



Perspective

Compromises and Controversies — Moving Forward on Reform

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Accelerating progress toward the Democrats' goal of enacting health care reform legislation, House Speaker Nancy Pelosi (D-CA) unveiled a bill on October 29 that would establish a mandate for

most legal U.S. residents to obtain health insurance. The bill would extend coverage to some 36 million people, and according to the Congressional Budget Office (CBO),¹ its net costs (\$894 billion over 10 years) would be fully paid for — largely through an income-tax surcharge on high-income persons and a reduction in the growth of Medicare's payment rates for most services, except those provided by physicians. Meanwhile, Senate Majority Leader Harry Reid (D-NV) was preparing to introduce the Democrats' reform bill in the Senate, awaiting only a CBO estimate of its cost. Both bills call for the creation of a government-run insurance plan that would compete

against private carriers, but owing to pressures from moderate Democrats and an array of private interests, they would require the plan to negotiate its rates with providers rather than apply the Medicare fee schedule, as favored by liberals, who believe that doing so would reduce costs.

Surrounded by her Democratic colleagues, Pelosi said, "For nearly a century . . . leaders of all political parties . . . have called and fought for . . . health care and insurance reform. Today, we are about to deliver on the promise of making affordable, quality health care available for all Americans." The bill is designed to cover 96% of all Americans (excluding undocumented immi-

grants), up from 83%, leaving about 18 million people without insurance. The expanded coverage would be secured through two separate programs. About 21 million qualified individuals and families, with incomes from 150 to 400% of the federal poverty level, would purchase their own coverage through newly created insurance "exchanges." The exchanges would provide subsidies totaling \$605 billion over 10 years to make their coverage more affordable. About 15 million people with incomes below 150% of the federal poverty level would be newly eligible to enroll in Medicaid, with the federal government picking up 91% of the cost, well above current matching arrangements with states.² Private insurers would be barred from discriminating against citizens on the basis of health status, denying coverage because of preexisting conditions, or impos-

ing annual or lifetime limits on coverage.

The House bill — all 1990 pages of it — is a blend of the measures that were passed by three separate committees, which were stitched together by Democratic leaders in weeks of closed-door meetings. The offering was denounced by House Republicans, none of whom are expected to vote for it when it comes to the floor within days. Their leader, Representative John Boehner of Ohio, characterized it as “costly and unsustainable,” and the Republican Study Committee of conservative House members warned of “higher taxes, job-killing employer mandates,” and provisions that would “set Washington bureaucrats firmly between you and your doctor.”

On CNN’s *State of the Nation* on October 31, Boehner said Republicans are preparing an alternative reform bill that would expand coverage to “millions” but not try to match the scope of the Democratic measure. Boehner said the Republicans’ “step-by-step approach” would not entail raising taxes or mandating that individuals and employers purchase insurance. The bill would propose new limits on professional liability suits and would make it easier for individuals and small businesses to pool resources to purchase insurance but would not prohibit insurers from denying coverage because of preexisting conditions. Pelosi said the Republican bill could be offered as an alternative during debate on the Democratic bill, which is expected to begin in the next several days.

Without disclosing many details of the reform bill that Senate Democrats plan to introduce, Reid announced on October 26 that the measure would require

the creation of a public insurance plan. Reid arrived at his decision while blending the reform bills from the Health, Education, Labor, and Pensions Committee, which included a public option, and the Finance Committee, which did not. Reid said that the Senate measure would allow states to opt out of a public plan designed to be national in scope. The compromise reflected conflicting pressures on Reid: the strong drive by organized labor, whose support he needs to win reelection in 2010, to secure adoption of the most robust variant of public-option approaches, versus the pressing need to attract the support of all Senate Democrats and independents to overcome a Republican filibuster.

If the House and Senate approve these bills, a conference committee would be appointed to resolve their important differences, the most contentious of which may be how they would finance reform. The House measure would impose a surtax of 5.4% on individuals earning more than \$500,000 a year and couples making more than \$1 million. The tax, which senators of both parties dislike, would yield estimated revenue of \$440 billion over 10 years. Instead, the Senate Finance Committee bill would impose an excise tax on “Cadillac” health insurance plans, an approach strongly opposed by many House Democrats and organized labor.

