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Squaring the Circle? Reforming the U.S. Health Care System

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- Although the United States spends more money on health care than any other country in the world, the health care system is not able to provide sufficient care for people in need. The system is in dire need of improvement, as a consequence of increasing health care costs, a growing number of people without any health insurance and the substandard of the care's quality.
- In order to reform the system, U.S. President Barack Obama has developed an initial strategy to make coverage more affordable for the American people and reduce costs by improving the care delivery system. However, the President has not introduced health reform legislation yet. Additionally, Obama's plan is challenged by alternative proposals from Congress.
- The reauthorization of the State Child's Health Insurance Program (SCHIP) is an early success for the President's new health care plan. Furthermore, the economic stimulus package allows additional investments in health information technology and effectiveness research.
- The current federal budget process will be another crucial factor for providing a more efficient health care system in the US.
- There is wide political and public support for health reform and President Obama is committed to enact legislation in 2009. While this does not guarantee success, prospects are better than in the past, simply because the U.S. cannot afford to fail again at health care reform.

In the closing days of the 2008 Presidential campaign, candidate Barack Obama placed a new emphasis on health care issues in his campaign advertising and campaign appearances. This focus on health care reform, in particular his plan to expand coverage and control rising health care costs, reflected not only the renewed salience of this domestic policy issue, but also foreshad-

owed the attention health care issues would command early in his Presidency. Since the election, President Obama has hosted a White House Health Care Summit and sponsored three town hall forums, with at least two more to come. More than 9,000 Americans have participated in Health Care Community Discussions to send their thoughts on how to fix the health care sy-

system to national policymakers, and health care advocacy coalitions and industry groups have begun field efforts and advertising campaigns. In short, health care reform is on the United States' political agenda for the first time since 1994, when President Clinton's health reform plan died in Congress.

U.S. Health Care: A Broken System

Health reform is a priority for the President, the Congress and the American people because the nation's health care system faces the triple threat of rising health care costs, rising numbers of people without health insurance, and substandard quality of care. Premiums for employer-sponsored health insurance – the principal source of health care coverage in the United States – have risen approximately four times faster than wages or inflation over the last decade. Overall health care spending – that is, spending that encompasses all health care services – has grown by 70 percent since 2000. Almost 47 million Americans do not have the financial security and access to health services that health insurance coverage provides. And most alarmingly, while the United States spends more on health care – whether calculated as a proportion of Gross National Product, as an overall amount, or on a per person basis – than any other country in the world, the nation's collective health status is actually lower than the health status of many other nations. America's health care workforce is understaffed and unprepared for the aging of the babyboomer population, and our payment strategies and delivery systems must be upgraded to ensure that we garner the greatest value possible for our health care spending. In short, the goals for health care reform in the United States must be to not only control costs and expand coverage, but to reform the health care delivery system to enable dramatic improvements in quality and value.

The Obama Campaign Plan

As a candidate, Barack Obama campaigned on a plan to improve the availability of coverage, subsidize coverage to make it more affordable for many families and businesses, and reduce

health care costs through improvements in chronic care management, new payment incentives, and up-front infrastructure investments designed to reduce spending in the long run. Hallmarks of his plan include making coverage more affordable for American families by providing sliding-scale subsidies for the purchase of health insurance, and by expanding eligibility for the Medicaid program. Today Medicaid, the safety-net program that provides coverage to low-income children, pregnant women, elders, people with disabilities and some parents of Medicaid-eligible children, generally does not offer coverage to childless working-age adults, regardless of how low their incomes may be. The Obama plan would also expand health insurance coverage by requiring all employers to offer coverage or pay into the subsidy pool to off-set the cost of public subsidies for their employees. Small employers – the employers who have the hardest time finding affordable coverage for their workers – would be exempted from this requirement, and instead would receive tax subsidies to help cover the cost of employees' policies.

