

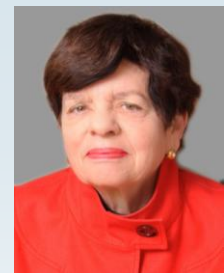
Curing Health Care: The Next President Should Complete, Not Abandon, Obama's Reform

Health care reform was a prominent issue in the 2008 campaign, dominated the congressional agenda for much of 2009, and culminated in landmark health care legislation in 2010. So that was settled, and no one has to think about health care policy in 2012, right? Wrong. It's back. Health care is still high on the political agenda and destined to be one of the most polarizing issues of the 2012 campaign.

In his presidential campaign, candidate Barack Obama promised health care coverage for the uninsured and action to rein in the rapidly rising health costs. "I will judge my first term as president based on . . . whether we have delivered the kind of health care that every American deserves and that our system can afford," he said. He made good on the first step of that promise when the Affordable Care Act (ACA) narrowly passed the Democrat-led Congress in 2010. The Obama administration is working hard to implement the ACA, but Republican primary candidates uniformly call for its repeal.

In addition, the country's rising debt has become a growing concern for policymakers. Increased longevity, the retirement of the baby boom generation, and rapidly rising

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health care costs make Medicare reform essential to reducing projected federal borrowing. The president contends that the ACA's multiple provisions designed to restrain the cost of Medicare will solve the problem, but Republicans disagree. They call for "structural" changes in Medicare, such as "premium support," which would allow Medicare beneficiaries to choose among competing private health plans and cap the government's contribution.

Americans agree on the need to reduce the growth of health care costs, improve quality, and increase availability but are divided on what role the government should play. In the next administration, whichever party prevails, the ACA should be fine-tuned but not repealed. The president should

- Work with Congress to find a constitutional way to ensure near-universal access to health care if the individual mandate is struck down by the Supreme Court.
- Implement key provisions of the ACA as quickly as possible and add sensible tort reform to it.
- Forge a bipartisan consensus to stabilize federal debt by controlling entitlement growth and raising revenues from a reformed tax system.
- Include in the debt solution a bipartisan compromise on Medicare reform that protects traditional Medicare but offers premium support and caps the federal contribution at a realistic rate.

The Obama Record

President Obama's record on health care can be summarized in four words: the Affordable Care Act. American policymakers have long faced two escalating health care challenges. One is that health care costs are high and rising, putting pressure on families, businesses, and governments at all levels. The United States devotes nearly 18 percent of its total spending to health care—substantially more than do other developed economies. At the same time, millions of Americans have little or no access to this expensive system because they are uninsured or have inadequate coverage.

Both parties have long argued for broader health care coverage and slower cost growth, but they differ sharply on how to bring this about. Democrats emphasize expanding coverage by government action and subsidies. Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) were all passed under Democratic

administrations, and the ACA takes the final step to universal coverage. Republicans, by contrast, have offered less comprehensive, more market-oriented approaches to expanding coverage, such as tax breaks for health spending and health savings accounts, although these potentially leave out much of the low- and moderate-income population. With respect to cost control, Democrats rely on regulatory approaches, especially on restricting provider payments, while Republicans emphasize consumer choice and competition.

During the 2008 campaign, candidate Obama promised legislation to extend health care coverage to the uninsured and curb the rising cost of health care for everyone. Republican candidate John McCain proposed phasing out the exclusion of employer-provided health benefits from taxable income and using the increased federal revenue to fund a tax credit for consumers to purchase their own health insurance. He also proposed tort reform to reduce malpractice premiums and, for the sickest Americans, the formation of high-risk pools.

Once in office, President Obama faced a serious tactical decision. In early 2009 the economy was in far worse shape than expected—reeling from the shock of the 2008 financial crisis and the Great Recession that followed. Should the newly elected president concentrate all of his energies on halting the economic slide, while postponing health reform? Or should he seize the momentum of his big electoral win to accomplish both? He decided to push ahead with both, arguing that fixing the economy and health care were linked.

