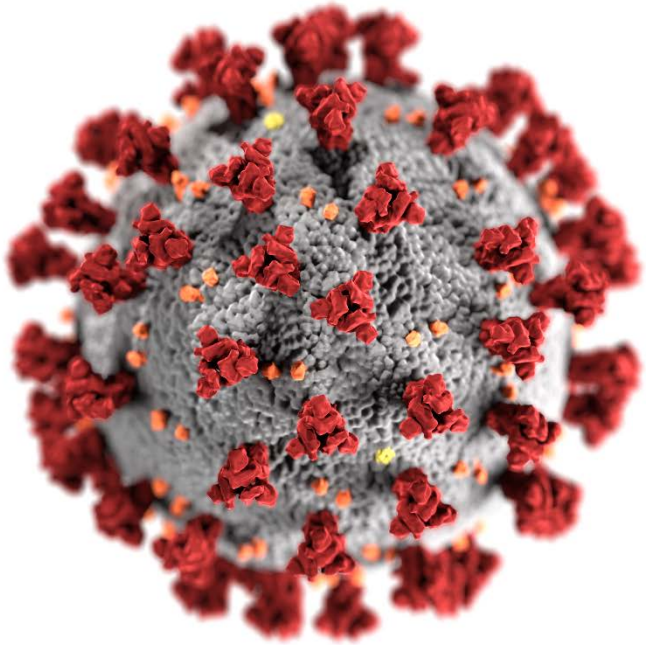

Improving Health Care: The Challenges Ahead

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Princeton Health Conference
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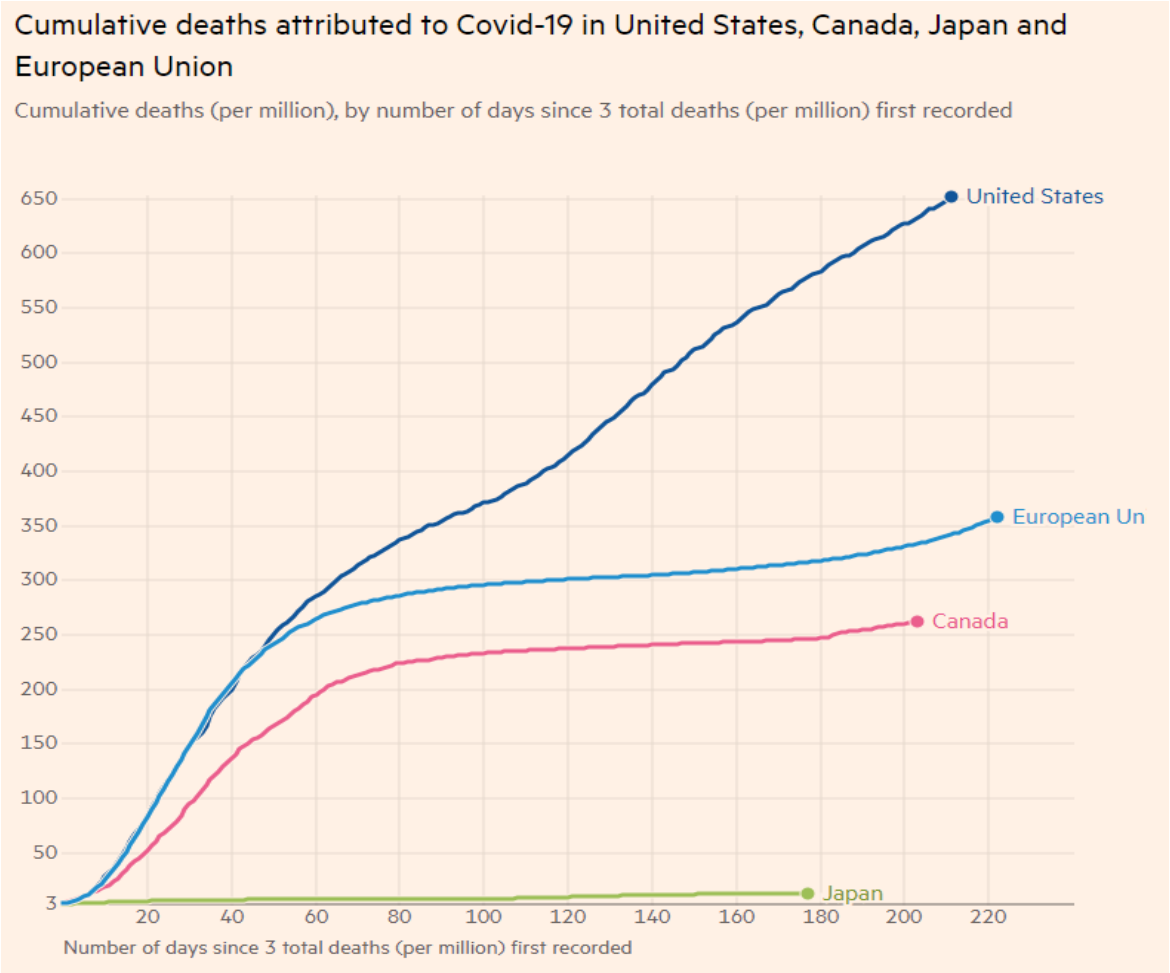
Outline

