

**Remarks as Delivered  
By the Honorable Mike Leavitt  
Secretary of Health and Human Services  
National Governor's Association  
August 6, 2006**

Thank you, Governor (Haley Barbour of Mississippi).

I appreciate being invited to attend your committee today; my primary purpose in being here with the governors is to conduct a series of what I have been referring to as "Partner Meetings". I'll meet with well over a dozen of you today, individually to review matters that we're doing business together on.

I want to spend a few minutes today, however, talking about a problem that, in fact, we share. And that is health care, and its cost.

Now, you spent a fair amount of time yesterday talking about this, and I'm not going to repeat that. We all know the scary, alarming statistics; we, you can't be at a dinner party and have someone bring up the subject of health care without cascading into a whole series of horror stories about the things we've all experienced.

People understand this. This is not a case I have to make to any of you, certainly. Our economic viability depends on our capacity to deal with it.

There's still a lot of people who don't have health insurance, all of us are working on that in our own ways. It's beginning to push out all of the other things that are critical to our viability as a country, our education, our capacity to do research and development, all the things that show us leading are now being crowded out because health care is encroaching on every other aspect of our gross domestic product.

I think it was probably mentioned yesterday that we have now surpassed sixteen percent of the entire gross domestic product on health care. There's no reason to think that's going to stop. By 2015 it looks like it will be more than twenty percent.

There's no place on the economic leader board for a country in a global market that's spending twenty five or thirty percent of its gross domestic product on health care. We have to either get better at this, or get beat.

And today I want to talk about ways we can work together to do that. Why is it happening?

Well, again, all of you understand the complexities here. This is a very complex subject. There are many components.

But I would like to focus, if I could on what I believe to be the center of this discussion. It was well illustrated by a conversation I had this morning with (Governor) Joe Manchin,

from West Virginia; who, as you might notice, has a crutch because he's just finished a knee operation.

We talked about the fact that he had a conversation with his doctor, after receiving the bill, and he said to the doctor, "Do you have any idea what this costs?" To which the doctor replied, "You know, I really don't". The man does four or five of them a day. Had no idea, but there's nothing unusual about that.

Patients don't know, doctors don't know, the health care system as we have, as currently constructed is simply not equipped to answer the question, "How much is this going to cost?" or for that matter, "How good is it?" And that's what I want to talk about today.

People don't have a clue how much they pay. They know about their health insurance, but they don't know how much health care costs. And they don't know whether it's any good.

The reality is, it's impolite to ask the quality of health care, and people have very few reasons to care, because we live in a card presenting society.

People need to know, the truth is, they deserve to know. Now, I'd like to illustrate if I could today, just briefly, what I'm talking about. Governor Barbour retires and goes to the state of Florida for whatever reason...

Gov. Barbour: He'd never do that!

Secretary Leavitt: Governor Bush needs a hip replacement, he goes to his physician who says, "Jeb, you need to have a hip replacement, and I want you to go to a particular specialist".

So Governor Bush goes off to the specialist. The specialist says, indeed, I've scanned your hip, you need to have a hip replacement, the Governor says, or whoever this is, says I need to have a second opinion. He calls the insurance company, the insurance company says here are four hospitals that we'll cover in your area, where we provide services, and here are four doctors, and here are five or six hospitals.

Now, this is essentially the information that a person has on your screen to make a decision on how to get medical services.

Now under normal circumstances, we would all look at the hospitals on the right and say, "Well, the one that's 3.2 miles from my home makes the most sense, and looking at the physicians, we might even go visit one or two of them, they'll repeat the tests that are currently done, we'll get to know them, figure out whether we think they're good, in this case, they might say oh, this man went to Harvard, anybody went to Harvard, Governor Romney, must be a pretty good physician, I'll choose them."

They have the operation, and a few weeks later they begin getting bills. In this case, let's say it was \$22,000.00.

That's the system as we currently know it. Let's talk about what we would aspire the system to be in the future.

Again, a person needs a hip operation. They go to a specialist, they want a second opinion, they go to the insurance company. The insurance company says to them, here are a group of hospitals that we do business with. You can see that there are six of them.

Now, wouldn't it be nice if a patient could say, "How many surgeries of this sort will each hospital provide?" That at least begins to give some sense of their capacity. What if they could say, the quality they provide has been measured against a particular standard? What if they could say, "And this is the estimate of the cost, given what other people have experienced, not just for the surgeon, but for the entire episode of care."

