THE HENRY J. KAISER FAMILY FOUNDATION kaisernetwork.org Health Policy As It Happens

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2007 FAH Public Policy Conference: Opening Session Federation of American Hospitals March 5, 2007

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TIM MARLETTE [misspelled?]**:** Good morning, everyone. Welcome to the opening session of the Federation 2007 Annual Public Policy Conference and Business Exposition. I'm Tim Marlette with Community Health Systems, and it's been my honor to serve as chairman for the Federations Exposition Advisory Board this past year. I'm sorry, I'm a little under the weather, so hopefully I can get through this.

The Federation is the National Representative of the best-around managed community hospitals and health systems throughout the U.S. The Federation plays a prominent role in shaping congressional debate on many important issues such as Medicare and Medicaid payment structural reform, rural health issues, development of compliance and quality guidelines, and confidentiality of patient records. This week, our program features a broad range of policy experts, business and health care leaders, elected officials as our outstanding faculty, and they will share with us their ideas on how the health care industry is evolving and what we as health care providers must do in order to ensure the continued delivery of higher quality and more affordable health care to our patients.

It has been an honor this past year to serve as your Expo Advisory Board chairman, and I'd like to recognize the

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hard work and dedicated efforts of all the other members of the Advisory Board. At this time, if you're a member of the Advisory Board, if you please stand up and be recognized, I would appreciate it.

[Applause]

Their diligent work and planning have made this program one that will be especially rewarding for all of us. Time is short, but I do want to mention some of this year's sponsors who underwrite the educational efforts of the meeting. The officers and members of the Federation wish to thank all of the sponsors for their generous support of the conference. You'll find a complete listing of the conference sponsors in your program. We gratefully acknowledge their contributions.

Today's session has been underwritten in part by our good friends at Cardinal Health, GE Healthcare, Hill Rom, KCI, Medline, Roche Diagnostics, we would also like to thank at this time Foley and Lardner for sponsoring last evenings welcome reception. Abbott for sponsoring *The Wall Street Journal*. MedQuest for sponsoring our hotel keys. Ansel Healthcare for their contributions for the conference floral décor. Seaman's Medical Solutions Diagnostics for under riding the bio directory. Mickeson Corporation for sponsoring the registration portfolios, and Broadline for

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sponsoring the supply directory. Toshiba American and Johnson & Johnson Healthcare for sponsoring the conference program and Merck and Company for underwriting the conference. Thanks for your patience while we recognize our sponsors.

At this time, it's my pleasure to begin a presentation for the First Annual Cores [misspelled?] Boyd Award. Anyone who's ever met Cores Boyd knew that he was an exceptional person, and we were saddened by his untimely passing in December of 2005. Cores served on the Federations Expo Advisory Committee for many years, serving twice as Chairman. The FAH Exposition Advisory Committee has established the Annual Cores Boyd Leadership and Diversity Award to honor Cores, whose vision of building a better way to live and work through leadership and diversity was embodied in the many accomplishments for which he's known. The award honors an individual or company that has made an outstanding contribution in fostering leadership and work place diversity in the health care industry.

And now onto the first recipient of the award, and I would like to mention that our recipient was nominated by two individuals from different organizations. The nominee is a senior level management responsible for all facets of supply chain operations for his company. His team ensures that the

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company's hospitals alternative sites have pharmaceutical supplies and equipment they need to care for patients. At no time have the nominee's impressive leadership skills been more evident than during the days following Hurricane Katrina. Surrounded by flood waters and without power, a hospital had to be evacuated and needed help from the company's headquarters. While the team at the hospital worked fervently to care for patients and plan evacuations, the company's corporate office tirelessly coordinated the massive effort to rescue at least 1,200 people, including dozens of critically ill patients as well as employees, physicians and family members.

The nominee is credited with leading the effort to get stranded people that needed food and supplies and marshalling several of the helicopters and flight crews that participated in the four day airlift. The relationships the nominee has cultivated over the years with vendors has helped the company provide the hospital the necessities to sustain hospital operations. The result was a successful evacuation in the midst of a challenging environment in the city.

The nominee's commitment to impassion to improving diversity is also well known throughout the company. The nominee has served on the company's diversity task force since it was established. The company's diversity task force

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serves as a primary resource for the company's senior leadership to develop a strategic vision and priorities for increasing diversity and fostering a culture of inclusiveness. In addition, the nominee plays a leadership role in the company's supply chain and supplier diversity initiative, which was created to develop and support business relationships with minority- and women-owned businesses.

Ladies and gentlemen, please join me in honoring the memory of Cores Boyd by presenting the First Annual Cores Boyd Leadership and Diversity Award to Ed Jones.

