"The Future for Health Care Reform"
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This morning you are hearing congressional viewpoints on the future of our health care systems. Wearing two hats as I do -- on both the Finance Committee and as Chairman of the Senate Special Committee on Aging, I would like to focus in particular on Medicare -- the great federal health care commitment to our elderly that was begun in 1965, and what the future holds, not just for that program, but also what the future holds for addressing and meeting the increasing health care needs of our growing elderly population.

Looking into the crystal ball we see one particular, almost overwhelming trend. Demographers tell us that in coming decades, the growth of our elderly population will make great demands on our health-care system. Today, 25 million Americans -- 11 percent of our total population -- are over 65. By the year 2030, nearly 20 percent of our population -- will be over 65.

This morning I want to discuss the consequences of this trend, the conflicting pressures on Congress, a proposal to deal with these realities, and my political assessment of what Congress will achieve and when.

Increasing Pressures for Reform

Today, the awesome and overriding reality we in the Congress face is the need to get the Federal budget under control. And public health care costs have been consuming an ever growing portion of the budget. Taxpayers and consumers are pressing hard for relief. For quite some-time the American people have been concerned about sky-rocketing health costs. However previous command and control attempts -- comprehensive coverage and hospital cost containment--are not viable today because we better under-stand the effects of more regulation and the American taxpayer is saying no to new programs.

I find my colleagues in the Congress particularly sensitive to both budgetary pressures and consumers' concerns about health care costs. But I believe the Congress will remain reluctant to expand or otherwise improve benefits until there is more convincing evidence that what we plan to do will meet needs and not merely further fuel health care costs. Many on Capitol Hill are beginning to

believe that the only way to accommodate these pressures and to get more care for the cost is through infusing more competition into the system.

And so it is that the concept of competition in the medical market-place has been transformed from an exercise in academic model-building to the center of the national health policy debate as a feasible legislative remedy.

Problems with Medicare

The problems of spiraling costs and unmet needs that plague the health care industry in general, are rampant in the Medicare program. In the last 5 years, health care costs have jumped a shocking 81 percent. And our nation's demographic outlook promises only to compound our present problems.

The costs of the program are galloping out of control. Between 1980 and 2015, the public cost of treating the elderly will increase tenfold -- two times as fast as the increase in the Social Security cash benefit program. And a tenford extrapolation of a $41 billion total outlay is difficult to fathom, let alone to budget.

For all these soaring costs, the elderly health care consumer will get little more in the way of benefits than he or she does today. It's the older population that is expanding, not health care benefits.

Indeed, the elderly are faced with an increasingly dismal prospect of getting adequate assistance with their health care needs. In the first place, Medicare covers only 44 percent of the elderly's total medical costs. In the second place, the ability of older persons to select their physician is steadily diminishing because the number of doctors willing to accept assignment under the Medicare program is steadily declining. The assignment rate today is about 51 percent, down from 61 percent just 10 years ago.

The greatest shortfall of the entire Medicare program is its failure to provide the elderly with adequate protection against their largest health liability -- the catastrophic costs of nursing-home and essential long-term care services.

Most people talk about catastrophic costs in terms of exorbitant hospital bills. But the elderly encounter another, frequently worse, kind of catastrophy. Medicare's failure to address the issue of long-term care ultimately

forces too many elderly into inappropriate levels of care, or leaves them stranded with no services at all.

A Proposal for Competition in Medicare

Today the Federal government has a golden opportunity to provide real leadership in the whole health-care field by redesigning its own costly program -- Medicare.

There is -- in the Congress and elsewhere -- very widespread support for the idea of expanding consumer choice among providers and insurers. However, there are a significant number of skeptics about the proposition that consumer choice. . . combined with financial incentives for prudent purchasing. . . will really have an impact on health care costs.

Well we finally do have some evidence to prove that the competitive concept does in fact translate into tangible significant savings when applied to the Medicare population.

Within the past year and a half, the Health Care Financing Administration (HCFA) has funded a number of demonstration projects to test prospective Medicare reimbursement to HMO's. The intent of the projects is to expand the options for care available to the elderly, and to make Medicare reimbursement of HMO's compatible with their manner of doing business.

