

PATTY MURRAY, WASHINGTON, CHAIRMAN

RON WYDEN, OREGON
BILL NELSON, FLORIDA
DEBBIE STABENOW, MICHIGAN
BERNARD SANDERS, VERMONT
SHELDON WHITEHOUSE, RHODE ISLAND
MARK R. WARNER, VIRGINIA
JEFF MERKLEY, OREGON
CHRISTOPHER A. COONS, DELAWARE
TAMMY BALDWIN, WISCONSIN
TIM Kaine, VIRGINIA
ANGUS S. KING Jr., MAINE

JEFF SESSIONS, ALABAMA
CHARLES E. GRASSLEY, IOWA
MICHAEL B. ENZI, WYOMING
MIKE CRAPO, IDAHO
LINDSEY O. GRAHAM, SOUTH CAROLINA
ROB PORTMAN, OHIO
PAT TOOMEY, PENNSYLVANIA
RON JOHNSON, WISCONSIN
KELLY AYOTTE, NEW HAMPSHIRE
ROGER F. WICKER, MISSISSIPPI

United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

EVAN T. SCHATZ, STAFF DIRECTOR
ERIC UELAND, REPUBLICAN STAFF DIRECTOR
www.budget.senate.gov

August 1, 2013

Dear Colleagues,

Ensuring every American has access to affordable, high quality health care is one of the most important goals that we have worked on for years. And although we have made progress, there are significant challenges ahead.

The cost of health care affects every kitchen table and conference table conversation across the country, as American households and businesses face the question of how to pay for the health care coverage they want for their families and employees. It remains a huge challenge for our businesses to stay competitive in a global market where their competitors have lower health care costs, and continues to limit economic growth by reducing the investments businesses and families can make—whether that is starting a new venture or buying a new car.

There is good news that shows positive changes. For example, in the last several years, health care cost growth has slowed to historic lows. At the same time, we have seen coverage expand and access to services improve. Market reforms and new rules for insurance companies enacted by the Affordable Care Act (ACA) are bringing better value to consumers, and various other initiatives are spurring reform across the health care system. That is good news both for the federal budget and for family budgets.

As middle class Americans retire, it has increasingly become an issue for the federal budget as well. Medicare and Medicaid are two of the largest federal budget items—so trends in health care costs have major implications for our nation's fiscal policy. The recent good news on the slowing of health care costs mean that families and communities are getting care at a lower total cost to the system, and it means lower deficits and debt. It means that employers and entrepreneurs will have more freedom to make smart investments, and take risks that will help spur innovation for future development. And, it means more resources to invest in priorities like research and development that allow us to compete globally in the 21st century economy.

As we work towards solutions for our longer-term budget challenges, we need to be thoughtful about the reforms we are enacting. Instead of lurching from crisis to crisis, we must focus on making sure we have a health care system that delivers high quality, affordable care.

Recent attempts by Tea Party Republicans to tie a government shutdown to defunding health care reform threaten to push us to the next crisis and threaten to undercut efforts underway to help middle class families have access to the care they need. Further, the drastic health care

proposals from House and Tea Party Republicans in the Senate simply shift costs on to families, states, and businesses—taking us in exactly the wrong direction. Rather, the kind of real and lasting reform we need should build on the recent positive trends.

As the former Chairman of the Senate Veterans' Affairs Committee, I helped oversee the United States' largest integrated health care system—which serves over 8 million veterans every year, and which is facing challenges including the influx of hundreds of thousands of veterans returning from the wars in Iraq and Afghanistan, alongside an aging veteran population. This experience, combined with my current role as Chairman of the Budget Committee, has given me a unique perspective on the importance of continuing these downward cost trends in a responsible way—both for the well-being of the people our health care system serves, and for the long-term economic strength of our country.

I hope the information in the memo below is helpful to you as we head into August, and I look forward to working with all of you in the coming weeks and months.

Sincerely,

A handwritten signature in blue ink that reads "Patty Murray". The signature is written in a cursive, flowing style.

