TESTIMONY OF

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On

HEALTH CARE COSTS

BEFORE

THE SENATE BUDGET COMMITTEE
FIELD HEARING

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I am Janis Cheney of Bismarck, North Dakota. I am the North Dakota State Director of AARP. Thank you for the opportunity to discuss the challenges of rising health care costs.

Health care costs have risen dramatically in the past few decades. Since 1975, total health care spending as a percentage of gross domestic product (GDP) in the United States has doubled, and it now comprises one-sixth of the U.S. economy, or about $2.2 trillion. By 2016, some projections show total health spending almost doubling to $4.1 trillion and consuming one-fifth of the nation's GDP. A report published by the McKinsey Global Institute in January found that the United States spends a greater percentage of its national wealth on health care than any other country in the world. According to McKinsey, the overriding cause of high U.S. health care costs is the double failure of the American system to hold down demand-side pressures -- from patients -- and supply-side pressures -- from hospitals and clinics, doctors, pharmaceutical companies and insurers.

Health care costs cannot be measured merely by the impact on the general economy, however. The implications of ever-escalating health care costs are far reaching. For instance, employers – large and small – are grappling with whether, and to what extent, they can afford to provide health insurance to their workers and retirees. Over the past several years, employer-sponsored insurance (ESI) coverage rates have been falling. In 2000, 66 percent of non-elderly Americans were insured through the workplace, but by 2004 only 61

percent were covered by ESI. Half of this decline was a result of employers no longer offering health coverage, while a quarter of the decline was due to employees' inability to afford their share of the premium. The decline in ESI is most severe for small employers who are finding it increasingly difficult to even offer health coverage.

Health care costs cause American businesses to be at a competitive disadvantage with their global competitors because providing health insurance adds to the costs of their goods and services. For instance, as of 2005, health insurance was calculated to add between $1,100 and $1,500 to the price of each automobile manufactured by General Motors—a cost not borne by its foreign competitors.

Public programs are also grappling with rising health care costs. Peter Orszag, Director of the Congressional Budget Office, has stated that if health care costs continue growing at the same rate over the next four decades as they did over the past four decades, federal spending on Medicare and Medicaid alone would rise to about 20 percent of GDP by 2050—roughly the share of the economy now accounted for by the entire federal budget. This has led Orszag to comment that this nation does not face an aging problem, but a health care problem.

And individual Americans are some of the hardest hit. One in four Americans have problems paying medical bills. Millions go bankrupt every year because of

unaffordable medical bills. Retail prescription prices have increased 3 times faster than the cost of living in recent years. More than 44 million Americans are uninsured, with middle-class families the fastest growing segment. About 8.2% of North Dakotans are uninsured (51,920) – approximately the population of Bismarck.

Real people are struggling to make ends meet while still having access to health coverage. AARP has, as part of our *Divided We Fail* campaign, heard some of these stories from North Dakota and across the nation. We have heard from a 52-year old divorced single mom raising a son alone. She works in a part-time job that offers no benefits, and she is unable to find reasonably priced coverage even though she says she maintains a healthy lifestyle.

There is also the story from the self-employed couple. The wife's diagnosis of thyroid cancer 9 years ago made her "uninsurable" until they were able to find a high risk pool. Even with this safety net protection, they are paying upwards of $1,000 a month, each with a $5000 deductible. Because nothing is covered until they spend $5000, the couple tends to put off basic preventive and screening services.

There is no single answer to controlling health care costs, and the necessary steps will involve not just government and policymakers, but many players, including patients, providers, pharmaceutical companies, employers, and trade

groups. Getting all these players together to agree to work on focused strategies for controlling health care costs is one reason why AARP, along with the Business Round Table (BRT) and the Service Employees International Union (SEIU), formed *Divided We Fail.* Accomplishing our goal of affordable quality health care and financial security for all Americans will require the efforts of us all. The issue is not whether, but how, solutions can be found; the growth in health care costs demands that the players come together to find the solutions and make the hard decisions.

Key Transitions

AARP recognizes that changes cannot be made all at once. They must be phased in over a number of years. We have identified a number of key transitions which must occur in our health care system, including:

⌘ Health promotion: moving public health and insurance systems from supporting fragmented, sporadic health promotion activities to integrated and effective measures that improve our national health status.

⌘ Personal health behaviors: changing from too many Americans engaged in unhealthy, and even risky, behaviors to most Americans following healthy lifestyles.

- ⌘ Health delivery: shifting to a united system organized around the patient experience.

- ⌘ Quality improvements: ensuring the delivery of appropriate care based on continuous improvement in quality.

- ⌘ Health professions: moving from an insufficient and inequitably distributed workforce to an adequate and appropriately deployed workforce, especially for primary and preventive care.

- ⌘ Coordinated care: transition from a system overly focused on acute care to one which also capably supports chronic conditions and serves patients' needs along a coordinated and continual line of care.

- ⌘ Health insurance coverage: moving from over 44 million uninsured to coverage for all Americans – with affordable, stable options for those with no access to employer-based insurance.

- ⌘ Health care value: transition from an inefficient health care system to one which maximizes value for the dollar – while improving outcomes.

- ⌘ Financing: moving from inadequate, inequitable financing arrangements to adequate, stable and fair financing of health coverage.

⌘ Medicaid: transition to a fully integrated care and payment system for low-income Americans within a broader health insurance system.

⌘ Medicare: transition to a value purchaser and a leader of system-wide health care reforms.

Building blocks

The next steps or "building blocks" for *Divided We Fail* is to identify the solutions to the specific policy and behavior changes we believe will be necessary to drive each key transition. For example, health information technology and greater use of evidence-based research can help bring down health care costs by making the health system more efficient. Others will have different solutions, and we are encouraging all those with a stake in the outcome to join the debate and bring their ideas to the table.

Ultimately, the President and Congress must act – first by reaching agreement on the need to put the critical health care "building blocks" into place, and then further action to achieve comprehensive health care reform. AARP's attention will be devoted to making sure that health care is at the top of the agendas of all candidates in the 2008 election.

Senator Conrad, we commend you for holding this hearing today to draw attention to rising health care costs and the need to transform the entire health care system. Addressing health care costs overall will not only help residents in North Dakota, but nationwide.

AARP stands ready to work with you and your colleagues to enact meaningful health care reforms.