What if they could begin then to ask the questions, "What's this going to mean to me?" Because, in this case, perhaps an employer has said, I'm prepared as your employer to pay for -- and your health plan -- to pay for high quality and moderately cost care at one hundred percent, or at ninety percent, but I am willing only to pay seventy five percent of quality that is relatively low, and relatively high cost. We now begin to see a patient who not only knows how much they are paying, but they also know how good it is, and they have a reason to care.

Now I would suggest that until we're able to begin providing that kind of information, until we begin to fix the system in a way that also begins to adjust the sociology, we'll never be able to solve this problem.

And this is a great vision, but how do you get there?

Let's talk about the things we've all learned about health care and the way it, how to change health care. Some would say, "Well, the government has just got to take charge of this." And I would agree: The government has a role here.

But it's unlikely, in my judgment that the Congress is going to take this on very soon. Matter of fact, we've learned over time that over, at least in the fifteen years I've observed it, and I think you could look back over a couple of decades and say the same thing every time something like this comes onto the floor of Congress.

People say there's not enough political will; I would suggest there's an abundance of political will. And what happens is everybody unholsters their political will, points at each other, and you have a standoff.

There's no reason to believe that won't continue to happen. You go to any legislature in the country, and health care bill comes to the table, all of the political will comes out, they point it at each other, and it's either watered down to it's lowest common denominator, and nothing happens except the signing ceremony, or it's delegated to a commission. Nothing happens.

We've got to change the model for change.

Now, employers have attempted to do this. Employers, over time have banded together to say we've got to pool our information and go to; we've got to go to hospitals and negotiate better deals. Those have been helpful, but the reality is they have not solved the problem.

I would ask the question, "Why"? Well, primarily, because they have yet to accomplish critical mass. Because a very important partner in that effort has not been at the table. It's government.

The federal government has, up to this point, been unwilling and for the most part, states have been unwilling to join in that kind of effort in working to collaboratively begin to develop information like this. And that needs to change.

What if, for example, the federal government was to make a declaration to the world that if you're going to do business with the federal government, certain things need to change. Now the federal government insures directly or indirectly about a hundred and twenty five million people.

What if the state governments were to collectively not only through Medicaid but also the employees step forward and say we insure, with our partner the federal government about forty million of those people, plus our state employees, we're part of this as well. What if the largest hundred employers in the country were to say, we need to have some changes in the way we interact? We would now begin to see something very powerful happen that doesn't require an act of Congress; it simply requires the market to begin to organize itself.

Well, that's precisely the way I believe we need to proceed. And the President's made it very clear that this fall he will be announcing, through formalized means, requiring those who do business with the federal government to start on a path of being able to provide that kind of information.

It's a great vision, but what would you change if we had all those together? Well, I would suggest three things. The first is health IT standards. Until we have standards that allow health information technology systems to talk with one another, this information can't be gathered.

Many of you will have heard me use my railroad analogy. In the late 1850's we were building railroads in America. The problem was, we had railroads in the west, in the east, in the south, and in the Midwest, and they were all using different rail gauges. Some were five feet apart, some were five foot three apart — the rails — and some were four foot eight. It didn't matter which it was, you just needed one.

I was telling a friend of mine about this, and he suggested that his uncle had been hired in the 1960's to go to Australia to solve the same problem. I was curious about it so I put

into the Internet “Australian rail gauge” and up popped a large list of articles about a current controversy in Australia related to the rail gauge. Turns out, they haven’t solved it yet in Australia, and if you want to go from point A to point C, you have to stop in point B and get off the train and get on a different one.

The same thing’s happening in health care technology in this country. We have remarkable things happening all over the country in different regions. But they’re using different rail gauges, and the information doesn’t line up. So if we’re ever going to have a system that will allow us to tell people how much information they have, it’s not just regional.

I was in a major city in this country; I had lunch with three administrators of large hospitals, all within a mile and a half of each other. All three had put a hundred million plus into their IT systems, all had purchased different systems, and none of the three could talk to each other in terms of exchanging information. Not only were they using different IT standards, they were also using different measures. My point is that if we’re going to have information available like this, we’ve got to bring people together to use similar standards.

The second is, not just IT standards, but quality standards. We have to have similar measures of quality, and the measures of quality cannot be measures that the Secretary of Health and Human Services will have developed. They need to be measures of quality that the medical community has developed and are prepared to be measured by.

