-POLICY & PRACTICE-

Health Care Growth

One dollar of every \$5 will be spent on health care by 2015, with spending reaching more than \$4 trillion, according to a study from the National Health Statistics Group at the Centers for Medicare and Medicaid Services, Forecasters predict that national health spending growth will consistently outpace the growth in the gross domestic product (GDP) over the next 10 years, with health spending expected to consume 20% of GDP, compared with 16% today. Growth in total physician spending is expected to decline from 9% in 2004 to 7.5% in 2005, or a total of \$430 billion. It's likely that physician spending will approach \$850 billion by 2015. This figure is probably an underestimate, however, "since it incorporates Medicare payment cuts for physicians from 2006 through 2013. In fact, Congress has already eliminated the cut planned for 2006," according to a summary of the survey. In other findings, spending on prescription drugs is expected to reach \$446 billion in 2015, up from \$188 billion in 2004. Spending on hospital care is expected to reach \$1.2 trillion in 2015, double the 2005 level. Implementation of the new Medicare Part D drug benefit, and the added burden of paying costs that had been absorbed by other sectors, will lead to a spike in Medicare growth of up to 25% in 2006. In the next 10 years, Medicare spending is projected to rise from \$309 billion in 2004 to \$792 billion by 2015.

Deciphering Drug Coverage

In an effort to answer some of the many questions physicians have about the new Medicare Part D prescription drug benefit, Medicare has posted a new fact sheet on its Web site. The fact sheet includes links to formulary information, requests for prescription information and change forms, and a chart on Part B versus Part D drug coverage. The fact sheet describes the prescribing physician's role in coverage determination, exceptions, and appeals processes and provides an outline of the deadlines for prescription drug plans to respond to physician requests. The fact sheet is available online at www.cms.hhs. gov/MedlearnProducts/downloads/ Part_D_Resource_Factsheet.pdf. Physicians can also find other resources on the Part D benefit online at www.cms.hhs. gov/center/provider.asp.

Part D: Not Perfect

The Medicare drug benefit isn't without its flaws, Republican staff acknowledged at a conference sponsored by AcademyHealth. "We want to make sure the program continues on to a successful conclusion, to get prescription drugs for people. It's a big part of our agenda," said Mark Hayes, a majority spokesman for the Senate Finance Committee. "Medicare prescription drug spending under this new benefit has already decreased by 20%," said Chuck Clapton, majority chief counsel for the House Energy and Commerce Committee's Subcommittee on Health. "That's not

to say the new benefit has been a complete and full success. There have been some problems—some populations have had some issues in getting the prescription drugs they need. Beneficiaries haven't been able to enroll seamlessly." To clear up confusion over the drug benefit, Sen. Max Baucus (D-Mont.) in forthcoming legislation will propose standards for approval and classification of plan offerings so that "seniors can make apples-to-apples comparisons and reach informed decisions" about their prescription drugs, according to a statement from his office.

Medicare Formulary Guidance

The U.S. Pharmacopeia (USP) last month released its final model guidelines for use in developing Medicare prescription drug formularies in 2007. The model guidelines are used by the Centers for Medicare and Medicaid Services to evaluate the formularies created by private drug plans that participate in the Medicare Part D program. There are fewer unique categories and classes in the 2007 document—133, compared with 146 in the 2006 version. In addition, the number of formulary key drug types, which are used by CMS to test the comprehensiveness of the formulary, has been increased from 118 to 141. The final model guidelines also eliminate the distinction between nonsteroidal anti-inflammatory drugs and cyclooxygenase-2 inhibitors and between selective serotonin reuptake inhibitors and serotonin/norepinephrine reuptake inhibitors. The USP model guidelines are available online at www.usp.org.

Lester Crawford, Lobbyist

Former Food and Drug Administration Commissioner Lester Crawford, D.V.M., has taken a position at Policy Directions Inc., a Washington-based lobbying and consulting firm. Mr. Crawford will be senior counsel to the organization, which counts pharmaceutical manufacturers and biotechnology and food companies among its clients. By law, he will be barred from directly lobbying Congress for at least a year. Policy Directions declined to make him available for an interview. Mr. Crawford resigned abruptly from his FDA post in September, just 2 months after he was confirmed by the Senate. In the 5 years of the Bush Administration, the FDA has had a permanent commissioner for only 18 months. (Mr. Crawford served in an acting capacity for 16 months without Senate confirmation.) In early February, Sen. Chuck Grassley (R-Iowa) wrote to White House Chief of Staff Andrew Card asking that a permanent commissioner be nominated, adding that the agency was adrift without such leadership. For now, Dr. Andrew von Eschenbach is the acting commissioner, but also continues to hold his previous job as head of the National Cancer Institute.