By collaborating with, rather than fighting, the health care industry, Obama hoped to avoid one of the mistakes he believed President Bill Clinton had made. In March 2009 the White House assembled representatives of health insurance and pharmaceutical companies, medical device manufacturers, hospitals, doctors, and other stakeholders. Most were concerned that measures to reduce the growth of costs would lead to reimbursement rates and regulations that would cut into their profits. Obama hoped to avoid their opposition by giving them a say on these cost-cutting measures and regulations and by reminding them that expanded coverage meant more customers for them.

During the campaign, Obama had touted his ability to end partisan bickering in Washington. But as president he failed to win bipartisan support in Congress, despite lengthy negotiations, especially in the Senate. He made an effort to attract Republicans by

incorporating some of their ideas in the bill. However, Republican leaders perceived that keeping Congress from passing the president's health care proposal would damage his credibility and help the Republicans win the next election. Hence the leadership actively discouraged compromise by moderate Republicans.

Democrats themselves were split on several provisions of the bill. Progressives thought there should be a "public option"—a government-run or sponsored health plan that would compete with private plans to keep costs down. Moderates feared a public option would upset the health insurance market and lead to a government monopoly. The public option was eventually dropped from the health care bill, when Senator Joseph Lieberman (I-Conn.) came out against it and gave its opponents a filibuster-sustaining block in the Senate.

After dropping the public option, Democrats appeared close to victory. Then the unexpected election of Senator Scott Brown (R-Mass.) cost them their Senate super majority. After publicly meeting with the Republicans, President Obama and the Democrats determined that a compromise was not possible. Instead, they passed the ACA using a special procedure for budget legislation known as reconciliation, which requires only majority approval.

A major objective of the ACA was to make health insurance coverage as close to universal as possible for working-age people and their families. (Seniors were already covered by Medicare.) It achieved broader coverage through regulations preventing insurance companies from selectively choosing their customers, mandates requiring individuals to purchase insurance, organized exchanges on which small companies and low- to moderate-income people can buy insurance with federal subsidies, and expanded Medicaid eligibility.

The new insurance regulations prohibit insurance companies from "cherry-picking" the healthiest, lowest-cost applicants. They can discriminate only on the basis of geographic location, tobacco usage, age, and whether the consumer is purchasing a family or individual plan. They cannot refuse applicants because of preexisting conditions or rescind insurance coverage except for fraud. People up to twenty-six years of age can receive dependent coverage. In addition, insurance companies can no longer put annual or lifetime dollar limits on insurance coverage or make applicants wait longer than ninety days for coverage. And there are limits on the percentage of revenue that insurance

companies can spend on administrative costs and profits. States are required to review rates, and insurance plans must justify rate increases.

These regulations will increase coverage, but they also reduce insurance company profits. The insurance industry stands to recoup these losses when they gain more customers as a result of ACA subsidies for coverage and the mandate that underlies the new law.

The ACA mandates that almost all individuals have health insurance. Those who fail to purchase insurance will face a penalty. The mandate is necessary to prevent beneficiaries from waiting until they get sick before buying insurance. The mandate has been challenged as unconstitutional, and the Supreme Court is scheduled to decide the issue.

Since those mandated to buy health insurance have to be able to pay for it, the ACA sets up a system of income-related federal subsidies available to the otherwise uninsured, as well as subsidies for small employers who offer health insurance. Beneficiaries of these subsidies will go to a new health insurance exchange to choose among competing private insurance plans offering at least minimum specified benefits. Setting up the exchanges is a state responsibility, although the federal government will step in if a state fails to establish an exchange.

The ACA's new subsidies for the uninsured, combined with provisions to increase the number of low-income people eligible for Medicaid, will increase federal health care spending substantially. These increased costs would be offset primarily through new revenues and savings from Medicare. The revenues would come from a long list of new and increased taxes, phased in between 2013 and 2018. These include an excise tax on high-cost employer-provided health insurance (the Cadillac tax), increased Medicare payroll taxes on high earners, and a new surtax on investment income for people with high incomes, taxes on individuals who don't buy health insurance and employers who don't offer it, taxes on health insurance and drug company profits, and a variety of other tax changes that raise revenue.