[Applause]

Ed, if you're here, please come on up. I think Ed's supposed to be here, is he here?

[Applause] I need to take a picture here. I just want to read the inscription on the plaque, "The Federation of American Hospitals, 2007 Cores Boyd Leadership and Diversity Award presented to Ed Jones, Vice President National Account Healthdress [misspelled?] Purchasing Group. In grateful appreciation for continuing Cores Boyd's vision of building a better way to live and work through leadership and diversity. His outstanding leadership, knowledge, experience, energy, wisdom and integrity have been instrumental in promoting an awareness of changing behaviors and empowering others to join the ongoing efforts to address

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adversity in healthcare. He has earned widespread respect and appreciation from his peers in the health care community, all of whom have benefited considerably from his selfless commitment."

ED JONES: Thanks, Tim. To say that I'm a little bit in shock, extremely humbled and honored to be standing here and accepting this award. Like too many other things, you know people, it's not just about one person, it's about an overall team and for me, I've been extremely blessed to work with some incredible people within HC and HealthTrust, within the industry, and makes my job a lot easier to do that, and it starts really at the top. When you look at HCA, the chairman and CEO, Jack Bowman, made a commitment to diversity about seven years ago to the entire management team, that this was his initiative, it was his goal to create as part of the culture and the fabric of HCA. And that really makes the area of diversity and successes that we've had much more possible.

Second to that, Jim Fitzgerald, who is the president and CEO of Health Cross, started this initiative many years ago within Health Cross and HCA, worked side by side with Cores over the years to really put a program together that was something that we're very, very proud of and something,

again, that's made, made my job a lot easier in that respect, and so all through time, one person gets more credit than they deserve and really it's the team that really deserves the credit overall.

And then finally I want to thank Cores, who was a good friend, and somebody who I really miss every day. And I appreciate the friendship that we had and the things that I learned from him as it relates to supply team and diversity. Thank you very much.

[Applause]

TIM MARLETTE: Just to echo that, I was a good friend of Cores as well and I certainly miss him every day as well.

At this time I'd like to introduce Chip Kahn, who does an outstanding job of leading the Federation on a day-to-day basis. Chip has served as president of the Federation since fall of 2001, and he's going to serve as you moderator for the remainder of the morning. Chip.

[Applause]

CHIP KAHN: Well, thank you, Tim, and good morning, everyone. And I want to express my deep appreciation for Tim, his efforts and the efforts of the entire exposition advisory board, and of course, all our sponsors who help make this meeting possible during the next two days, we'll

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obviously be identifying you individually, but we really do appreciate the help that we get from the sponsors.

And we have a great program this morning, but before we get on to it, I'd just like to highlight a few other items in the program that I'd like you to focus on. First, at 9:30 today, from 9:30 to 10:45, we have a session in the cotillion ballroom covering Americas Uninsured: View From Capitol Hill. As many of you know, the Federation members have set out as goal, a covering all Americans, we have a proposal, it's our priority, and this session is part of the process, the national conversation we want to get going to get policy makers uncovering all Americans.

Second, tomorrow morning, I was glad to see everyone here bright and early this morning, tomorrow morning if you can get here at 8:00 we're going to start promptly at 8:10, I'd appreciate it. We've got a great program. Chairman Rangel of the Ways and Means Committee, Senator McCain, Senator Wyden, HHS Secretary Leavitt, and Labor Secretary Chow. It's going to be a great program, we're going to get started right on time. Come, listen to the good presentations, bring questions, and we'll have a good session.

Now, before I begin, there's still some seats over here, so if any of you in the back want to move over, we have

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more seats over here, really appreciate you all coming this morning, we have a great crowd.

Now, it's my pleasure to introduce David Walker, comptroller general of the United States Government Accountability Office. David is the seventh comptroller general of the United States. He began his 15-year term in November 1998. As comptroller general, he heads up Congress' Governmental Accountability Office. David has extensive experience in both public and private sectors. He served as a partner and global managing director of the Human Capital Services Practice of Arthur Anderson. From 1990 to 1995, he was a public prestige for the Social Security and Medicare programs.

Some of you may have watched "60 Minutes" last night. During the program David gave an unflinching assessment of our nation's fiscal situation and particularly as it regards the entitlement programs and the future. It's part of his stop on the fiscal wakeup tour. Today is an official stop on the fiscal wakeup tour. We're going to hear his remarks about the country's fiscal situation. But I think it's important to say that we should look at these remarks as important as, and as difficult as they are to listen to, they are simply a wakeup call. They are simply saying that we need to take on these issues, look for solutions, look for resolutions and

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the wonderful thing that David is doing and going around the country and making his point, is that if we take these issues on now, if we cope with them, solutions will be easier and we can move on into the future and look forward to a better future for our children.

