Tommy Thompson

Tommy Thompson served as Secretary of Health and Human Services from January 24, 2001 until January 26, 2005. As Secretary, he worked with Congress on the passage of the Medicare and Modernization Act of 2003 (MMA) that created Part D prescription drug program. Thompson broke ranks with the White House when he advocated for Secretarial authority to negotiate directly with pharmaceutical companies for discounts on prescription drugs for beneficiaries. During his tenure as Secretary, he focused on bioterrorism, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and obesity prevention. He also oversaw a historic doubling of the NIH budget.

Thompson has dedicated his professional life to public service. He served as Governor of Wisconsin for fourteen years. As Governor, Thompson focused on revitalizing Wisconsin's economy. He also gained national attention for his welfare reform efforts, the Wisconsin Works, or "W-2," program.

As a 2008 Republican Presidential Candidate Governor Thompson's platform included health care reform. He proposed to: 1) focus on preventive care rather than curative care; 2) accelerate the adoption of HIT; 3) create state-only pools for the uninsured that would allow private insurers to bid on their coverage; 4) strengthen the nation's long-term care system; and 5) strengthen the Medicare and Medicaid programs to ensure long-term health of the programs.

Thompson is currently the President of Logistics Health, Inc. He is also senior partner at Akin, Gump, Strauss, Hauer & Feld in Washington, D.C.

STATEMENT OF TOMMY G. THOMPSON
SECRETARY OF HEALTH AND HUMAN SERVICES, 2001-2005
GOVERNOR OF WISCONSIN, 1987-2001

ON

"SEIZING THE NEW OPPORTUNITY FOR HEALTH REFORM"

BEFORE THE

SENATE COMMITTEE ON FINANCE

May 6, 2008

Testimony of
Tommy G. Thompson
Secretary, United States Department of Health and Human Services, 2001-2005
Governor of Wisconsin, 1987-2001

"Seizing the New Opportunity for Health Reform"

Before the Senate Committee on Finance

Introduction

Good Morning Chairman Baucus, Ranking Member Grassley and members of this distinguished Committee. Mr. Chairman and Senator Grassley, I want thank you for your continued leadership on so many issues that are vitally important to the American people, including the topic that this Committee is examining this morning, transforming America's health care system. Thank you for the opportunity to share some of my thoughts and ideas on how to build a healthier and stronger America.

It is a particular honor to be here with my long-time friend, Donna Shalala. Even though we are members of different political parties, I have always been honored to call Donna a friend. And even though our approaches differ slightly, Donna and I both agree that fundamental changes must occur in our healthcare and that America is ready for those changes. While Donna is a Miami Hurricane for now, she and I both have Badger Red flowing through our veins.

The Problem

I'm here today to talk about something this distinguished Committee knows all too well: The health care system in America is a mess. We are sprinting headlong into a crisis that will fundamentally cripple our ability to provide care to those who need it most – the elderly, the uninsured and the underinsured.

This is a direct result of rising health care costs that simply are not sustainable – not for businesses, not for government and certainly not for families. America is ready for answers. America is ready for solutions. And America is ready for policymakers to put their differences aside and work together.

The problem is neither with caregivers nor with the quality of care itself. To the contrary, America has the finest health care professionals and the finest caliber of medical treatment of any nation at any time in history.

The problem is the means by which care is delivered or paid for. Our health care delivery system has simply not matured at the same pace as the technologies and treatments now available.

How big is the mess?

- Nationally, we spent more than $1.9 trillion on health care in 2004 – nearly $6,300 per person. That will rise to $3.6 trillion by the year 2014 – or more than $11,000 per person.
- As a share of our gross domestic product, it is projected to reach 19 percent by 2014 – up from about 16 percent in 2004.
- Medicare outlays will exceed income for the first time in 2012 – leading to a 75-year unfunded liability for Medicare of $68.1 trillion. *Trillion*.
- U.S. private employers spend more than $330 billion a year on employee health insurance. That includes more than $10 billion by the auto industry alone – more than they spend on steel.

