

**Transcript of Remarks by Chairman Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on Health Care and the Budget with CBO Director Peter Orszag
June 21, 2007**

Opening Statement

I want to welcome everyone to our hearing today on the impact of health care costs on the budget and prospects for health care reform.

Our witness today, CBO Director Peter Orszag, is particularly well-suited to address this issue. Director Orszag has done an outstanding job of focusing CBO on analyzing and providing information to Congress on the problem of rising health care costs. Earlier this year, he created a new Panel of Health Advisers, and he is increasing the number of CBO personnel who work on health issues over the next two years. That is an important and much needed change. I very much appreciate Director Orszag's emphasis on this topic. I think all of us know this is the 800 pound gorilla. This is the issue that could swamp the boat for our country in terms of its fiscal future.

This is the driver that needs to focus our attention on the fiscal challenges facing America. We face a demographic tidal wave. We're going to have 80 million retirees by 2050 – more than a doubling of the number of people eligible for Social Security and Medicare, and we need to focus on this fact like a laser.

We need to remember that Social Security is not the biggest budget challenge confronting us. Because of rising health care costs and this demographic tidal wave, over the next 75 years, the shortfall in Medicare will be seven times the shortfall in Social Security.

The growing cost of Medicare and Medicaid is simply staggering. By 2050, if nothing changes, more than 20 percent of our gross domestic product will be spent on just these two programs. That's more than we now spend on the entire federal government. So if this doesn't get people's attention, I don't know what will.

This next chart from the Center on Budget and Policy Priorities shows that rising health care costs are by far the biggest factor driving Medicare cost growth. Demographic changes which I have referenced from the retiring baby boom generation are a significant factor, but they are secondary to the rising cost.

The fact is that our health care system is not as efficient as it should be. The United States is spending far more on health care expenditures as a percentage of gross domestic product than any other country in the OECD (Organization for Economic Co-operation and Development) – that includes the leading economies in the world. For example, the U.S. spent over 15 percent of GDP on health care expenditures in 2003, compared to 7.2 percent in Ireland. We're spending even more as a percent of GDP today. In fact, most estimates are we're over 16 percent of GDP today on health care – that's one of every six dollars in this economy going to health care. Despite this additional health care spending, health outcomes in the United States are no better than health care outcomes in other OECD countries.

But we need to remember that the problem is not that Medicare and Medicaid are federal programs. The problem stems from the underlying rising cost of health care. This is a quote from the Comptroller of the Government Accountability Office, General David Walker, making exactly that point. He said, and I quote: “[F]ederal health spending trends should not be viewed in isolation from the health care system as a whole.... Rather, in order to address the long-term fiscal challenge, it will be necessary to find approaches that deal with health care cost growth in the overall health care system.” That is a critical point.

Our budget resolution, which was adopted by Congress last month, takes a number of important steps to begin addressing these rising health care costs.

First, we include funding for program integrity initiatives to crack down on waste, fraud, and abuse in Medicare and other programs. I met with the Secretary yesterday on this issue and others and we again emphasized the importance of going after waste, fraud and abuse in Medicare.

Second, we include a Health Information Technology reserve fund to promote the use of advanced information technology – a point that the Senator from Michigan, Senator Stabenow, has made many times. The RAND Corporation has done a study that says we could save as much as \$80 billion a year if information technology were broadly deployed in health care. Additional federal action could save even more.

Third, we include a Comparative Effectiveness reserve fund to jumpstart an initiative to provide research on the comparative effectiveness of different treatments, medical devices, and drugs. This research will lead to savings over the long-term by allowing health care providers and patients to avoid treatments that may be ineffective or overly expensive, while at the same time improving health care outcomes. I would note that CBO is currently working on a study on comparative effectiveness, at the request of myself and Senator Baucus, the Chairman of the Finance Committee.

Within Medicare, I believe we also need to look at the additional cost of Medicare Advantage plans. MedPAC has found that Medicare Advantage plans are costing, on average, 112 percent of the cost of traditional Medicare fee-for-service. These plans were meant to save money. Instead, they are contributing to Medicare’s financial instability. And continued growth in Medicare Advantage, similar to what we’ve seen recently, has major implications for future costs and the structure of the Medicare program.