U.S. Senator Patty Murray

Memorandum

To: Senate Colleagues
From: Senator Patty Murray (D-WA) and Senate Budget Committee majority staff
Re: Containing health care costs: recent progress and remaining challenges
Date: August 1, 2013

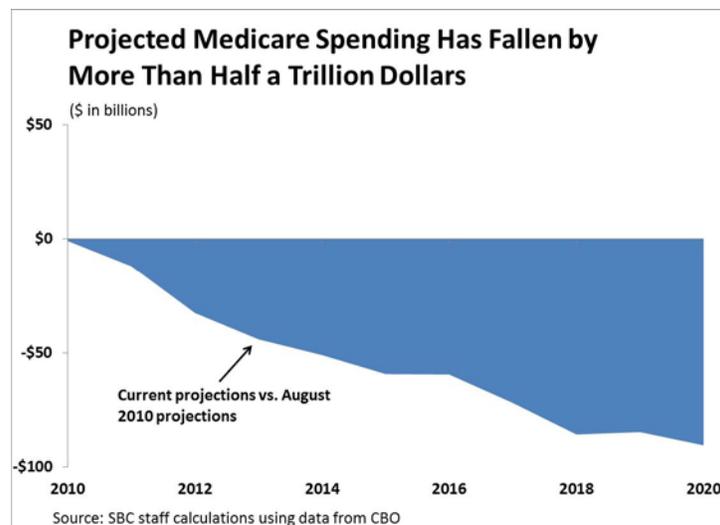
For decades, growth in health care spending has outpaced our economic growth – and it has grown at a faster rate than household incomes. With the aging of the Baby Boom generation and retirement of millions of middle class Americans, the impact on projected federal health spending will put increasing pressure on the federal budget. However, a review of recent trends shows that health care in the US is changing. Reforms in how health care is financed and delivered are underway and are improving the budget outlook. We must do more to further contain health care costs and understanding this recent progress is important in developing the solutions to the challenges that remain.

I. Recent health care cost data shows we are moving health care in the right direction.

Health care costs are growing slower than any other time in more than 50 years

Health care costs grew more than 8 percent on average between 1980 and 2009, with growth in the double digits in many years. However, there has been some positive news on this front lately. In 2009, health care spending grew at an all-time low of 3.9 percent. Cost growth remained at that level for the next two years and roughly matched the pace of economic growth in 2011.¹

The recent slowdown in health care cost growth has led forecasters to lower their projections for health care spending. Over the last few years the Congressional Budget Office (CBO) has revised its projections for federal health spending downward. The most recent forecast, released in May 2013, has Medicare and Medicaid spending over the 2014 to 2023 time period more than \$150 billion below the February 2013 projections.² Further, between its August 2010 and May 2013 forecasts, CBO reduced its estimates for Medicare spending alone by more than half a trillion dollars through 2020 (the last year the forecasts overlap).³



¹ CMS, [accessed 7/30/13](#) and BEA, [accessed 7/31/13](#)

² CBO, [5/14/13](#)

³ CBO, [5/14/13](#) and CBO, [8/18/10](#)

In addition, the recently released Medicare Trustees report shows an improvement in the Medicare trust fund. The change is due to lower projected spending in most Medicare service categories and Medicare Advantage (MA), which is expected to have lower growth than previously estimated as a result of provisions in the Affordable Care Act (ACA). Lower projected Medicare spending is expected to extend solvency by two years until 2026 (compared to 2024 in the 2012 report).⁴

Finally, as the White House noted on Monday, July 29, 2013—consumer health care spending has increased this year at the lowest rate in 50 years.⁵

While some of our colleagues may be quick to point to the recession in explaining the recent trends toward slower health care cost growth, there is an emerging consensus that something more is going on. Estimates from academic studies of the impact of the recession on health care spending range between approximately one-third of the slowdown to just over three-fourths.⁶ Importantly, everyone who has tried to tease out the effects of the recession has found a sizeable portion of the slowdown that could not be attributed to the economy.

Academics and other experts agree that something other than the economy is at work. They point to structural changes in the way health care is delivered as also having an impact. For example, some recent statements include:

- CBO Director Douglas Elmendorf, “There’s been a marked slowdown in the rate of growth of health care spending across the healthcare system... part of that comes from the financial crisis and the recession... but...a significant part is more structural in nature and involves underlying changes in the way that health care is practiced and delivered.”⁷
- Former Office of Management and Budget (OMB) Director Peter Orszag, “If you go out and talk to doctors and hospital executives, they believe their world is changing... the case for this being at least partially structural is much stronger than the case for it being entirely cyclical.”⁸

Importantly, these changes have the potential to continue to influence trends in the future. And while some of the structural changes were likely underway before the Affordable Care Act was enacted, the law has set clear expectations for how health care will be financed and delivered in the future, prompting further changes in provider behavior as a result.