That said, the American health care system remains the best in the world. As most realize, the United States will never embrace a single-payer system, even as government pays for a larger chunk of health care each year. Nor should we take that route. A competitive market is vital to ensuring that the U.S. health care system continues to innovate and provide the best care in the most efficient manner in the world.

I have some ideas that I'd like to share that will go a long way toward slowing the growth of health care spending while reducing the cost of health care for families. Taken together – these steps will lower taxes, increase access to health care and, in some cases, make the health care system a stimulant to the economy – instead of a drain.

Solutions

1. Medicare

Simply put, without significant reforms, Medicare is on the path to collapse. Government spending on health care is likely to double by 2017 to more than $2 trillion. A recent study by the government predicts that Medicare Hospital Insurance Trust Fund will begin to take in less than it pays out by 2013 and become completely insolvent by 2019. These latest projections should serve as a wake-up call.

A good part of the problem is plain-old demographics. Today, 12% of the population is 65 or older. By 2030, almost 20% of the population will be 65 or older. The number of working people per Medicare beneficiary is sliced nearly in half, from 4 to 2.5. We have not prepared for this long-known truth – America is getting older and there will be fewer young people to pay for the health needs of more older people. We have not prepared for our aging population.

What can we do about it? There will be no easy choices. We will need to increase revenue and we need to decrease spending. We will likely have to raise the age of Medicare eligibility similar to Social Security. How should we make these difficult decisions? I am calling for the creation of a bipartisan commission, similar to the base-

closing commission. This Commission should be charged by Congress and the next President to recommend solutions. 2017 is not that far away.

2. <u>Wellness, Prevention and Disease Management</u>

The first and best way to reduce health care costs – and improve people's health – is to keep them from getting sick in the first place. I call this the low hanging fruit of the health care debate, and we can all stand to pick – and eat – some low hanging fruit.

As a matter of economic, health and personal policy, we must do all that we can to promote the cause of prevention – living healthier lifestyles by eating right, exercising more and stopping smoking. This is a cause I adopted as HHS Secretary and one that I continue to feel passionately about.

In America, we're too darn fat. Our poor eating and exercise habits are literally killing us.

In the book, "What the World Eats," the authors note that Americans eat 3,774 calories each day (per capita, per day). That's more than any other nation, with France second at 3,654 calories per day and Great Britain third at 3,412.

More troublingly, however, the authors report that Americans eat 158.2 pounds of sugar and sweeteners each and every year – or the equivalent of a healthy, 5-foot-7 man. That's 47 pounds more than the second place country (Mexico).

Not surprisingly, after eating the equivalent of a whole additional person, we have the highest percentage of overweight people – an estimated 70 percent of American adults are overweight or obese.

What does this mean for the health care system?

- Obesity costs the American economy $117 billion a year.
- About 75 percent of our health care dollars are spent treating chronic diseases such as heart disease, cancer, and diabetes. And $75 billion of that treats obesity alone.
- These chronic illnesses—many of which can be prevented by healthy lifestyles—cause seven out of every 10 deaths.

Diabetes: 18 million have it today, 21 million will have it tomorrow, and 41 million Americans are pre-diabetic. On an annual basis, the Federal government spent $79.7 billion alone to treat those with diabetes. That amount is roughly equivalent to the total annual budget of the Department of Education.

But what can we do? All businesses – large and small – should encourage their employees to take up the cause of prevention. Your employees will be healthier, happier and more productive. That will be good for their waistlines – and businesses bottom line. In fact, I have a radical idea in this area. For employers, I believe we should cut off

access to tax deduction for health insurance, unless they have in place a wellness prevention and disease management plan that includes smoking cessation.

Businesses can do more. For example, they should work together with their insurance companies to structure insurance and benefit programs to encourage employees to adopt healthier eating and exercising habits. In auto insurance, for example, safe drivers who haven't had an accident or tickets are given better rates than those who bang up their car every few months. Shouldn't we similarly reward people who don't submit their bodies to undue wear and tear?