The third is we have to have incentives. By incentives, and I’m not talking about simply for consumers, I’m also talking about providers. Providers need to know that they will be paid more, not by just providing more care, but providing better care. That can’t be developed until we have IT standards and quality standards so, all three of these work together.

I will tell you that all three of those pieces are unfolding as we speak and being accomplished. We need to bring them together.

But there will need to be some action forcing events in order to bring this vision together. What are the action forming events?

Now, first of all, I will just say consumers want this. Consumers need to know, they deserve to know this information. They want to know the quality of their care; they would like to know more about the care they’re getting and the cost of it.

The second, I would suggest is an action-forcing event is the physicians want to have something that will help them solve a very significant problem they have.

The current law requires that Medicare physician reimbursement rates will drop by four and a half percent if something dramatic doesn’t happen at the end of this year. The way the law is constructed, the rate will come down in order to balance the system. Now that

can happen by Congress putting one hundred and eighty billion dollars to top off the Medicare tank, over the next ten years. My guess is Congress may choose to do some of that, but one hundred and eighty billion dollars over ten years is a lot.

I believe that at some point in the next few months, we're going to see a continuation of a rigorous discussion about how we can pay physicians, at least in part, with a "pay for performance" type standard. Now that is an action-forcing event. The medical community knows that if we're to use that as a tool, we have to have health IT standards, and we have to have quality measures, and they have been extraordinarily helpful in beginning to define them and position themselves for adoption.

A third action-forcing event will be employers. Employers have their hair on fire right now, out of concern. Wages are growing at one third the rate of health care. They're beginning to see their comparative advantage in the world diminish.

Employers want this to happen. I mentioned to you that I've been meeting with major employers in the country, my objective is to meet with the top one hundred, I've met with twenty one of them thus far, and it's clear that all twenty one of them are prepared to do exactly the same thing that I told you the President was willing to do, and I believe that it will begin to happen this fall.

The fourth action forming event would be what I just mentioned, the government needs to add it's force as a payer. We have a lot of forces now beginning to come into line. We have consumers who want change, we have employers who are adamant for change, we have physicians who need the system to change so they can keep their economic equation functioning, and I believe now we'll see the government begin to step up as a payer.

Now, how will that happen? I mentioned that the President will be signing an Executive Order in a relatively short period of time from now, committing that as a condition of doing business with the federal government, those that we do business with will need to have three things in their contracts. One is a willingness to adopt health IT standards that are being developed collaboratively, the second is adoption of quality standards that are being developed with the help of the medical community and the ambulatory quality alliance and the hospital quality alliance, and the third is the development of standard pay for performance measures.

Now one of the things I've been talking with governors about in the context of this discussion in our partner meetings is the need for them as employers to join in this.

And so today, I would ask you, as I am other governors in my partner meetings to consider doing three things:

- The first is to join with federal agencies in the signing of an Executive Order in your state, committing your state employees and the health insurance systems on your state employees and Medicaid systems to make a condition of doing business those three things. Health IT, quality standards and incentives.
- The second is, you could assist in helping recruit major employers in your state.

- And the third would be to become involved in a process that undoubtedly is happening in each of your states already, and that is defining quality standards for your physicians and your hospitals.

We have a team of HHS people that are going to each state, meeting with the governor and their HR people, meeting with the top one hundred employers, I believe that by the end of this year, we will have a condition where the federal government, many states, and a large share of the top one hundred employers in the country will have committed themselves to these three items and will be putting those in contractual form in their 2007 contracts. These will be action forcing events.

Now, what's the timetable here? I believe by the end of the year we'll have that kind of momentum that I've described, but none of us should in any way underestimate the complexity of this.

The analogy I've been thinking in my own mind is that we've got wheels, and a chassis and a small motor. And we've got to assemble a go-kart here. And then over time, as we proceed, it will become more and more elaborate, and ultimately it will become the racecar we would all like it to become.

We need basic standards of IT, we need basic standards of quality, and we need basic incentives. And once we have demonstrated it can work, then I believe there will be a rapid adoption.

Back to the problem. We all know it exists. The traditional political system is likely not to change the sociology in the way we need it to. We need health IT standards, we need quality standards, we need incentives. All three are being developed.

My call today is for you to join with the federal government, with the major employers, in moving it forward and I believe we'll have a substantially improved system and consumers will have not just the need to know, they'll have what they deserve to know.