The Relationship between the Federal Debt and Growing Health Care Costs

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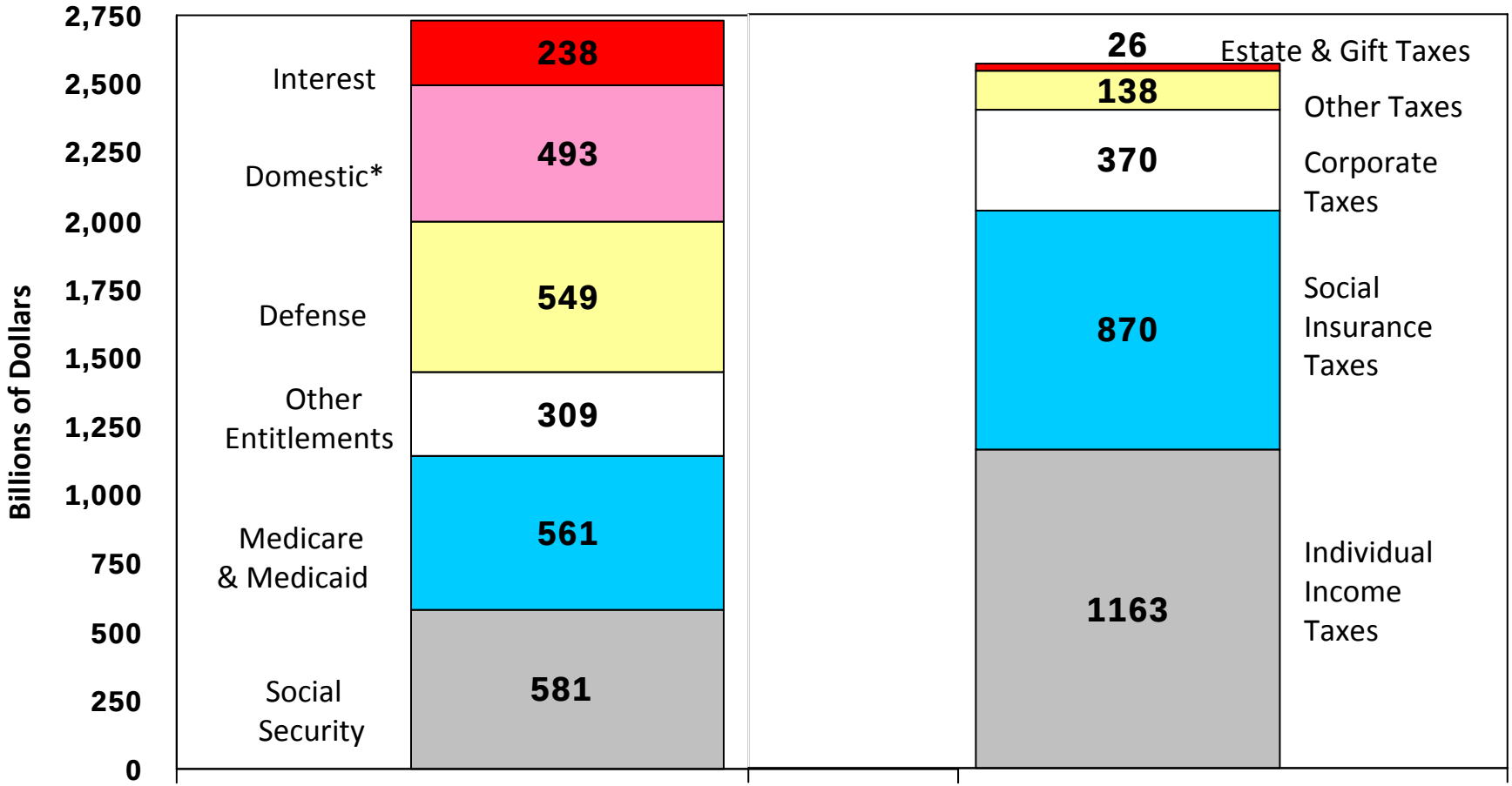
My presentation today does not include any discussion about a particular commercial product/service and I do not have any significant financial interest/relationship with any organizations that make/provide this product/service.

Composition of Actual FY 2007 Federal Government Revenues and Outlays

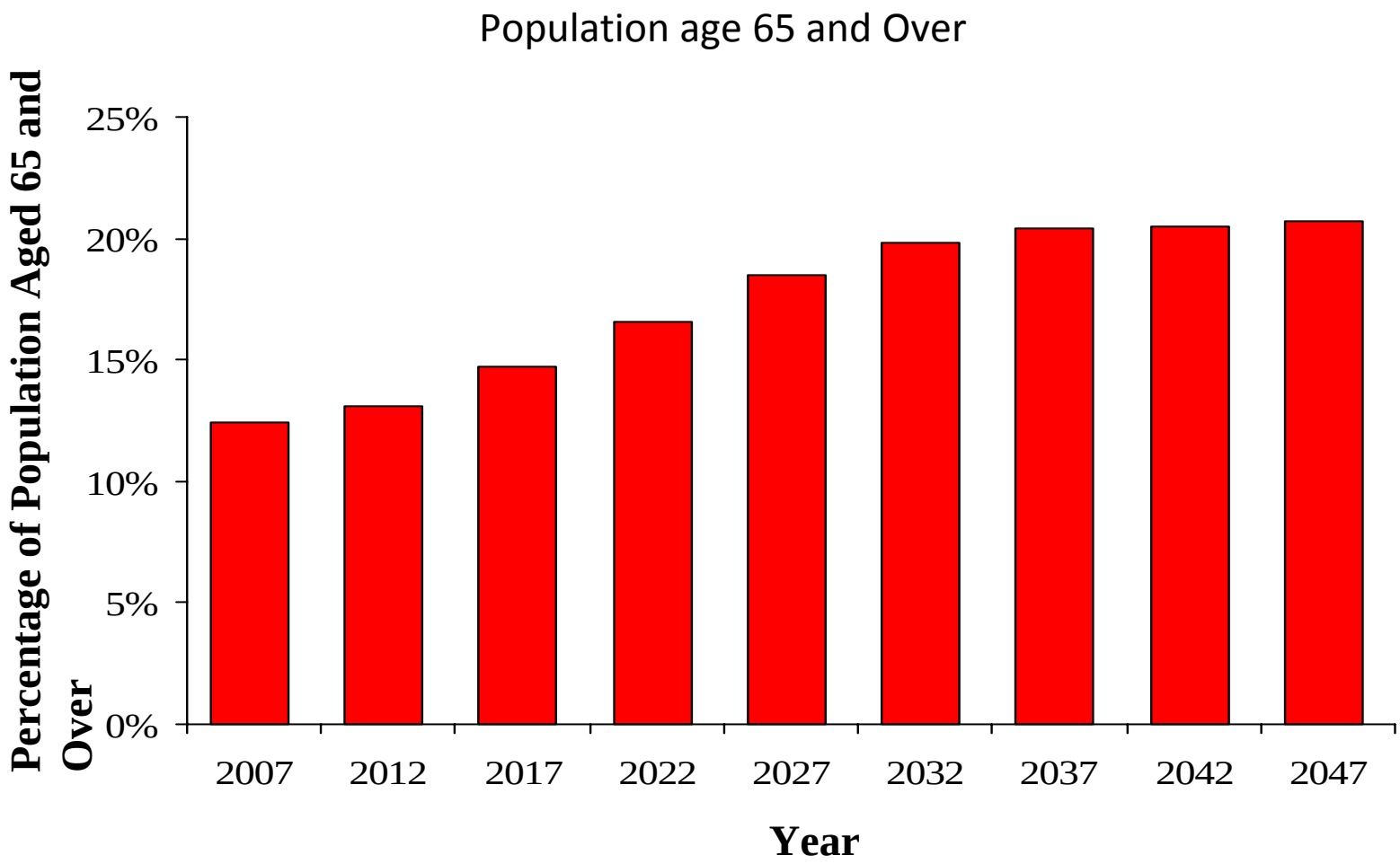
(Deficit: $163 Billion)



