Realistic Health Reform:

Spanning the Ideological Divide

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February 2, 2007

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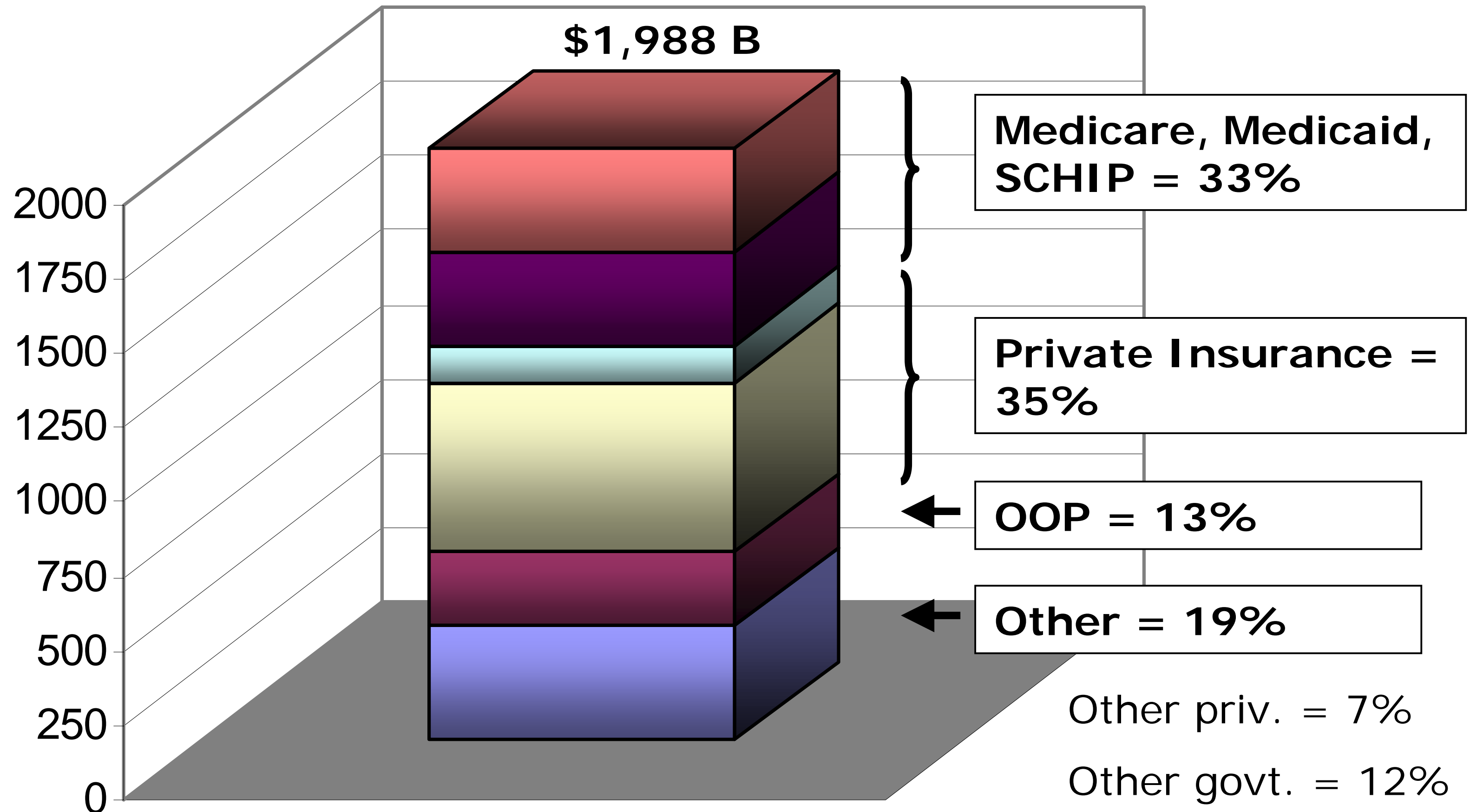
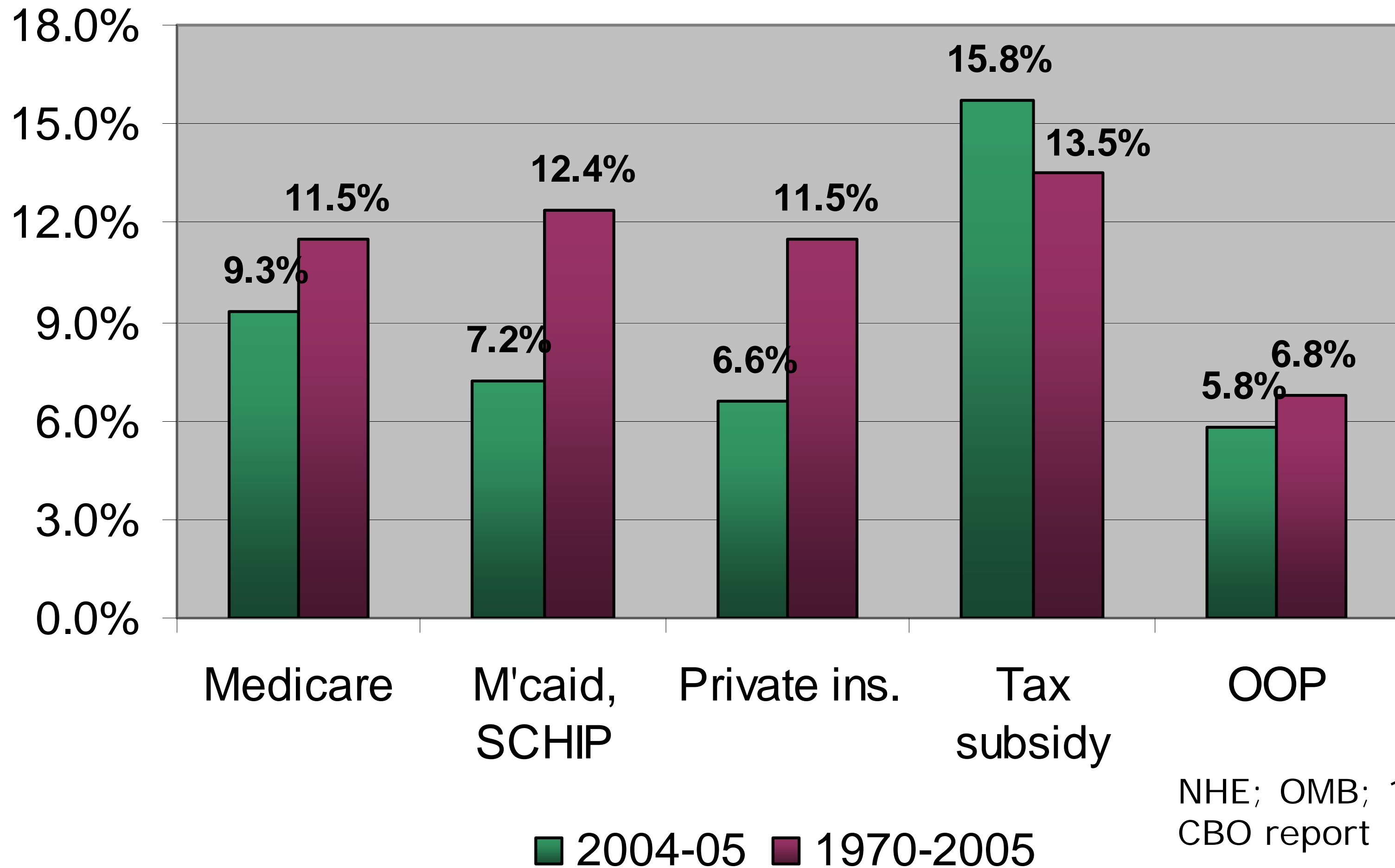
How health spending stacks up



