



Congressional Budget Office

Presentation to Prime Minister's Strategy Unit

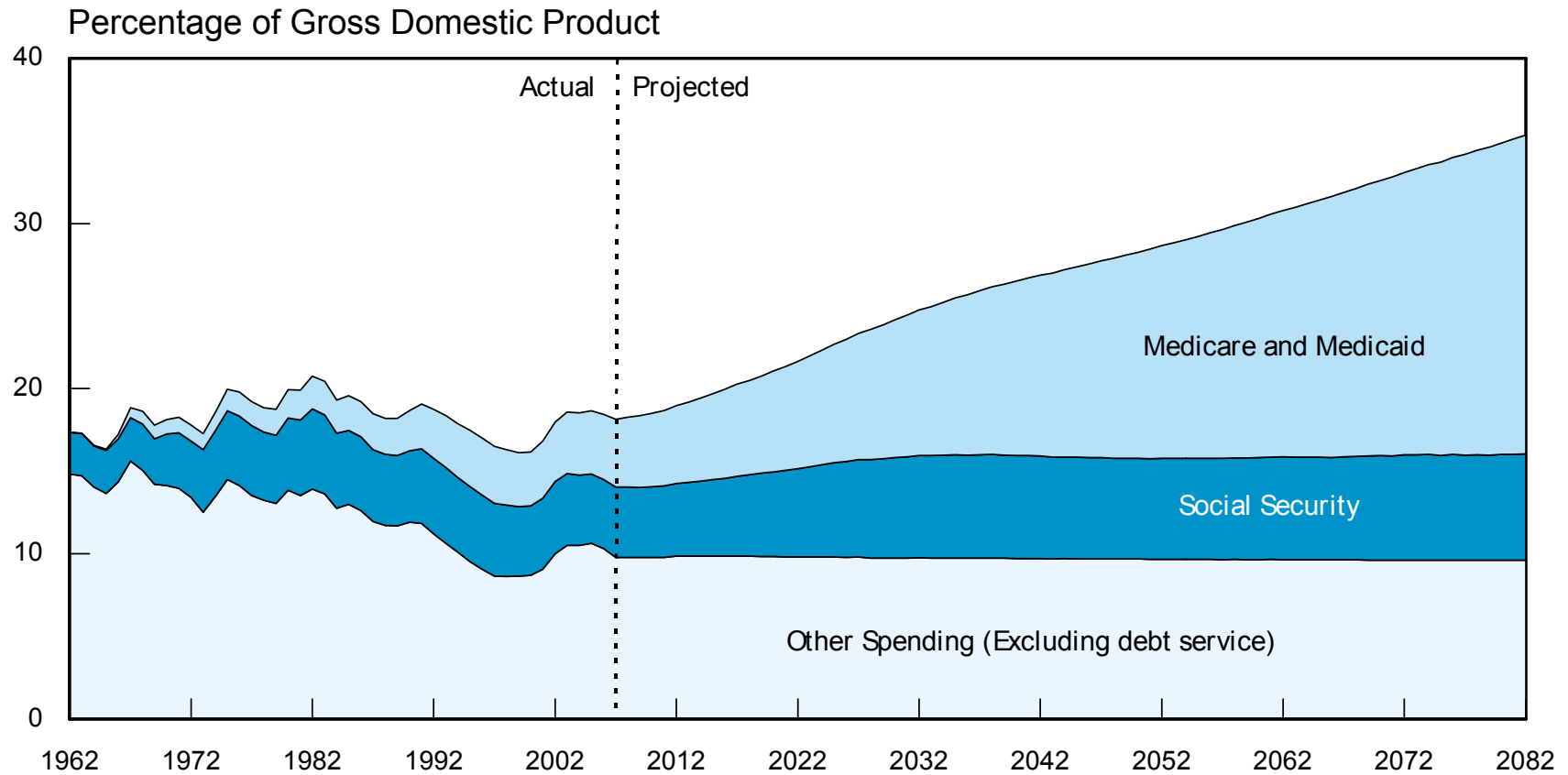
**Health Care:
Capturing the Opportunity in the
Core Fiscal Challenge Facing the
United States**

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Director**

**Congressional Budget Office
June 3, 2008**



Federal Spending Under CBO's Alternative Fiscal Scenario





Excess Cost Growth in Medicare, Medicaid, and All Other Spending on Health Care

Percentage Points

	Medicare	Medicaid	All Other	Total
1975 to 1990	2.9	2.9	2.4	2.6
1990 to 2005	1.8	1.3	1.4	1.5
1975 to 2005	2.4	2.2	2.0	2.1



