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EYE ON WASHINGTON

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a new year, a new administration, and old, familiar challenges for health care

It is hard to imagine an administration where the expectations have been higher and the challenges greater than those before the Obama administration.

Although 2008 ended with a modest gain for Wall Street, the year overall was a financial disaster. Holders of stock lost $6.9 trillion over the course of the year, major firms that have been mainstays to American business like Lehman Brothers, Merrill-Lynch, and AIG either went under, were absorbed by former competitors, or were propped up by the government. As we start 2009, there are a few voicing optimism, but there are also predictions that the economy could get worse, at least during the first half of 2009.

The new president has been saying since the end of the campaign that helping the economy recover needs to be his first priority and that this requirement may impact some of the other priorities articulated during the campaign, presumably including health care. But there are some portions of health care that cannot and should not await a recovery in the economy.

Early Actions

Three areas demand near-term if not immediate attention from the new administration, although the extent of specific actions the administration will take in each area remains to be seen.

Medicaid spending. President Obama's stimulus package is likely to include increased spending on Medicaid. This increased spending could come from any of several sources, including:

> Increased coverage for currently ineligible populations, such as childless and/or young adults under the poverty line
> Increased funds for Medicaid outreach programs
> Increased federal matching rates for some or all states

Increasing funds for Medicaid is attractive as part of a stimulus package for the same reason as are increasing unemployment compensation and extending coverage for food stamps: The recipients are likely to spend most or all of the money granted to them. In the case of Medicaid, the recipient states will likely spend the increased funds because of demands they provide services for more people who are eligible but not currently using Medicaid, or even for people who are not currently eligible.

Nonetheless, some states may not avail themselves of some of the proposed expansions because of Medicaid's matching requirements, which have led some to propose a temporary increase in the federal matching rate. How serious of a problem this will be is not clear, because states have historically found creative ways to increase Medicaid spending with minimal state contributions—e.g., through the use of intergovernmental transfers and upper payment limit provisions.

State Children's Health Insurance Program (SCHIP) reauthorization. The administration needs to submit a reauthorization of SCHIP, either as part of the stimulus package or separately. This legislation, which was due to be reauthorized last year, was extended to March 2009 when the Bush administration and Congress were unable to work out their differences regarding how much to expand the program and for whom.

The legislation passed by the Congress and vetoed by President Bush is a likely starting point for

Obama's proposed legislation. How much additional expansion is likely to be included will probably depend in part on how soon the new administration expects to have a more comprehensive reform package ready.

Physician payment. The administration—and CMS in particular—need to start working on an interim fix to reform physician payment under Medicare and on a longer-term redesign of physician payment. In January 2010, the latest fix expires, leaving physicians to face a 20 percent reduction in their fees. Even the most cynical of Medicare observers would have to be concerned about the impact that such a drastic reduction in fees could have on access.

Once again, Congress will be pressed to come up with at least a short-term solution to the problem, but whatever it chooses to do for 2010, it also must take steps to move to a new payment system for physicians. As I have argued elsewhere, Congress has two primary choices. One is an SGR (sustainable growth rate, the name given to the current spending limit) that is set much closer to the level of physicians' actual experience so that it more directly affects their behavior. The other, which I believe is the preferable strategy, is an increase in the use of bundled payments as has occurred elsewhere in Medicare.

Regardless of what the new physician payment system looks like, preparing it for implementation will take several years. It is therefore critical that the administration and Congress reach agreement during the first part of 2009 on the new system's overall design so that a contract to support its structuring can be issued later in 2009. The design phase and implementing regulations will likely require two to three years to complete, which means the new system has little chance of being in effect before the next presidential election year.

"Healthcare Reform"

We can only guess at this time what reform package the Obama administration will submit to Congress and what reform package Congress will be willing to pass. But there is no lack of interest or players.

Sen. Max Baucus (D-Mont.) has drafted a white paper indicating a series of principles to be used in a reform package and several specific steps to begin the process. Sen. Ted Kennedy (D-Mass.) has asked several of his colleagues to work on a reform package as well. Whether the House will develop its own package of reforms is not clear, but between the interest of House Speaker Nancy Pelosi (D-Calif.) and the longstanding interest of the new Chair of Energy and Commerce Henry Waxman (D-Calif.), it would not be surprising if it did.

The new president articulated a comprehensive healthcare plan as part of his campaign relying on a national health insurance exchange, a national plan, and a series of delivery reforms. Tom Daschle, the former Senate Majority Leader and the Obama administration's Secretary of Health and Human Services-designate, has outlined a somewhat different structure of reform, particularly in its reliance on a federal health board that would provide for a common set of benefits and a single standard of care for all individuals who receive federally funded health care.

Given the $750 billion Wall Street bailout package passed in October, the $15 billion for the Big Three auto companies, and the anticipated stimulus package of $650-$750 billion or more, proposing a health reform plan that costs at least an additional $150 billion plus per year may be a hard sell, even to the newly elected Congress. Instead, laying out a vision of comprehensive reform and then following it with a staged roll-out of coverage expansions while focusing on delivery reforms that moderate spending and improve clinical outcomes, seems like a reasonable and prudent strategy for the administration to follow. We will have to wait and see what the administration does next. ●

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