Outlays: $2.73 trillion **Revenue: $2.57 trillion**

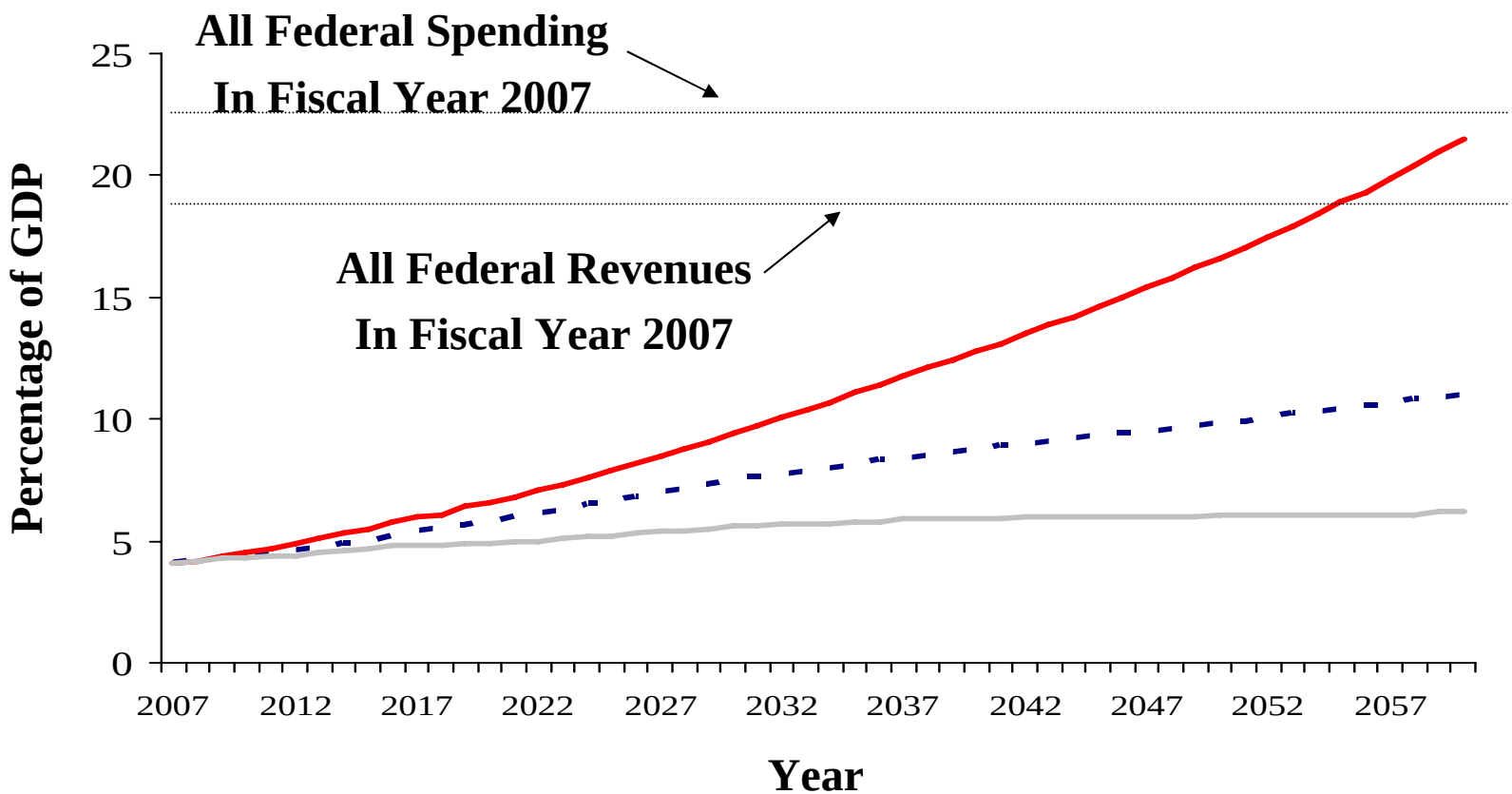
*Includes all appropriated domestic spending such as education, transportation, homeland security, housing assistance, and foreign aid. Source: CBO 2008.