Estimated Contributions of Selected Factors to Long-Term Growth in Real Health Care Spending per Capita, 1940 to 1990

	Smith, Heffler, and Freeland (2000)	Cutler (1995)	Newhouse (1992)
Aging of the Population	2	2	2
Changes in Third-Party Payment	10	13	10
Personal Income Growth	11-18	5	<23
Prices in the Health Care Sector	11-22	19	Not Estimated
Administrative Costs	3-10	13	Not Estimated
Defensive Medicine and Supplier-Induced Demand	0	Not Estimated	0
Technology-Related Changes in Medical Practice	38-62	49	>65

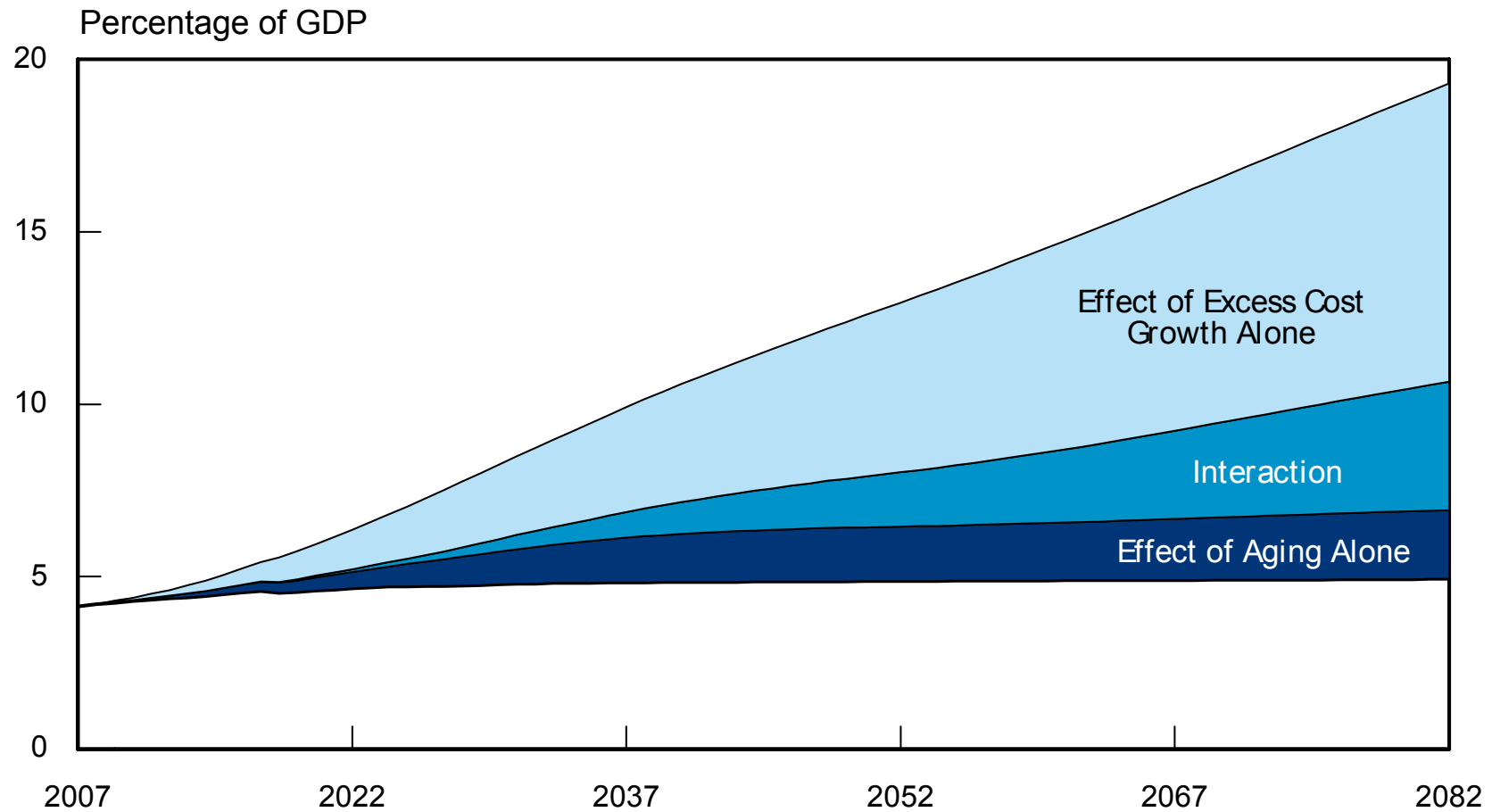


Misdiagnosing the problem

- Most discussions in media: aging and demographics
- Most of the fiscal problem: rising cost per beneficiary, not number or type of beneficiaries