- The Administration's poor response to COVID-19.
- The case for further robust pandemic response legislation.
- The need to slow down health costs.
- The need to use cost-savings for investments in ACA, Medicare and Medicaid.
- Concluding remarks on Social Security & Long-Term Care.

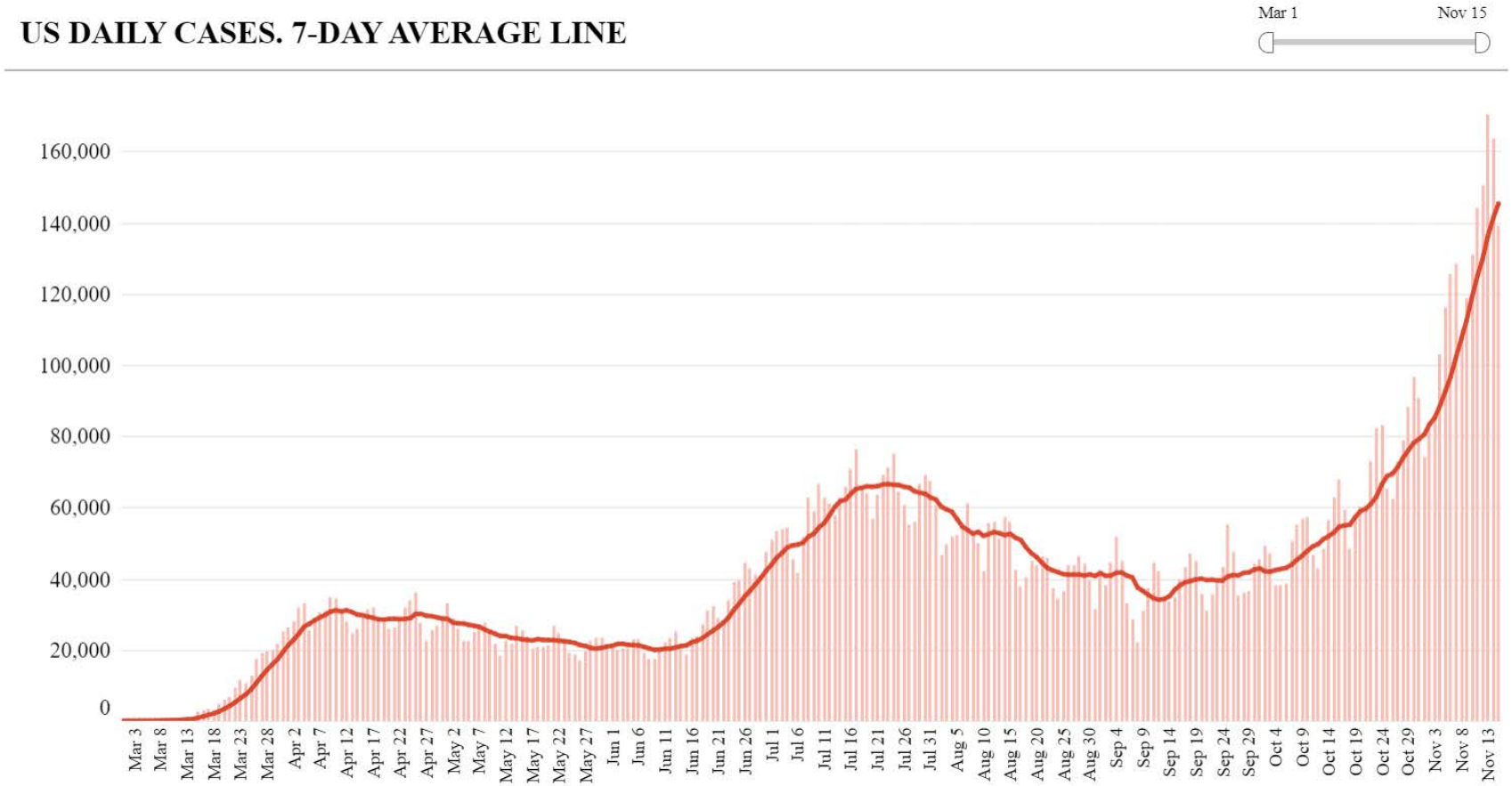
U.S. Compared to the World

We continue to greatly underperform in our national response to COVID-19. Cumulatively, the US has **more than double** the number of COVID-19 deaths per million people compared to our European counterparts (population of 333M vs 446M respectively).



U.S. COVID Snapshot (11/15)

As of November 15th, we are averaging **over 145,000 new cases per day**, have **almost 70,000 people currently hospitalized**, and continue to see daily deaths **above 1,100**. We only expect these numbers to get worse as we get deeper into winter.



HEROES 2.0 Addresses the Pandemic

The updated HEROES Act included many important priorities. For **health** in particular:

- **$75B** for testing, contact tracing and isolation infrastructure in order to crush the virus.
- **$50B** for the Provider Relief Fund, including language to more equitably distribute funds.
- **$25B for a new pathway** to allow those receiving UI benefits to enter into generous ACA coverage.
- Clarification of testing requirements to ensure no patient bears the cost of testing.
- Provisions to strengthen our public health response and infrastructure
- **$28B** for vaccine & therapeutics development as well as funding to support an eventual COVID vaccination campaign.
- Over **$50B** in additional FMAP increases.

HEROES 2.0 - Important Priorities	
State & Local	$436
Unemployment Insurance	$391
Schools	$225
Direct Payments	$307
Student Loan Relief	$49
Child Care	$57
Low Income Assistance	$94
Health	$258
Housing	$71
Business & Farm	$345
Net Operating Losses	$254
Pensions	$48
ERTC	$112
Other Tax	$66
Other Appropriations	$179
Other Direct Spending	$14
TOTAL Spending	**$2,398**

The Need for Lower Drug Prices

- Harming Patients: About **1 in 3** Americans report not taking medication due to costs and **42% of cancer patients** deplete their net worth in the first two years of treatment – in part due to drug prices.