The ACA also included provisions designed to make Medicare more cost-effective. It created several new institutions charged with improving health care delivery, including

- An Independent Payment Advisory Board (IPAB) to recommend legislative proposals that would keep Medicare spending from growing faster than the economy plus 1 percent. These recommendations will go into effect unless

blocked by Congress. However, the IPAB cannot ration care, increase revenues, or change benefit structures.

- The Center for Medicare and Medicaid Innovation (CMMI), which is charged with designing, testing, and evaluating payment methods for government health programs that can be shown to reduce costs without lowering health care quality.
- The Patient-Centered Outcomes Research Institute (PCORI), established to support comparative effectiveness research. This research compares health care practices and procedures on the basis of cost and quality measures with a view to identifying less costly ways to deliver the same or better quality care. However, PCORI research may *not* be interpreted as a mandate or guideline for health care delivery.
- Accountable care organizations (ACOs), which are integrated groups of health care providers responsible for the overall care of beneficiaries and are given a share of the cost savings they achieve for the Medicare program if they voluntarily meet specific quality thresholds.

If all of these innovations succeed in making health delivery more efficient and the IPAB's recommended changes are not overridden by Congress, the cost of broadening coverage to the uninsured will be more than covered by the combination of increased revenues and Medicare cost savings.

The full implementation of the ACA involves creating new institutions and relationships at both the state and federal levels. This will take time, but substantial progress has been made already. Dependent coverage has been extended to people up to age twenty-six, the ban on discriminating against children with preexisting conditions is in effect, most states have set up rate-review programs, final rules have been written for limiting the amount of revenue insurance companies can spend on administrative costs and profits, and some restrictions have been placed on the dollar value of coverage. As a result, substantial numbers of people who would not otherwise have coverage have already obtained it. Moreover, the institutions slated to conduct research and innovation (CMMI and PCORI) are getting under way, ACOs are being started, and plans for the IPAB are taking shape. The federal government is working actively with many states to set up exchanges. According to the latest White House report, as of January 2012 twenty-eight states are on their way toward establishing their own exchanges. Others are holding back,

pending the Supreme Court's decision on the constitutionality of the mandate or possible repeal of the legislation.

The Republican Critique

No Republicans voted for the ACA, and Republicans—including the GOP candidates—see the ACA's subsidies for the purchase of health insurance as a costly new entitlement that the country cannot afford. They expect the ACA's new taxes and tax rate increases will slow economic recovery and further complicate the tax code. They find it repugnant and probably unconstitutional for the federal government to require Americans to buy insurance. Some Republicans reacted negatively to the idea of the government sponsoring cost-effectiveness research in health care and especially to the prospect of the IPAB denying reimbursement for treatments that it decides are ineffective or not worth the cost. They stressed the sanctity of the doctor-patient relationship and the danger of the government interfering with the doctor's professional judgment about what was best for the patient. In many Republican eyes, the IPAB is a bureaucratic monster imposing its will on doctors and patients.

Republicans viewed the ACA as an example of big government intrusiveness and sometimes call it “socialism,” which seems a stretch. The central feature of the ACA is the creation of exchanges to enable the uninsured (armed with subsidies) to choose among private health plans. This is a free market approach quite different from the government-delivered health care usually associated with “socialized medicine.” Indeed, it is curious that Republicans castigate exchanges in the ACA and favor them in Medicare, while Democrats take the opposite, equally inconsistent, position.

No clear Republican alternative to the ACA has yet emerged. In *The Pledge to America*, a campaign document prepared before the 2010 election, Republicans made several proposals in addition to calling for repeal of the ACA. These included changing medical liability laws, permitting the purchase of health insurance across state lines to increase competition, expanding health savings accounts, and expanding state high-risk pools and reinsurance programs. They also included some changes in insurance regulations similar to those in the ACA, such as prohibiting insurance companies from denying coverage to people with prior coverage on the basis of a preexisting condition, eliminating annual and lifetime spending caps on health insurance, and “prevent[ing] insurers from dropping your coverage just because you get sick.”