America's Population is Aging



Source: Social Security and Medicare Trustees' Report, April 2007

Health Care Costs are Rising Faster Than the Economy



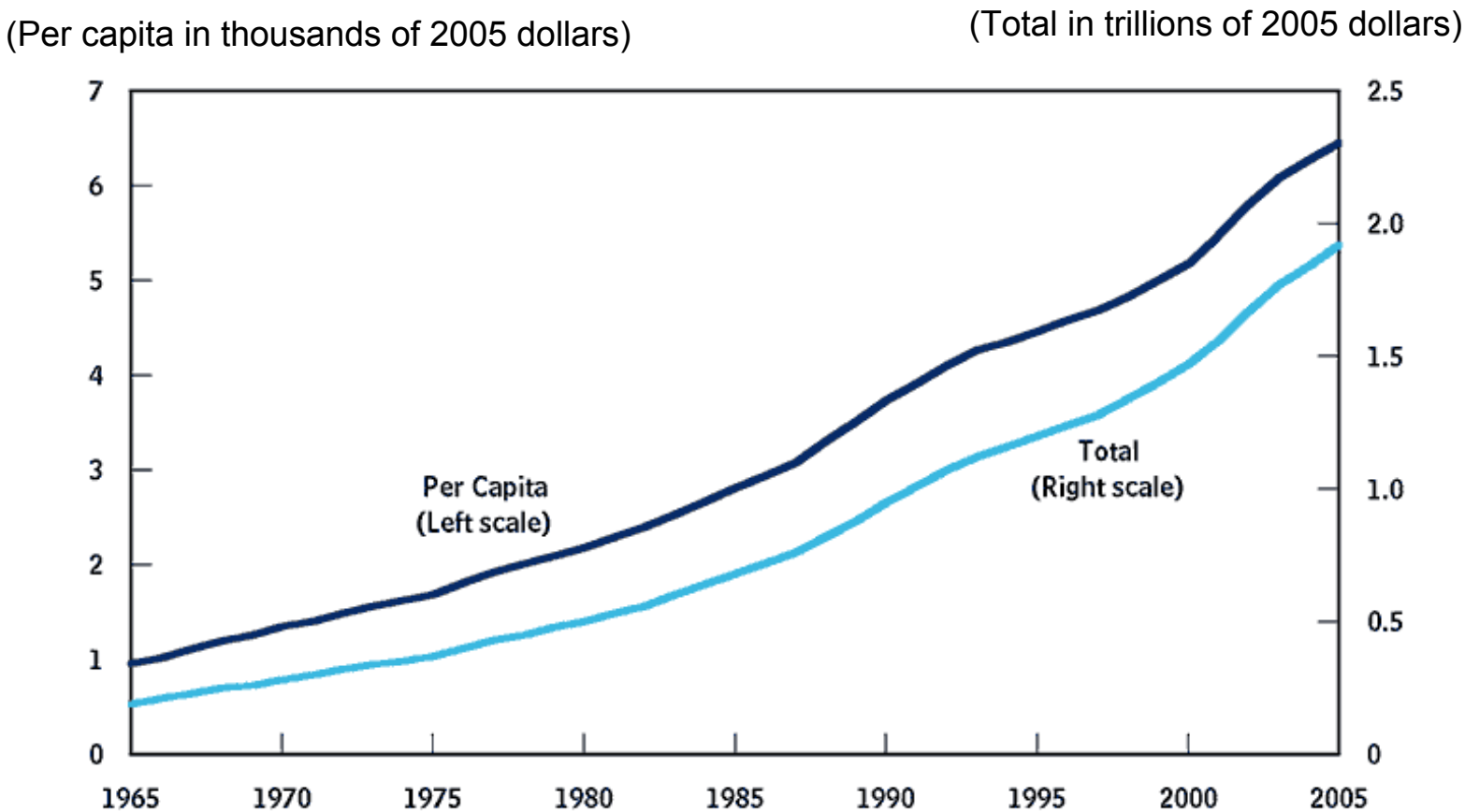
Assumes that health care cost growth will not exceed GDP growth.

Assumes that health care cost growth continues at the average rate for the past 40 years (2.5 percentage points greater than GDP growth.)

Assumes that health care cost growth rate declines to 1.0 percentage point greater than GDP growth—consistent with the assumption used by the Medicare Trustees.

