

Coming Together to Bring Down the Cost of Health Care Fact Sheet

RISING HEALTH CARE COSTS ARE BURDENING FAMILIES, BUSINESSES, GOVERNMENTS, AND THE ECONOMY: For years, rising health care costs have been a burden on families, businesses, and the entire economy. Since 2000, health insurance premiums have almost doubled and health care premiums have grown three times faster than wages. These rising costs have eroded the financial stability of all Americans as families have had to pay more for insurance coverage; have been exposed to a greater risk of personal bankruptcy as deductibles and co-payments increase; and have seen their actual benefits decrease as employers search for ways to rein in escalating health care costs. As families and businesses have struggled with these rising costs, states have also been forced to cut back on investments in areas that are critical to long-term prosperity such as higher education and infrastructure. Overall, health care is consuming an ever-increasing amount of our nation's resources: at the current rate, health care will eat up more than 20 percent of GDP in 2018. Reforming health care is the key to restoring financial stability for American families and businesses and for securing our fiscal future.

THE TIME TO ACT IS NOW: For too long, politics and point-scoring have prevented our country from tackling this growing crisis. As we work our way out of an economic and financial crisis of historic proportions, the American people are eager to put the old Washington ways behind them and put us on a steady path toward a patient-centered health care system that reduces costs, preserves an individual's choice of doctor and plan and assures quality, affordable health care for every American.

HEALTH CARE INDUSTRY LEADERS ARE NOW PLEDGING TO MAKE A MAJOR REDUCTION IN COST GROWTH AS PART OF COMPREHENSIVE HEALTH REFORM: Today, we are seeing the beginning of a change for the future as a wide array of leaders in the health care field – insurance companies, hospitals, pharmaceutical companies, medical device manufacturers, and providers – have come forward with a proposal that could save the country \$2 trillion over the next 10 years. They are proposing to take aggressive steps to cut health care costs that, if done in the context of comprehensive health reform, will reduce the annual health care spending growth rate by 1.5 percentage points for the next 10 years.

As they take the steps they have outlined and as we work with Congress on health reform legislation, our Administration will continue its commitment to reducing costs so we can achieve similar savings. Working together, these initial steps, combined with enactment of comprehensive health reform, could result in savings of roughly \$2,500 for American families – savings consistent with the President's statements on the campaign trail. These are savings every American family will see - and that will benefit our country for years to come.

These are important steps toward comprehensive health care reform both for the savings identified and the improvements these efforts will make to health care delivery in our country. Moreover, if groups as disparate as – AHIP, AMA, AHA, PhRMA, SEIU, and AdvaMed – can come together

around the cause of cost-cutting and greater affordability, the possibility for fundamental reform in the weeks ahead is great.

HEALTH CARE INDUSTRY LEADERS ARE JOINING WITH THE ADMINISTRATION TO IMPROVE EFFICIENCY AND QUALITY. Controlling spending is about more than just saving money, it must be about ensuring that we provide the best patient-centered health care system that promotes health and prevents illness. As we do this, we need to reform our payment system to promote efficiency and accountability while we eliminate waste and cost shifting; align incentives toward quality care and healthy outcomes; encourage shared responsibility; reduce fraud and abuse; build the base of information to undertake future program modernization; address the underlying causes of unnecessary health care spending; and encourage care coordination, prevention, and other services that are found to promote high quality, efficient health care.

THE ADMINISTRATION WILL BUILD UPON ITS BUDGET PROPOSALS TO ACHIEVE SAVINGS IN MEDICARE AND MEDICAID. In the President's FY 2010 Budget and the Recovery Act, there are policy proposals that will improve the efficiency and quality of the Medicare and Medicaid programs while reducing average annual spending growth and extending the life of the Medicare Trust Fund. The Budget proposals aim to align incentives toward quality, promote efficiency and accountability, and encourage shared responsibility. These proposals include:

- **Improving Care after Hospitalizations and Reduce Hospital Readmission Rates.** Nearly 18 percent of hospitalizations of Medicare beneficiaries are the result of the readmission of patients who had been discharged from the hospital within the previous 30 days. Sometimes the readmission could not have been prevented, but many of these readmissions are avoidable with better discharge planning and follow-up care. To improve this situation, hospitals will receive bundled payments that cover not just the hospitalization, but care for the 30 days after the hospitalization. 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 \$25 billion of wasted money over 10 years.
- **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 Budget proposes to 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 \$177 billion over 10 years, as well as reduce Part B premiums.
- **Reducing Drug Prices.** The Administration proposed accelerating access to make affordable biologic drugs available through the establishment of a regulatory, scientific, and legal pathway for FDA approval of generic versions of biologic drugs. The Budget also

proposed bringing 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, applying the additional rebate to new drug formulations, and allowing States to collect rebates on drugs provided through Medicaid managed care organizations.

- **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.
- **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 save over \$12 billion over 10 years.

THE ADMINISTRATION LOOKS FORWARD TO HEARING UPDATES ON THE GROUPS’ PROGRESS ON THEIR INITIATIVES:

The commitments made today are another step on the road to health care reform – a reform that will ease the burden of spiraling costs for our families, free our businesses from these yearly burdensome cost increases, and put our nation on a fiscally sustainable path. With the commitment of this diverse group today and members from both parties in Congress, the President looks forward to completing health care reform this year, putting the United States on a sounder fiscal footing, providing stability to families and businesses, and laying a new foundation for our economy for generations to come.

National Health Expenditures Under Two Scenarios