OACT, 2005 NHE estimates as of 1/07; OMB Analytical Perspectives FY 2006

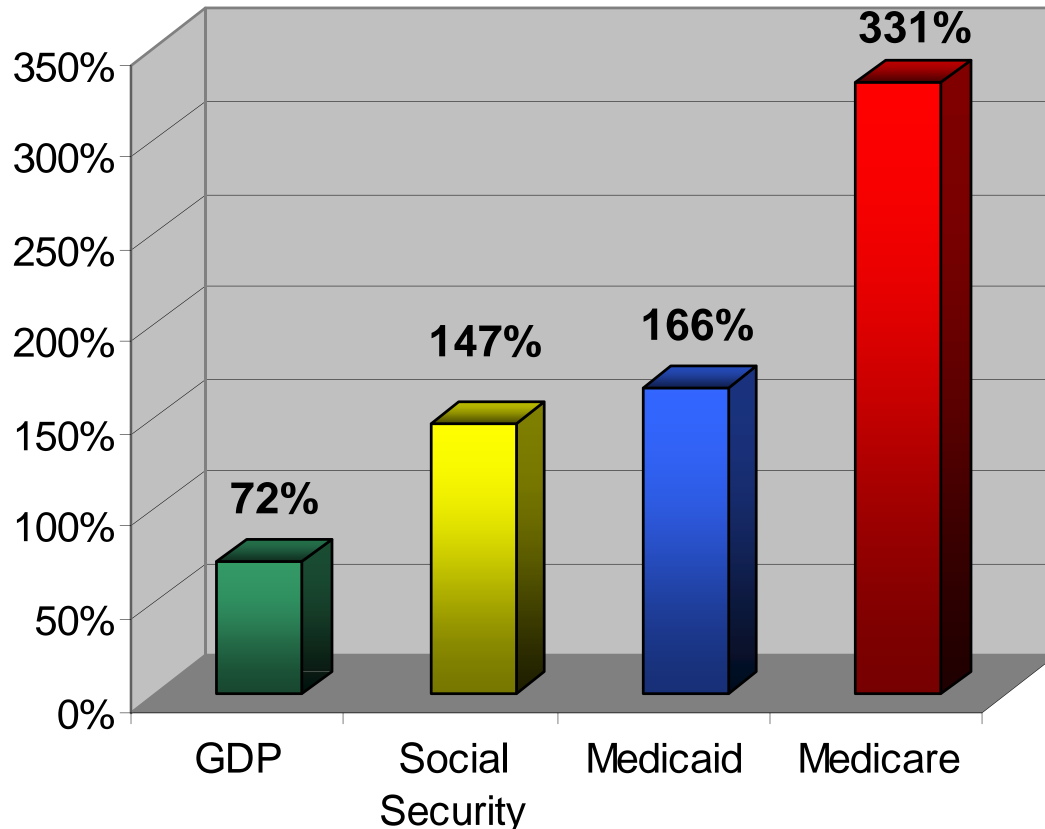
Rapid growth of insurance, subsidies



NHE; OMB; 1981 CBO report

AEI

"Unsustainable"



If it can't happen, it won't…but we may not like the consequences.

Insufficient revenue is not the problem—it is the mismatch of spending and value.

Innovation is driven by 3rd party payment.

Innovation outpaces knowledge, judgment.

Source: David Walker, *Saving Our Future Requires Tough Choices Today*, GAO, August 24, 2006

Opposing strategies

Market reform

Reduce moral hazard

Consumerism, choice, and competition yield efficiency, promote expanded coverage and quality care

“Money follows the patient”

Government expansion

Avoid market failure

Large government programs can drive efficiency and ensure universal coverage, consumer protection, and quality care

“Patient follows the money”

Opposing fears

Supporters of a government solution fear

- The sick lose coverage
- People can't make good decisions
- Lack of direct controls means excessive profits, no effective cost control for the 10% who spend most of the money
- Quality will suffer as competition drives down premiums

Supporters of a market solution fear

- Coverage is in name only
- One size does not fit all
- Regulatory capture drives up spending, heavy-handed limits on the use of services
- Control limits ability, desire to innovate

Blended strategy for a blended system

U.S. health system a hodgepodge of market and regulatory elements

- Government finances more than half of health spending
- Private payers adapt to Medicare's policies
- Regulatory and research agencies influence private markets

Specific proposals often a blend of market and regulatory elements

Federal and state programs can lead the way in key areas

No easy answers

Develop information

- What works: data on costs, outcomes, provider performance
- Effectiveness, comparative effectiveness, cost effectiveness

Improve delivery

- Guidelines, care management, health promotion

Improve payment strategies

- P4P, bidding, negotiation

Promote effective consumerism, competition

- Premium support, decision support, financial incentives
- Streamline regulatory process, malpractice reform

Limit unnecessary spending

- Modify entitlement status, cap tax exclusion

Policy logjam

Scary numbers won't force good policy.

Non-negotiable demands prevent progress.

Incentives matter…but so does institutional setting.

We do not know how to slow the rate of growth of health spending.

There are many possibilities for one-off savings.

Enhance value—but do not centralize decisions.