So, with that, let me give you the Comptroller General of the United States, David Walker.

[Applause]

DAVID WALKER: Thank you, Chip. It's a pleasure to be here with you this morning. You can see me, I can't really see you with the lights, but the important thing is for you to be able to see the screen because I'm going to use a PowerPoint format to be able to convey some very important information.

Let me start by saying that as by comptroller general of the United States and as head of the GAO, I'm the nation's defacto chief accountability officer. And at GAO, we're in the facts-and-truth business. Our job is to provide the facts and state the truth in a professional objective non-partisan and non-ideological fashion and our job is not just to focus on today, but to help the Congress and other policy makers be in the position where they can try to deal with issues before they reach crisis proportions and to help prepare for a better tomorrow.

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And that's what this is about. If I can, let me start by talking about what the composition of the federal budget laws in '66 and how it's changed in the last 40 years. So I'm going to talk about the past, the present and the future, and a possible way forward with an emphasis on health care.

In 1966, the U.S. budget at the federal level was comprised, as you see here, on the far left pie chart. Forty-three-percent for defense. One-percent for Medicare and Medicaid because ,as you know, these programs were created in 1965 and 1966 was the first year that we had expenditures. Fast forward 40y years, defense has gone from 43-percent down to 20 and that counts a lot Afghanistan and the Global War on Terrorism. Medicare and Medicaid has gone from 1-percent to 19-percent and discretionary spending has gone from 67-percent to 38-percent. You don't see that here but I know that number, those numbers by heart. By the way, discretionary spending includes national defense, homeland security, education system, judicial system, transportation, other infrastructure and, of course, GAL, very importantly. The fact is, is that entitlement programs and other forms of mandatory spending are squeezing discretionary spending and yet, when you look at the preamble of the Constitution of the United States, some of those discretionary spending programs

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are in the Constitution and some of the programs that are vital programs that need to be reformed, not done away with, are not in the Constitution of the United States.

And if you look, in the last year alone, interest in the federal debt has gone from 7-percent to 9-percent. Why? Because we're adding debt at, or near, record rates and interest rates that started to up. The compounding effect, when you're a debtor, is not a positive factor. When you're an investor, the miracle of compounding works for you. When you're the world's largest debtor, aka The United States of America, the miracle of compounding works against you.

Part of the problem is the government had at least three ways to keep score on deficits. These are in billions of dollars, so you need to add nine zeros to the right of these numbers in order to appreciate the magnitude. In the last two fiscal years, yes, it's true that the deficits, whether it's the unified budget deficit, which is the lowest number and the one that politicians and the press tend to focus on, it's gone down from $318 billion to $248 billion. Or the cash-based operating budget deficit, or so called un-budget deficit, which excludes the social security surplus, in other words we spend all that money every year, we have been, that went down from 494 to 434. Or even the financial statement number, which is an accrual basis, went down from

760 to 450. Well, obviously smaller deficits are better than bigger deficits, but we haven't been in a recession since November of 2001. We had strong economic growth and only about a $100 billion dollars of these numbers had anything to do with Iraq and Afghanistan. This is improvement.

And this is the good news, because the future will get worse if we don't start getting serious soon. If you look, in the last six years alone, and the only reason I picked six years is not because of who might have been in office for six years, of who might have been in control of the Congress for six years, it's because these numbers have only been maintained for the last six years and publicly reported, some of these numbers. In the last six years alone, the total liabilities and unfounded commitments in the United States federal government, and those unfounded commitments include Social Security and Medicare. The difference between how much we promised over the next 75 years and the dedicated payroll taxes and premiums that we have to deliver on those promises, the funding gap discounted back in current dollar terms, stated differently, how much money you would have to have today invested at treasury rates to deliver on that promise, when you take the total liabilities and unfounded commitments, they've gone from $20 trillion to $50 trillion in six years. Now, a trillion has 12 zeros to the right

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aisle, and I don't know about you, but most people have difficulty with billions, much less trillions and tens of trillions.

So let's take these numbers and translate them into terms that you and I and others might be able to relate to. Fifty trillion dollars is 95-percent of the total net worth of every American household, including billionaires. Fifty trillion dollars is $440,000 dollars per American household. The median household income in America is about $47,000 dollars. Therefore, on our present path, if we do not make fundamental reforms, in order to deliver on our existing promises, the typical American household has an implicit mortgage of nine and a half times their annual income. But unlike most mortgages, this one is not backed by a house. The only asset that Americans have in order to be able to deliver on this obligation over future years is their citizenship in the United States, which is valuable and which does provide unparallel opportunities to earn and to maximize ones potential, but there, just like in the Social Security and Medicare trust funds, there are no hard assets backing that obligation.

