



OFFICE OF
MANAGEMENT AND BUDGET

President Obama's Fiscal 2010 Budget

Transforming and Modernizing America's Health Care System

One of the biggest drains on American pocketbooks is the high cost of health care. Many families are one illness or accident away from financial ruin. Health insurance costs reduce workers' take-home pay to a degree that is both underappreciated and unnecessarily large. At the same time, health care costs are consuming a growing share of federal and state government budgets. The United States spends over \$2.2 trillion on health care each year—almost \$8,000 per person. That number represents approximately 16 percent of the total economy and is growing rapidly. If we do not act soon, by 2017, almost 20 percent of the economy—more than \$4 trillion—will be spent on health care.

At the same time that we strive to contain costs, we cannot stand by as tens of millions of Americans lack health care coverage. An unhealthy workforce leads to an unhealthy economy, and moving to provide all Americans with health insurance is not only a moral imperative, but it is also essential to a more effective and efficient health care system.

For too long, we have recognized the problems with health care, but have not taken responsibility for them. We can no longer afford to wait. That is why the President has already begun the process of reforming health care by:

- *Instituting Temporary Provisions to Make Health Care Coverage More Affordable for Americans Who Have Lost Their Jobs.* As part of the Recovery Act of 2009, the Administration will provide Americans who lose their jobs or have recently lost their jobs a tax credit to keep their health insurance through COBRA. These steps are estimated by the Joint Committee on Taxation to help provide coverage for approximately seven million Americans.
- *Increasing Health Care Coverage for Children.* In one of his first official acts, the President signed into law the reauthorization of the Children's Health Insurance Program (CHIP)— bipartisan legislation vetoed twice by the previous President. It provides the support, options, and incentives for States to provide coverage for an additional four million children on average in CHIP and Medicaid who are now uninsured by FY 2013. The President is committed to implementing this law quickly and aggressively to help families whose children are at risk of losing coverage in this weak economy.
- *Computerizing America's Health Records in Five Years.* The current, paper-based medical records system that relies on patients' memory and reporting of their medical history is prone to error, time-consuming, costly, and wasteful. With rigorous privacy standards in place to protect sensitive medical record, we will embark on an effort to computerize all Americans' health records in five years. This effort will help prevent medical errors, and improve health care quality, and is a necessary step in starting to modernize the American health care system and reduce health care costs.

- *Developing and Disseminating Information on Effective Medical Interventions.* Medicine is changing so rapidly it is almost impossible for any individual physician to keep abreast of all the latest research studies. Without the most recent information on effective treatments, it is increasingly more difficult for a doctor to give a patient the type of individualized treatment he or she deserves. To help physicians get the information they need to provide the highest quality care for patients, the Recovery Act of 2009 devotes \$1.1 billion to comparative effectiveness research—the reviews of evidence on competing medical interventions and new head-to-head trials. The information from this research will improve the performance of the U.S. health care system.
- *Investing in Prevention and Wellness.* Over a third of all illness is the result of poor diet, lack of exercise, and smoking. Indeed, obesity alone leads to many expensive, chronic conditions including high blood pressure, heart disease, diabetes, and even cancer. Furthermore, there are important vaccines that can prevent diseases, and screening tests that can detect cancer and other diseases at an early stage when they are more curable. Yet many Americans are not getting these effective treatments. The President has devoted in the Recovery Act an unprecedented \$1 billion for prevention and wellness interventions. This will dramatically expand community-based interventions proven to reduce chronic diseases.

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To build on these steps, the Budget sets aside a reserve fund of more than \$630 billion over 10 years that will be dedicated towards financing reforms to our health care system. The President recognizes that while a very large amount of money and a major commitment, \$630 billion is not sufficient to fully fund comprehensive reform. But this is a first crucial step in that effort, and he is committed to working with the Congress to find additional resources to devote to health care reform. The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding access, and improving quality.