- Unjust Price Increases: Just this year alone, drug makers recorded more than 800 price increases for medicines. For example, Hika Pharmaceuitcals increased the price of morphine by 59 percent during the pandemic (used for ventilated patients).
- Unsustainable Spending: Spending growth for prescription drugs is projected to generally accelerate over 2018-2027 (averaging 5.6%).
- Growth in Specialty Drugs: In 2015, brand name specialty drugs were 30% of net drug spending under Medicare Part D & Medicaid yet just 1% of prescriptions in each program.
- Pay More Than International Counterparts: Americans pay on average 2 to 4 times a much for prescription drugs than other OECD countries. American's pay a greater share of R&D costs and pharma profits.

H.R. 3: Drug Negotiation

This provision provides the Secretary with the **authority, mandate and the tools** to effectively negotiate the price of prescription drugs. Not price setting.

Authority: effectively repeals the ban on the Secretary to negotiate with drug manufacturers on behalf of all Medicare beneficiaries. **Negotiated prices apply to all payers.**

Mandate: Secretary must negotiate a minimum of 25 drugs up to a maximum of 250 drugs per year. Eligible drugs include single source brand name drugs with 1 or less generics on the market and must be either in the top 125 highest spending drugs in Part D or 125 highest spending drugs in US. High prices / spending concentrated in approximately 300 drugs.

Tools:

1. Information
2. Transparency
3. Non-Compliance Fee: 65% → 95% of gross sales of particular drug
4. 1.2x Average International Market (AIM) Ceiling (Also addresses new launch drugs)

Savings: CBO estimates that this provision would save over $500B over 10-years.

The Bill Explicitly Rewards Innovation.

- In HR3, the HHS Secretary is directed to explicitly take into account R&D costs and innovation in negotiations.
- It is important to note that estimated savings under HR3, although significant, represent only a **small percentage** (3-6%) of future revenues for pharmaceutical companies.
- HR3 would reduce incentives for investment in "Me2" drugs.
- Investment in truly innovative drugs will be protected. Conservative economist Avik Roy said, "it's almost certain that if there were fewer drugs developed, it would be the least innovative drugs that were abandoned," Roy told Politico Pulse.