By the way, as we all know, in Washington, words are used that don't necessarily mean the same thing as Webster's dictionary, and one of which are the terms trust funds.

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There are no trust funds. There are sub-accounts of the general ledger and, by the way, if you look at the financial statements of the U.S. government, the bonds of those trust funds are not deemed to be a liability of the United States government. That is wrong, that needs to change, and I'm going to try to change it.

Six years ago, this is what our fiscal future looked like. The bars represent federal spending as percentage of the economy, so inflations taken out. The lines represent federal revenues as percentage of the economy, so inflation is taken out. If the line is above the bar, that's called a surplus. We used to have those, but those days are gone. If the bar is above the line, which you don't see here, but you will on the next one so just wait, that would be a deficit. In January of 2001, when I testified before the House and Senate and people were so concerned that we were going to pay off all the federal debt, now frankly I thought about three nanoseconds about that, but people were really allegedly seriously concerned about that. This is what our fiscal future looked like. We had fiscal sustainability for 40-plus years. This is what it looks like today. If you assume that all tax cuts are made permanent, if you assume that something is done with regard to AMT, if you assume that federal revenues stay at roughly the same percentage of the economy

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that they have historically, if you assume that Social Security and Medicare are not reformed, if you assumed that we continued to debt finance, and if you assumed that discretionary spending which includes national defense, homeland security, et cetera, et cetera, rose by the weight of the economy, then this is our fiscal future. Rather than having fiscal sustainability for 40-plus years, the model that generates these simulations blows up in a little over 40 years.

Now, part of the problem, in fact, the major problem, is represented by entitlement programs, Social Security, Medicare and Medicaid, this represents the projected spending on these programs as a percentage of the economy. By the way, this does not include interest on the federal debt, which I can assure you, we will pay. We will not default, in my view. Therefore, if you look at these programs alone, you can see that we're headed to a future whereby the entire historical level of federal taxes will be consumed by these three programs alone. As they say in Texas, that dog don't hunt. This ain't going to happen. And the sooner we recognize reality, the more actions we have, the more time we have to phase it in, and the more time that individuals have to be able to make adjustments, because the facts are clear and compelling.

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If you look at our nation's expenditures, tax expenditures represent the foregone revenue as a result of deductions, exemptions, exclusions, credit, et cetera. In fiscal 2006, the single largest tax preference in the Internal Revenue code related to the fact that no individual pays income tax on the value on employer provider and paid healthcare, irrespective of how wealthy they are, how much money they make, and how lucrative their health care program might be. That alone loses $125 billion a year. If you add payroll taxes on top of it, which most Americans don't pay unless you're a small business, sole proprietor, or some certain type of situation like that, then it gets close to $200 billion dollars a year and rising rapidly. I would respectfully suggest that one of the things that we need to do is that we need to put tax preferences on the radar screen. They're not part of the budget process, they're not part of the appropriations process, they're not part of the financial statements in the United States government. We need to change that because if you're trying to stop the bleeding on the bottom line, you need to look on both sides of the ledger. We need to make sure that spending programs and tax policies are generating positive outcomes and right now, in many cases, we just don't know.

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If you look at the trends, the green line represents mandatory spending in inflation of adjusted dollars, so these are real dollars, not nominal dollars. If you look at the red, that represents the tax expenditures and if you look at the blue, that represents discretionary spending. You'll see that mandatory spending is on a march. An unrelenting march which causes the numbers that I talked about before to occur and you can see that in some years, tax expenditures accumulated are more money than discretionary spending. So we've got to look at all dimensions.

What's the bottom line? The status quo is not an option. There is no way we're going to grow our way out of this problem. Anybody who tells you we're going to grow our way out of this problem, number one hasn't studied economic history, and number two is probably not very proficient at math. Faster economic growth can help, but we're going to have to start making some tough choices. And we need to do it sooner rather than later.

Now, what's a possible way forward? First, we need to provide more truth and transparencies to where we are financially and where we're headed fiscally. We need to engage in a public education program to help the American public understand the need for dramatic and fundamental reforms and what the consequences to our country, our

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children, and grandchildren will be if we don't mend our ways. I am a baby boomer. Many of you may be. The baby boom generation is on a track to be the first generation in the history of the United States not to leave the country in a better position for the future. That is unacceptable to me. That is a failure of our stewardship obligation and it's something that needs to be changed and I'm going to try to do my part to do that.