Source: Congressional Budget Office, December 2007

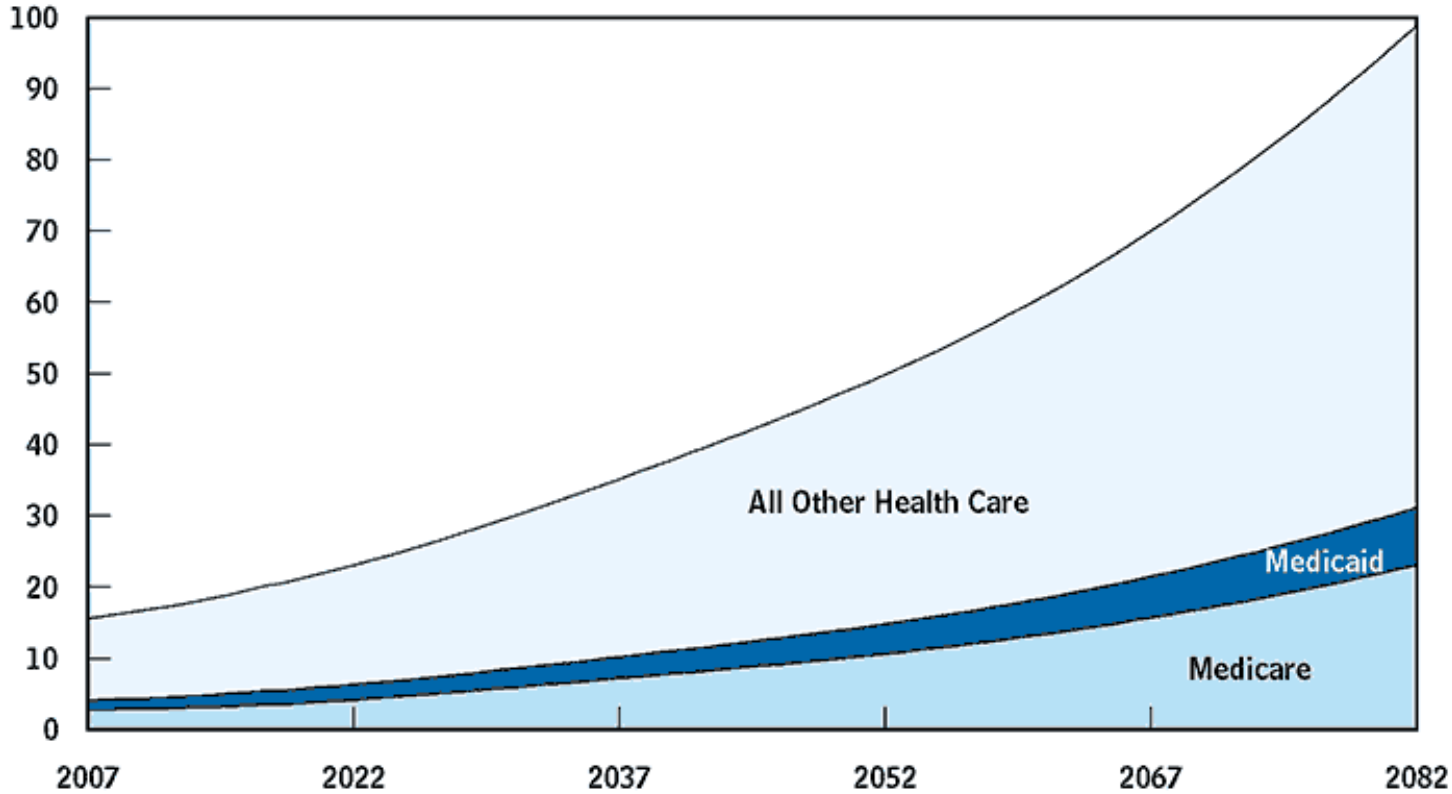
Total and Per Capita Spending on Health Care, 1965 to 2005



Source: Congressional Budget Office based on data on spending on health services and supplies, as defined in the national health expenditure accounts, maintained by the Centers for Medicare and Medicaid Services.
Note: Spending amounts are adjusted for inflation using the gross domestic product implicit price deflator from the Bureau of Economic Analysis.

Projected Spending on Health Care Under an Assumption That Excess Cost Growth Continues at Historical Averages

(Percentage of gross domestic product)



Source: Congressional Budget Office.
Notes: Excess cost growth refers to the number of percentage points by which the growth of spending on Medicare, Medicaid, or health care generally (per beneficiary or per capita) is assumed to exceed the growth of nominal gross domestic product (per capita).
Amounts for Medicare are net of beneficiaries' premiums. Amounts for Medicaid are federal spending only.

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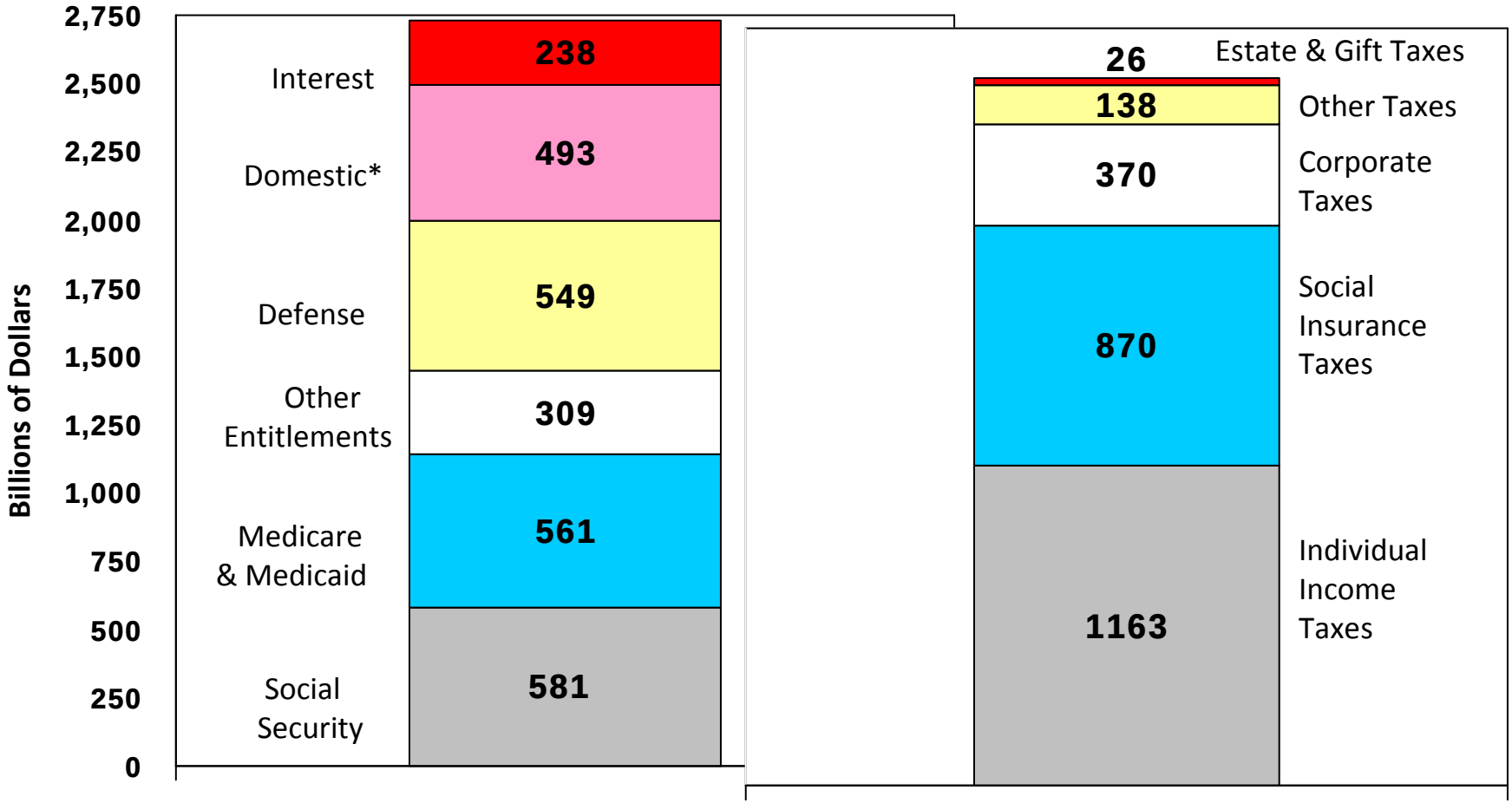

