COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

CHAIRMAN
BILL FRENZEL

PRESIDENT
MAYA MACGUINEAS

DIRECTORS
BARRY ANDERSON
ROY ASH
CHARLES BOWSHER
STEVE COLL
DAN CRIPPEN
VIC FAZIO
WILLIS GRADISON
WILLIAM GRAY, III
WILLIAM HOAGLAND
DOUGLAS HOLTZ-EAKIN
JIM JONES
LOU KERR
JIM KOLBE
JAMES LYNN
JAMES MCINTYRE, JR.
DAVID MINGE
JIM NUSSLE
MARNE OBERNAUER, JR.
JUNE O'NEILL
RUDOLPH PENNER
TIM PENNY
PETER PETERSON
ROBERT REISCHAUER
ALICE RIVLIN
CHARLES W. STENHOLM
GENE STEUERLE
DAVID STOCKMAN
PAUL VOLCKER
CAROL COX WAIT
DAVID M. WALKER
JOSEPH WRIGHT, JR.

SENIOR ADVISORS
HENRY BELLMON
ELMER STAATS
ROBERT STRAUSS

Five Principles for Responsible Health Care Reform
June 2, 2009

Rising health care costs are the single largest threat to fiscal stability in the United States. The U.S. already spends 18 percent of GDP ($2.5 trillion a year) for health care, and is projected to spend one third of GDP by 2030 and one half by 2080. Because a full third of health care spending comes from the federal government – primarily through Medicare and Medicaid – these rising costs pose a serious problem for the rest of the budget. The combination of health care cost growth and an aging population will drive Medicare and Medicaid spending from 4.2 percent of GDP today, to a projected 8.1 percent in 2030. At the same time, rising costs will erode the tax base due to the tax exclusion for employer-provided insurance, which leads to an ever-greater portion of compensation being sheltered from taxation.

Our health care system is in obvious need of reform. Not only is cost growth unsustainable, but nearly 46 million Americans are uninsured. Measures of quality and efficiency, meanwhile, often lag behind other nations even as we pay a higher price for health care. Unfortunately, the three goals of increasing coverage, improving quality, and controlling costs often conflict, and new programs to expand insurance coverage could greatly add to total health care and government costs.

To ensure that health care reforms strengthen the overall financial position of the government, the Committee for a Responsible Federal Budget has developed a list of principles for enacting reform. We believe that:

1) Health Care Reform Should Focus on Slowing Cost Growth
2) New Government Health Care Spending Should be Fully Offset
3) Government Health Care Programs Must be Made Sustainable
4) The Need to Reform Health Care Does Not Displace the Need to Reform Other Areas of the Budget
5) Health Care Reform is a Continuous Process and Will Require Continued Vigilance from Policymakers

1) Health Care Reform Should Focus on Slowing Cost Growth

Over the last three decades, overall health care costs have grown more than two percentage points per year faster than the economy as a whole. As a result, they have more than doubled as a share of GDP from 8.3 percent in 1980 to nearly 18 percent today. On our present course, these costs will continue to grow, consuming an ever-growing share of the economy.

Rapid cost growth places a burden on individuals who face higher health care costs, on employers who provide insurance for their workers, and on the federal government (as well as state governments), which provides health insurance to the poor and elderly through Medicaid (in conjunction with the states) and Medicare, and subsidizes employer-provided insurance by excluding it from taxation.

One of President Obama's priorities upon entering office was to expand health insurance coverage to most or all of the nation's uninsured as part of health care reform. Covering the uninsured is a worthy and important goal. However, given the state of the budget, with large structural deficits projected to last well beyond the economic crisis, the central priority must be to close the government's long-term fiscal gap. It would be dangerous to focus on creating a large new government entitlement at the expense of finding ways to finance the ones that already exist.

Still, we recognize that existing fiscal challenges should not exclude new priorities in the budget. If well designed, coverage expansion policies could be political "sweeteners" and economic or regulatory tools to help enact tough cost control measures. That said, it is imperative that these cost control measures be the centerpiece of any plan.

2) New Government Health Care Spending Should be Fully Offset

Expanding coverage will be quite costly; the plans being considered by the administration and Congress are likely to cost over $100 billion per year, although they plan could be pared back and made less costly.

In the face of large structural deficits, the government should be committed to finding offsets to fully pay for the new costs of a reformed health care plan. Pay-as-you-go principles, which require legislation to be deficit-neutral, should be a minimum standard. Since it is highly unlikely that reductions in healthcare spending will be enough to fully offset the costs of expanded coverage, either tax increases or direct spending cuts will have to be part of the mix.

And in addition to being at least deficit neutral over five and ten years, any reform plan must demonstrate sustainability in the out years. This could be accomplished by showing that the plan does not trend toward deficits, and, ideally, by restricting the growth of the plan through automatic cuts if projected savings are not achieved.

3) Government Health Care Programs Must be Made Sustainable

Paying for new health care spending is necessary but not sufficient to ensure fiscal responsibility. Existing commitments, mainly in the form of Medicare and Medicaid, are unsustainable. Absent any action, the Medicare Part A trust fund will run out of money in 2017. Over time, Medicare costs are projected to grow from less than 3 percent of GDP today to almost 6 percent by 2030 and 9 percent by 2050. The federal share of Medicaid will grow from 1.5 percent today to 2.5 percent in 2030 and 3 percent in 2050. By 2080, these programs are projected to consume as much of the economy as we have historically raised in taxes to pay for *all* government spending today: 18.5 percent.

Health reform must therefore put these programs on a more sustainable track. Although controlling health care cost growth can be a big part of this, hard choices in terms of taxes, benefits, premiums, and provider payments will likely be necessary. Medicare's obligations are quite large, totaling over $40 trillion (in present value) beyond dedicated revenue sources over the next 75 years. And Medicaid's costs promise to add to this significant burden. Health care reform must take steps to reduce these shortfalls.

4) The Need to Reform Health Care Does Not Displace the Need to Reform Other Areas of the Budget

Slowing the growth of Medicare and Medicaid is necessary for putting the country on a path toward long-term fiscal stability. However, it is unlikely that these actions alone will prove sufficient to permanently stabilize the nation's finances. Consumers are unlikely to accept the restrictions on technological advances that would be necessary to keep health care growing at the same rate as the economy, and health care is therefore likely to absorb a growing share of our budget. Furthermore, even holding health care costs steady as a share of the economy will not eliminate the fiscal gap, since this will not address the effects of population aging or general programmatic growth. Accordingly, other budgetary changes will be necessary.

5) Health Care Reform is a Continuous Process and Will Require Continued Vigilance from Policymakers

Due to political, technological, and knowledge limits, it is unforeseeable that any single health care reform package will do enough to put health care cost growth on a permanently sustainable path. Given this, politicians should not declare victory in sufficiently reducing costs or "fixing" Medicare once reform has been enacted. Instead, continued efforts will be needed to both slow overall health care cost growth and address continued shortfalls or excessive growth in the Medicare and Medicaid programs. Any enacted reform should be viewed as "round one," rather than the health policy finale. In order to maintain strong oversight of this area of the budget, it will be useful to build mechanisms into the budget that require both constant review and action if costs grow beyond what policymakers deem acceptable.