Public education is essential, such that the first three words in the Constitution come alive and they're the three most important words in the Constitution, "We the people." We the people are responsible and accountable for what does or does not happen in the capitals around this country. We need to bring in performance metrics to understand which programs and policies are working and which one don't. This country spends close to $3 trillion dollars a year, issues tax preferences of close to a trillion a year, issues thousands of pages of regulations a year and for the most part, it has no idea whether those programs and policies are working or not. Other countries have them, we need to have them and we at GAL are working with the national academies, the organization for econ development, and others just to make that a reality.

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We need to bring back tough budget controls that expired in 2002, but guess what? We need tougher budget controls because we're in worse shape and the tsunami of entitlement spending is closer to hitting our shores. The first baby boomer reaches 62 and is eligible for early retirement and Social Security next year. The first baby boomer reaches 65 and is eligible for Medicare three years later. Seventy-percent of financial analysts recommend that people take Social Security at the early retirement age irrespective of whether or not they're retiring or not. The wave is on the horizon and will start hitting our shores soon.

We've got to bring back tough budget controls on both sides of the ledger. We need to reform our legislative processes such that congress has to consider, not just the one-year, five-year and 10-year costs of both spending and tax proposals, but the discounted present value dollar cost. In the case of Medicare prescription drugs, that number was $8 trillion dollars. Eight trillion dollars, not disclosed, not discussed before the bill was enacted in the law. At that time, the unfounded obligation for Social Security was several trillion less. What type of credibility do you have going to the American people saying, we need to reform Social Security, which we do and we need to do it sooner rather than

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later, when you just add a new benefit that costs more than the one that you're trying to reform? There's zip credibility in that. And it's time that people change their ways, and that is a non-partisan statement. The system is broken.

We need to reexamine and transform government for the 21st century. A vast majority of the United States government is based upon conditions that existed in the United States and of the world in the 1940s through the 1970s. For example, the definition of disability, 1947. The organizational model, classification compensation system of most of the federal government, 1950s. The tax preferences for employer-provider health care, 1940s early 1950s. Some of the weapon systems that we're building, Cold War era. We need to step back and reengineer government for the 21st century. That will take us 20 years. But we need to get started now.

Time does not allow me to go through all these details. I will post these slides on our Web site, which is www.gao.gov under the "From the Comptroller General" section within the next day or two, and you, when you have more time, at your leisure can take a look at these specific possible ways for with regard to the three elements that I talked about. I mentioned a few already.

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That's for financial reporting. On the budget and legislative processes, here are some of the things that I think we need to be debating, and in many cases we need to be enacting sooner rather than later. In my view, if you bring back tough budget controls, if we improve truth and transparency about where we are and where we're headed, if we have these legislative reforms, we then need to figure out a way that we don't just balance the budget within a reasonable period of time, in my view we ought to be balancing the operating budget not the unified budget. No company, no college, and no country can afford to run large growing structural operating deficits with impunity over time. And no family can either.

So, we need to bring back those controls and we need to not just have a balanced budget within a reasonable period of time, we need to make a down payment on that $50 trillion dollar imbalance and we need to figure out how we can end up chipping away at the balance of it over a number of years, and it's going to take us probably 20 years to do that. But we need to get started now, because that $50 trillion number is going up $3 to $4 trillion every year on autopilot.

With regard to fundamentally examination and transformation, these are some of the thoughts that we need to engage in and, yes, we need to try to figure out how we

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can close the tax gap, the roughly $300 billion dollar between what people should be paying and what they actually do pay, but we'll never make that zero and we need to recognize that we need more fundamental reforms, including fundamental tax reform that will improve economic growth, improve equity and fairness and generate more revenues over time. This document is on our Web site, it's called "21st Century Challenges: Reexamining the Face of the Government." It is a foresight document. At GAO, we're in three businesses: oversight, insight and foresight. This is a foresight document. It raises over 200 illustrative questions that need to be asked and answered to reengineer government for the 21st century. These are the areas that are covered, and you can see health care is there.

As I said last night on "60 Minutes," there are a number of things driving our long-range imbalance, but health care is number one. And if there is one thing that can bankrupt America, it's health care. These are some of the illustrative questions that are included in the document dealing with Medicare and Medicaid, dealing with the need to reexamine our health care system, again, at your leisure you can look at it. I want to make sure we have time for Q&A.

These are the key dates for Medicare Part A. We're already running a negative cash flow in Medicare. The

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projected date of exhaustion of the trust fund for Medicare is 2018. This is the growth in health care spending. An unrelentable and unsustainable path. This is what health care spending has done in a five-year period. The red represents health care spending per capita, the green is CPI for medical, the black with the delta is the GDP, and the blue is CPI for urban consumers. And you can see that health care is growing much faster than the economy.

