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November 17, 2009

President Barack Obama
The White House
Washington, DC 20500

Dear Mr. President:

On behalf of my colleagues, a group of distinguished economists, I am pleased to transmit this letter regarding essential components of health reform legislation.

Sincerely yours,

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

Alan M. Garber, M.D., Ph.D.

Henry J. Kaiser Jr. Professor
Professor of Medicine
Professor of Economics, Health Research and Policy, and of Economics in the Graduate School of Business (courtesy)
Director, Center for Primary Care and Outcomes Research and Center for Health Policy
Stanford University

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President Barack Obama
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Dear Mr. President,

As the full Senate prepares to debate comprehensive health reform legislation, we write as economists to stress the potential benefits of health reform for our nation's fiscal health, and the importance of those features of the bill that can help keep health care costs under control. Four elements of the legislation are critical: (1) deficit neutrality, (2) an excise tax on high-cost insurance plans, (3) an independent Medicare commission, and (4) delivery system reforms.

Including these four elements in the reform legislation – as the Senate Finance Committee bill does and as we hope the bill brought to the Senate floor will do – will reduce long-term deficits, improve the quality of care, and put the nation on a firm fiscal footing. It will help transform the health care system from delivering too much care, to a system that consistently delivers higher-quality, high-value care. The projected increases in federal budget deficits, along with concerns about the value of the health care that Americans receive, make it particularly important to enact fiscally responsible and quality-improving health reform now.

In developing our analysis and recommendation, we received input and suggestions from Administration officials, including the Office of Management and Budget and others, as well as from economists who disagree with the Administration's views.

The four key measures are:

- Deficit neutrality. Fiscally responsible health reform requires budget neutrality or deficit reduction over the coming years. The Congressional Budget Office (CBO) must project that the bill be at least deficit neutral over the 10-year budget window, and deficit reducing thereafter. Covering tens of millions of currently uninsured people will increase spending, but the draft health reform legislation contains offsetting savings sufficient to cover those costs and the seeds of further reforms that will lower the growth of spending. Deficit neutrality over the first decade means that, even during the start-up period, the legislation will not add to our deficits. After the first decade, the legislation should reduce deficits.
- Excise tax on high-cost insurance plans. The Senate Finance Committee's bill includes an excise tax on high-cost health insurance plans. Like any tax, the excise tax will raise federal revenues, but it has additional advantages for the health care system that are essential. The excise tax will help curtail the growth of private health insurance premiums by creating incentives to limit the costs of plans to a tax-free amount. In addition, as employers and health plans redesign their

benefits to reduce health care premiums, cash wages will increase. Analysis of the Senate Finance Committee's proposal suggests that the excise tax on high-cost insurance plans would increase workers' take-home pay by more than \$300 billion over the next decade. This provision offers the most promising approach to reducing private-sector health care costs while also giving a much needed raise to the tens of millions of Americans who receive insurance through their employers.

- Medicare Commission. Rising Medicare expenditures pose one of the most difficult fiscal challenges facing the federal government. Medicare is technically complex and the benefits it underwrites are of critical importance to tens of millions of seniors and Americans with disabilities. We believe that a commission of medical experts should be empowered to suggest changes in Medicare to improve the quality and value of services. In particular, such a commission should be charged with developing and suggesting to Congress plans to extend the solvency of the Medicare program and improve the quality of care delivered to Medicare beneficiaries. Creating such a commission will make sure that reforming the health care system does not end with this legislation, but continues in future decades, with new efforts to improve quality and contain costs.
- Delivery system reforms. Successful reform should improve the care that individual patients receive by rewarding health care professionals for providing better care, not just more care. Studies have shown that hundreds of billions of dollars are spent on care that does nothing to improve health outcomes. This is largely a consequence of the distorted incentives associated with paying for volume rather than quality. Health care reform must take steps to change the way providers care for patients, to reward care that is better coordinated and meets the needs of each patient. In particular, the legislation should include additional funding for research into what tests and treatments work and which ones do not. It must also provide incentives for physicians and hospitals to focus on quality, such as bundled payments and accountable care organizations, as well as penalties for unnecessary re-admissions and health-facility acquired infections. Aggressive pilot projects should be rapidly introduced and evaluated, with the best strategies adopted quickly throughout the health care system.

As economists, we believe that it is important to enact health reform, and it is essential that health reform include these four features that will lower health care costs and help reduce deficits over the long term. Reform legislation that embodies these four elements can go a long way toward delivering better health care, and better value, to Americans.

Sincerely,

Dr. Henry Aaron, The Brookings Institution

Dr. Kenneth Arrow, Stanford University, Nobel Laureate in Economics

Dr. Alan Auerbach, University of California, Berkeley

Dr. Katherine Baicker, Harvard University

Dr. Alan Blinder, Princeton University

Dr. David Cutler, Harvard University
Dr. Angus Deaton, Princeton University
Dr. J. Bradford DeLong, University of California, Berkeley
Dr. Peter Diamond, Massachusetts Institute of Technology
Dr. Victor Fuchs, Stanford University
Dr. Alan Garber, Stanford University
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