Other Policies to Improve Affordability

- **Surprise Billing**
- **CMS Needs Tools to Reduce Waste, Abuse and Low-Value Care**
  - Marty Makary's work has shown that there are certain providers who drive unnecessary utilization. Also, some counties have home health utilization rates at 3 or 4 times the national average or opioid prescription rates.
- **High Priced Providers –** Cap what commercial insurers pay.
- **Medicare Advantage –** Sometimes overpaid and coding issues.
- **Kidney Care**
- **Public Option –** Key questions of provider reimbursement and enrollment.
- **Administrative costs**
- **Antitrust Enforcement**

H.R. 1425 – ACA Enhancements Act

- **Increases ACA Subsidies –** Expands eligibility above 400% FPL so that no person will pay more than 8.5 percent of their income on a silver-plan. An individual earning up to $19,140 will have their premiums on a silver-plan cut to zero. (Costs $212B)
- **Further Incentivizes Medicaid Expansion –** Encourages "hold-out" states to expand Medicaid for nearly 4.5 million uninsured Americans. (Costs $17B)
- **Significantly Lowers Uninsured Rate –** CBO estimates 4 million more people would get coverage under H.R. 1425. Additionally premiums would be reduced by 10 percent primarily due to the re-establishment of a reinsurance program. (Costs $16B)
- **Combats Health Disparities** – For example, requires states to expand Medicaid or CHIP coverage for new mothers for 1-year post-partum.
- **Other Improvements –** Also includes a fix to the family glitch (costs $45B), continuous eligibility for Medicaid (costs $205B) and a Medicaid primary care pay increase (costs $52B).
- **Undue Trump Sabotage –** Would take steps to ameliorate the Trump administration's actions over the past 4 years to undermine the law.

Medicare Improvements

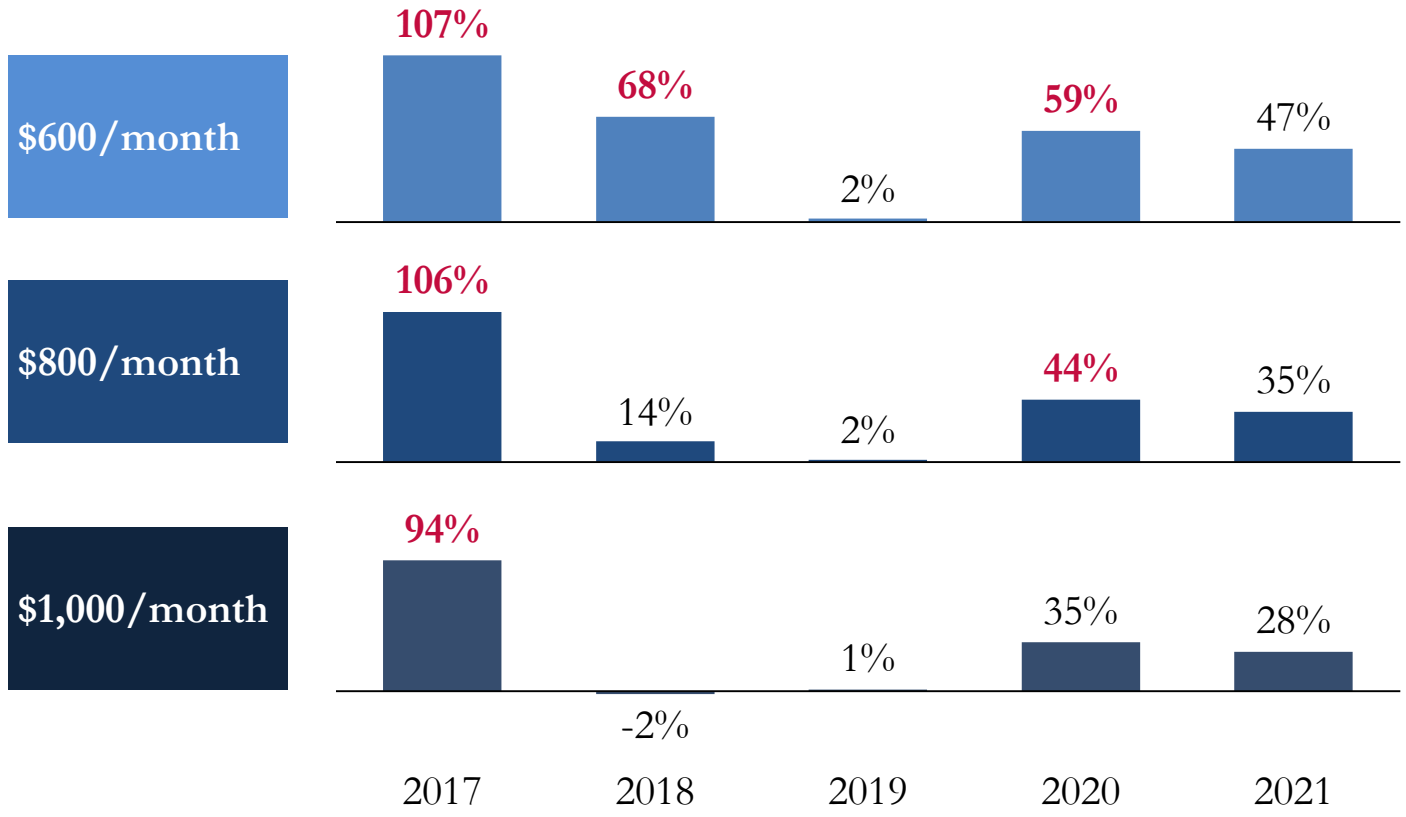
In December 2019, using savings from HR3, Congress invested in one of the most significant expansions of the Medicare program since its establishment.