I just can't understand why we wait for people to get sick and then spend thousands and thousands of dollars trying to make them well again. Why not focus on keeping them from getting sick in the first place?

The impact of chronic disease on the U.S. economy is an issue of particular relevance today, given the ominous economic clouds on the horizon. According to a Milken Institute report: ***"An Unhealthy America: The Economic Burden of Chronic Disease":***

- The annual economic impact on the U.S. economy of the seven most common chronic diseases is calculated to be more than $1 trillion, which could balloon to nearly $6 trillion by the middle of the century.

- According to the study, seven chronic diseases – cancer, diabetes, hypertension, stroke, heart disease, pulmonary conditions and mental illness – have a total impact on the economy of $1.3 trillion annually. Of this amount, $1.1 trillion represents the cost of lost productivity.

- Assuming modest improvements in preventing and treating disease, Milken Institute researchers determined that by 2023 the nation could avoid 40 million cases of chronic disease and reduce the economic impact of chronic disease by 27 percent, or $1.1 trillion annually. They report that the most important factor is obesity, which if rates declined could lead to $60 billion less in treatment costs and $254 billion in increased productivity.

- Looking even further ahead, the report measures the possible cost to future generations if escalating disease leads to lower investments in education and training. In a snowball effect, the report warns, this loss of human capital and skill building could reduce the nation's economic output by as much as $5.7 trillion in real GDP by the year 2050.

    - Prevention has been proven to significantly reduce absenteeism and presenteeism, which account for over in $1 billion in lost productivity each year, according to a 2007 study by the Milken Institute.

    - The Milken Institute study also found that the U.S. could save close to $900 billion in indirect costs in 2023 by preventing rising chronic disease rates.

Several recent U.S. studies have shown that the lifetime health care costs of healthy weight adults are significantly lower than of those who are obese.

- According to research from the Rand Corporation, and newly published work by University of Florida researchers, the lifetime health care costs of normal weight adults with no co-morbidities are 20 to 40 percent lower than obese adults and adults with one or more co-morbid conditions.

- This lower spending occurs despite the fact that healthier, normal weight adults live longer lives than obese adults with multiple co-morbid conditions.

We must act aggressively to make prevention a centerpiece of America's health care system, beginning with our government run health care programs, Medicare and Medicaid.

Disease management is an exciting new field of care that we need to continue enhancing with the latest technological innovations. It can improve health and save money. A patient with a chronic disease might stick his finger into a home machine every day, knowing that his blood sugar levels would be instantly transmitted to his doctor. Armed with this current data, the doctor could send advice to the patient, and know when to call him in for a checkup.

3. <u>Health Care Information Technology (HIT)</u>

One of the keys to transforming America's health system - and improving care, reducing errors and, over the long term, saving money - is to incorporate information technology fully into the health care delivery system.

Virtually every other sector of the economy is charging ahead into the 21st century, and it is time for the health care industry to catch up.

For example, you can use your bank card in virtually any A-T-M in the world, from Bangkok to Moscow to Elroy, Wisconsin, to get your money and find out what the balance is in your checking account. But if you show up at an emergency room even 50 miles from home, you'll have to scramble to track down your medical history. A good health information system could save our economy $131 billion a year. That's about ten percent of our total health care spending.

It's time to make big, radical changes and transform our health care system. For HIT, the twenty-first century starts today.

We need a health information system that will reduce errors. Our doctors make more decisions in the exam room than pilots make when landing a plane - yet we provide pilots with scores of instruments and warning systems to prevent errors. We must give our

health care professionals the tools they need to detect and prevent errors - before they happen.

Today, Only 7 percent of doctors are e-prescribing and 30 percent of pharmacies are not able to receive electronic drug orders.