A financing source that both House and Senate Democrats support is a permanent reduction in the annual updates to Medicare’s payment rates for most services other than physician services, yielding savings of about \$229 billion over 10 years. Both bills also cut payments to Medicare

Advantage plans. Republicans seized on the \$1.1 trillion price tag of the House bill to underscore their view that reform is too costly — particularly during a recession. The CBO said the net cost of the measure would actually be \$894 billion, because \$167 billion in penalties paid by individuals and employers would offset the spending.

In an effort to improve the incomes of primary care physicians and attract more recent medical school graduates to general medicine, the House bill would provide a 5% Medicare payment bonus, after 2011, to primary care providers (including internists, family physicians, pediatricians, obstetrician–gynecologists, and nurse practitioners or physician assistants who practice under the supervision of a doctor) if 50% of their Medicare-allowed charges are for evaluation and management or preventive services. The bonus would be 10% for eligible providers practicing in a medically underserved area. The House bill would also bring Medicaid’s physician-payment rates up to Medicare levels, at a cost of \$57 billion over 10 years.

To bring the cost of the House bill under President Barack Obama’s preferred limit of \$900 billion, Democrats removed a provision that would have repealed a 21% reduction in Medicare’s physician fees that is scheduled to take effect January 1, 2010. But on October 29, House Democratic leaders introduced a separate measure that would accomplish the same goal. According to a news release, the measure would replace the current physician-payment formula with “a more stable system that ends the unrealistic cycle of threats of ever-larger fee cuts followed by short-

term patches.” The bill would allow Medicare spending on physicians’ services to grow at the rate of the gross domestic product (GDP) plus 1% per year (rather than the rate of GDP with no adjustment, as it is currently supposed to do). Payments for primary care and preventive services would be allowed to grow at the rate of the GDP plus 2%.

Obama characterized the House bill as “a historic step forward” that met two of his most important goals: “it is fully paid for and will reduce the deficit in the long term.” But the administration recognizes that enabling Obama to declare victory on this major domestic initiative requires overcoming some formidable challenges, including striking acceptable balances to hold together the fractious Democratic caucuses but also, in the Senate, persuading two independent senators (Joseph Lieberman of Connecticut and Bernard Sanders of Vermont) to join all 58 Democrats to defeat a Republican filibuster and addressing the concerns of numerous private interests.

In addition, the details of how a public plan is formulated are critical to the only Republican legislator who has cast a vote for reform — Senate Finance Committee member Olympia Snowe of Maine. Rather than create a

public option at the outset, Snowe favors a provision that would “trigger” such a plan in states where insurance companies do not offer affordable benefits. At a White House meeting with Senate Democratic leaders on October 23, Obama expressed his preference for a trigger mechanism, in hopes of retaining Snowe’s support for reform. When, several days later, Reid announced his compromise whereby states could opt out of a public plan, Snowe said she was “deeply disappointed with the majority leader’s decision to include a public option.”

Beyond efforts to win Snowe’s vote, Democrats must persuade key private stakeholders that their long-term interests are better served by supporting reform than by striving to kill it. Early deals that the administration negotiated with hospitals, health plans, and pharmaceutical manufacturers have begun to unravel as the bills have emerged. The big-business community has announced its outright opposition to the House bill. America’s Health Insurance Plans expressed a similar view, and hospitals indicated their opposition to reductions in Medicare payments that they would have to absorb. The pharmaceutical industry is upset over rebates totaling about \$60 billion

that it would have to pay the government, as well as the prospect that it might have to negotiate its prices with Medicare.

Only organized medicine has largely held its fire, as it pins its hopes on legislation that would reform the way Medicare calculates its annual physician-fee updates and that would eliminate scheduled payment cuts. Although the administration supports such a provision, its passage is no certainty. On October 21, with all Republicans, 12 Democrats, and Lieberman opposed, the Senate failed to approve a bill that would have eliminated the physician fee cuts. The main objection was its hefty price tag — about \$247 billion over a decade. The vote underscored the reality that legislators of many stripes have become increasingly sensitive to the repercussions that a mounting federal deficit may carry for their political fortunes.

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1. Letter from Douglas Elmendorf, director of the Congressional Budget Office, to House Ways and Means Committee Chairman Charles Rangel. October 29, 2009. (Accessed November 2, 2009, at <http://www.cbo.gov/ftpdocs/106xx/doc10688/hr3962Rangel.pdf>.)
2. Rosenbaum S. Medicaid and national health care reform. *N Engl J Med* 2009;361. DOI: 10.1056/NEJMp0909449.

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