



21ST Century Health Care Challenges:

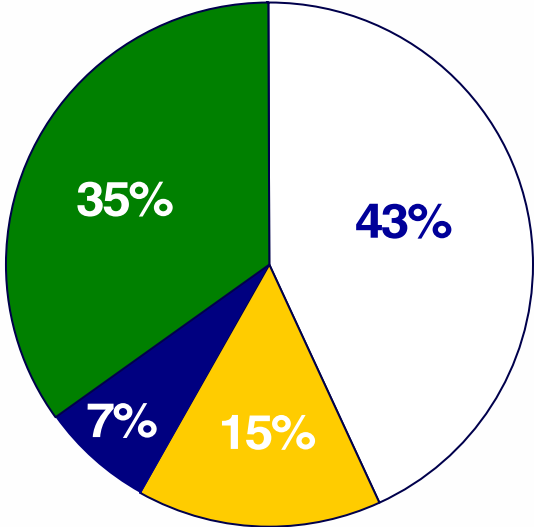
Unsustainable Trends Necessitate Reforms

The Honorable David M. Walker
Comptroller General of the United States

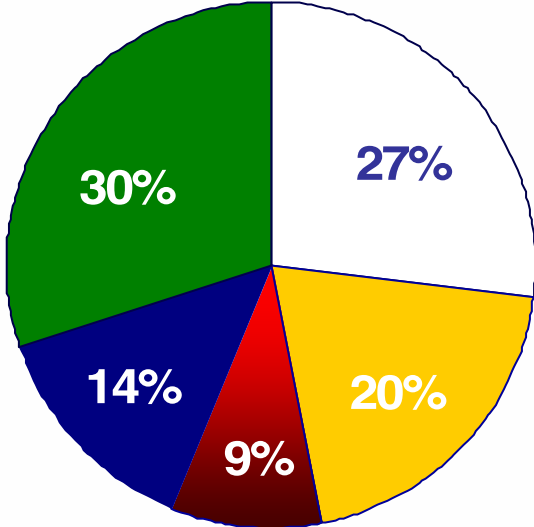
Medical Technology Leadership Forum
Thursday, February 16, 2006

