



Facing Up to America's Health Care Challenge

By the Honorable David M. Walker, Comptroller General of the United States

As Comptroller General of the United States, I am keenly aware of our nation's current finances and long-term fiscal outlook. Candidly, the numbers are sobering and far worse than suggested by some news stories and certain public officials. Promises for future benefits under mandatory spending programs, including Social Security, Medicare and Medicaid, will contribute to a dramatic escalation on the spending side of the federal ledger for the next several decades, far outpacing historical revenue levels (Figure 1) and increasing the national debt. Without meaningful changes to control spending and/or increase revenue (i.e., through taxes), a fiscal wreck is, at some point, inevitable.

Although Social Security faces serious demographic challenges, most experts agree that some combination of relatively modest changes phased in over time will return that program to long-term solvency. Instead, it is soaring health care costs that could bankrupt America. This situation challenges not only federal and state governments through their spending on mandatory health programs, but affects the private sector as well. Burgeoning costs have already caused companies to curtail health insurance benefits or shift costs to employees, may be prompting companies to seek cheaper labor off-shore or through part-time or contract status, and can contribute to wage stagnation and impede the expansion of pension coverage.¹

Health Care Spending Trends

Health care spending in the U.S. has been on the increase for some time. Between 1996 and 2006, overall spending on health care nearly doubled from \$1.1 trillion to \$2.1 trillion; it is projected to double again by 2016. Our country now spends 16 percent of its gross domestic product (GDP) on health care – far more than

other industrialized nations. From 2000 to 2006, medical prices grew by 4.3 percent annually on average, while health care spending per capita (which reflects both medical prices and utilization) grew by 6.6 percent on average. By comparison, GDP per capita grew at an average annual rate of only 4.0 percent over this period. In other words, economic expansion has not been able to offset the rise in health care spending per capita (Figure 2).

Drivers of Increased Medical Expenses

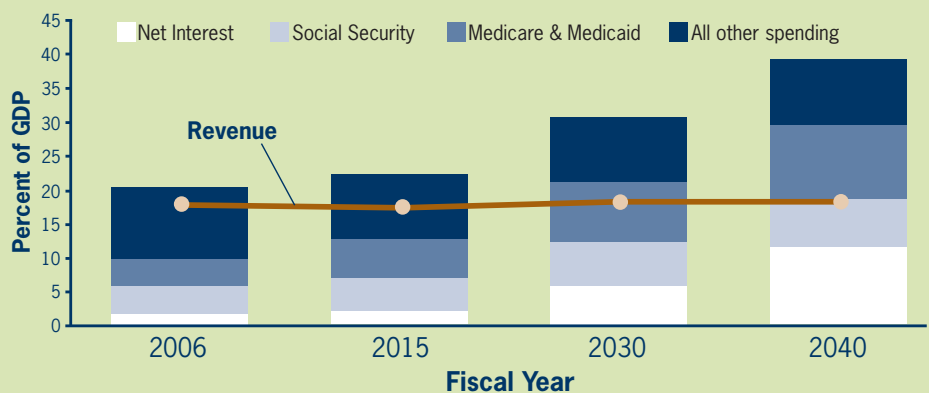
Many factors have propelled medical expenses upward, including economic, technological and cultural influences. Medical expenditures are rising quickly on a per person basis, reflecting both greater utilization and higher prices. For example, the costs of many hospital and physician services have outpaced growth in the economy, and patients increasingly are being treated with expensive drugs and complex procedures requiring cutting-edge technology. One recent study found that the average expenditure per heart attack

case rose by nearly \$10,000 over 14 years, after controlling for inflation. Nearly half of the cost increase resulted from the use of more intensive technologies, such as cardiac catheterization.² In some instances, the spread of new diagnostic technology has led to over diagnosis or excessive use of resources. Researchers have found, for example, that diagnostic spinal MRIs can reveal abnormalities that have no clinical relevance, such as bulging discs, but may lead to unnecessary surgery.³

Unhealthy lifestyles, including poor diet, lack of exercise, and smoking and substance abuse, are also contributing to our growing health care bill by leading to an increased prevalence of chronic conditions that are expensive to treat. More than a quarter of the growth in inflation-adjusted per capita spending between 1987 and 2001 has been attributed to the rising prevalence of obesity.⁴

While rising expenditures per person are the most important driver of health care costs, demographics are also a key contributor. Since the early 1900s, life expectancy

Figure 1: Projected Federal Spending and Revenue



Source: GAO's August 2007 analysis, based on assumptions of the "alternative fiscal" model

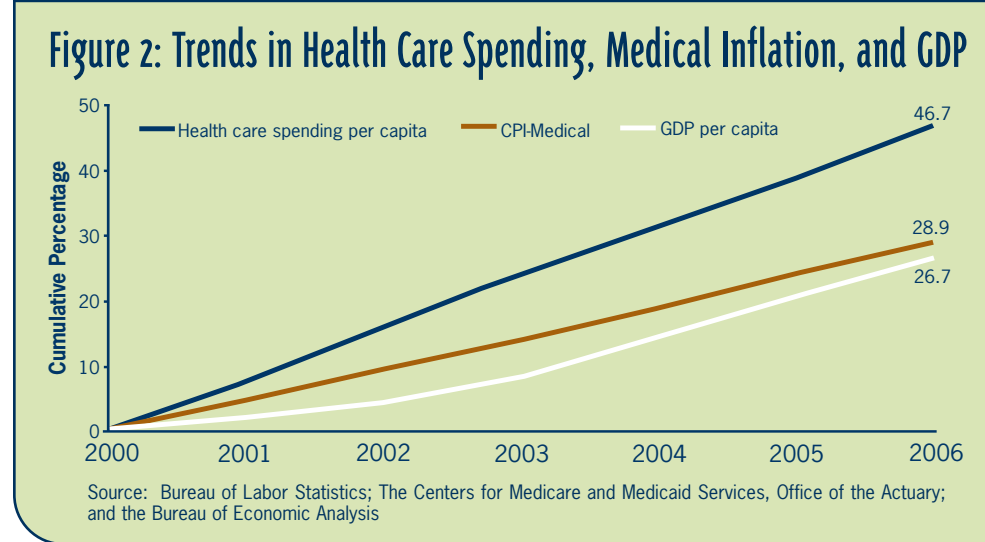
has been rising, and with the aging of the baby boom generation, we are now poised to see an explosion in our elderly population – individuals who generally require more, not less, medical attention over time.