—Jennifer Lubell

Experts Debate Pros, Cons Of Health Savings Accounts

Some argue that

consumers more

control over their

health spending

decisions, but

others say the

accounts favor the

healthy and fail

to help the sick.

HSAs give

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accounts higher on his agenda, experts continue to debate whether they are a good idea for solving the problems of the uninsured.

"The more I think about these proposals, the more troubling I find them to be," Leonard Burman, codirector of the Urban-Brookings Tax Policy Center, said in a teleconference sponsored by the Center on Budget and Policy Priorities (CBPP). "I

don't think the idea [that people will be more cost conscious] is really going to play out."

Health savings accounts (HSAs) are accounts to which employees contribute funds in order to pay for the first several thousand dollars of their health care costs. The accounts are almost always combined with a high-deductible health insurance plan. Contributions to the HSA are tax free, as is mon-

ey withdrawn for covered medical expenses. If the money contributed is not spent within a particular year, it can accumulate in the account.

The Galen Institute, an organization that supports consumer-driven health care, has a more positive view of HSAs. "HSAs give consumers even more control over their health spending decisions—and provide them an incentive to spend wisely and save for future health care needs," according to a statement from Galen.

Critics argue that sick people are not always in a position to shop around for care; that making consumers more cost conscious won't help lower health care costs because most health care spending is for expenses higher than the amount of the deductible, which is out of the consumer's control; and that HSAs tend to attract mostly healthy people, driving up premiums for sicker individuals who remain in more traditional plans.

President Bush highlighted HSAs in his State of the Union address, vowing to "strengthen health savings accounts—making sure individuals and small business employees can buy insurance with the same advantages that people working for big businesses now get."

In a more detailed statement, White House officials said that the president "proposes making premiums for HSA-compatible insurance policies deductible from income taxes when [these policies are] purchased by individuals outside of work. In addition, an income tax credit would offset payroll taxes paid on premiums paid for their HSA policies."

The president is also proposing to allow any spending on out-of-pocket health expenses incurred by HSA enrollees—up to \$10,500 per family—to be tax free, not just expenses pertaining to the deductible, as allowed under current law.

Such changes would make HSAs even more tempting to some people, said Jason Furman, senior fellow at the CBPP. "HSAs are already an unprecedentedly favored tax vehicle. This proposal now takes a system already tilted and adds a new tax credit," he said

If these proposals are ultimately enacted, they could make HSAs so financially attractive that they could begin to rival 401(k) plans as retirement savings vehicles, Mr. Furman said.

For example, suppose a family in a 25%

tax bracket contributed the maximum \$10,500 to an HSA that is invested at a 3% interest rate. Under the president's proposal, they would owe a payroll tax of \$1,607, but they would also get a tax credit for that amount, so the entire \$10,500 would stay in the account. If they contributed the same amount into a 401(k), they would still owe the payroll tax, but would not get a tax credit, so only \$8,893 would be deposited into the 401(k) ac-

count. As a result, the HSA account would end up with \$25,486 in it by 2036, versus \$21,587 for the 401(k), Mr. Furman said.

With such results, "a lot of employers who offer 401(k) plans would have a lot less of an incentive to," he added. "Their employees could go on their own and get a much better deal from an HSA than from a 401(k), and avoid nondiscrimination rules." The payroll taxes that HSA account holders no longer have to pay would also put a dent in the federal budget, Mr. Furman said.

Barry Barnett, a principal in PriceWaterhouseCoopers' human resource solutions practice, acknowledged that the proposal would result in substantial tax incentives, but he said he did not think that employers were going to get rid of their 401(k) offerings because of it.

Ever since employers have switched to defined contribution retirement plans, "there has been enough noise in the system by employees feeling they've lost the entitlement to a defined benefit plan in retirement," Mr. Barnett said. "If employers start canceling 401(k) plans and instead offer HSAs, I think there will be a major outcry by employees and Congress or some other body of people saying, 'There's got to be some form of retirement benefit,' especially as the government tries to cut back on Social Security entitlements and Medicare entitlements as the president is talking about."

A recent report from the Government Accountability Office found that federal employees who enrolled in the government's high-deductible health plan combined with an HSA were more likely to be younger and to earn higher salaries than were employees who did not enroll in the plans. The report did not compare the health status of HSA enrollees with that of other federal employees.