



HEARING SUMMARY

DATE: January 28, 2004

HEARING: What's Driving Health Care Costs and the Uninsured?

COMMITTEE: Senate Health, Education, Labor, and Pensions Committee

WITNESSES:

- Douglas Holtz-Eakin, PhD- Director, Congressional Budget Office
- Arnold Milstein MD, MPH- Medical Director, Pacific Business Group on Health; Physician Consultant, Mercer Human Resource Consulting
- Karen Davis, PhD- President, The Commonwealth Fund
- Christopher Conover, PhD- Director, Health Policy Certificate Program; Senior Research Fellow, Health Inequalities Program Center for Health Policy, Law and Management; Terry Sanford Institute of Public Policy; Duke University
- Gail R. Wilensky, PhD- Senior Fellow-Project HOPE

On Wednesday, January 28, 2004, the Senate Health, Education, Labor, and Pensions Committee held a hearing to examine health issues relating to health care costs and the uninsured. The witnesses all presented statistics on the makeup of the uninsured, the factors contributing to the rising costs of health care, how the two are linked, and what solutions Congress may want to consider to help address both problems.

Dr. Douglas Holtz-Eakin, Director of CBO, first talked about how we measure the number of uninsured: people who are uninsured over the entire year (21-31 million in 2002), people who are uninsured during any time during the year (60 million in 2002), and the total number of people who are uninsured on a given day (40 million in 2002). He also reiterated that 75% of the uninsured are from working families. In addition, most uninsured have low education and income.

Dr. Holtz-Eakin also reported on trends in health costs. In 2002 we spent \$1.6 trillion on health care. Growth has been driven by new technology and innovation, an aging

population, higher incomes, and the nature of insurance. There is little hard evidence between increasing costs and the uninsured. Rising costs should make insurance more valuable, but there has been some decline. The employee's share of plan costs has not gone up, but the employee's total cost is still rising. In addition, the take up rate for employer sponsored plans has declined. He also reported a decline in employer provided health care from 67% to 64%.

Dr. Arnold Milstein, Medical Director of the Pacific Business Group on Health, focused his remarks on the inefficiency in health care delivery. He argued that inefficiency could be eliminated by rewarding efficient providers and treatment options. He noted two specific problems: (1) utilization of services that provide little or no benefit, and (2) that all health care services operate with antiquated systems that rely on paper and people's memories. These problems are invisible because we do not currently measure or report on them. He proposed that if we had a group large enough to measure the quality of providers and treatment options, we could significantly reduce insurance rates over ten years. He offered the following two proposals: (1) Congress should encourage CMS to share with the public its claims database to increase the ability to measure quality; and (2) Congress should encourage CMS and other plans to reward clinical efficiency and quality, such as offering lower cost sharing if consumers used top quality providers or treatments, or Congress could limit the services to which HSAs would apply to only those with a top quality rating.

Dr. Karen Davis, President of The Commonwealth Fund, noted that rising costs weigh heavily on the uninsured or underinsured. She argued that we should no longer tolerate medical errors, inefficiency, or duplicative treatments and the solution should not merely be cost shifting. She reported that health plan premiums went up 14% in 2002, but administrative costs rose 16%. Dr. Davis theorized that consumer driven plans are not likely to affect fundamental change and that such plans are a "blunt instrument for reducing utilization."

Dr. Davis offered the following as possible solutions:

- (1) encourage doctors not to prescribe unnecessary treatments;
- (2) reduce medical errors, improve quality, and create better care coordination;
- (3) implement better reporting of data so we have the ability to measure quality and efficiency;
- (4) pay for performance, particularly through Medicare, by paying for high quality, low cost services provided over time;
- (5) have the federal government review treatment options for efficacy the same as FDA does for drugs and devices;
- (6) streamline administrative efficiency; and
- (7) provide affordable insurance for everyone through a combination of employer, individual, and government programs.

Dr. Christopher Conover, Director of the Health Policy Certificate Program and Senior Research Fellow for the Health Inequalities Program Center for Health Policy, presented findings from research he is conducting for HHS on a contract basis. His research focuses on the cost and benefits of government regulation of health care. Health care is the most regulated sector of the U.S. economy. His research takes into account federal and state regulation of plans, drugs and devices, and the tort system. His preliminary findings are that the cost of regulation was \$335 billion in 2002 and the benefit was \$207 billion; a net cost of \$128 billion. He found three primary sources that contribute to the excess cost: torts, including litigation, court expenses, and defensive medicine (\$81 billion); FDA regulations (\$42 billion); and health care facility regulation (\$29 billion). His findings conclude that health expenditures and premiums are 6.4% higher due to regulations, which translate to a 2.2% reduction in the demand for coverage, or 5 million additional uninsured.

Dr. Conover also reported that it would only cost \$34 to \$69 billion in added health spending to cover all of the uninsured; the net cost of regulations would cover that three times over. He also noted that each year 18,000 people die prematurely due to lack of insurance.

Dr. Gail R. Wilensky, a Senior Fellow with Project HOPE and a former health advisor to President Clinton, testified on the relationship between increased spending and the uninsured. She first made the point that the uninsured is a chronic, not an acute, problem. 25 years ago 12.5% of the people were uninsured; today 15% are. That is an insignificant change, and one that has not showed much fluctuation due to changes in the economy. In real numbers, over time there has been a 4% increase in annual health care spending per year per person with only a 1.5% increase in the economy overall. The increased spending is a problem because (1) it is associated with increasing numbers of uninsured, and (2) it makes it more expensive to solve the problem of the uninsured.

Dr. Wilensky offered the following solutions:

- (1) Pay for performance;
- (2) Collect better information on the cost effectiveness of new technology;
- (3) Compare safety measures with tort remedies;
- (4) Explore tax exclusions for employers to help solve the problem;
- (5) Find ways to expand access;
- (6) Expand the waiver program for states to expand Medicaid;
- (7) Provide access to group insurance through tax credits or other ideas; and
- (8) Impose mandates on individuals and employers.

Noteworthy in the question and answer session were comments by Senators Tom Harkin (D-IA) and Lamar Alexander (R-TN). Sen. Harkin was angry that none of the witnesses focused on necessary lifestyle changes and preventative care. He gave an

example of an employer in Des Moines that has built a gym next door to the complex, provided rewards for stopping smoking and other preventative measures (rewards such as bonuses or free vacations), provided a personal trainer for every employee, and others. Sen. Harkin also talked about a pilot project that has been implemented in a school system in each of four states where children can have all the fruits and vegetables they want for free. The result has been healthier eating and the elimination of the vending machines because no one was spending money in them.

Sen. Harkin intends to introduce a bill that will improve health through initiatives such as promoting physical activity and healthy nutrition in schools, encouraging better eating and tobacco cessation, and improving the food stamp program which currently allows an individual to buy Twinkie's but not vitamins. He argued that, rather than anything proposed by the panel, the real solution to the rising costs of health care is to build better habits early in life.

Sen. Alexander commented that as the business market continues to change and become more global, U.S. companies will have to compete with foreign companies. Foreign companies do not generally have to pay for health care in the same way we do in the U.S., and therefore businesses may begin to cut employer-sponsored benefit plans. Sen. Alexander's idea was to end the employer-sponsored plan system and instead to create a system where individuals can buy insurance with help from the government. It would continue to be based in the private market, not be a government program, but it would remove the system from employer-provided coverage in anticipation of changes we are beginning to see in the global market.