Sources of Growth in Projected Federal Spending on Medicare and Medicaid





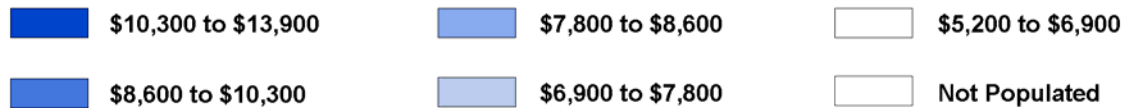
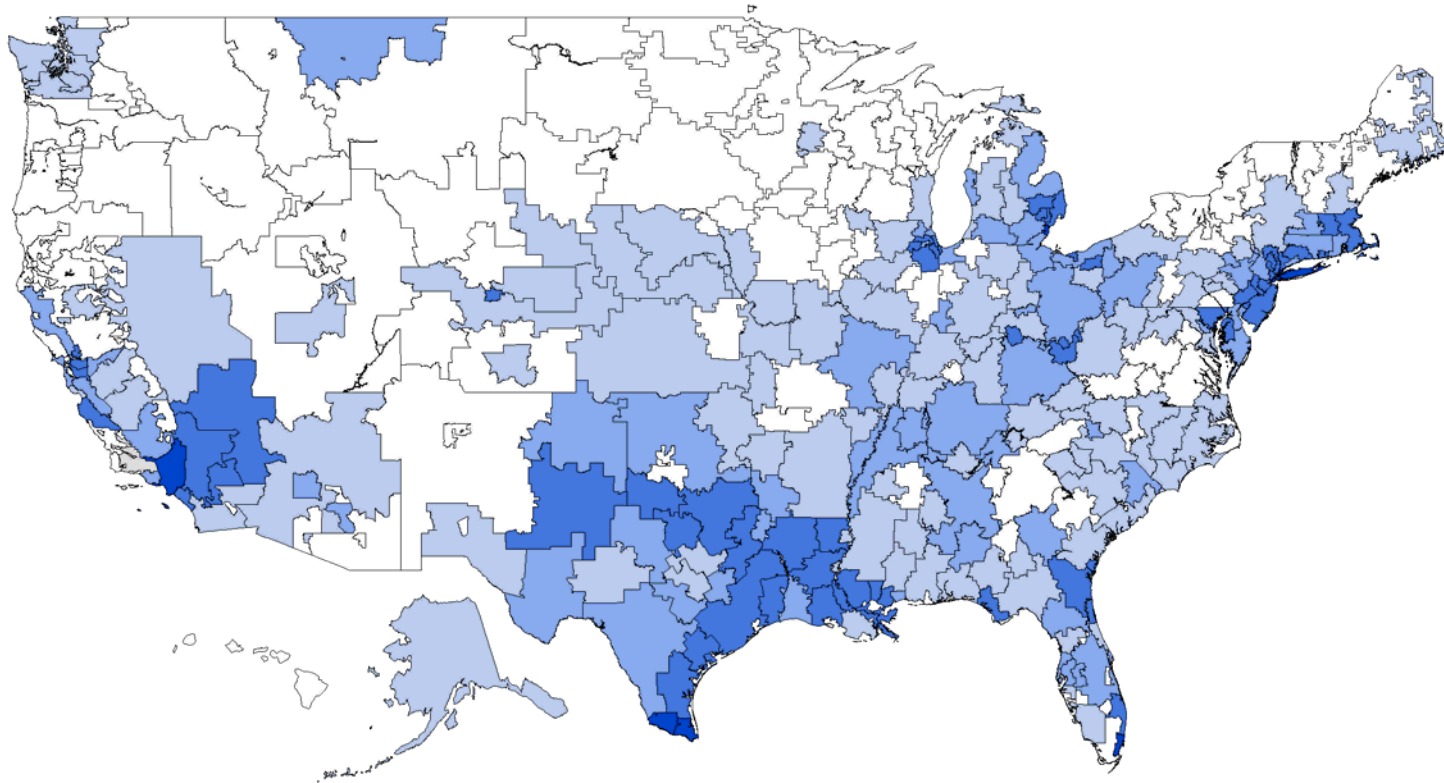
Before we all get too depressed....