At my request, CBO has done an analysis of savings if we capped Medicare Advantage expenditures at as much as 150 percent of traditional fee-for-service Medicare, and they’ve found savings even at that level – much more savings if we would cap Medicare Advantage at 120 percent or 125 percent of traditional fee-for-service Medicare.

With that, I am going to turn to my colleague and able member of this committee, Senator Gregg.

Additional Comments

I see people advocating even more costly health care systems for the country. I personally don't believe that is the answer. We are now spending one in every six dollars in this economy on health care. No one else in the world is spending more than one in every nine dollars in their economy in health care. And we're not getting better health care outcomes. And what I've just heard you say is that if the current trends in Medicare Advantage continue, those costs will only escalate and in fact it may become even more of a challenge to get all of this under control.

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My colleague Senator Gregg had suggested that the President had put on the table a plan that would save substantial money for Medicare – billions and billions of dollars was his assertion.

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Why didn't Congress rush to embrace the President's proposals? Because other objective experts told us that if we did embrace them that access to health care by senior citizens would be threatened and endangered. That's why we didn't rush to embrace the President's proposal.

Look, I have voted for saying to those among us who have the greatest wealth that we ought to pay more. I have embraced that proposal. I think that has got to be adopted. It makes no sense to me – there is nothing progressive about having a working family in effect subsidize wealthy retirees. I have never understood why that is a progressive value. And I have voted for in another committee in which I participate, the Finance Committee, to in fact means test Medicare, and I will vote to do that again because I think it is one part. It comes nowhere close to solving our problem, but it is one contribution that can be made in an overall effort.

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The ranking member challenged us in the early going here to take action. Sign me up. I am eager to take action. The thing is I don't want to take action that proves to be unsustainable. I don't want to take action that threatens people's access, and I fear very much the President's proposal, based on others' testimony, would do that.

So, we've got to go through a process here, and that's what these hearings are about, of identifying options and then on a bipartisan basis trying to find a way to embrace them. And that's not easy to do here. Even if you have a majority of members of the Senate that are for something, we all know a majority is not enough, because if you don't have a supermajority, you can't end the endless discussion that will occur here, and the filibustering by amendment that can occur here. That means you have to have at least 60 votes in the Senate.

And, of course, you have to deal with the House of Representatives, you have to deal with the White House. The only way that I see this proceed is if there is a group that is given responsibility to come up with a plan that is totally bipartisan in nature that involves all three of the entities that have to be brought together for any plan to be actually implemented, and that means the

House of Representatives, the Senate, the White House – all of them have to play a role not only on the landing, but on the take off. One thing I have learned around here is if people are not involved in the development of the plan they aren't going to support the plan when the going gets tough.

But that still leaves us with the question of a plan, and a plan that could really make a meaningful difference and one in which we could have confidence that it would not only save money, but at least do no harm to health care outcomes and hopefully improve health care outcomes.

I just want to go back over what I heard you say. What I heard you say is that you are not aware of any comprehensive plan that exists at this moment that we could be assured would save money and at least not hurt health care outcomes. Did I hear you correctly?

Dr. Orszag: That's correct. I do think there are steps that can be taken to move towards creating the opportunity for such approaches or options to exist, and that regardless of your broader vision for healthcare reform, would make sense.

Closing Statement

This really is the challenge of our time in terms of the fiscal future of the country. I'm not talking about just the human element of all of this because health care touches every one of our lives. And we have simply got to do a better job of facing up to what is the preeminent fiscal challenge that this country faces.

And I'm delighted that you are in this position of responsibility, Dr. Orszag, because I think you have the ability to help us work our way through this. I also want to acknowledge the work of Senator Gregg who is committed to addressing not only this long-term entitlement issue, but the others as well. And I am eager to work with him because nothing is going to happen unless we work productively together. That's the reality of this place and of this time.