Composition of Federal Spending

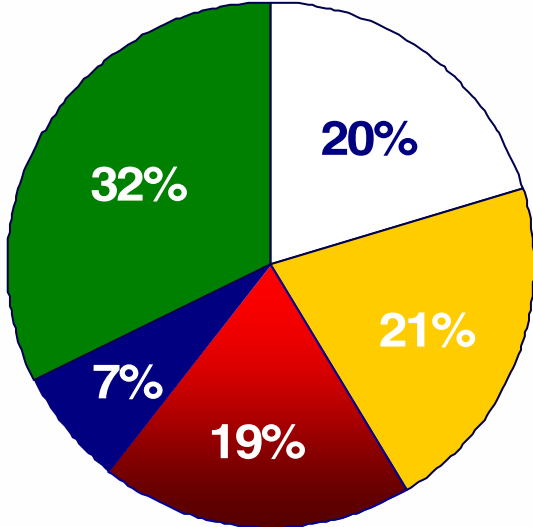
1965



1985



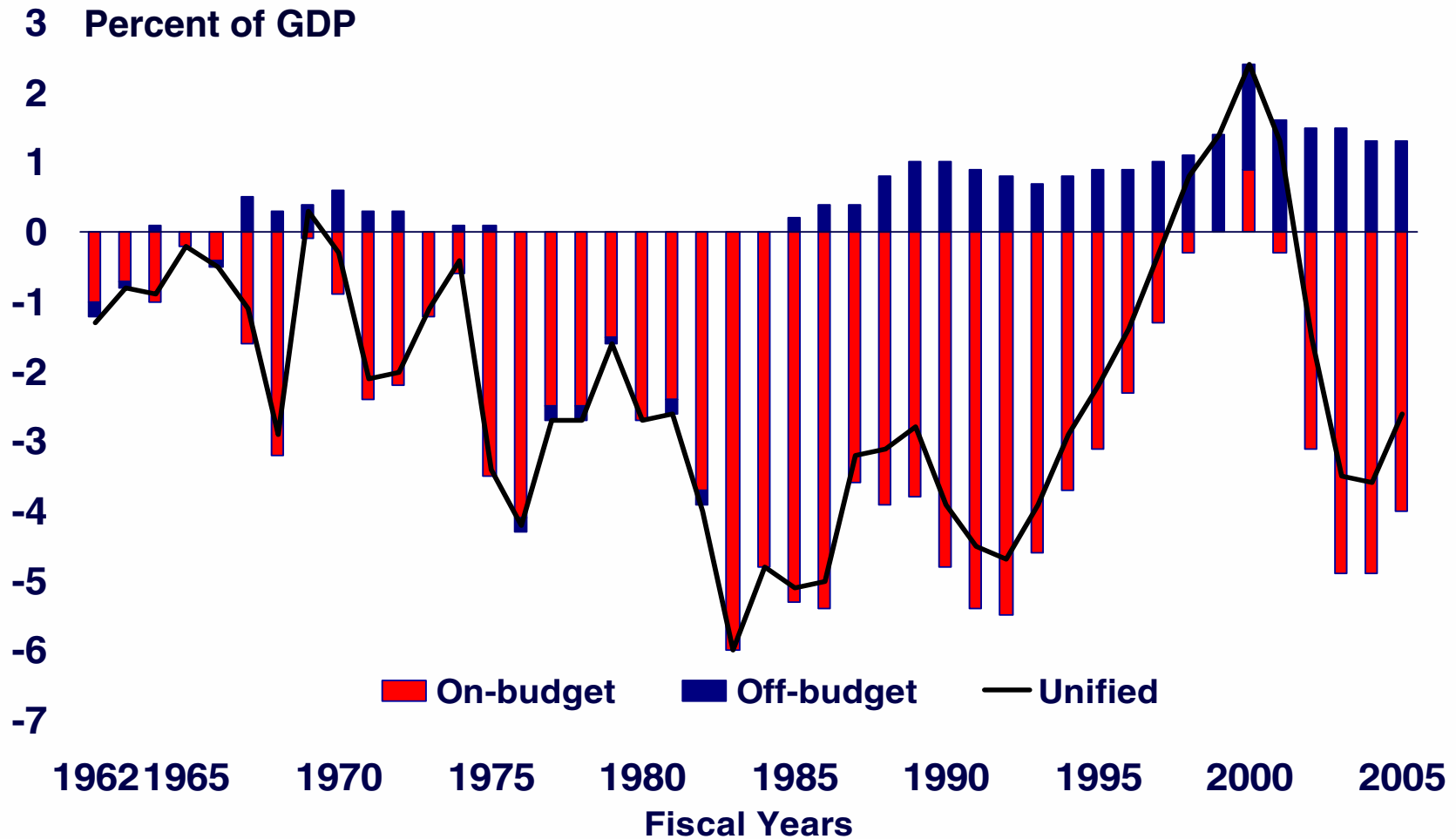
2005



Source: Office of Management and Budget and Department of Treasury, Financial Management Service.

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2005



Source: Office of Management and Budget and Congressional Budget Office.

Fiscal Year 2004 and 2005 Deficits and Net Operating Costs

	Fiscal Year 2004		Fiscal Year 2005	
	\$ Billion	% of GDP	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)	(494)	(4.0)
Off-Budget Surplus*	155	1.3	175	1.4
Unified Deficit	(412)	(3.6)	(319)	(2.6)
Net Operating Cost	(616)	(5.3)	(760)	(6.2)

*Includes \$151 billion in fiscal year 2004 and \$173 billion in fiscal year 2005 in Social Security surpluses and \$4 billion in fiscal year 2004 and \$2 billion in fiscal year 2005 in Postal Service surpluses.

Estimated Fiscal Exposures

(in \$ trillions)

	2000	2005
<ul style="list-style-type: none"> • Explicit liabilities <ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 	\$6.9	\$9.9
<ul style="list-style-type: none"> • Commitments & Contingencies <ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 	0.5	0.9
<ul style="list-style-type: none"> • Implicit exposures <ul style="list-style-type: none"> • Future Social Security benefits • Future Medicare Part A benefits • Medicare Part B benefits • Medicare Part D benefits 	13.0	35.6
Total	\$20.4	\$46.4

Sources: Consolidated Financial Statements.

Note: Estimates for Social Security and Medicare are PV as of January 1 of each year as reported in the Consolidated Financial Statements and all other data are as of September 30.

How Big is Our Growing Fiscal Burden?

Our total fiscal burden can be translated and compared as follows:

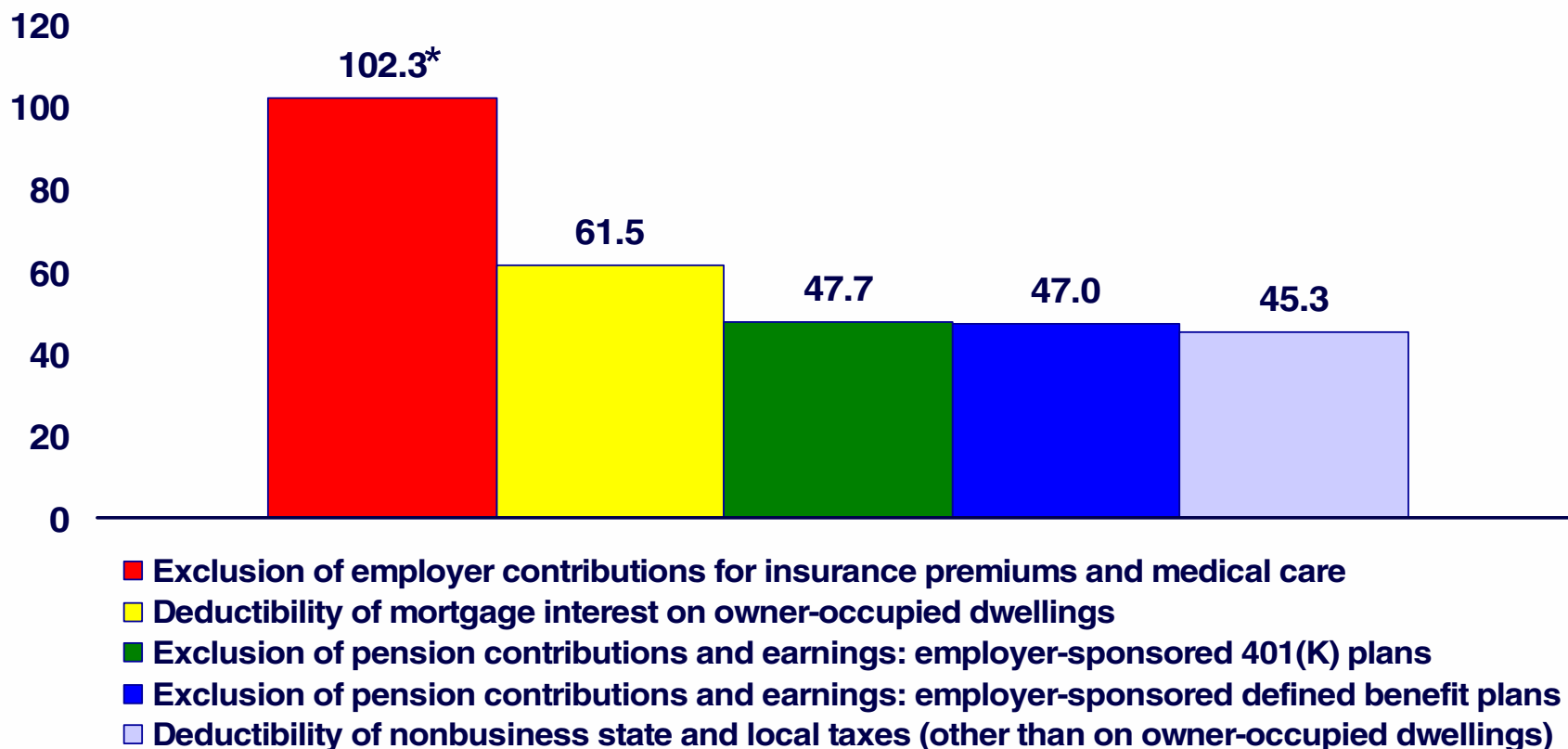
Total fiscal exposures	\$46.4 trillion
Total household net worth¹	\$51.1 trillion
Burden/Net worth ratio	91 percent
Burden²	
Per person	\$156,000
Per full-time worker	\$375,000
Per household	\$411,000
Income	
Median household income³	\$44,389
Disposable personal income per capita⁴	\$30,431

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2005:Q3 (Dec. 8, 2005); (2) Burdens are calculated using total U.S. population as of 9/30/05, from the *U.S. Census Bureau*, full-time workers for 2004, reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 4, 2005); and households for 2004, reported by the U.S. Census Bureau, in *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); (3) U.S. Census Bureau, *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); and (4) Bureau of Economic Analysis, *Personal Income and Outlays: October 2005*, table 2, 2005:Q3, (Dec.1, 2005).