Embedded in the nation's central long-term fiscal challenge appears to be a substantial opportunity:

Can we reduce health care costs without impairing health outcomes?



Medicare Spending per Beneficiary in the United States, by Hospital Referral Region, 2005





Variations Among Academic Medical Centers

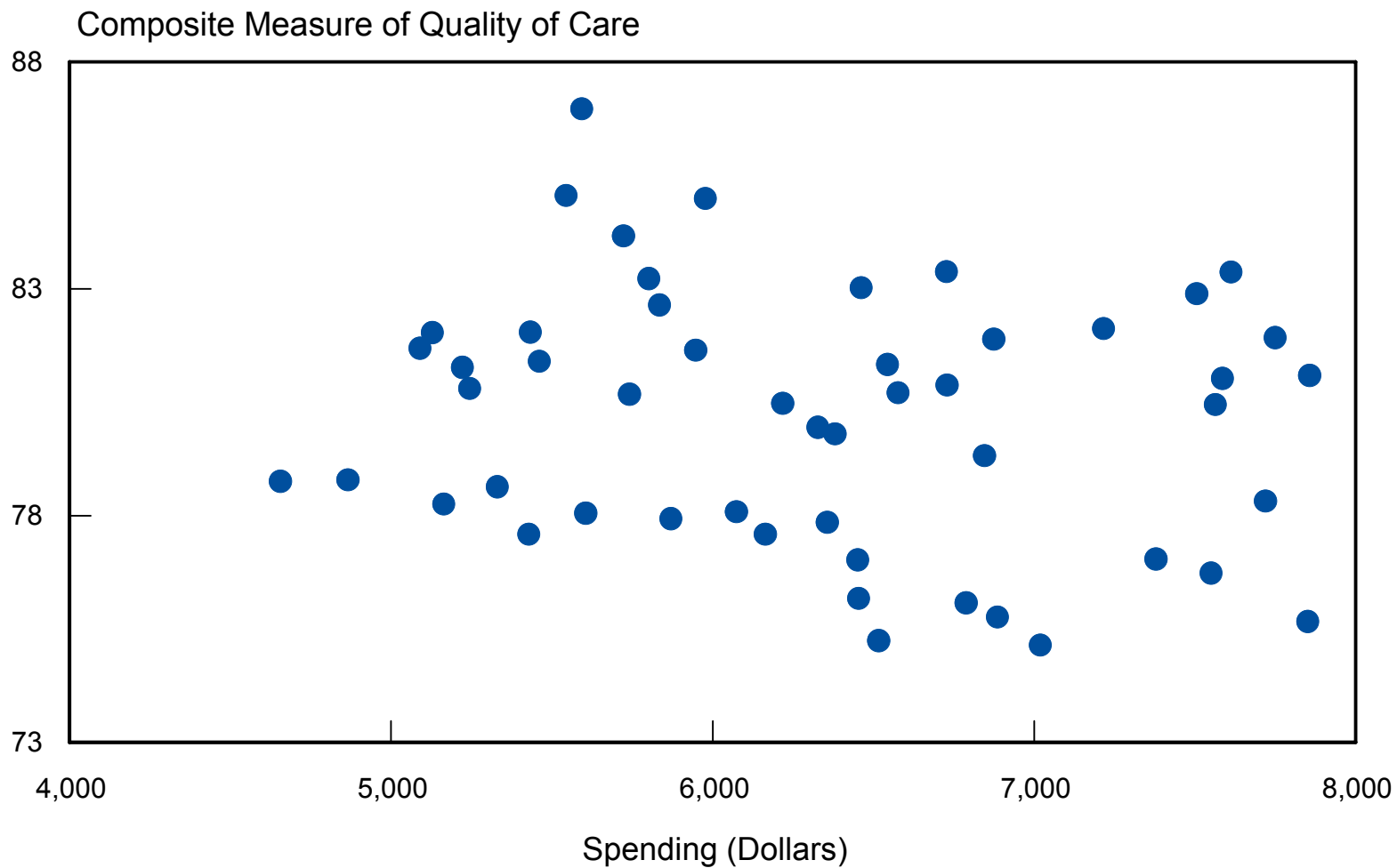
Use of Biologically Targeted Interventions and Care-Delivery Methods Among Three of U.S. News and World Report's "Honor Roll" AMCs