Outlays: $2.73 trillion **Revenue: $2.57 trillion**

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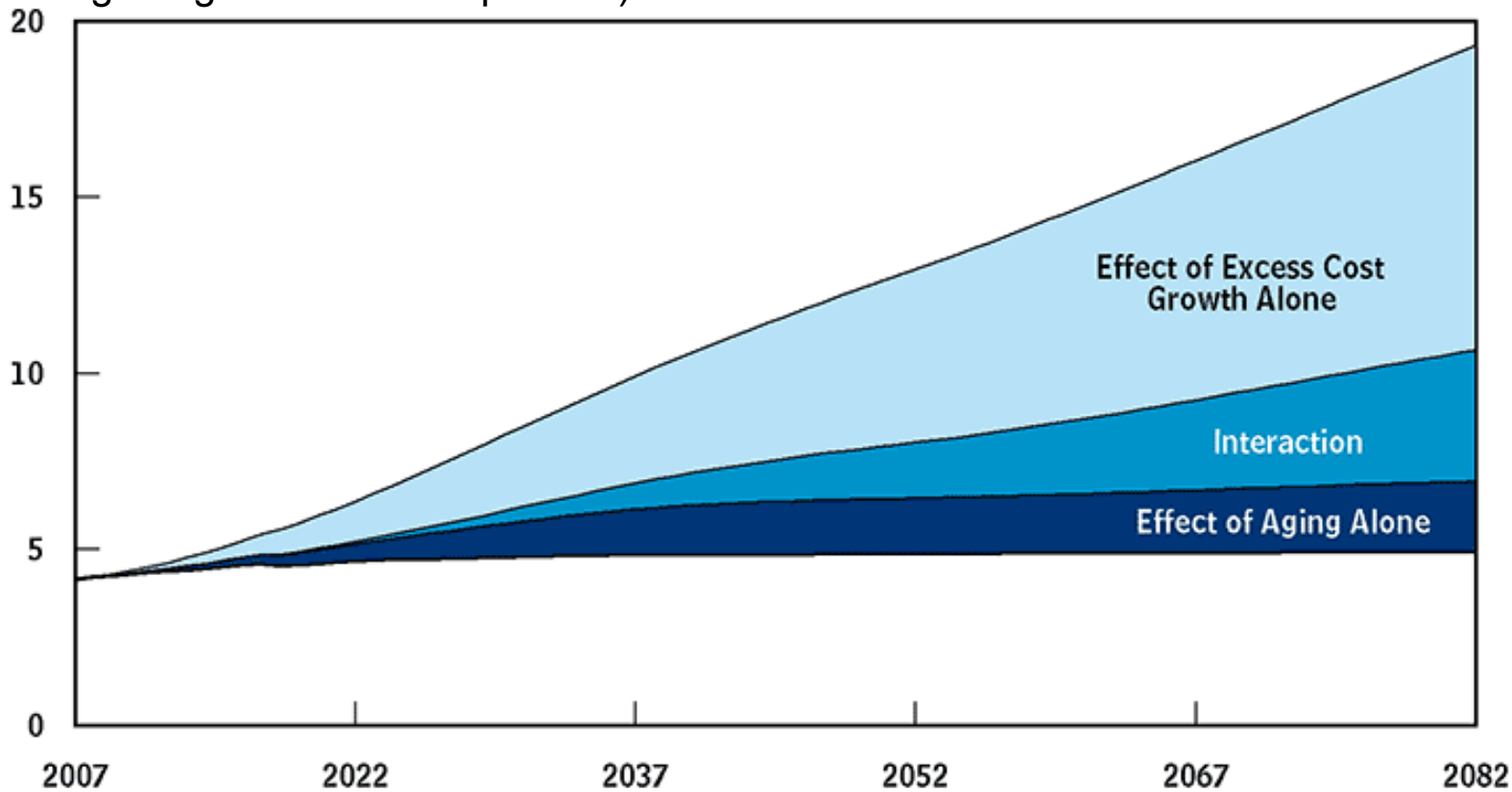
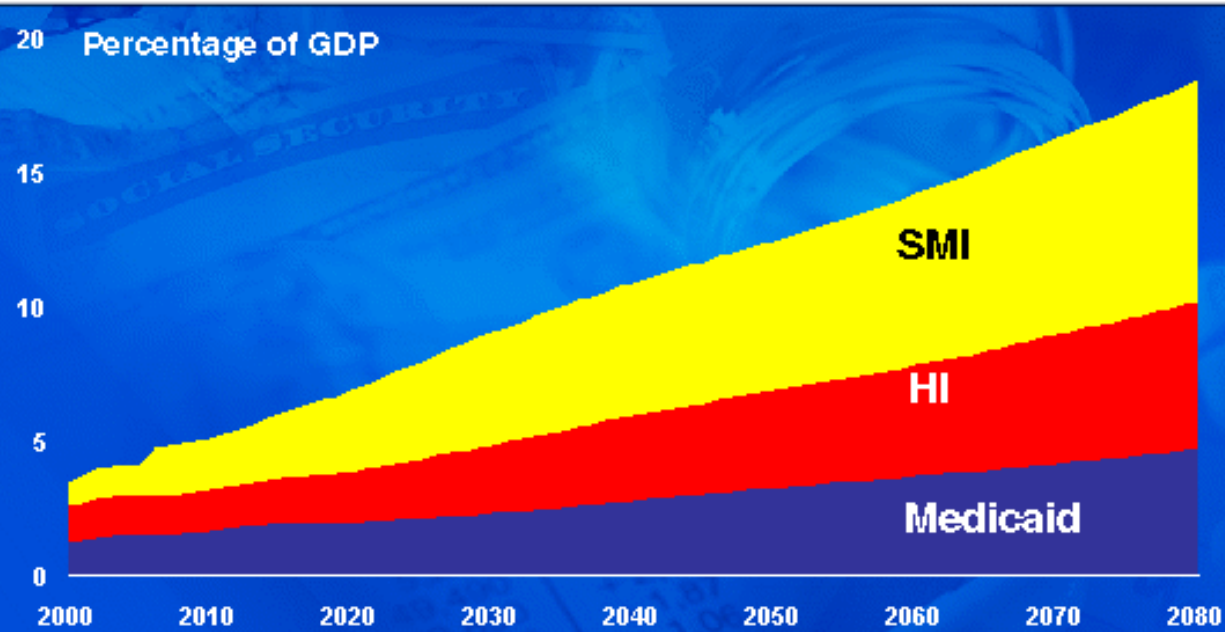
Sources of Growth in Projected Federal Spending on Medicare and Medicaid