1. Dental – Creates a new benefit that covers preventative and screening dental services, basic and major dental treatments, and dentures. (Costs $238B)
2. Vision – Covers routine eye exams, eyeglasses or contact lenses. (Costs $30B)
3. Hearing – Provides reimbursement for treatment services provided by audiologists and adds coverage for hearing aids for individuals with severe or profound hearing loss. (Costs $89B)
4. Part D Reform – Establish a $2,000 cap on out-of-pocket drug spending for beneficiaries.

Today, Social Security COLAs often fail to keep up with rising Medicare premiums

Large portions of COLAs are consumed by premium increases

% of COLA consumed for beneficiaries at various monthly incomes



- The **Cost of Living Adjustment (COLA)** is designed to ensure benefits remain in line with rising costs
- But rising Medicare premiums consume a **significant fraction** of the COLA by themselves
- Today, the **hold harmless provision caps Medicare Part B (but not Part D) premium increases** at each individual's COLA
- When it is triggered, **premium increases are shifted** to other beneficiaries
- **Seniors who qualify for both Medicare and Medicaid** have their Medicare premiums paid by Medicaid. They are **not affected** by premium increases

In the last five years, Medicare premium increases have consumed large portions of COLAs, particularly for lower-income beneficiaries

Proposal: Guarantee beneficiaries receive at least half the value of COLAs after Medicare premium increases

Example

- In 2021, without Congressional action, the Medicare Part B premium increase would have been **$15.60/month** and Part D was another **$0.50/month**.
- A Social Security beneficiary receiving $1,000/month received a COLA of 1.3% or **$13.00/month**

	Approach	Result
Current law	**Subtract the** premium increases from the COLA, but **cap the Part B increase** at the COLA	**Post-premium benefits *fall* by $0.50/month.** The entire COLA is consumed by the Part B premium and the Part D premium cuts into benefits
Proposal	**Increase the COLA** to guarantee the beneficiary receives at least half	**Realized post-premium COLA of $6.50/month**, substantially larger than under current law

Note: Congress reduced the Part B premium increase to $3.90 by imposing a surcharge on future premiums. This example shows what would have happened if Congress had not acted

Benefits of this approach

- **Maintains the original promise of COLAs**
  - COLAs must cover increases in the cost of food, energy, housing, etc.
  - They cannot meet this goal when they're consumed by healthcare premiums
  - The proposal costs about 0.52% of payroll, which is expensive. This means low-income beneficiaries *often* fail to receive even half the value of the COLA under current law
- **Very progressive**
  - Nearly all of the benefits flow to low-income beneficiaries
  - In contrast, proposals which modify the inflation index send most of their benefits to high-income beneficiaries

Closing Remarks

- First order of business is crushing the virus and getting the economy moving.
- Medicare and Social Security solvency could become issues.
- Slowing health care costs to make investments is difficult but critical.
- Determining where to invest savings - tradeoffs between improvements in ACA, Medicare, Medicaid, long-term care and solvency.
- This is all done in the context of other priorities – climate change, infrastructure, criminal justice and police reform, education and more.
- H.R. 3 and H.R. 1425 were real achievements. The question remains - Can Congress improve ACA, Medicare and Medicaid by reducing costs?
  - Yes… but difficult.