At the same time, millions of Americans are benefiting from better coverage

Not only is health care cost growth slowing, but millions of Americans are also now getting better health care coverage. The ACA expanded access to critical services and instituted new requirements to ensure that Americans get the care they need. Insurers must now cover preventive services without cost sharing. Since 2011, more than 70 million Americans have gotten recommended immunizations and screenings, such as those for cancer, diabetes, and high blood pressure, without paying anything additional out of pocket.⁹ In addition to receiving a range of preventive services for free, seniors are also paying less for prescription drugs. More than 6.6 million Medicare beneficiaries have saved over \$7

⁴ CMS, [5/31/13](#)

⁵ White House, [7/29/13](#)

⁶ Health Affairs, [05/2013](#) and KFF, [4/22/13](#)

⁷ Senate Budget Committee, 2/12/13

⁸ New York Times, [2/11/13](#)

⁹ HHS, [03/2013](#)

billion since 2010 from new discounts included in the law.¹⁰ Young Americans are benefiting too. In fact, more than 3 million young adults who do not get insurance through an employer have been able to stay on their parents' plan until the age of 26.¹¹

New requirements for insurers have also worked to ensure that consumers get value for the premiums they pay. Generally, insurance companies must spend 80 percent of premium dollars on medical care and health quality improvements, rather than administrative costs or CEO bonuses (this is referred to as the "medical loss ratio"). When they do not, they must provide a refund to their customers. In 2012, 8.5 million consumers received half a billion dollars in refunds – the average refund was about \$100 per family. Moreover, in 2012, 77.8 million consumers saved \$3.4 billion up front on their premiums as insurance companies operated more efficiently compared to 2011.¹²

II. These trends should continue as the Affordable Care Act is fully implemented.

Structural changes in how health care is delivered can keep cost growth low

The ACA included delivery system reforms aimed at increasing quality and encouraging efficiency and transparency, by moving Medicare and private insurers toward paying for value. Combined with efforts that were already underway when the law was enacted, these structural changes explain in part the recent slowdown in health care spending. Any effort to keep cost growth low in the future, while preserving and protecting programs for seniors and families, will need to further transform how health care is delivered and financed by building on these efforts.

The experience of a number of medical centers across the country demonstrates how providers at these facilities have become more efficient. They have realized savings through reductions in the rates of hospital readmissions and hospital-acquired infections. For example, in my home state of Washington, the Care Transitions Project of Whatcom County is working to connect providers and engage the community to improve communication and coordination for patients moving from one setting or aspect of care to another. The effort has reduced hospitalization by about 6 percent and hospital readmissions by almost 7 percent at PeaceHealth St. Joseph Medical Center.¹³

Encouragingly, data from the Centers on Medicare and Medicaid Services (CMS) and the Centers for Disease Control and Prevention (CDC) suggest that the efficiency gains may extend more broadly. For example, hospital readmissions nationally dropped to 17.8 percent in the final quarter of 2012, from an average of 19.0 percent between 2007 and 2010.¹⁴ This follows efforts that began in 2011 to improve quality, followed by the introduction of penalties in 2012 as part of the ACA. In addition, the CDC reported a 41 percent decrease in central line-associated bloodstream infections between 2008 and 2011.¹⁵

The ACA also includes a number of initiatives aimed at rewarding quality over quantity. It created the Center for Medicare and Medicaid Innovation (CMMI) which tests and evaluates new methods of delivering quality and value through federal health programs. CMMI is running several pilots and demonstration projects on alternative payment

¹⁰ HHS, [7/29/13](#)

¹¹ HHS, [6/19/12](#)

¹² HHS, [6/20/13](#)

¹³ Qualis Health, [1/22/13](#). Other examples include: University of Pittsburgh Medical Center, which reduced MRSA hospital-acquired infections by 85 percent (UPMC, accessed [7/31/13](#)) and a 5 percentage point reduction in hospital readmission rates for Geisinger Health Plan members who received care at an advanced medical home site (Commonwealth Fund, [9/2009](#)).