Sources: GAO analysis.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2004

Estimated dollars in billions



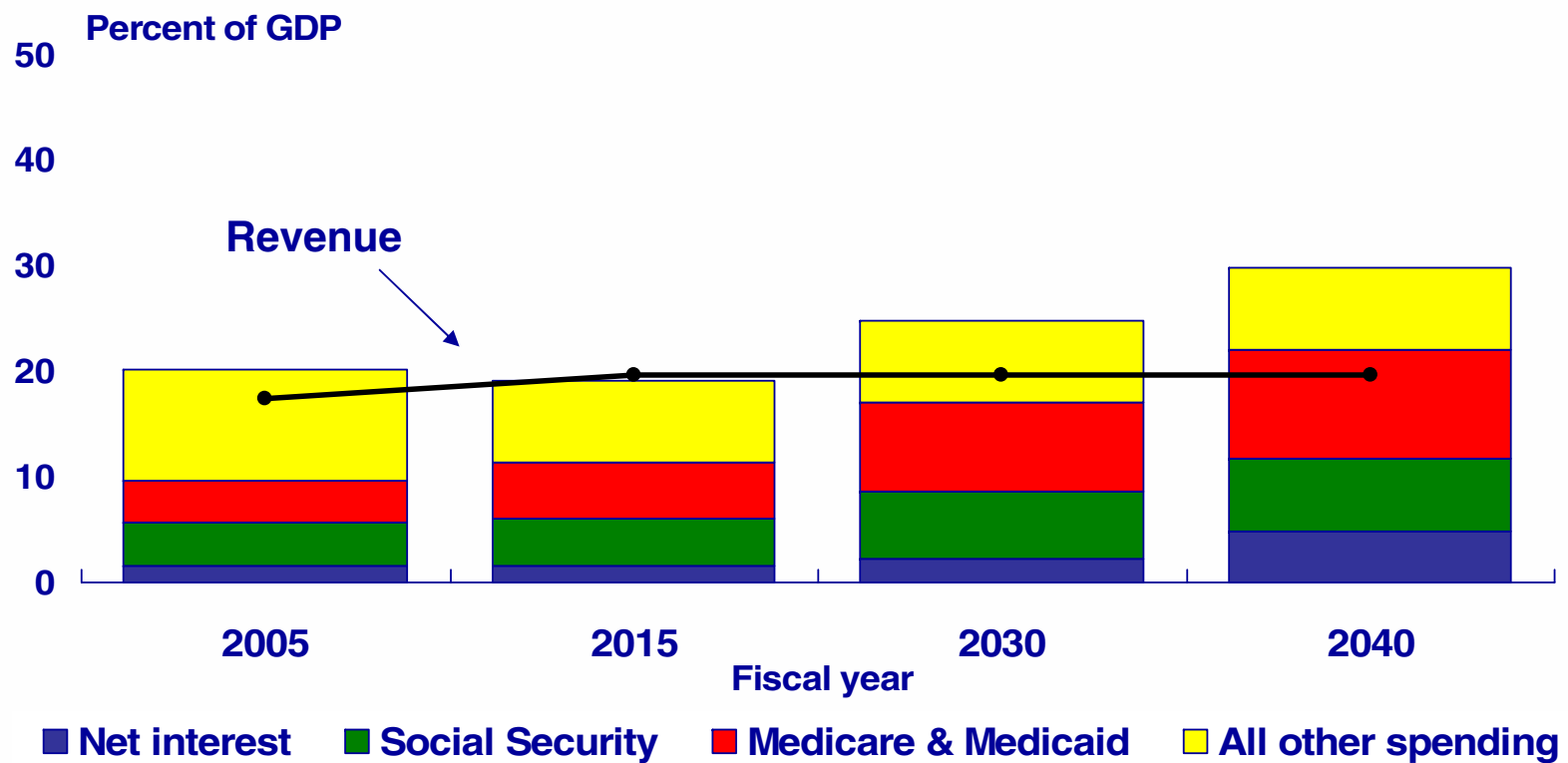
Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

* If the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$153.5 billion.

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*.