	UCLA Medical Center	Massachusetts General Hospital	Mayo Clinic (St. Mary's Hospital)
Biologically Targeted Interventions: Acute Inpatient Care			
CMS composite quality score	81.5	85.9	90.4
Care Delivery—and Spending—Among Medicare Patients in Last Six Months of Life			
Total Medicare spending	50,522	40,181	26,330
Hospital days	19.2	17.7	12.9
Physician visits	52.1	42.2	23.9
Ratio, medical specialist / primary care	2.9	1.0	1.1

Source: Elliot Fisher, Dartmouth Medical School.



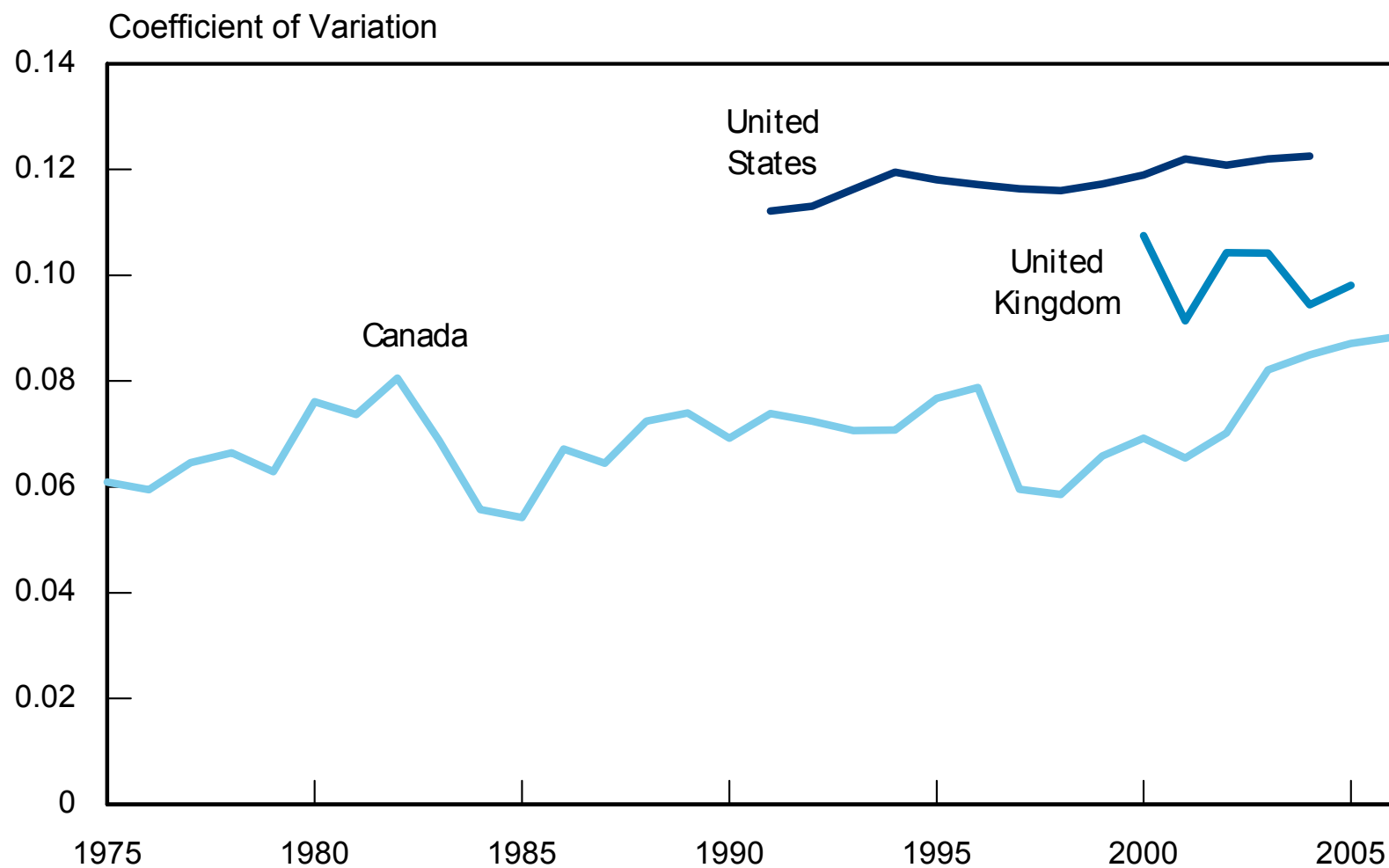
The Relationship Between Quality and Medicare Spending, by State, 2004



Source: Data from AHRQ and CMS.