To achieve these goals and finance reform, the President looks forward to working with the Congress over the coming year, and as he does, the President will adhere to the following set of eight principles:

- *Guarantee Choice.* The plan should provide Americans a choice of health plans and physicians. People will be allowed to keep their own doctor and their employer-based health plan.
- *Make Health Coverage Affordable.* The plan must reduce waste and fraud, high administrative costs, unnecessary tests and services, and other inefficiencies that drive up costs with no added health benefits.
- *Protect Families' Financial Health.* The plan must reduce the growing premiums and other costs American citizens and businesses pay for health care. People must be protected from bankruptcy due to catastrophic illness.
- *Invest in Prevention and Wellness.* The plan must invest in public health measures proven to reduce cost drivers in our system—such as obesity, sedentary lifestyles, and smoking—as well as guarantee access to proven preventive treatments.

- *Provide Portability of Coverage.* People should not be locked into their job just to secure health coverage, and no American should be denied coverage because of preexisting conditions.
- *Aim for Universality.* The plan must put the United States on a clear path to cover all Americans.
- *Improve Patient Safety and Quality Care.* The plan must ensure the implementation of proven patient safety measures and provide incentives for changes in the delivery system to reduce unnecessary variability in patient care. It must support the widespread use of health information technology with rigorous privacy protections and the development of data on the effectiveness of medical interventions to improve the quality of care delivered.
- *Maintain Long-Term Fiscal Sustainability.* The plan must pay for itself by reducing the level of cost growth, improving productivity, and dedicating additional sources of revenue.

Financing Health Care Reform. The reserve fund is financed by a combination of rebalancing the tax code so that the wealthiest pay more as well as specific health care savings in three areas: promoting efficiency and accountability, aligning incentives towards quality and better care, and encouraging shared responsibility. Taken together, the health care savings would total \$316 billion over 10 years while improving the quality and efficiency of health care, without negatively affecting the care Americans receive. These savings include:

- *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 Administration believes it's time to stop this waste and will 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 \$175 billion over 10 years, as well as reduce Part B premiums. These overpayments threaten Medicare's finances and increase the premiums paid by participants in traditional Medicare.

- *Reducing Drug Prices.* Prescription drug costs are high and rising, causing too many Americans to skip doses, split pills, or not take needed medication altogether. The Administration will prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market.

The Administration will accelerate access to make affordable generic biologic drugs available through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs. In order to retain incentives for research and development for the innovation of breakthrough products, a period of exclusivity would be guaranteed for the original innovator product, which is generally consistent with the principles in the Hatch-Waxman law for traditional products.

Additionally, brand biologic manufacturers would be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as ever-greening.

Finally, the Budget will bring 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, apply the additional rebate to new drug formulations, and allow States to collect rebates on drugs provided through Medicaid managed care organizations. All the savings would be devoted to the health care reserve fund.

- *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. To save Medicare and Medicaid, increase quality, and make sure Medicare and Medicaid patients get the care they deserve, we need to rein in these abuses and use this money for reform. 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.

- *Improving Care after Hospitalizations and Reduce Hospital Readmission Rates.* Nearly

18 percent of hospitalization of Medicare beneficiaries resulted in the readmission of patients who had been discharged in the hospital within the last 30 days. Sometimes the readmission could not have been prevented, but many of these readmissions are avoidable. To improve this situation, hospitals will receive bundled payments that cover not just the hospitalization, but care for certain post-acute providers the 30 days of care after the hospitalization, and 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 \$26 billion of wasted money over 10 years. The money saved will also be contributed to the reserve fund for health care reform.

- *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 the higher quality will save over \$12 billion over 10 years. Again, the money saved will be contributed to the Reserve Fund for health care reform.
- *Reforming the Physician Payment System to Improve Quality and Efficiency.* The Administration believes that the current physician payment system, while it has served to limit spending to a degree, needs to be reformed so that physicians are paid for providing high-quality care rather than simply for more procedures and exams. Thus, while the baseline reflects our best estimate of what the Congress has done in recent years, we are not suggesting that should be the future policy.

As part of health care reform, the Administration would support comprehensive, but fiscally responsible, reforms to the payment formula. The Administration believes Medicare and the country need to move toward a system in which doctors are paid for high-quality care rather than simply more care.

- *Reducing Itemized Deduction Rate for Families With Incomes Over \$250,000.* Lowering health care costs and expanding health insurance coverage will require additional revenue. In the health reform policy discussions that have taken place over the past few years, a wide range of revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with the Congress to enact health care reform. The Administration’s Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent— and the initial reserve fund would be funded in part through this provision. This provision would raise \$318 billion over 10 years.

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