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Testimony Before the Full Committee
of the House Committee on Ways and Means

October 29, 2008

Chairman Rangel, Ranking Member McCrery, and Members of the Committee, I thank you for inviting me to discuss the health policy dimensions of "Creating Jobs by Investing in America." As I will explain, the short-run economic crisis has health policy causes and effects—and arguably the most serious long-run economic challenge is our broken health care system. I'll conclude with suggestions on policies to address both sets of problems.

The health care system is an integral part of the nation's economy. It accounts for 14 million jobs, improves the quality of life for millions, and provides—to some people in some places—the world's best quality care.[1]

Yet, we have by far the most expensive health system in the world. The United States spends nearly $500 billion more than peer nations, adjusting for wealth.[2] The next most expensive system spends about half as much per person on health care. To put this in context, Americans spend more on health care than housing or food. We spend over five times more on health care than gas.[3] The average annual premium of an employer-based health insurance plan in 2008 ($12,680) is the equivalent of 60 percent of the poverty threshold for a family of four, and 93 percent of the annual earnings of a minimum-wage worker—not counting cost sharing. Anecdotes suggest that businesses pay more for health care than other costs of doing business: more than steel for General Motors and more than coffee beans for Starbucks.

This cost problem contributes to our access problem. About 46 million Americans are uninsured, including 8 million children. Looking over a two-year period, this number swells to 82 million or one-third of all non-elderly Americans who experience a gap in coverage.[4] Millions more are underinsured, paying a large fraction of their income on health care. Last month, nearly half of Americans surveyed reported having a family member skipping pills, or postponing or cutting back on medical care due to cost.[5] This can have serious—if not permanent—health effects. Uninsured people who were injured or developed a chronic illness were less likely to receive initial and follow-up care, impeding recovery and accelerating the worsening of the condition.[6] Roughly, 22,000 people die each year due to lack of coverage.[7] This is higher than the number of people who died of homicide in 2006 (17,034).[8]

This health care cost problem is worsening. The United States spent about $2.1 trillion on health care in 2006: twice what it spent in 1996 and half as much as is projected for 2017.[9] Since 2000, employer-based health insurance premiums doubled, with the average increase triple that of wage growth.[10] The average employer premium contributions relative to payroll rose by 34

percent between 1996 and 2005.[11] One study found that the number of "under-insured" families rose by 60 percent between 2004 and 2007 alone.[12]

High and rising health costs are one of many factors contributing to the current economic crisis.

Individuals struggling to afford health care have turned to the financial markets for help. In 2007, 57 million Americans reported problems paying medical bills, a 14 million increase since 2004.[13] Many of these Americans used home equity loans to pay these large medical bills; others simply could not pay both mortgages and medical debt. A recent study found that nearly half (49 percent) of people in foreclosure named medical problems as a cause, ranging from the cost of injuries or illnesses (32 percent), unmanageable medical bills (23 percent), lost work due to a medical problem (27 percent), and/or caring for a sick family member (14 percent).[14]

Other Americans who struggle to afford health care have turned to credit cards instead. A study found that nearly 30 percent of low-income people with credit card debt named medical bills as a contributing cause. Their debt was significantly higher (nearly $12,000) than those who were not medically indebted (nearly $8,000).[15] This type of medical debt can reduce individuals' credit ratings and thus limit access to affordable credit, housing, and insurance. It also may be creating analogous problems to subprime mortgages. Last year, *Business Week* reported the emergence of credit cards designed solely to pay for health costs. Interest rates for some of these accounts can be as high as 27 percent, and a number of major as well as smaller banks are entering the market.[16]

As well as being a cause, health problems have been affected by the current economic crisis.

As unemployment rises, health cost and access problems rise, too. A percentage-point increase in unemployment could raise the number of uninsured by 1.1 million. Unemployed people typically cannot afford private insurance, including COBRA continuation coverage. Some may be eligible for Medicaid: The same analysis estimates that a percentage-point increase in unemployment will raise Medicaid and State Children's Health Insurance Program enrollment by 1 million. This in turn would raise total Medicaid and SCHIP spending by $3.4 billion, with the state share being $1.4 billion.[17] Already, states project Medicaid enrollment to surge by 3.6 percent in 2009, over twice the rate of population growth and a significant change from the decline in enrollment that occurred in 2007.[18]

The weak economy could also speed the erosion of employer-based insurance. The number of non-elderly Americans covered by employer-based health insurance fell to 61 percent from 66 percent between 2000 and 2007. The percent of both firms offering insurance and workers enrolling in it fell.[19] This trend will likely worsen. Premiums rose faster in 2008 than in 2007, and will likely spike in 2009 as insurers' profits from investments plummet. This will further strain businesses struggling to make payroll while maintaining benefits.

The dual health and economic problems also affect seniors. Already, the typical elderly couple has to save nearly $300,000 to pay for health costs not covered by Medicare alone.[20] Those seniors whose savings are invested in the market have suffered significant losses in the recent period, diminishing their ability to pay for their health care.

These short-term problems, while significant, are dwarfed by our long-term challenges.