(Percentage of gross domestic product)



Source: Congressional Budget Office.
Notes: The phrase excess cost growth refers to the extent to which the increase in health care spending for an average individual exceeds the growth in per capita gross domestic product.
Excess cost growth and the aging of the population interact and result in greater growth in spending than would result from either factor separately.

Medicare and Medicaid Spending as a Percentage of GDP



Note: Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2005 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

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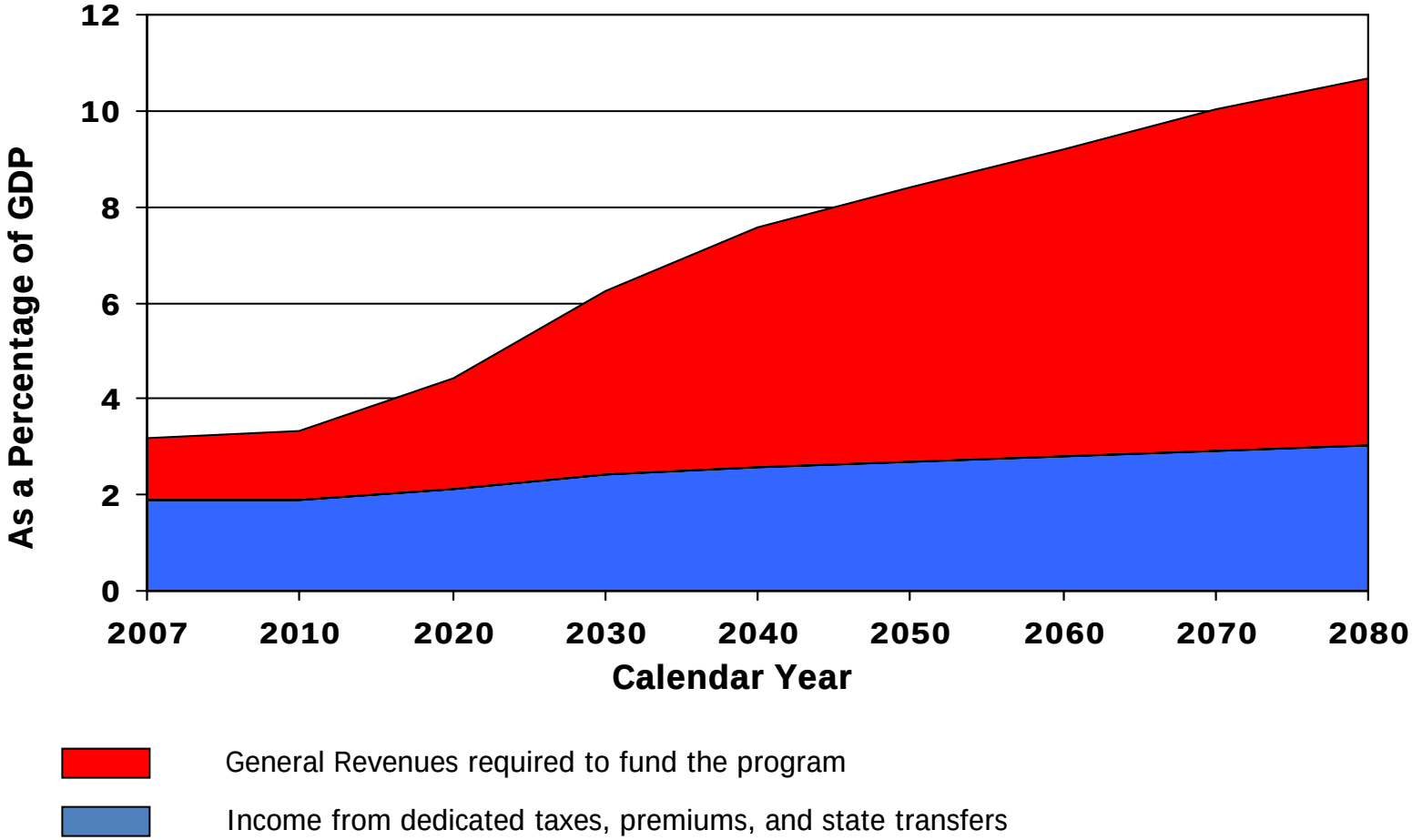
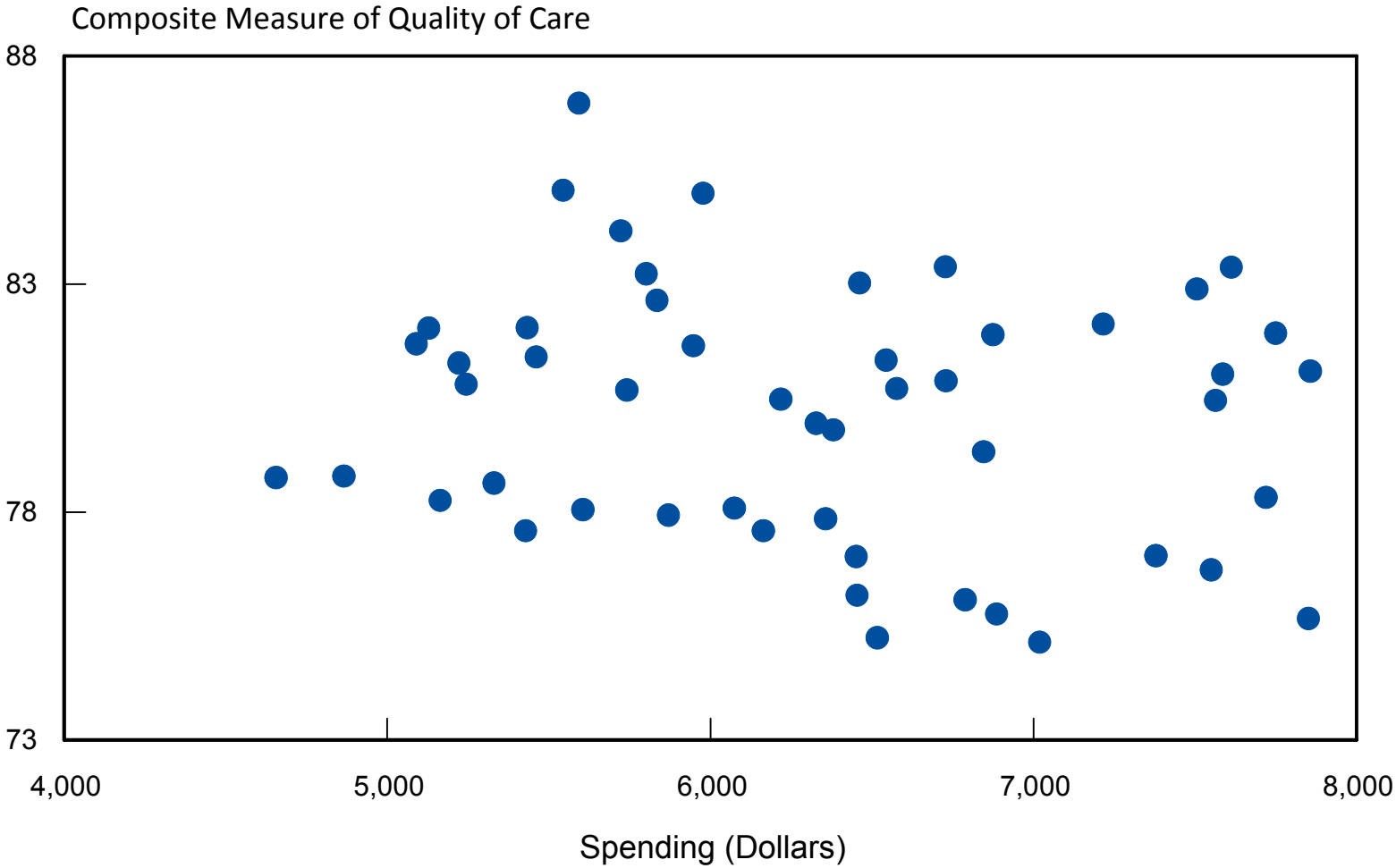
Medicare Costs Soar in the Coming Decades