The Obama campaign plan also featured a health insurance exchange. An exchange would be a new mechanism that would broker insurance purchases, thus helping people who do not have employer-based coverage find affordable policies. Small employers who do not have enough market clout to strike a reasonable deal with an insurance company could also purchase coverage for their employees through the exchange. The exchange would offer comprehensive health insurance coverage through a variety of health plans, including a publicly-managed health insurance plan that would compete with private health insurers. In contrast to the individual and small-group insurance market today, health policies offered through the exchange would be readily available to people with chronic conditions or a history of health problems.

Finally, the Obama campaign plan promised to reduce health care costs by improving the health care delivery system. First, he promised to invest in health system infrastructure by making significant new investments in health informa-

tion technology and comparative effectiveness research – studies that determine which drug, device or treatment works best for a particular condition. Second, Obama promised to reform health care payment systems to create better incentives for managing patients with chronic disease – the patients who absorb 80 percent of U.S. health care spending – and to make payments based on “episodes of care” to further better patient management across acute and post-acute settings.

This campaign plan has not been introduced as legislation, and therefore has not been scored by the Congressional Budget Office, which develops official cost and coverage estimates for pending health legislation. It also lacks some of the specific details that would be necessary to develop a true estimate of how many individuals would receive health coverage under this plan. However, an independent consulting firm, the Lewin Group, used some key assumptions to develop cost and coverage estimates of this proposal last fall.² They predicted that the Obama plan would result in 26.6 million Americans being newly covered in 2010, if the full plan were implemented at that point. This would leave approximately 22 million Americans without health insurance. The accuracy of this estimate depends on whether their assumptions about key program elements, such as income eligibility thresholds for Medicaid coverage and premium subsidies, reflect the details of actual legislation, and whether their predictions about individual and employer behavior in response to tax incentives hold true if this plan were to be enacted.

Competing Proposals from Congress

Since the election, other policymakers – particularly Congressional leaders – have released their own approaches to health reform. Most notably, Senator Max Baucus, Chairman of the Senate Finance Committee, issued a health reform White Paper in mid November.³ In this piece, Chairman Baucus echoed many of President Obama’s ideas. He notably diverged from the Obama campaign plan, however, by suggesting that all Americans should be required to hold health insurance – whether they purchase coverage on

age on their own, obtain it from an employer, or enroll in a public health insurance program. This approach, known as an “individual mandate”, appeals to health insurance companies and other analysts who believe that unless everyone is required to hold insurance, younger and healthier people will choose not to purchase coverage. In a system with an individual mandate, these “good risks” will purchase insurance and effectively subsidize care for those with health problems.

Other competing proposals include Senator Ron Wyden’s proposal to eliminate the employer-based health care system and the Medicaid program, relying instead on tax subsidies to induce everyone to purchase coverage through a state-based group purchasing pool. Senator Wyden would also end the Medicaid program, thus requiring lower-income Americans to purchase coverage in the same manner as other citizens. This approach would take significant steps to create equal tax subsidies for all, but at the price of significant disruption of current coverage arrangements.

Finally, Representative John Conyers has reintroduced his proposal to create a single, government run health care system analogous to the National Health Service in the United Kingdom. This proposal enjoys fervent support from a portion of health reform advocates, but is not garnering serious attention from more powerful constituencies.

Obama’s Early Health Care Successes

Since taking office, President Obama has enjoyed some early health care successes. First, Congress passed a reauthorization of the State Children’s Health Insurance Program (SCHIP), which provides health coverage to children whose parents earn too much for them to qualify for Medicaid, but generally earn too little to purchase coverage on their own. Passage of this reauthorization is important for two reasons. First, it signaled that Congress was committed to and able to move major health care legislation. And second, it maintained this safety-net program, thus ensuring that children, at least, will

have the means to obtain and continue health coverage in the midst of the current economic downturn.

The economic stimulus package represented a second major victory for the Obama administration's health care agenda. This wide-ranging legislation included major new investments in health information technology and comparative effectiveness research – two of the hallmark investments of the Obama campaign plan. The stimulus bill also extended significant help to state Medicaid programs, but temporarily increasing Federal matching rates to help states maintain Medicaid coverage as their resources constrict and demand for coverage increases.