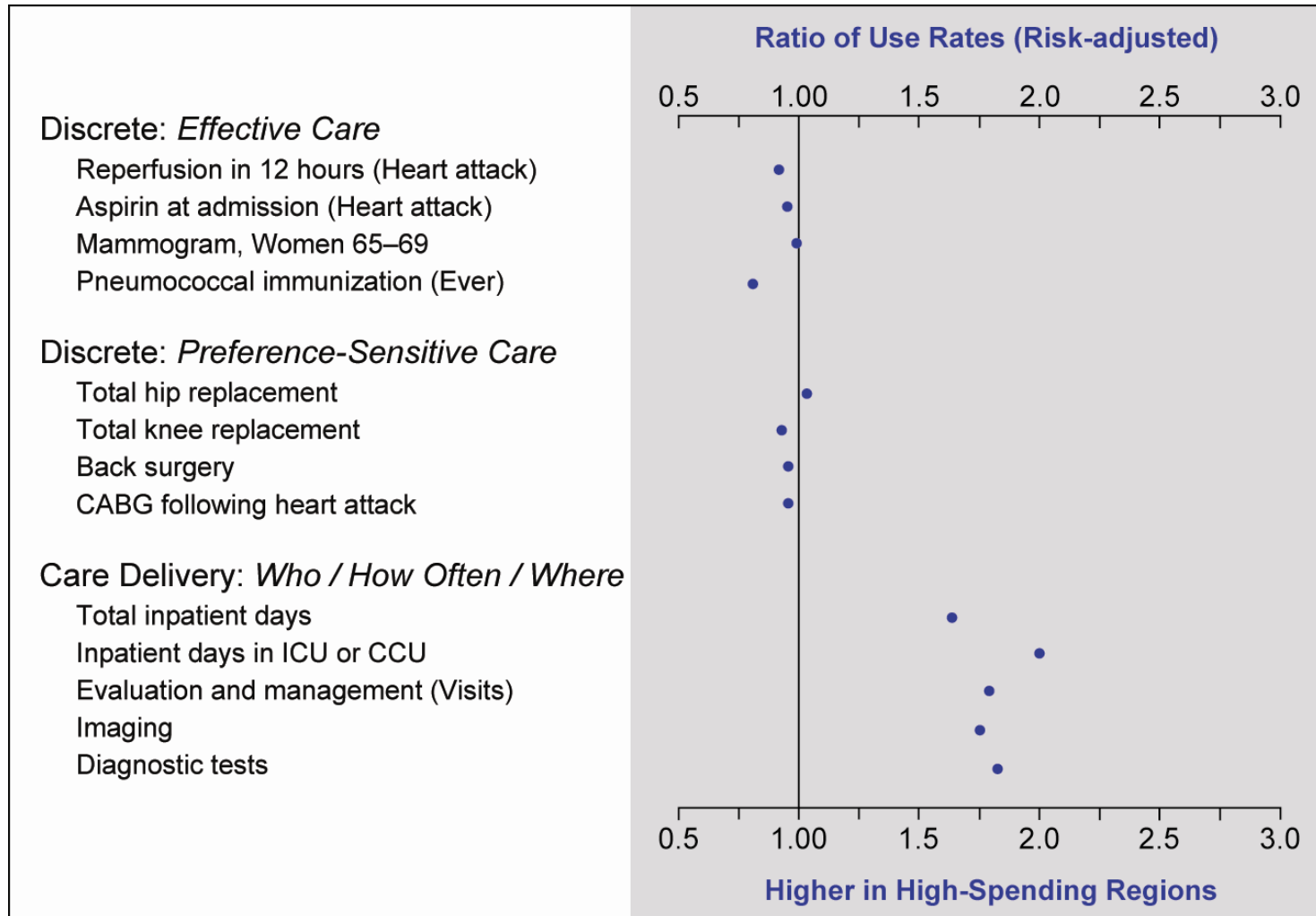
Geographic Variation in Health Care Spending per Capita in Selected Countries



Source: Based on data from CMS, HM Treasury (U.K.), and the Canadian Institute for Health Information.



