within a year and has overhauled detention and interrogation practices. He is committed to responsibly redeploying our combat brigades from Iraq while bringing all the elements of American power to bear on the threat posed by extremists from Afghanistan and Pakistan. The President will work with our allies to ensure that Iran lives up to its responsibilities to the world community, and rededicate America to the agreement at the heart of the Nuclear Nonproliferation Treaty to work toward a world without nuclear weapons while working over the next four years to lock down all loose fissile material.

These are big challenges, and while we recognize the perils we face, we must not forget that it is also a time of immense promise. We can rebuild our alliances and rally the world to tackle these truly transnational challenges, replace despair with hope, and keep America secure, prosperous, and free. To achieve these goals, we need to allocate our resources to reflect the reality of the threats we face today and do so in a way that limits waste. The Administration will:

Increase Funding for the Department of Defense (DOD). As we look to the challenges facing our Nation, it's imperative that we invest our defense dollars effectively and wisely. To that end, the President is committed to supporting the men and women who make our military the best in the world. He wants to increase the size of the Army and Marine Corps, improve the pay for our men and women in uniform, and improve the medical treatment of wounded servicemembers. At the same time, the President will pursue a reform of the acquisition process to make sure that funds are not being wasted on expensive and outdated weapon systems. To fund these efforts, the Administration requests for DOD an increase of \$20.4 billion, or 4 percent, from the 2009 enacted level of \$513.3 billion excluding funding in the Recovery Act. This funding increase allows DOD