In the 2012 presidential primary, the Republican candidates have called repeatedly for the repeal of the ACA. This stance is somewhat awkward for Mitt Romney, because the subsidies and exchanges in the ACA were modeled on the Massachusetts health care reform he supported when he was governor. The Massachusetts plan has been operating for several years and has achieved close to universal coverage in the state and strong participant approval. Governor Romney explains that the plan was appropriate for Massachusetts, but not for the whole country.

Health Care, Debt, and Deficit in the Next Administration

Health care policy is far too important to be driven by a single party's ideology. Programs that affect people's lives so intimately must flow from a broad bipartisan consensus. The public's health insurance coverage should not bounce around unpredictably with each party transition in an election. No matter how the 2012 election turns out, the president and congressional leadership should strive to find common ground both on how to cover the uninsured and how to reform Medicaid and Medicare while stabilizing the debt.

Indeed, the future of the government's two major health entitlements, Medicare and Medicaid, is likely to figure in the 2012 campaign, not just as a health policy issue, but as a deficit and debt issue. Even if the ACA had never been enacted, the presidential candidates would be debating what to do about Medicare and Medicaid, because these two programs are such important drivers of future debt and deficits.

The federal budget is on an unsustainable path. If policies are not changed, federal spending will grow considerably faster than revenues, even after the economy recovers. Federal debt, already about 70 percent of GDP, will continue to rise faster than the economy can grow. This tsunami of debt endangers the nation's future prosperity and leadership capacity and could precipitate a sovereign debt crisis. Each political party blames the other for creating high deficits and debt, but in fact the drivers of future federal spending are the retirement of the huge baby boom generation multiplied by high and rising per capita health costs. Several high-level bipartisan groups (the Simpson-Bowles Commission, the Bipartisan Policy Center's Debt Reduction Task Force, and others) have underscored that putting the federal budget back on a sustainable track will require both slowing the growth of health care entitlements and increasing federal revenues.

The two parties propose different strategies to slow the growth of spending in Medicare and Medicaid. Republicans, including candidate Mitt Romney, generally favor turning Medicaid from a complex federal program administered by states into a block grant with full state flexibility in how to use the funds. Democrats, who recently expanded Medicaid in the ACA, worry that, without federal controls, states will cut back on health care for their low-income residents. President Obama would increase state flexibility but does not favor a block grant.

Even stronger divisions have arisen on Medicare reforms. Republicans would give seniors choices among private health plans and rely on market competition to improve the cost-effectiveness of health care delivery and slow Medicare spending growth. Democrats rely on regulations based on evidence about the cost-effectiveness of treatments and reimbursement incentives. These differences are reflected in the debate over premium support as a possible reform for Medicare.

At present, Medicare is an open-ended entitlement program that pays seniors' medical bills primarily on a fee-for-service basis. The government reimburses providers for services to Medicare beneficiaries at specified rates but does not control the total cost. There are few incentives for efficiency or for coordination among providers.

Under a premium support approach to Medicare, its beneficiaries would have a choice among private comprehensive health plans offering benefits at least equivalent to those of traditional Medicare. These plans would compete to sign up Medicare beneficiaries but would have to accept anyone who applied. The government's contribution would be defined, and its growth would not exceed a specific rate over time.

Although the premium approach has had bipartisan support in the past, it was recently brought to new prominence by a leading Republican. House Budget Committee chairman Paul Ryan (R-Wis.) inserted a version in the House budget resolution in 2011, which passed the House with only Republican votes. The Ryan proposal phased in premium support slowly but eventually eliminated traditional Medicare. Starting in 2022, new beneficiaries would be able to choose among private sector health plans offering benefits equivalent to Medicare. The government would subsidize their purchases at the then-current Medicare subsidy, but that amount would increase in subsequent years only as fast as the consumer price index. If health care costs went up faster—which has been historical experience—beneficiaries would have to pay the additional costs themselves, although low-income beneficiaries would be protected. This proposal aroused a storm of

protest from Democrats, who alleged that, eventually, the plan would shift much of the cost of Medicare to seniors, bankrupting many and causing extreme hardship. Democrats ran effective political ads equating Ryan's plan to throwing Granny off the cliff, and many Republicans began to see such a severe version of premium support as a political liability.

