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December 7, 2009

Senator Harry Reid
Majority Leader, United States Senate
Washington, DC

Dear Senator Reid:

On behalf of my colleagues, I am pleased to transmit this letter regarding essential components of health reform legislation. We are a group of economists with diverse areas of interest. Although some are health economists, others are expert in areas such as public economics, budget analysis, and other fields of economics. Among us are Nobel prize winners, former presidents of the American Economic Association, and former directors of the Congressional Budget office. We are united in the belief that fiscal responsibility is an essential feature of health reform legislation.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Alan M. Garber".

Alan M. Garber

cc: President Obama

December 7, 2009

Senator Harry Reid
Majority Leader, United States Senate
Washington, DC

Dear Senator Reid:

We thank you for your leadership in bringing forward the Patient Protection and Affordable Care Act. This draft bill has four elements that several of us, in a November 17 letter to President Obama, identified as crucial to health reform: 1) deficit neutrality, 2) an excise tax on high-cost insurance plans, 3) an independent Medicare commission, and 4) delivery system reform. The Congressional Budget Office estimates that the proposed legislation will not only achieve deficit neutrality but will reduce the deficit. The draft bill's tax on high cost insurance plans should encourage efficiency and innovation in health insurance. As you and your colleagues continue to discuss health reform, we urge you to retain these elements. For the fiscal strength of the nation and to ensure Americans receive the best possible care, we also urge the Senate to strengthen both the role of the Independent Medicare Advisory Board and the delivery system reforms.

Independent Medicare Advisory Board

The Independent Medicare Advisory Board can help Congress modernize Medicare. The Board will offer proposals to improve the quality, efficiency, and financial viability of the Medicare program. Yet the Board's effectiveness will be diminished by restrictions that the draft bill places on the circumstances under which the Board's recommendations will receive "fast track" status in Congress. One restriction is on the breadth of recommendations the Board can make. Physician and hospital payments, which account for more than half of Medicare expenditures, are excluded until 2019 – two years after the 2009 Medicare Trustees Report projects that the Hospital Insurance Trust Fund will be exhausted. The Board's recommendations should encompass diverse aspects of Medicare, including changes to payments affecting physicians and hospitals, and all of its recommendations should be considered for "fast track" action in Congress.

Even after 2019 Congress will only "fast track" the Board's recommendations if Medicare spending per person rises more than overall health care spending per person. We do not believe that this will be enough to constrain excess growth in health care spending. The Board's recommendations should receive "fast track" status even if spending thresholds are not exceeded. These changes will enable the Board more effectively to do its part to ensure Medicare's long-term viability and to improve the quality of care Medicare beneficiaries receive.

Finally, the Senate might consider expanding the authority of the Medicare Commission so it does not only address Medicare policies but can provide recommendations on changes to Medicaid and other Federal health programs.

Delivery System Reform

Some of the most far-reaching effects of health reform will come from changes in the delivery of care. The proposed legislation has many provisions to encourage such change. For example, it will help shift payment for care so that physicians and hospitals will be rewarded for achieving better health outcomes, not simply for delivering more services.

The proposed incentives, however, would be much more effective if they were strengthened and implemented earlier. For example, the draft bill imposes a financial penalty on hospitals that readmit patients for complications of hospitalization, but the penalty applies to just 3 conditions and is too small. It does not start until 2013, and even then the penalty will be limited to 1%, rising to only 3% two years later. The penalties for hospital-acquired infections are even smaller and delayed longer. The Senate Finance Committee recommendations do more to reward doctors and hospitals for providing better health rather than more services.

Furthermore, despite the great interest in bundling payments for medical services, the draft bill calls for bundling only in a limited set of circumstances, mainly concerning hospitalization. The impact of the payment changes would be greater if they allowed bundled payments for chronic conditions such as congestive heart failure and diabetes over an entire year. After all, care for these chronic conditions accounts for more than half of all health care spending and avoidable services. The Secretary should be authorized to implement pilots that improve the quality of care and lower its cost on a national scale unless legislation is specifically enacted that prohibits the Secretary from doing so.

You and your colleagues should be applauded for including the four essential elements of a successful, fiscally responsible reform strategy. Much more could be achieved if the Senate strengthens the Medicare Commission and the delivery system reforms. Doing so would help to ensure that health reform both improves the health care that Americans receive and slows the growth of spending. We are ready to work with you to achieve these goals.

Sincerely,

Dr. Henry Aaron, The Brookings Institution
Dr. Kenneth Arrow, Stanford University, Nobel Laureate in Economics
Dr. Alan Auerbach, University of California, Berkeley
Dr. Martin Bailey, The Brookings Institution
Dr. Gary Burtless, The Brookings Institution
Dr. David Cutler, Harvard University
Dr. Laura D'Andrea Tyson, University of California, Berkeley
Dr. Angus Deaton, Princeton University

Dr. Peter Diamond, Massachusetts Institute of Technology
Dr. Victor Fuchs, Stanford University
Dr. Alan Garber, Stanford University
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