These economic, behavioral and demographic factors play out in a health care delivery system that provides doctors and patients with (1) insufficient incentives to be financially prudent in their treatment choices; (2) inadequate transparency about the actual value and costs of various health care options, particularly new technology; and (3) few meaningful mechanisms to hold health plans and providers accountable for meeting basic utilization and quality standards. For example, many of today's cutting-edge drugs and medical therapies are incredibly expensive, yet offer only marginally better outcomes than existing, more economical therapies. And, despite nascent moves to provide cost and quality data to health care consumers, the current system does not encourage informed discussions between doctors and patients about the costs and value of various treatment alternatives.

A Call to Action

Comprehensive health care reform is overdue and badly needed, both for the physical health of our society and the fiscal health of our economy. Our government now faces a growing long-term fiscal gap between expected spending and revenues, and the longer we wait to take action the more drastic the remedy will need to be. The confluence of higher health care costs, an aging population, the war in Iraq, and inadequate revenues has led to an explosion of red ink at the federal level. The Medicare prescription drug benefit alone came with a price tag of \$8 trillion in current dollar terms.⁵ Without meaningful policy changes, we face decades of deficits and mounting debt burdens. The pressure to overhaul our health care system will only increase if reform is delayed.

To provide the American people with an acceptable level of health care in the future, we must rethink how we define, deliver and finance health care in this country - in both the public and private sectors. We need to decide how responsibility for health care should be divided among employers, individuals and government. Although we cannot afford unlimited individual wants, policymakers can take steps to meet broad-based societal needs. In the end, we may need to accept that a reformed system will provide our citizens with only basic and



essential medical care; individuals who want greater coverage or optional procedures would have to pay for them separately.

Considerations for Reform

To avoid disruptions in health care services and allow providers, patients and payers to adjust to any changes, comprehensive health care reform will probably need to be phased in over a number of years. Among other things, we should consider (1) developing national evidence-based medical practice standards; (2) better leveraging the government purchasing power when it comes to drugs, medical equipment, and other items; (3) using technology more wisely; (4) instituting case management to care for people with chronic illnesses; and (5) better targeting taxpayer subsidies on the basis of need. Such steps, along with other possible changes in eligibility requirements and cost-sharing provisions, will help, but the likelihood is that many Americans will be paying a greater portion of the cost in the future.

As we head toward the 2008 presidential elections, candidates from both parties have put forth ideas for changing our health care system. Evaluating the relative strengths and weaknesses of these proposals can be difficult, but voters need to ask five key questions. First, how do they propose to pay for their reforms, and will they help or hurt our overall fiscal picture? Second, how far do these plans go in guaranteeing universal access to basic and essential health care for all Americans? Third, do they include specific provisions to bring health care spending under control? Fourth, do they endorse national evidence-based medical practice standards to improve the quality and consistency of care

while reducing litigation and other expenses? Fifth, do they require Americans to assume more personal responsibility and accountability for their own health and wellness?

Effective proposals must address the issues of affordability, access, cost, quality and personal responsibility. They must also offer incentives for providers and consumers to make prudent choices about medical coverage and treatment; foster transparency about the quality and cost of care; and demand accountability from health plans and providers regarding appropriate use, quality and cost.

Clearly, health care reform will be one of the most important policy debates of our time. I believe that our health care system can and must be improved. We can successfully meet this challenge if we start soon, have inspired and committed leadership, take a principle-based approach, and achieve the necessary reforms in installments over time. What is needed now is political resolve and real leadership to make this a reality. ■

1 Teslik LH. Backgrounder: *Health Care Costs and U.S. Competitiveness*, Council on Foreign Relations, May 14, 2007; *Snapshots: Wages and Benefits, A Long-Term View*, Kaiser Family Foundation, February 2008; *Survey of Employer-Sponsored Health Benefits*, Kaiser Family Foundation and the Health Research and Educational Trust, September 2007.

2 Cutler DM, McClellan M. "Is Technological Change in Medicine Worth It?" *Health Affairs* 20:5 (2001) 11-29.

3 Deyo RA. "Cascade Effects of Medical Technology," *Annual Review of Public Health* 23:1 (2002) 23-44.

4 Thorpe KE, Florence CS, Howard DH, Joski P. "The Impact of Obesity on Rising Medical Spending," *Health Affairs Web Exclusive* (October 20, 2004) W4:480-W4:486.

5 US Government Accountability Office (GAO). "Long-Term Budget Outlook: Saving Our Future Requires Tough Choices Today," Statement of David M. Walker, Testimony Before the Committee on the Budget, U.S. Senate (January 11, 2007) GAO-07-342T.