Source: Medicare Trustees' Report, 2008

The Relationship Between Quality and Medicare Spending, by State, 2004



Source: CBO Data from AHRQ and CMS.

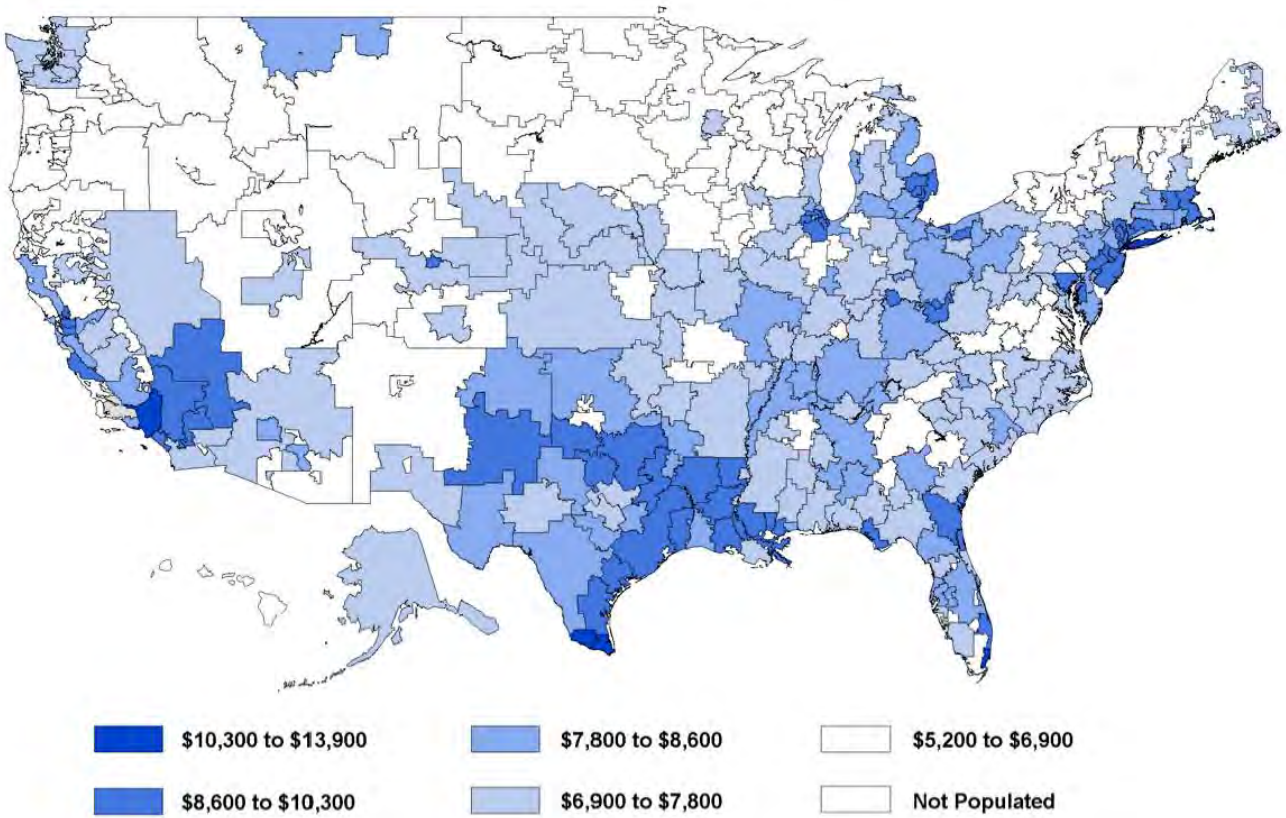
Variations Among Academic Medical Centers