The results to date bode very well for competition in Medicare. Carefully conducted experiments have actually cut the hospitalization time of the sample population in half. In the fee-for-service system, the number of Medicare hospital days per 1000 elderly people averages 4000 per year. If we could reduce hospital days to an average of 2000 per year nationwide, we would realize huge budget savings in the years ahead. And if the prepaid arrangements plow just a portion of those savings back into additional benefits, the older consumer will have an extraordinary incentive to enroll.

For some time, I've been working for the adoption of legislation to broaden this promising concept to include, not just HMO's, but all other prepaid arrangements as well. So from here on out, let me use, if you will the generic term Competitive Health and Medical Plans or -- "CHAMPS" -- for all prepaid physician-insurer contractual arrangements.

I said earlier there is widespread Congressional support for the competitive concept. Indeed, last year,

an amendment to reform Medicare reimbursement to HMO's was passed by the House of Representatives as part of the Budget Reconciliation package. And when I wrote a letter to the Conferees on that bill urging them to adopt this provision, it was signed by over 40 members of the Senate.

We intend to build on that strong foundation, and in the near future, I intend to introduce a bill that would reimburse all so-called CHAMPS prospectively. Because we've broadened the scope of our bill to include all CHAMPS, we can universalize the results of our HMO demo's. The purpose of the bill is, in effect, to translate in the microcosm of HMO demonstrations and to transform the macrocosm of our national Medicare program, and ultimately our entire approach to health care financing -- both public and private.

The climate on Capitol Hill is now favorable for passage of the bill. Because of the Republican majority -- and the loss of certain Democrats in last years election -- the Senate Finance Committee is very receptive this year to our approach, and a similar measure looks as though it will pass in the House.

In my judgment there is every reason to believe that if we reform the current Medicare reimbursement mechanism for all CHAMPs and if we do not overregulate them. . . then they would strive to keep their costs as low as possible. . . they would work to improve their services and/or widen their benefits and thus offer the best and/or most care for the cost. . . and they would seek innovative ways of providing the most appropriate care for the patient . . . ways that utilize resources that are not fully or best utilized now.

Political Considerations

But I think we have to go into any competitive reform with our eyes open as to the current politics of health care. We have to realize that the political pressures from taxpayers to cut health-care costs are exceedingly strong, and we have to guard against yielding too much to those pressures.

In attempting to treat an ill system of high costs with a competitive remedy, we must remember that this remedy can't and mustn't obstruct our national goal of access to quality care for all Americans.

The reason health insurance came into being in the first place was to protect the individual from huge unexpected

medical expenses and to help guarantee accessible care. As you know, over the past 40 years, insurance has evolved from a buffer to a complete insulator for most consumers from most -- and in many cases -- any of the financial consequences of illness.

One of the premises of the competitive model is the need to make both consumers and providers more cost and therefore utilization conscious, through cost-sharing. We must be careful not to implement cost sharing to such a degree that it begins to block access to needed care. The protection and the guarantee of an adequate insurance buffer must be preserved.

Let me also note that, just as there are strong political pressures to keep costs down, there are others to keep them up. For all the debate about the merits and demerits of competition, my biggest question is whether the Medical Empire in our country will allow competition to work -- for both the Medicare and the employed population.

The so-called medical empire: doctors, hospitals, medical suppliers, the health insurance industry, all may well prefer the status quo plus some additional benefits, instead of programmatic reform. The medical empire has long resisted regulation. In my judgment it would be ironic and unfortunate for them to resist a system that allows competition in the marketplace to sort out what services our senior citizens most need and want beyond what they have today.

Some of you may recall that at the time the Federal Employee Health Benefit Plan was being considered by the Congress, each of the interested groups had its own ideas as to what the program should look like. But, as Bismarck once said, "Politics is the art of the possible, the attainable," and what finally emerged was a compromise that all groups could accept. It happened to be a model of fair market choice and competition.

That such a program could simultaneously make sense medically, economically, and politically, inspires some optimism about the prospects for injecting competition into Medicare.

Competition, in its best form, means concern about consumer needs, innovation in serving those needs, and restraint on costs. What is being proposed today, is to allow the health care consumer and the taxpayers -- rather than only the providers and Washington -- to determine what happens with health care. Given the political realities we face, chances are better this year than ever that some form of competition will become the organizing principle of our health care marketplace.