Composition of Spending as a Share of GDP

Under Baseline Extended

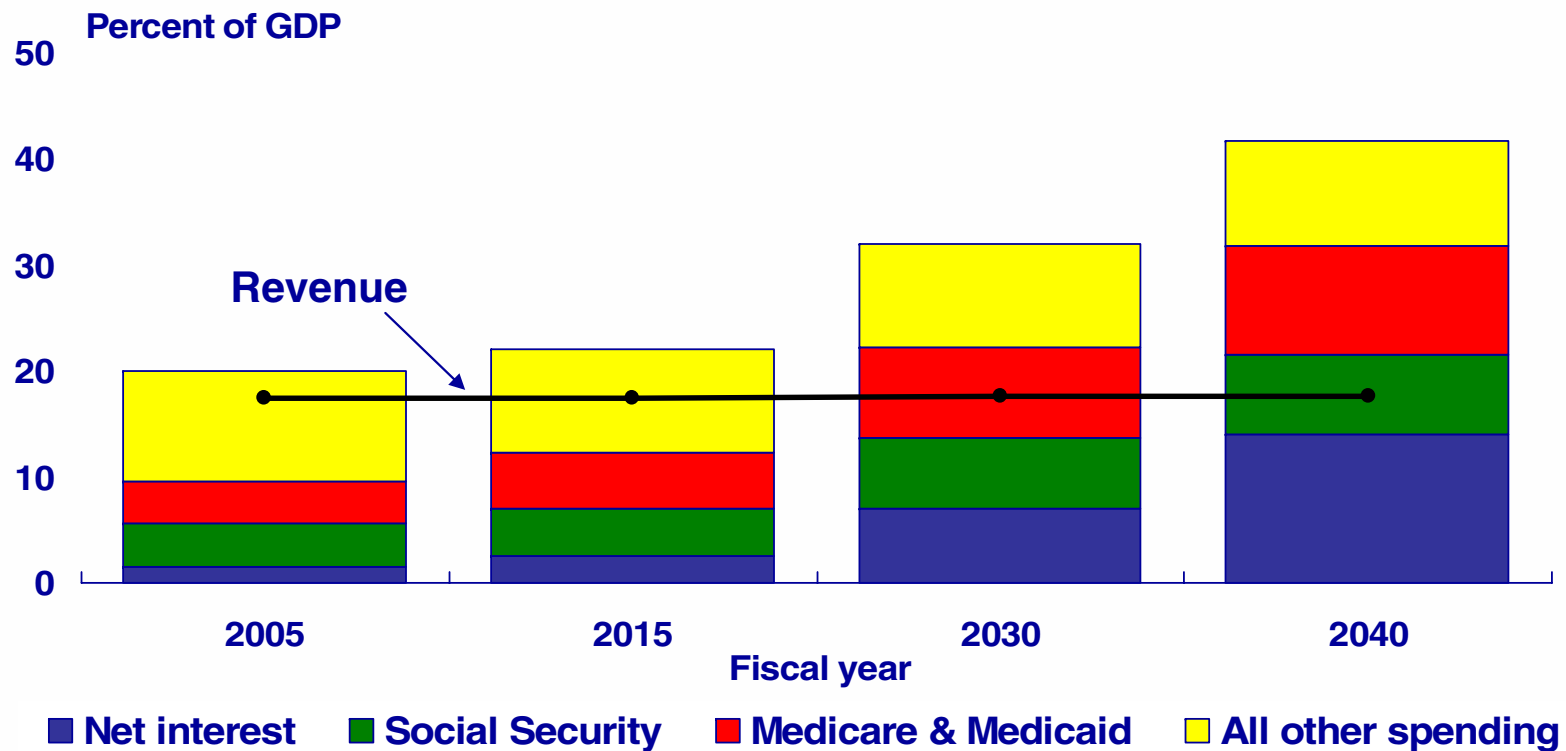


Note: This includes certain tax provisions that expired at the end of 2005, such as the increased AMT exemption amount.

Source: GAO's January 2006 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2006
and All Expiring Tax Provisions Are Extended