This represents a scatter-gram of what percentage of our economy as compared to other nations that we spend on healthcare. We spend 50-percent more of our economy than any nation on Earth. It's not a money problem, there's plenty of money there. This is the non-elderly uninsured population, and the trend in that number. We have the highest uninsured population as a percentage of the population of any industrialized nation on Earth.

When you look at outcome based statistics, which we need, and you look at the OECD numbers for it's member countries, in which we are one of 30 member countries, you will see that for life expectancy at birth, we're 23 out of 30 in 2003. It hasn't changed dramatically since then based on data that I've seen, but I wish we had more recent data. One of the real problems that we have in healthcare is the data is dated. When I was a trustee in Medicare, I was

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shocked and appalled at how old the data is, given the amount of the budget represented by Medicare and given the percentage of the economy represented by health care. Infant mortality, 25 out of 30, potential years of life lost 23 out of 26 and, by the way, all 30 countries aren't major industrialized nations. The administration, to its credit, has changed its position of late. Two years ago, it said deficits don't matter, then it said deficits matter but they're coming down, now it says deficits matter and they're coming down but we've got this large and growing imbalance over the long term, we need to balance the budget within a reasonable period of time, we need a down payment on that $50 trillion dollars and we need to figure out where do we go from here. Does that sound familiar? That's within the last two years.

These are some of the things that they've been proposing in the health care area. First, reduce the tax preference from employer-sponsored health care, not the employer deduction, which would be one of the dumbest things you could do because employers would get out of the business of offering health care, but the exclusion to the individual in certain circumstances. And I think it's inevitable that that exclusion is going to have to be limited at some point in time in the future, for a variety of reasons.

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Secondly, to slow the annual growth of Medicare spending, and we've heard this before, through reduction in provider reimbursements. To increase Medicare revenues through expanding income-related premiums for part B and part D. To slow the growth in Medicaid spending with regard to reimbursements and restructuring, and to reauthorize the CHIP program for five years with some modifications.

Now, there are pros and cons to what they're proposing. There are some things that you like and some things you don't like, but I will tell you this, they deserve credit for putting something on the table. And if this was enacted, and I do not expect that all of this would be enacted into law for a variety of reasons, it would represent an $8 trillion-dollar-plus down payment on our fiscal imbalance. So at least they deserve credit for putting something on the table and what I would suggest to you is this: It's not a matter if there are going to dramatic and fundamental changes in health care, it's a matter of when and what. The status quo is unsustainable and unacceptable. It's very important that when you see proposals, that you don't like, that you start coming up with options because the status quo is not sustainable.

These are some of the health care bills that are up on the Hill now by various members, and I know you're going

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to be hearing from one or more of these members over the next several days. Now, let me give you my perspective on health care and GAOs as of today.

In my opinion, for any system to work, a corporate government system, a tax system, a health care system, you fill in the blank, you have to have three things for it to function effectively and be sustainable over time. Number one, incentives for people to do the right thing. That doesn't necessarily mean tax incentives. Behavioral incentives. Secondly, transparency to provide reasonable assurance that people will do the right thing because somebody's looking, a consumer's looking, the government in looking, a not-for-profit or independent sector organization's looking, the press is looking, there's a lot of people who look. And thirdly, accountability if people do the wrong thing. Incentives, transparency and accountability. And with all due respect, I would say in health care, we're zero for three. Baseball season is upon us. That's called a strikeout. We can, we must, and ultimately, we will do better.

Ultimately we're also going to have to address four key dimensions, in my view. Access, cost, quality and personal responsibility. And on personal responsibility, let me note, that one of the areas that we're number one in in

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the world, in addition to spending on health care, is not a good indicator of future health and future health care expenditure. And that where we're number one, and nobody's even close, it's called obesity. These are some of the things that we believe, and I believe, need to be discussed and debated. There are short term actions and there are long term actions that need to be considered. And some we're going to have to do over a period of time and therefore require both short-term and long-term actions. You're going to see debates about whether and to what extent the government should be able to leverage its purchasing power. You're going to see debates about whether or not the states should have more authority to serve as experiments, which is what the founding fathers intended. You're going to see debates about whether or not there should be limits on direct advertising of prescription drugs and whether or not there should be limited re-importation of prescription drugs. You're going to see discussions about the need to improve transparency in connection with health care costs and outcomes because 85-percent plus the cost is paid for by somebody who doesn't receive the service and the disconnect that can occur there. You're going to see debates about how incentives can be created to encourage physicians to use prescription drugs in appropriate ways and other products and

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services. But right now, what we have is a system that encourages more and does not have that adequate checks and balances as to cost and as to outcomes, and my wife had a personal health experience within the last year that was a case study in that, where she had thousands of dollars of tests done and where the physicians ended up doing every test that they could think and on the last test we asked a simple question, "How much does it cost?" They had no idea and they said, "Don't worry about it, your insurance company will pay for it." And my answer was, "Doctor, you don't seem to understand how insurance works. They may pay today, but we pay tomorrow." And in many cases, what's going on in this country, nobody's paying today and we're expecting our grandkids to pay tomorrow with compounded interest.