Use of Biologically Targeted Interventions and Care-Delivery Methods Among Three of U.S. News and World Report*'s "Honor Roll" AMCs*

	UCLA Medical Center	Massachusetts General Hospital	Mayo Clinic (St. Mary's Hospital)
Biologically Targeted Interventions: Acute Inpatient Care			
CMS composite quality score	81.5	85.9	90.4
Care Delivery—and Spending—Among Medicare Patients in Last Six Months of Life			
Total Medicare spending	50,522	40,181	26,330
Hospital days	19.2	17.7	12.9
Physician visits	52.1	42.2	23.9
Ratio, medical specialist / primary care	2.9	1.0	1.1

Source: CBO and Elliot Fisher, Dartmouth Medical School.

Medicare Spending per Beneficiary in the United States, by Hospital Referral Region, 2005



Source: Congressional Budget Office

Paths toward capturing the opportunity

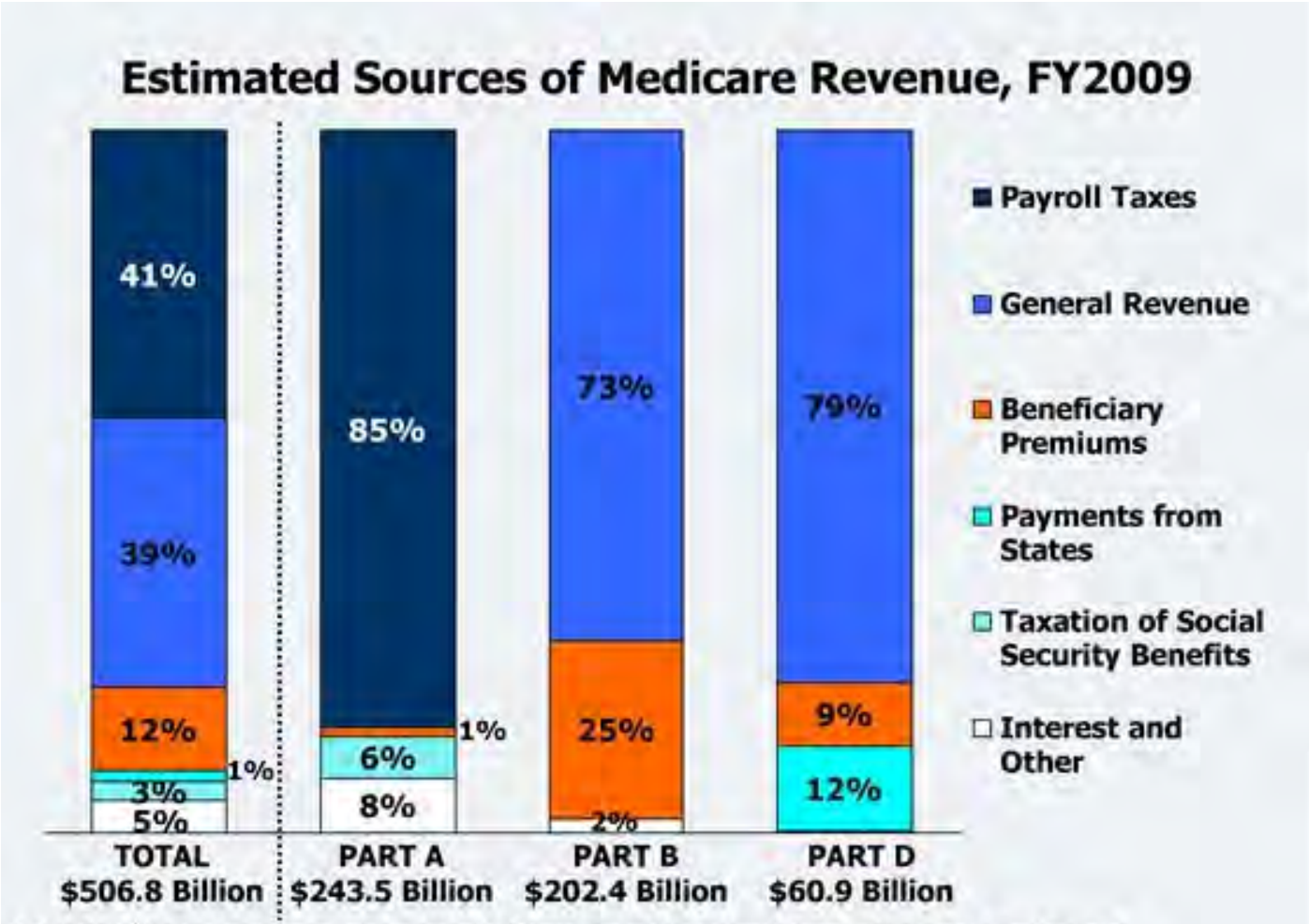
- Information
  - Comparative effectiveness research
  - Randomized control trials
  - HIT backbone
- Incentives
  - Better care, not more care
  - Coverage vs. differentiated payments
- Delivery systems
- Health behavior
  - Making it easy and simple to lead healthy lives
  - Chronic disease
  - Prevention
  - Behavior and social norms among medical professionals

Issues to Consider in Examining Our Health Care System

- The public needs to be educated about the differences between wants, needs, affordability, and sustainability at both the individual and aggregate level.
- Ideally, health care reform proposals will:
  - Align Incentives for providers and consumers to make prudent decisions about the use of medical services,
  - Foster Transparency with respect to the value and costs of care,
  - Ensure Accountability from insurers and providers to meet standards for appropriate use and quality.
- Ultimately, we need to address four key dimensions: access, cost, quality, and personal responsibility.

Source: David Walker, The Peter G. Peterson Foundation, available at www.gao.gov

Medicare's Fiscal Future Relates to **ALL** of us



SOURCE: 2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.