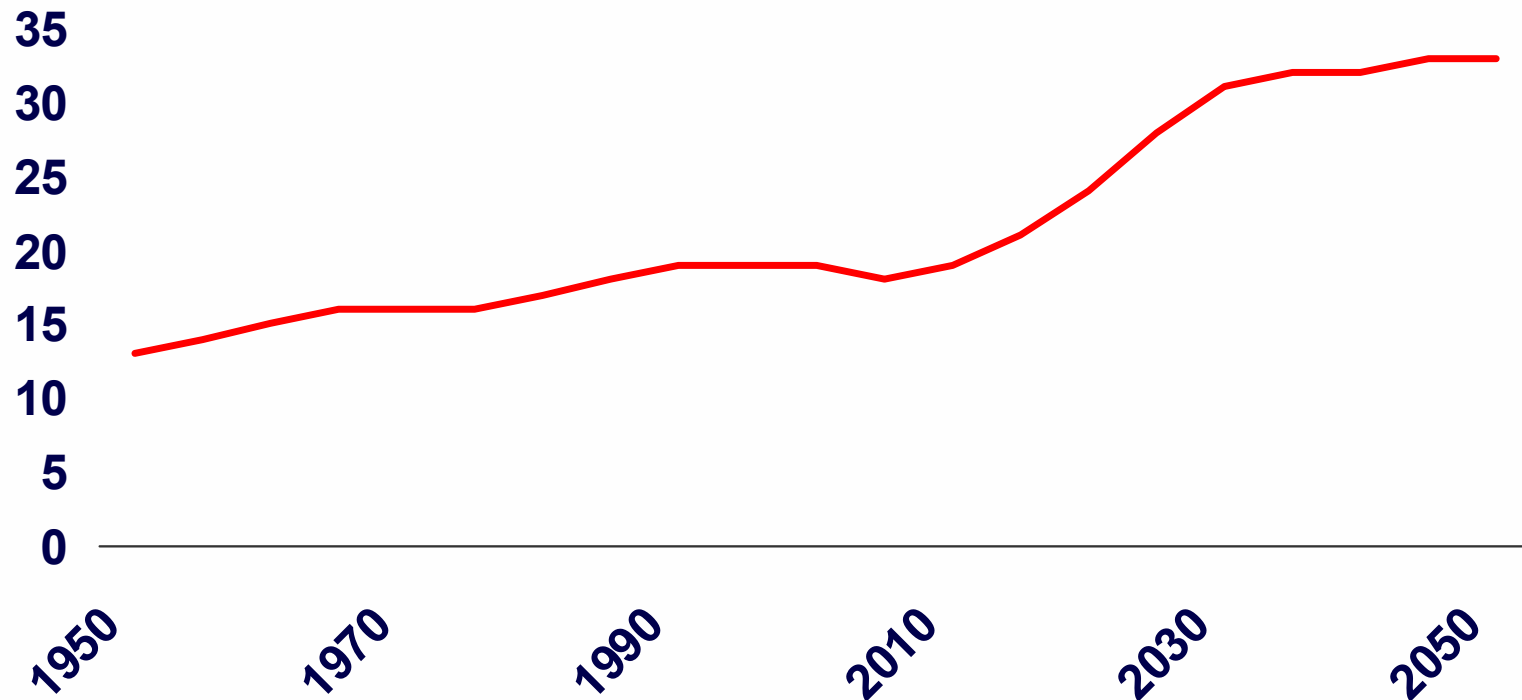


Note: This includes certain tax provisions that expired at the end of 2005, such as the increased AMT exemption amount.

Source: GAO's January 2006 analysis.

U.S. Elderly Dependency Ratio Expected to Continue to Increase

Elderly Dependency Ratio (in percent)

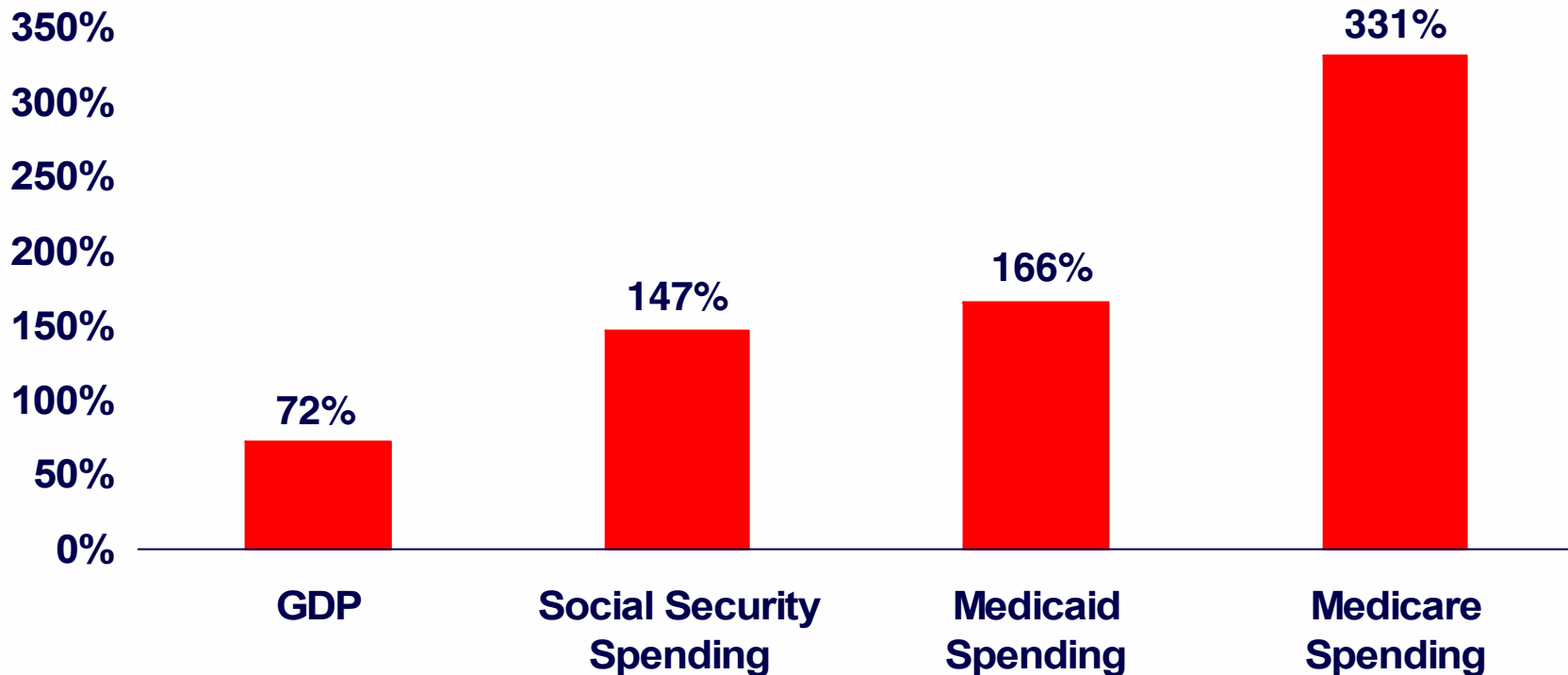


Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2003 Revision.

Note: Data for 2005 through 2050 are projected.