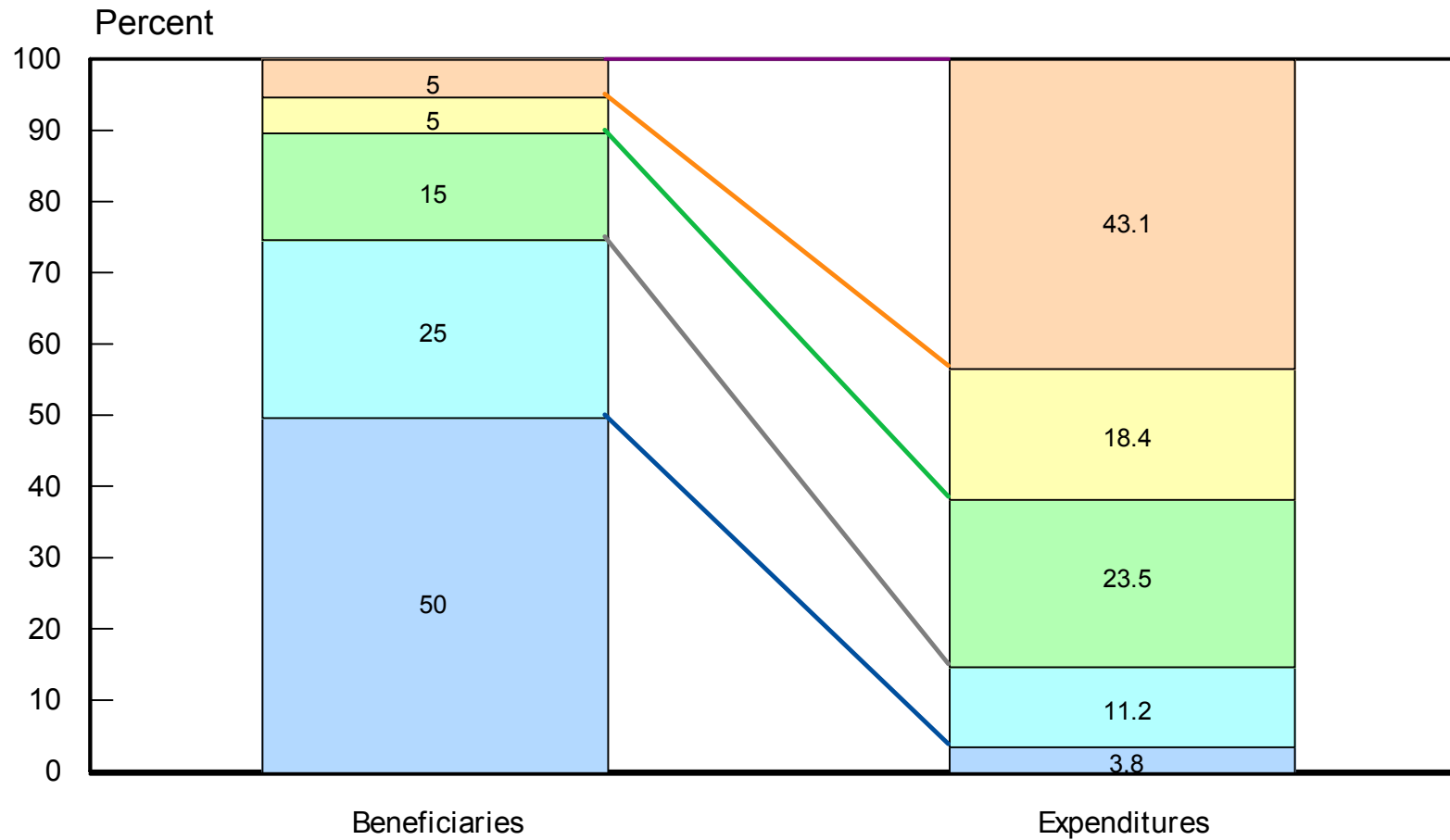
What Additional Services Are Provided in High-Spending Regions?



Source: Elliot Fisher, Dartmouth Medical School.



Concentration of Total Annual Medicare Expenditures Among Beneficiaries, 2001



Source: CBO based on data from CMS.