A 2006 Institute of Medicine report estimated that medication errors injure at least 1.5 million people every year people per year, causing $3.5 billion in extra medical costs. IOM estimates that 400,000 preventable drug-related injuries occur each year in hospitals and another 800,000 occur in long-term care settings. Many of these errors, including patients taking the wrong medicine, wrong dosage are easily preventable. A nurse who reads a script "myoo-jee" as an "MG," could administer too much of a drug-milligrams instead of micrograms. Some unrelated drugs have similar names. For example, when a drug called Losec was introduced, confusion with Lasix led to patient deaths. Writing or reading a decimal point in the wrong place also causes far too many medical errors.

We need to speed the rate at which we are integrating electronic health records into our health care system. To do to this I am advocating that we take fraud and abuse money and develop a HIT fund.

We must improve the systems in which our hard working, dedicated health care professionals provide care and services. To do so, we should focus on increasing the use of informatics and other tools; enhancing communication between frontline caregivers and all members of the health care team; and using evidence-based interventions in medical care and health promotion.

We need a health information system that will improve quality. Our biomedical research is the envy of the world, but even our best hospitals fail to give some patients the latest treatments, years after they've been proven appropriate. NIH says it takes from 10 to 17 years for new discoveries to be routinely used. That's shocking.

We need a health information system that automatically gives health professionals access to the patient-specific medical knowledge required for diagnosis and treatment - the latest research results from medical journals, the most up-to-date guidelines, the appropriate public health notifications. Our doctors then will not have to depend on their great memories any more.

We need a health information system that empowers consumers - that allows them to communicate with their doctors electronically, to receive their own test results, perhaps even to record what they eat and when and how much they exercise. We need a health information system that can do all these things regardless of where the physician and patient are - so that an illness or injury while traveling can be handled as safely away from home as it is at home.

We can have such a health information system and improve efficiency at the same time.

We know that lack of timely information creates huge, unnecessary costs - unnecessary tests, unnecessary x-rays, unnecessary doctor visits, even unnecessary hospitalizations. All of these events happen routinely because providers lack complete patient data. A good information system can save at least $100 billion a year- and probably more.

In places like Santa Barbara County in California and the Regenstrief Institute in Indianapolis, communities are sharing health information electronically and demonstrating improved safety, increased quality, and lower costs. In the federal government, the Veterans Administration and the Department of Defense have been leaders in applying information technology effectively in their health care activities.

We know it can be done - because it is being done. But it's too slow and too scattered. It's only being done in a few places where there are committed community leaders with high levels of expertise - and a lot of persistence. We need to develop our health information systems everywhere - not in just a few places. And we need to do it now. Health care markets need to develop and adopt more advanced information technology.

4. <u>Uninsured</u>

Today, it is estimated that 47 million Americans are uninsured. This number is unacceptable and must be addressed. However, I am not convinced that the individual mandate is the correct approach. We have seen in Massachusetts that the individual mandate approach is not effective at covering the most vulnerable part of the population, that part of the population which needs coverage the most.

I am a strong believer in creating opportunities for access and creating a marketplace for competition. A great example of success in this area is the new Prescription Drug benefit. I had the privilege of working with many of the members of this panel to enact this legislation. One significant premise of the program was to create a market in which insurance companies would educate consumers and compete for their business. What we discovered with the Part D benefit was that while there were initial struggles that you might expect with the creation of an entirely new program, we were able to provide coverage to the vast amount of people and those people were happy with their coverage. Why were we able to reach people and why are they happy with their coverage? I believe the answer is robust competition.

Like the Part D benefit, I believe that competition is the answer for the uninsured. I strongly support the creation of risk pools, one for individuals and one for families, in large geographic areas and creating a marketplace whereby insurance companies can compete for their business. Medicaid would continue to cover up until 125% of poverty and then people would have access to the risk pools above 125% of poverty. How do individuals then pay for the premiums? Senator John McCain has proposed refundable tax credits for individuals and families and I support that approach.

Conclusion

Mr. Chairman, Senator Grassley, these are just a few of the areas in which we need to address in order to improve America's health care system. Thank you for your leadership on this critical issue. I look forward to answering any questions that you or members of the Committee may have. Thank you.