Growth in Spending for Social Security, Medicare, and Medicaid Expected to Outpace Economic Growth

Growth in constant dollars 2005-2030

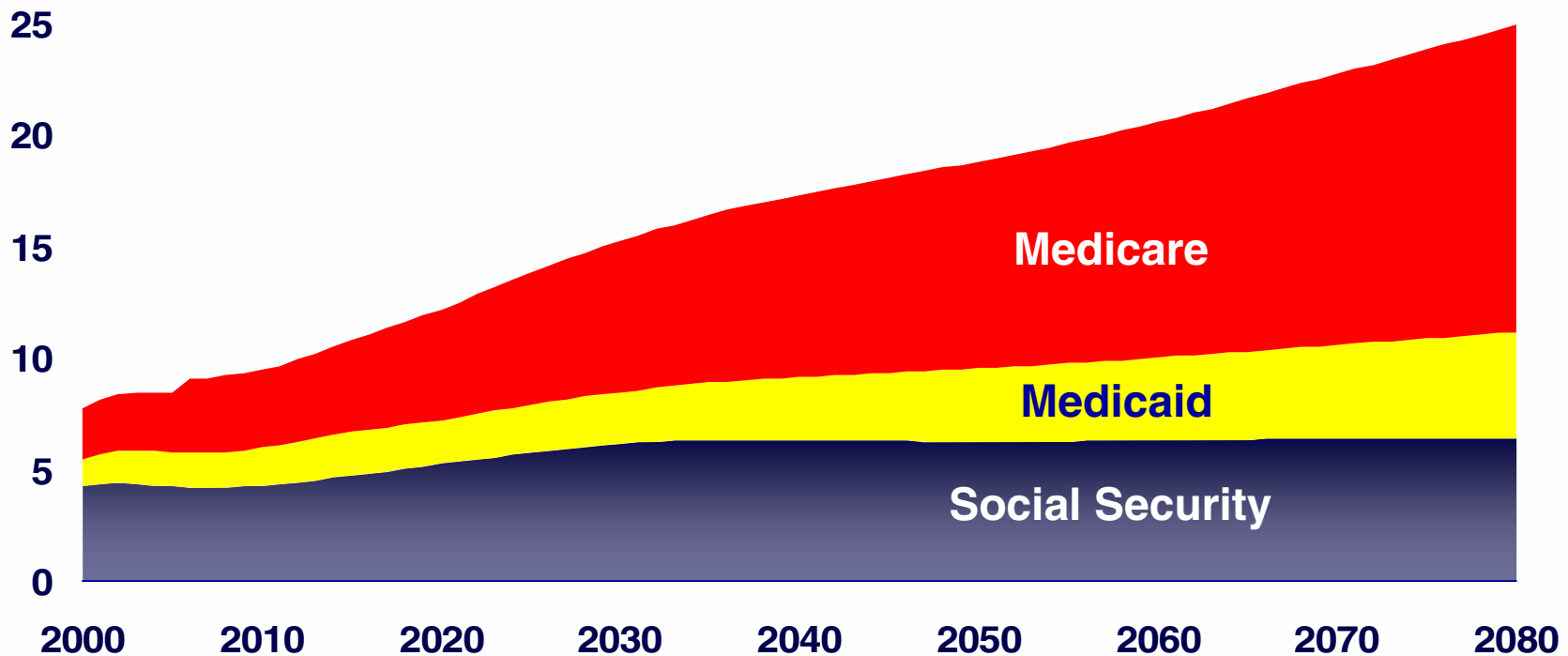


Note: Social Security and Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's December 2003 long-term projections for federal spending on Medicaid under mid-range assumptions.

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

Social Security, Medicare, and Medicaid Spending as a Percent of GDP

30 Percent of GDP



Note: Social Security and Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2004 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 Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by about 60 percent or
 - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.



The Way Forward: Three Pronged Approach

Impose Budget Controls and Enhance Legislative Process

- Discretionary spending caps
- PAYGO rules on both sides of the ledger
- Mandatory spending triggers
- Automatic present value disclosures for legislative debate on major tax and spending bills
- Provide enhanced and integrated summaries of every key bill to Members before they vote on it, especially in connection with proposed new programs, policies, or activities

Improve Accounting and Reporting and Metrics:

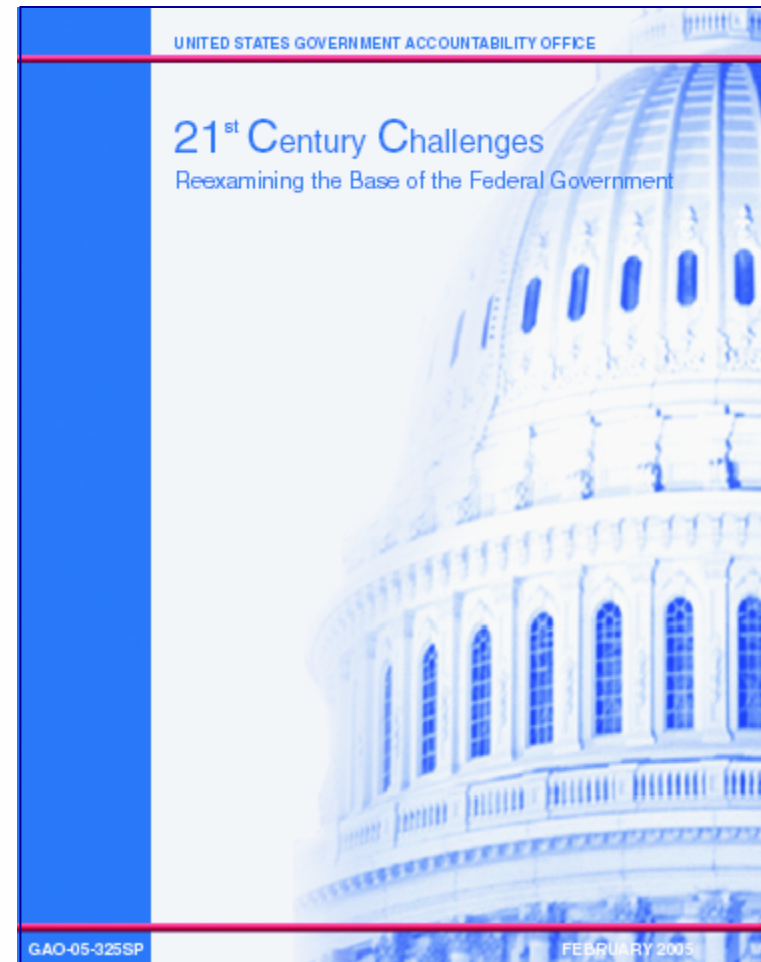
- Enhanced financial statement presentation (e.g. trust fund activity, intergenerational burdens)
- Develop key national (outcome-based) indicators

Re-examine Policies and Programs:

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise existing tax policy, including tax preferences and enforcement programs

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress





Illustrative 21st Century Questions: Health Care

- How can we make our current Medicare and Medicaid programs sustainable? For example, should the eligibility requirements (e.g., age, income requirements) for these programs be modified?
- Should early retirees and possibly others be allowed to purchase coverage through Medicare? Should this option be combined with raising Medicare's eligibility age?
- How can increased costs attributable to the recent Medicare prescription drug bill be controlled? For example, in addition to modified cost-sharing options and leveraging the government's purchasing power, should reimportation of selected drugs be allowed from certain countries?
- Should growth in government-sponsored health programs be limited through the use of budget triggers that require action to be taken when spending exceeds specified targets?

Key Dates Highlight Long Term Challenges of the Medicare Program

Date	Event
2004	HI outlays exceed cash income
2007	Estimated trigger date for “Medicare funding warning”
2012	Projected date that annual “general revenue funding” will exceed 45 percent of total Medicare outlays
2020	HI (Part A) trust fund exhausted, annual income sufficient to pay about 79% of HI promised benefits

Source: 2005 Annual Report of The Boards of Trustees of The Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds Washington, DC, March 2005



Issues to Consider in Examining Cost, Access, and Quality Challenges

- In reforming 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 choices about health insurance coverage and prudent decisions about the use of medical services,
 - foster **transparency** with respect to the value and costs of care, and
 - ensure **accountability** from health plans and providers to meet standards for appropriate use and quality.



Selected Potential Health Care Reform Approaches

- Reexamine the scope, timing, and structure of Medicare Prescription Drug Benefit.
- Foster more transparency in connection with health care costs and outcomes.
- Encourage case management approaches for people with expensive acute and chronic conditions to improve the quality and efficiency of care delivered and avoid inappropriate care.
- Leverage the government's purchasing authority to foster value-based purchasing for health care products and services.
- Foster the use of information technology to increase consistency, transparency, and accountability in health care.
- Develop a set of national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation.



Selected Potential Health Care Reform Approaches

- Revise certain federal tax preferences for health care to encourage the efficient use of appropriate care.
- Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or the economy).
- Pursue multinational approaches to investing in health care R&D.
- Develop a core set of basic and essential services with supplemental coverage being available as an option but at a cost. Use the Federal Employees Health Benefits Program (FEHBP) model as a possible means to experiment and see the way forward.
- Create an insurance market that adequately pools risk and offers alternative levels of coverage.



Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***



21ST Century Health Care Challenges:

**Unsustainable Trends Necessitate
Reforms**

The Honorable David M. Walker
Comptroller General of the United States

Medical Technology Leadership Forum
Thursday, February 16, 2006