We need to encourage more case management approaches which is done in the private sector but not done by federal government programs to the extent that it should. We need to reexamine the design of entitlement programs, including more income related approaches. There's a difference as to whether or not you should have an opportunity to be covered by Medicare and how much you should pay for it. The government historically has not decoupled those. We're going to have to start decoupling those and looking at income related approaches to a much greater extent. We've got to

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re-look at the tax preferences. We need to encourage preventative care and wellness services in circumstances where it's clearly beneficial both from a health, as well as from economic, and a cost perspective. We need to promote more personal responsibility for health care and there need to be consequences if people do not take care of themselves. They should not be able to exercise an unlimited put option on their children and grandchildren. We need to ultimately mimic the growth of government sponsored health care systems. States will limit the growth because they have constitutional balanced budget requirements, they have rated debt that is not presumed to be the safest rating, and therefore they will ultimately control their cost. Corporations will control their cost because they'll go out of business if they don't control their cost, the only entity that does not have an effective cost controls is the federal government because it charges the credit card, it has an unlimited credit limit, as of today, and it just passes it on to future generations.

We need to develop a set of basic and essential healthcare services that every American would have access to. Basic and essential, those words were chosen carefully. We need to develop a set of evidence-based national practice standards to help avoid unnecessary care, improve outcomes and reduce litigation. Done by professional physicians and

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those in the health care industry, not by those in Washington. And we need to make sure that we are pursuing multi-national approaches to investing in health care RND, as we did in the case of defense in years past.

In summary, four things. We need to insure universal access to some basic and essential set of service over time. That might be in lieu of, in fact it would be in lieu of some things that we're doing now for certain segments of the population. Secondly, we need to control costs, we need to have a budget at the federal level. Thirdly, we need to have above average outcomes for an industrialized nation. And fourthly, individuals have to assume more personal responsibility for their own health and there need to be consequences if they don't.

In closing, America has four serious deficits today. We have a budget deficit. We have a balance of payments deficit, of which the trade deficit is a subset. We have a savings deficit for the first time since the Great Depression, Americans spent more money than they took home for two years in a row. And the most serious deficit of all, we have a leadership deficit. Whether it's the public sector or the private sector, people are living for today and many families are living for today. We can't just generate positive results today. We have to prepare for a better

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tomorrow. And with regard to leadership, we need more leaders in the public sector, the private sector, and the citizen sector who exhibit four key attributes, and hopefully you are one of these. Courage to state the facts and speak the truth and to do the right thing, even though it may not be popular, even though it may be counter-cultural. The integrity to practice what you preach and to lead by example, to recognize that the floor is, the law is the floor of acceptable behavior and who strive for a higher calling. Creativity to find new ways to solve old problems and to help others to see the way forward. And stewardship, last but not least, to recognize that our responsibilities as leaders is not just to generate positive results today, not just to maximize value and mitigate risk today, not just to leave things better off when we leave than when we came, but most importantly, and the heaviest lift, to leave things better positioned for the future.

And when I go on the fiscal wakeup tour, the last slide that I show, which I don't think I have here today, is a picture of my three grandkids. They did not cause our problem, but it is their problem. They will pay the price. They will bear the burden if we don't get our act together sooner rather than later. They're too young to vote, they don't have a voice. I'm their voice. I'm more than happy to

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answer any questions you have. Thank you for your time and attention.

[Applause]

I have to do like this in order to be able to see, so if you come up, I think there are microphones here down all the aisles. I can't imagine this is a shy group. Although it is early in the morning. We've still got about another 10 minutes, nobody has any questions? Yes, sir. You want, can, yes, sir, if you can just go right here on the aisle, there's a microphone right there. Well I'm glad you asked a question because I give lots of speeches and I've never had a situation where no one had a question.

MALE SPEAKER: Thank you for your presentation. One thing I didn't see in there is, what impact does illegal immigration have in terms of the education and Social Security and Medicare?

DAVID WALKER: Good question.

MALE SPEAKER: I don't know if it's a large problem, a small problem—

DAVID WALKER: No, no, good question.

MALE SPEAKER: Just common sense intuitively says something doesn't seem to add out if they're not paying taxes, why should they get benefits?

