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President Obama's Budget: Cheers for Health, Down Payment on Health Reform

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President Obama is using his new budget as a bully pulpit for health care reform, an encouraging sign in itself that he will exert leadership to keep the issue moving. It supports critical programs that will make a difference for people's health, including new initiatives in clinical care and public health, and programs that will reduce income inequality. But the budget is still in the "down payment" stage towards transformational health reform, that would cover the nation's 47 million uninsured, and make the system affordable for the future.

The economic crisis demands that we get a grip on health care costs, which have grown twice as fast as wages. And lower costs can go hand in hand with better quality of care and universal coverage. The President's proposals, as reflected in the budget, while headed in the right direction, don't quite get there. The budget takes modest steps towards improving clinical care. And it reduces excessive payments to private health insurance plans in the Medicare Advantage program, where the federal government already has the greatest leverage. But it doesn't take on wasteful practices by insurance companies in the private sector, a key driver of costs.

The President offers a new and complex program that might or might not work, creating a Medicare-like backup plan to cover the uninsured and possibly others. In the present dire economic circumstances, it would be quicker and more effective to expand who is covered under Medicare, Medicaid and other public programs. Only the public sector has the clout and resources to assure that everyone is covered, and to negotiate successfully with powerful health care interests, including drug companies and medical device companies. Medicare already has administrative costs licked, and is geared towards covering a large national population that uses lots of health care: the elderly and disabled. Medicare and Medicaid have been under attack, but Congress is moving forward to address problems with underfunding and privatization in Medicare, and eligibility issues in Medicaid. Ready legislation (H.R. 676, H.R. 193) describes in detail how we can move from here to there.

The Administration has carefully nurtured and encouraged the political will for reform. Pressure and support from the public will be essential to keep it moving on the right track.

Details:

The budget and health reform

The budget creates a reserve fund of \$630 billion over 10 years, beginning at \$2 billion in 2010, reaching \$18 billion in 2012, and \$50 billion in 2019. The reserve fund is intended to "finance fundamental reform of our health care system that will bring down costs and expand coverage."

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Funds come from cutting wasteful spending, such as excess payments to Medicare Advantage programs, and rationalizing the health care system.

What this means for health reform: The President's proposal would mandate most individuals and employers to pay for health insurance, with the government offering subsidies where needed.

In the long run, this will save money (by one Lewin group estimate of a similar proposal, \$94 billion over 10 years). In the short run, funds will be needed both for subsidies for premiums, and for expanding health information technologies. The budget timeline indicates that funds will only be available after a few years.

By 2019, Medicare would still account for 20% of federal government receipts. This is however an improvement over projections in the absence of reform.

For perspective:

- The federal budget comprises about \$4 trillion, in an overall economy of \$14 trillion.
- U.S. health care expenditures in 2009 are estimated at \$2.6 trillion, and would double in ten years if not controlled.
- In 2010, Medicare will spend \$453 billion, Medicaid \$290 billion
- The budget for the U.S. Department of Health and Human Services is about \$77 billion.

Clinical care

New initiatives head in the right direction for improving health and saving money, especially:

- Strengthening the FDA.
- Authorizing reimportation of safe, less expensive drugs from other countries, and encouraging safe development of generic biologics.
- Increased resources to treat HIV/AIDS in underserved populations.
- \$330 million to increase health professionals in underserved areas, including increased capacity for nursing schools, and dental workforce development grants.
- \$19 million over ten years for family planning support, including medically accurate and age-appropriate information for youth who are already sexually active.
- Nurse home visits for at-risk expectant and new parents is a wisely targeted program to improve health.
- Resources to reduce health disparities.
- \$73 million for rural health.
- Requires greater drug price discounts for Medicaid.

The **quality incentives** extend support for comparative effectiveness research and electronic health records, initiated through the Recovery Act. They also encourage

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hospitals to reduce readmission rates, and physicians to create voluntary groups to coordinate care.

Public health

The budget hits some high points for public health. Tax provisions will help to reverse the severe income inequality that has contributed to poorer health in the U.S. Support for education is a key factor in improved health status.

- It will reduce tax breaks for families earning over \$250,000 for mortgages and itemized deductions, and reinstate the estate tax in 2011.
- Most households will get a refundable income tax credit to offset the payroll tax on the first \$6,450 of earnings.
- Food stamps and unemployment benefits were increased in the Recovery Act, and the budget will extend these improvements.
- The Administration aims to reform asset tests, that have unfairly blocked qualification for Medicaid and other programs.
- The budget will increase investments in Head Start and other early childhood education programs.

Summing Up:

**The Administration is listening to good advice on quality, costs and public health.
The problem of achieving universal, guaranteed affordable coverage lies ahead.**