Democrats acknowledged that reducing the growth of Medicare costs was necessary, along with revenue increases, to restrain future debt. But they rejected competition among private plans as a way of achieving savings. They pointed out that private plans offered under Medicare Part C (Medicare Advantage) had proven more expensive, on the average, than traditional Medicare and warned that private plans would "cherry-pick" to cover the youngest, healthiest seniors, leaving the most vulnerable stuck in impossibly high-cost plans. Instead, the Democrats preferred building on the reforms passed in the ACA.

In the course of bipartisan negotiations over deficit reduction, however, premium support proposals have emerged that preserve traditional Medicare, while offering beneficiaries choices on a well-regulated market and capping the government contribution at a more reasonable rate of growth. The Domenici-Rivlin plan, crafted by the Bipartisan Policy Center's Debt Reduction Task Force, keeps traditional Medicare permanently for all beneficiaries who prefer it but also creates regional Medicare exchanges on which health plans would offer comprehensive plans with benefits equivalent to Medicare. Plans, including traditional Medicare, would offer bids, and the government contribution would be set at the second-lowest bid. The government subsidy would be capped so that it did not grow cumulatively faster than the GDP plus 1 percent. If the cap were reached, beneficiaries would bear the additional costs on a means-tested basis.

Senator Ron Wyden (D-Ore.) has joined with Ryan to craft a bipartisan compromise plan that resembles Domenici-Rivlin, and candidate Romney has introduced some similar ideas in the primary campaign. Most Democrats, however, are still wary of premium support. They resist giving private plans too big a role and believe the result would shift substantial costs onto beneficiaries. The president continues to support the cost-containment measure in the ACA as a less risky way of containing costs.

In the next administration, the ACA should be fine-tuned but not repealed. Its insurance market reforms are already extending coverage to millions of people, and hardly anyone wants to go back to the days when insurance companies could refuse coverage for preexisting conditions or terminate a policy because the beneficiary got sick. If the

individual mandate is struck down by the Supreme Court, the president should work with Congress to find a constitutional way to ensure that almost everyone has health insurance and is in a risk pool. The exchanges should be implemented as quickly as possible and rules written to enhance transparency, understandable choices, and genuine competition. A sensible tort reform provision should be added—one that does not give a free pass to the negligent, but speeds up adjudication, reduces its cost, and protects physicians who follow evidence-based standards of care. The institutions designed to find ways of improving the efficiency and effectiveness of health care should be strengthened and adequately funded, and the IPAB should be empowered to recommend more changes in Medicare—including changes in benefit structures—that will that will make Medicare a leader in delivering cost-effective care.

The president and Congress should also forge a bipartisan compromise that will reduce the growth of the debt and put the federal budget on a sustainable track for the future. That compromise must include substantial additional revenues from a reformed tax system. Tax reform should broaden the base of both the individual and corporate income taxes and lower their rates. An important way to broaden the tax base would be to phase out the exclusion of employer-paid health benefits from income taxation. It would discourage overgenerous health plans, as well as raise wages and increase government revenues. The debt reduction package should also include a bipartisan compromise on Medicare reform similar to Domenici-Rivlin or Ryan-Wyden. It must protect traditional Medicare but offer equivalent private choices on a well-regulated exchange and provide premium support that protects low-income seniors and cap the federal contribution at a rate that does not strangle the program. If the combination of competition and evidence-based innovation delivers on its promise, the cap need not come into effect. Indeed, the cap should be a safeguard, not the principal means of achieving savings. If the cap is reached it should trigger a process for deciding how the additional costs should be shared among providers and non-poor beneficiaries.

Transforming the complex, fragmented American health care system into a more efficient system that covers everybody adequately is an enormous challenge that will not be accomplished easily. Neither Republicans nor Democrats have a sure-fire answer. But if the two parties work together and listen to each other's concerns, the result should be better legislation than either could produce alone. They must be willing to compromise

their differences, try new approaches, monitor the results, and make corrections. Absent constructive bipartisan statesmanship, Americans will have gridlock in place of solutions.