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DAVID WALKER: Sure. Well, first, we have about roughly a million legal immigrants a year coming into this country, and that's what's assumed in the Social Security and Medicare projections, we also have an illegal immigration problem, which we're all aware of and which is probably beyond the scope of this session but we do do work on that and I do have views on that. The bottom line is this. When you look at the structure of our economy, when you look at who we're competing with, and the basis under which we have to compete, we have to compete based on skills and knowledge. We can't complete on wages. We have to compete on innovation, productivity, quality, et cetera, et cetera, and when you look at the structure of many federal government programs, they are indexed to wages, they are affected by inflation, and so when you get right down to it and you cut all the way through it, what the bottom line is over the long term, if immigration is comprised of individuals with above average skills and knowledge, as compared to our population, over the long term it will be a net plus. If it is comprised of people with below average skills and knowledge as compared to our population, over the long term it will be a net minus. And so one of the things we have to recognize is whether we're debating immigration, or Social Security reform, or Medicare reform, or tax reform, we can't just look on the

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short term, we have to understand what are the long-term consequences? Because our real problems are over the long term. We're in pretty good shape today with regard to normal economic measures, but we're not going to be if you don't mend our ways.

Next question. Yes, sir.

MALE SPEAKER: Your comment was interesting about the doctor saying, don't worry about the insurance will pay for it, you're a government employee and I understand, or I think I understand, that government employees have pretty good healthcare programs, is there anything we can learn from that, first of all. And second of all, I do worry a little bit about that because I'm not sure they feel the pain that most Americans feel when folks are putting—

DAVID WALKER: Well, several things. First, in the particular example that I gave, I didn't deal with the federal government health program, I dealt with a health program for Delta Airlines. My wife was working for Delta for about 30 years, she retired early, and it had to do with Delta's health care program. You are correct in saying that the federal government has a generous health care program. The federal government has generous benefits, there's no doubt about that. It may not pay as well with regard to cash compensation, especially with regard to certain skills and

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knowledge, and believe me, I didn't come into government to make money and most people don't come into government to make money.

I think your point is well taken in that the government needs to lead by example. The government should practice what it preaches. The government should make sure that its programs and policies are reflective of where we need to be, not the present or the past. And it's not just with regard to plan design and demonstration and cost incentives and quality outcomes, it's also with regard to things like electronic medical records. And I'm pleased to say that, at least from what I've seen so far, the VA probably has about the best electronic medical records in the country. And so there actually are a few areas where the government does lead by example, and I would hope and expect that we would have more as time goes on.

Here, and then I'll, go ahead, sir.

MALE SPEAKER: Good morning, Mr. Walker. Thank you very much for your comments today, they've been very enlightening. Many of us in this room today are, deal with the medical products and supplies, device categories, from your estimation as you look at the inflation of healthcare costs, what implication for the medical supplies, products, devices industry should we be considering. Should we be

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expecting, do think this is going to be effective, or affecting in the coming years?

DAVID WALKER: That's tough to get, I mean, obviously that's medical devices and supplies is a very big area, and making a general statement is difficult. Let me just talk about several things that you know of and I know are driving our challenge and then you can figure out yourself about how you think it might affect.

Health care costs are going up for a lot of reasons. They're going up not just because of inflation, not just because of medical inflation, they're going up because of utilization and intensity. We also have a situation where because of our payment systems, and because of our litigious society, there are, we encourage people to do more. Because if you do more, then you'll make more money, you'll mitigate risk unless you mess up, and we have a circumstance in which everybody wants unlimited healthcare, as long as they don't have to pay for it. And 85-percent of the costs are paid for by somebody other than who gets it, and even the people who are covered by employer sponsored programs, they don't pay income tax or payroll tax in the value, so they don't even realize how valuable this benefit is.

I think we're going to have to go to a system where, as I talked about before, everybody has access to a set of

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basic and essential services, and let me talk about what that might be and you figure out how it fits to medical devices. It could be something along the following lines: certain inoculations and preventative and wellness services, coupled with protection against financial ruin, which varies based upon your means, based upon unexpected and catastrophic illness or accident where you are not performing heroic measures in ways that otherwise do not make sense. Now, that leaves, that gets you preventative wellness, that gets you the catastrophic, which if you talk to the American people, those are the things that are most concerned about. That leaves a big middle, a big middle which employers, which industry associations, professional associations, trade associations, states, communities, and others can fill in various ways through various choices, maybe along the lines of the federal health employee benefits program, if you will.

So you think about what the impact would be. I will tell you this, there is an overproliferation of some medical equipment and there's no question about it, which also serves to fuel more use in circumstance is may or may not make sense.

Any other questions?

Well, I hope you had a great conference and I'm sorry to have you have such a tough message early in the morning,

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but there's never a good time to get it. And sooner or later you need to get it. Thank you very much, have a good time.

[Applause]

[END RECORDING]

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