Health costs are considered a major threat to our future economy. If rapid health cost growth persists, the Congressional Budget Office estimates that the fraction of the economy dedicated to health spending will be 25 percent in 2025, and 49 percent in 2082.[21] It also estimates that roughly $700 billion of health spending cannot be shown to improve health outcomes.[22] Our gap-ridden health coverage system also hurt the economy. The Institute of Medicine estimated that the lost productivity of uninsured Americans costs our economy from $65 to $130 billion.[23]

The health problems affect our budget as well as our economic outlook. Medicare, Medicaid, and other health program spending comprise about one-fourth of the federal budget. Their rapid projected growth accounts for the entire long-run federal fiscal deficit.[24] At the state and local levels, policymakers are increasingly put between the "rock" of health care costs and the "hard place" of other urgent priorities such as education.

There is also a jobs and competitiveness issue at stake. The "old-line" industries are striving to maintain both coverage and competitiveness—locally and globally. New industries and businesses are struggling to offer coverage in the first place. While manufacturers are one-third more likely to offer health benefits than service industry employers, service-providing industries are projected to generate approximately 15.7 million new jobs between 2006 and 2016.[25] Both workers and their employers are concerned about the future of employer-sponsored health insurance. Currently, no viable alternative exists.

While the facts speak for themselves, it is instructive to listen to what some economic leaders say. Congressional Budget Office Director Peter Orszag stated, "There do not appear to be other examples that credible analysts can identify that offer a potential efficiency gain of that magnitude for the U.S. economy."[26] Federal Reserve Board Chairman Ben Bernanke stated, "Improving the performance of our health-care system is without a doubt one of the most important challenges that our nation faces."[27] The former Comptroller General David Walker testified, "Rapidly rising health care costs are not simply a federal budget problem; they are our nation's number one fiscal challenge."[28] And Former Treasury Secretary Larry Summers wrote, "I have been emphasizing healthcare as a moral imperative and an imperative for our competitiveness. It is now the principal fiscal issue facing the federal government, too."[29]

Yet, the health component of the economic crisis can be addressed through public policy.

In the short run, this committee could reconsider some of the policies proposed during the last economic slowdown.[30] This includes providing tax credits or grants to make COBRA continuation coverage affordable for those who are uninsured and unemployed. Preventing people from losing their insurance when they lose their jobs could stop the downward spiral in health and economic well-being that typically occurs during recessions. And, while out of your jurisdiction, sustaining Medicaid and SCHIP is critical. Temporarily raising the federal share of these program costs, plus enacting the bipartisan SCHIP reauthorization bill that was vetoed by the president last year, will protect health coverage for millions of vulnerable Americans. Given the immediacy of the threat, I urge you to pass these policies during the lame-duck session.

In 2009, this committee and the new Congress should consider health reform as part of comprehensive economic reform. It is necessary, as just described. Job growth, savings, and public investments in other priorities such as education will continue to be stifled if health system problems continue unchecked. It is also an opportunity to put the nation on a path to prosperity. The return on the investment—slowing the long-run rate of health care cost growth through system improvements and seamless coverage—would arguably be the most significant economic achievement in decades.

A wide range of visions and detailed plans have been developed to fix the broken health system. There is a general consensus on the need to improve quality, efficiency, and access through tools such as better managing chronic disease, promoting prevention, investing in and using comparative effectiveness research, and providing assistance to those with low-income or high-risk. There is less agreement on where, when, and how aggressively to insure more Americans, as can be seen in the presidential candidates' plans. But rather than discussing these ideas in depth, I will end by making two points on approaches to reform.

The first is the importance of addressing the coverage and cost problems simultaneously. Coverage will continue to erode, even with expansions, if the cost of coverage continues its rapid increase. This is evident in the recent experience with children's health: Some of the gains in kids' coverage have been lost due to the unrelenting cost increases that have eroded employer coverage as well as states' support for Medicaid and SCHIP. The same is true in reverse: The unsustainable cost curve cannot be lowered without ensuring coverage for all Americans. A major reason why we spend more than peer nations is our system's complexity.[31] Not only do we pay seven times more per capita on administrative costs as a result, but we pay "hidden taxes" from cost shifting. Some fraction of uncollected bills for care for the uninsured gets added to the bills for the insured. Moreover, gaps in coverage limit the potential of policies to bend the growth curve in health costs. There is widespread, bipartisan agreement that improved prevention, chronic disease management, health information technology, and similar policies could reduce the nation's health costs. However, the full potential of these policies to realize savings may be constrained or even reversed if one-third of the population cycles in and out of insurance over the course of two years.[32]

Second, solutions should be bold but pragmatic. Important changes to the health system are needed to improve its performance. Realigning payments toward quality and coverage toward prevention, for example, will be necessary but difficult. Increasing participation in health insurance will take resources and regulation. At the same time, changes that are risky or uncertain should be avoided. Specifically, the employer-based health insurance system has its flaws, but remains the primary and trusted source of coverage for most Americans. Public programs like Medicaid and SCHIP are mainstays in the safety net that cannot be easily replaced. And Medicare should be improved but not undermined through arbitrary caps or deep cuts.

In closing, the current crisis has forced a critical review of the fundamental problems in the economy as well as comprehensive solutions. No doubt, enacting health reform in the context of economic reform will be hard. But it is not as hard as turning a blind eye while our nation's health and economic prospects fade due to problems that may be prevented by policy.

Endnotes

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