Paths toward capturing the opportunity

- Information
 - Comparative effectiveness research
 - Randomized control trials
 - HIT backbone
 - Saliency of costs
- Incentives
 - Better care, not more care
 - Coverage vs. differentiated payments
- Delivery systems
- Health behavior
 - Making it easy and simple to lead healthy lives
 - Chronic disease
 - Prevention
 - Behavior and social norms among medical professionals



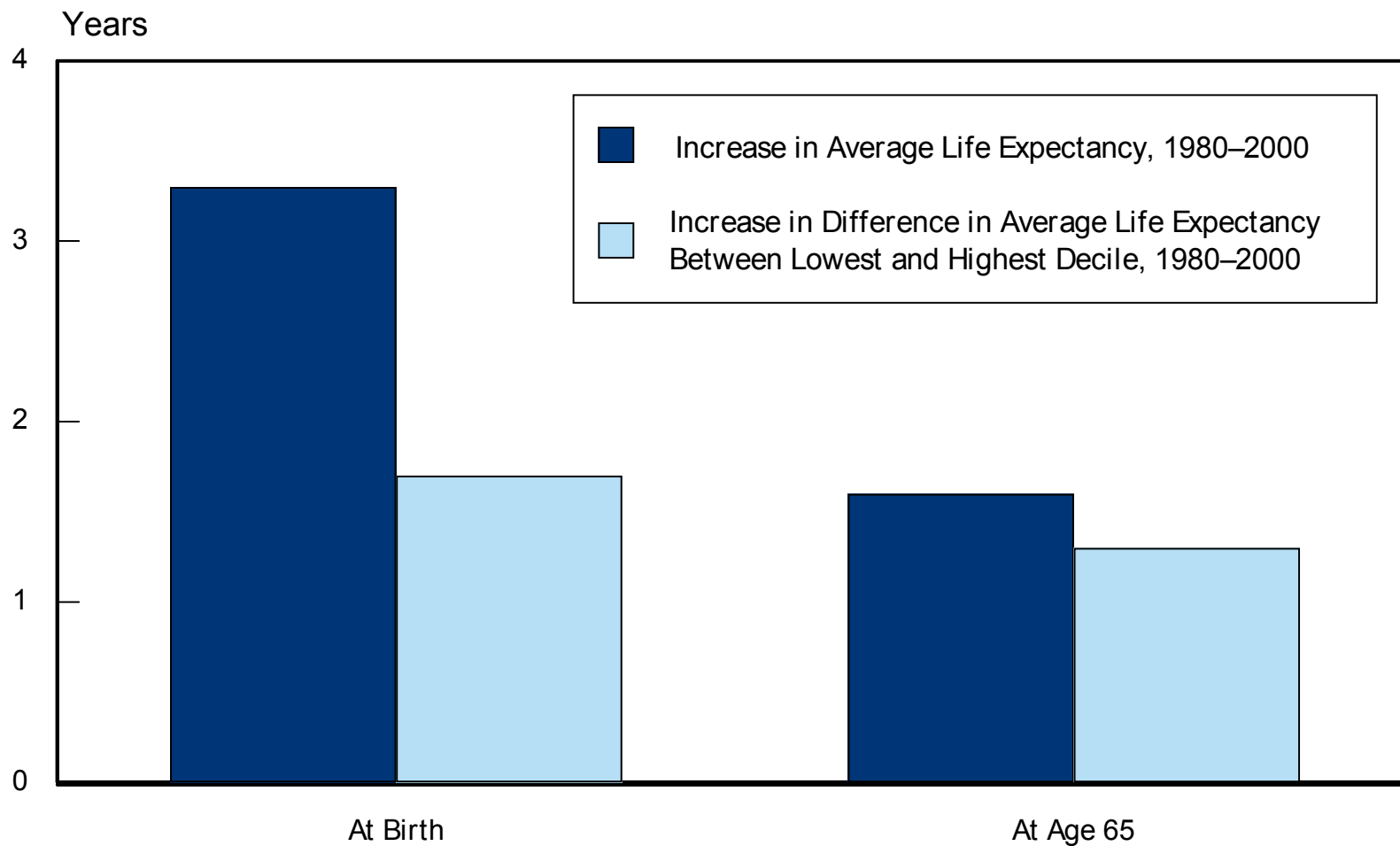
CBO Health Activities

- **New Hires and Expanded Staffing**
 - New deputy assistant director (Keith Fontenot) in the Budget Analysis Division
 - Health staff agency wide increase from 30 FTEs to 47FTEs FY 2009 Plans

- **Reports and Analysis in 2008**
 - Critical Topics in Health Reform
 - Health Options



Increase in Life Expectancy and Increase in Difference in Life Expectancy, by Economic Status



Source: Data from Singh and Siahpush (2006) and CDC.