¹⁴ Senate Finance Committee, [2/28/13](#)

¹⁵ CDC, [2/11/13](#). The CDC also found reductions in catheter-associated urinary tract infections of 7 percent and surgical site infections of 17 percent.

systems, such as Accountable Care Organizations, medical homes, and bundled payments, which seek to expand coverage, improve outcomes, and reduce costs.

Similar efforts are also underway in the private sector. As Dr. Len Nichols testified before the Budget Committee this week, “in every state in the union payment reforms and incentive realignments are taking place... Coupled with the extensive array of CMMI initiatives, the US health care system has not seen this much change oriented around incentive realignments since... the early 1980s.”¹⁶ Early results from these efforts are encouraging. A few examples include:

- A 21 percent reduction in the medical costs for diabetics who received care in a patient-centered medical home. Notably, within one initiative, the number of patients with poorly controlled diabetes was also reduced by 45 percent.¹⁷
- Significant savings from lower cost growth for 13 organizations participating in the Pioneer Accountable Care Organization (ACO) program, totaling \$87.6 million.¹⁸

While the ACA does not take a definitive stance on what approaches will prevail, it does send a signal that the federal government views change as absolutely necessary. Signs from providers indicate that they are adjusting their practice patterns in response.

If the recent trend continues, the potential savings relative to prior projections are substantial. David Cutler and Nikhil Sahni of Harvard University estimate that public-sector spending could be as much as \$770 billion less over 10 years. Families would also benefit from lower out-of-pocket spending in the range of \$62 to \$290 a year by 2021. Business would spend between \$92 and \$430 less per covered worker per year, freeing up important resources to make investments that will grow the economy and create jobs.¹⁹

Additional market reforms and increased competition will lead to better value for consumers

Under the ACA, 25 million otherwise uninsured Americans will now receive health insurance coverage.²⁰ Starting in January 2014, a number of additional market reforms go into effect that will ensure this larger pool of customers are getting higher value coverage. The changes mean that insurance companies will no longer be able to charge women more than men for policies purchased in the individual or small group markets²¹ and they will not be able to deny coverage or charge more to someone who has a pre-existing health condition.²² Yearly and lifetime caps on spending for a comprehensive list of services will also be prohibited.²³

At the same time, new state-based marketplaces where consumers can comparison shop for health insurance coverage will open. These marketplaces (or health insurance exchanges) will increase competition among health insurance plans. The evidence so far shows that premiums are going to be lower on average as a result. The Department of Health and Human Services conducted an analysis of the premiums in the eleven states for which data were available at the time of

¹⁶ Nichols, [7/30/13](#)

¹⁷ Independence Blue Cross, [7/23/13](#)

¹⁸ Represents gross savings. Medicare’s share was nearly \$33 million. Health Affairs blog, [7/25/13](#)

¹⁹ Health Affairs, [05/2013](#)

²⁰ CBO, [5/14/13](#)

²¹ HHS, accessed [7/30/13](#)

²² Healthcare.gov, accessed [7/30/13](#)

²³ Healthcare.gov, accessed [7/30/13](#)

their analysis and found that in the individual market premiums will be 18 percent less on average.²⁴ That translates into \$852 dollars over a year for a person purchasing health insurance on the exchange. And that is before taking into consideration any financial assistance that will be available based on income. Low and moderate-income individuals will see even greater savings as a result of premium assistance tax credits and cost-sharing subsidies that will be available beginning next year.

III. Longer-term challenges require thoughtful solutions not drastic changes.

The cost of caring for an aging population drives the projected increase in federal health spending

Over the next several decades, the aging of millions of middle class Americans will increase the number of Medicare beneficiaries substantially. By 2020, enrollment will increase by more than 20 percent and by 2070 it will double.²⁵ This demographic shift puts increasing pressure on the federal budget, even with the recent slowdown in the growth of health care expenditures. Over the next decade, CBO projects that federal health spending will rise from 4.67 percent of GDP in 2012 to 6.13 percent in 2023.²⁶ Beyond the next ten years, growth in health care spending is projected to consistently outpace growth in the economy. More than half the increase in federal spending on major health care programs over the next 25 years is attributed to the aging of the population.²⁷

Efforts to put the federal budget on a sustainable path over the long term cannot come by undermining the promises we have made to seniors and families. In the nearly 50 years since Medicare was created, it has been a critical way in which we fulfill our responsibility to care for those who have contributed to our country. These new retirees deserve the same promise of quality, affordable health care from which their parents have benefited. That is why Democrats have consistently, and successfully, argued that further health care reforms must preserve, protect, and improve the Medicare program – not dismantle it.