The Next Crucial Factor: The Federal Budget

The immediate challenge facing health reform advocates and policymakers is the Federal budget process. When he submitted his budget framework in early March, President Obama asked Congress to weave health reform into the Federal budget process – specifically, he asked that Congress set aside funds for health system improvements. This funding would be derived from savings in current Federal health care programs – primarily Medicare – as well as new funding that would be obtained by changing the tax treatment of itemized deductions from federal income tax, such as charitable contributions, home mortgage interest and state and local taxes. Without this set-aside, Congress could choose to use these savings and new revenues for deficit reduction instead of new spending. It is not clear whether Congress will choose to include this set-aside, nor whether Congress will choose to include health care reform in budget reconciliation, a process that restricts debate in the Senate. While budget reconciliation rules typically increase a proposal's chances of being enacted, they can also signal a Congressional majority's decision to write-off the possibility of developing bipartisan legislation.

While the political maneuvering around the Federal budget will be critically important to health reform's legislative prospects, this political positioning will be more closely tied to the nation's

economic crisis than to the merits of any particular health care reform proposal. American employers continue to shed jobs – thus pushing more Americans onto the unemployment rolls, but also increasing the ranks of the uninsured by as many as 14,000 people per day. In addition, financial markets continue to stumble and policymakers have little idea when the recession is likely to end. Between the Troubled Assets Relief Program and the stimulus bill, the Federal government has already dedicated nearly \$1.5 trillion to economic recovery. Some political observers believe that the public's tolerance for significant government spending may be nearly exhausted. Others argue that health care reform – including significant new Federal investments in coverage and delivery system changes – is a critical part of returning the American economy to stable economic footing. While the coming months will determine whether the American public will welcome new Federal investments in the health care system, we can be certain that the economic crisis has turned a bright spotlight on the fragility of the nation's current employer-based health care system.

Will Health Care Reform Succeed?

The political calculus of enacting comprehensive reforms of the American health care system is highly complex. Efforts to reduce spending growth will affect an industry that currently represents 16 percent of the American economy, and employers, workers and taxpayers are nervous about how new policies may affect their economic interests. Various interest groups – the health insurance industry, health care providers, pharmaceutical manufacturers, consumer advocacy groups and other stakeholders – are prepared to defend their policy preferences and bottom-line positions with advertising campaigns, grass-roots advocacy and hard-ball lobbying efforts. At the same time, President Obama has made comprehensive reform a high priority for this Administration, and Congressional leaders are preparing to move legislation. And even in the face of the economic downturn, 62 percent of the American public believes it is “more important than ever” to reform the health care system.⁴

It is nearly impossible to predict how these forces will intersect as Congress considers health reform legislation. At this point, virtually all stakeholders express support for health reform. However, once Congressional committees release actual legislation, and the interplay between different provisions can be sorted out, various sectors of the health care industry will know to what extent their business will be helped or hurt by the proposed reforms. For example, the health insurance industry has voiced general support for reform, including willingness to change some of their underwriting practices that today exclude people with pre-existing conditions from purchasing coverage. But they are clearly opposed to including a publicly-managed health insurance plan in the insurance exchange. Whether the industry ends up opposing health reform altogether if a public health insurance plan is a major feature, may depend on other components of the legislation – including Medicare payment rates for the private plans that participate in Medicare, insurance market reforms, and whether all Americans will be required to purchase coverage under an individual mandate.

Most importantly, though, President Obama appears to be firmly committed to enacting health reform legislation in 2009. While Presidential commitment does not guarantee that health reform can happen, President Obama's leadership and willingness to work with Congress, reach consensus and forge compromises will be critical to success.

The United States cannot afford to fail again at health care reform. The nation cannot sustain escalating health care spending without sacrificing long-term economic growth, families' financial security and investments in other national priorities. The President's health reform agenda has enjoyed important initial successes – and faces many challenges ahead.

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² McCain and Obama Health Care Policies: Cost and Coverage Compared; The Lewin Group; October 15, 2008.

³ Call to Action, Health Reform 2009; U.S. Senator Max Baucus (D-MT); November 12, 2008.

⁴ Kaiser Family Foundation Health Tracking Poll, February 2009 <<http://www.kff.org/kaiserpolls/7866.cfm>>.