

CQ: Orszag Sees ‘Massive’ Opportunities to Cut Health Costs

By John Reichard, CQ HealthBeat Editor

Peter Orszag, President-elect [Barack Obama](#)’s choice to head the White House Office of Management and Budget, offered an upbeat assessment at his Senate confirmation hearing Tuesday of prospects for controlling health costs but warned that lawmakers must move quickly to get a handle on the problem.

“We appear to have massive opportunities to reduce health care costs without harming health outcomes,” he told the Senate Budget Committee. But the former Congressional Budget Office director acknowledged that the chance to act without meat-axe measures such as cutting benefits, coverage and provider rates will slip away if Congress dawdles.

Orszag’s assessment of the nation’s overall fiscal outlook was grim to be sure, and his testimony noted that if per enrollee costs in Medicare and Medicaid continue in the future as they have in the past, the cost of the two programs by 2050 will roughly equal that of the entire federal government today — 20 percent of Gross Domestic Product. But the choice of Orszag to head Obama’s budget team brings a cheerful presence to the administration’s efforts in the years ahead to slog through mountains of projected debt.

On the personal side, that meant bipartisan amusement at the hearing at the presence in the audience of his two young children, who seemed perpetually on the verge of shenanigans and who drew occasionally stern glances from their father who appeared worried about keeping them in line. When Orszag’s fears came to naught and Rhode Island Democratic Sen. [Sheldon Whitehouse](#) told Orszag that his own children at that age would have had “zero shot” of such good behavior, a delighted Orszag turned to his children from the witness table and mouthed a big “good job” by way of congratulation.

On the policy side, it meant pointing out per capita health costs vary widely across the nation with no correlation to health outcomes. In other words, lower costs can be compatible with higher quality and the way to get at those savings is to combine better health information technology and “comparative effectiveness” research to improve quality and efficiency and identify the best treatment methods while avoiding wasteful approaches. The Orszag formula also called for adopting financial incentives to adopt the best treatments once they are identified and to promote personal efforts to stay healthy.

Discussion of health costs dominated the hearing. Orszag is expected to be a leader on that front in the Obama administration as well as in crafting the incoming administration’s health overhaul plan. “The principal drive of our long-term deficits is rising health costs,” he said. “If confirmed, I look forward to working closely with Tom Daschle, the President-elect’s nominee to serve as Secretary of Health and Human Services and to run the new White House Office of Health Reform,” Orszag said.

Orszag said Medicare and Medicaid policy changes can help lead the way on controlling costs but he stressed that changes must be made throughout the entire health care system. “Indeed, were we to try to slow Medicare and Medicaid spending alone without slowing the rate of

growth in health care costs systemwide, we would simply create massive access problems for Medicare and Medicaid beneficiaries, since providers would be increasingly unwilling to serve those populations relative to others,” he said.

Senate Budget Committee Chairman [Kent Conrad](#), D-N.D., pitched the proposal he has made with ranking member [Judd Gregg](#) of New Hampshire to create a commission that would propose legislation to tackle entitlement spending, but Orszag was noncommittal. He said a number of approaches are worthy of examination, including one by Daschle to create a federal health board to control costs. (*See [@doc@related story@3009097@], CQ HealthBeat, Jan. 13, 2009*)

“I think at the heart of a lot of the problems we have with the health care system is the lack of incentives for better care,” Orszag declared, both for doctors and hospitals and for individuals to stay well. Demos and pilot programs could test different financial incentive schemes for providers to answer such questions as whether bonuses or penalties work better and whether it would be best to group doctors and hospitals together into “accountable care organizations.”

Orszag said it could take more than five or ten years for measures such as health information technology and comparative effectiveness research to begin lowering costs and said it is “crucially important” to adopt those steps as well as changed payment incentives quickly. “We need to start now.” Although Orszag didn’t discuss details of the stimulus package that Obama will soon propose, it is expected to include health IT investments and outside groups are pushing for the inclusion of comparative effectiveness funding as well.

Missing from Orszag’s presentation was any mention of universal health care coverage, although Orszag did refer to expanding coverage. Asked after the hearing about prospects for universal coverage in light of new projections of trillion dollar deficits, Orszag said Obama will seek sharply expanded coverage with universal coverage as a “goal.”

For his part, Gregg did not shy away after the hearing from saying he supports enactment of universal coverage even with huge deficits in the offing, and said such coverage will help control health costs. Gregg said he doesn’t use the term “universal coverage” since it means different things to different people but said Republicans will offer a private sector-based plan in which everyone will have affordable health coverage and that it “absolutely” would entail tax code changes to help pay the costs.

One point of potential compromise on universal coverage is to curb the deductibility of employer paid premiums from income taxes, an approach Oregon Democratic Sen. [Ron Wyden](#) has proposed to raise funds to subsidize the purchase of health insurance by those of modest means in a system in which individuals would be required to carry coverage. Wyden pressed Orszag to answer “in theory” whether tax code changes could quickly raise large sums to cover the uninsured.

“Isn’t it correct that there is so much money obligated under these federal tax rules that you could still honor those pledges [by Obama to not hit the middle class with tax hikes and to allow them to keep their current health coverage in an overhaul plan] and still in theory have the largest

single sum available to quickly expand health coverage for those who are underinsured and uninsured?” Wyden said.

“In theory yes,” Orszag replied. That response is sure to fan bipartisan hopes that Obama would comprise with centrist Democrats and Republicans on widening coverage through tax code changes.

Whitehouse asked Orszag whether he was committed to ending what he described as OMB’s role under the Bush administration as “hit man” when it came to killing off regulations. Orszag replied that he and Cass Sunstein, who has been nominated to head OMB’s Office of Information and Regulatory Affairs (OIRA), “are committed to reinventing the OIRA process.”

“We need a fundamental transformation of national regulation, one that rejects old-style remedies in favor of flexible, creative, user-friendly responses that increase benefits, reduce costs and are suitable to the distinctive challenges of the modern era,” Orszag said.