The Senate Budget provides a framework for responsibly addressing health care costs

There is no question that more must be done to further contain health care costs. Despite the recent positive news, long-term challenges remain. Right now, Americans spend far more per person on health care than any other nation—and spending more has not made us healthier.²⁸ And these rising costs are not only a challenge for federal health programs. States, businesses, and families are being increasingly impacted as health care expenses overwhelm their ability to invest in other priorities. Addressing the growth in health care costs is not only critical to putting the federal budget on a sustainable path, it is also vital to making sure families and communities are able to participate in and help grow the economy for generations to come.

The Senate Budget recognizes this and builds on the ACA to provide savings to the total system – the federal budget and family budgets. As part of a balanced framework that invests in our economy while also including responsible savings from across the budget and the tax code, it calls for \$275 billion in health care savings by further realigning incentives through the system, cutting waste and fraud, and seeking greater engagement across the health care system. That means expanding efforts to improve the way we deliver and finance health care when evidence shows they are working.

²⁴ Represents estimates for lowest cost silver plan. HHS, [7/18/13](#)

²⁵ CMS, [5/31/13](#)

²⁶ Includes Medicare (net of receipts from premiums), Medicaid, CHIP, and health insurance exchange subsidies and related spending. CBO, [5/14/13](#)

²⁷ CBO, [6/5/12](#)

²⁸ OECD, accessed [7/15/13](#)

Other opportunities could include working toward simplified administrative processes, increased transparency of health care prices, and improved utilization of quality measurement data.

We need to come together around real, lasting reform, and stop lurching from crisis-to-crisis

Importantly, we reject the approach taken by Republicans when it comes to health care, which is to shift the burden to American families, businesses and states. The recent news on health care costs reminds us that while we have much more to do to tackle the rising costs and their impact on the federal debt, there have been some improvements. However, ending Medicare as we know it, defunding the Affordable Care Act, or cutting federal support for Medicaid by more than a third, as House and Tea Party Republicans in the Senate have proposed, is the wrong way to go.

Instead, we must be thoughtful about the reforms we are enacting—especially when it comes to the complexities of health care and the future of Medicare and Medicaid. As Democrats, we agree that we need to address this significant part of our federal spending. But, we need to do so by coming together around solutions for real, lasting reform.

The latest threat by Tea Party Republicans in the Senate—who are risking a government shutdown in an effort to defund health care reform—is especially troubling. They are attempting to push us toward a crisis also in order to cut off health care coverage for more than 25 million people, end free preventative care for our seniors, and cause them to pay more for their prescriptions. And we are not going to allow it.

Instead of manufacturing crisis after crisis, we should be coming together to tackle tough issues like health care costs and our long-term debt and deficit challenges

The Affordable Care Act is the law of the land—and it is already helping millions of Americans stay healthy and financially secure, as well as helping to slow health care costs. Instead of threatening to defund it, we ought to be working across the aisle together to make sure it is implemented in the best possible way for our families and communities and improved in a way that helps American families and business continue to have access to high quality health care.

Many of my Democratic colleagues joined me in opposing Medicare Part D in 2003, but instead of fighting this program once it began to be implemented, we understood it as the law of land. And instead of taking away this new benefit for seniors we worked with our Republican colleagues and the Bush Administration to make it better. I hope that spirit of bipartisanship comes to play with ACA implementation and I look forward to working with Senators on both sides of the aisle to improve the bill and its implementation.

We owe it to the American people to come together around fair solutions to help our economy grow, ensure we have a health care system that delivers high quality, affordable care, and continue the downward health care cost trends—both for the well-being of the people our health care system serves, and for the long-term economic strength of our country.