

**FEDERATION OF AMERICAN HOSPITALS**

**ANNUAL CONFERENCE**

**REMARKS OF  
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WHITE HOUSE NATIONAL ECONOMIC COUNCIL**

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**MORNING SESSION**

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CHIP KAHN: Well, we have got a good start to the morning with two senators, and now we'll move to the executive branch. And it's now my honor to introduce one of the shapers of health policy in Washington, D.C. here in the nation's capital, Al Hubbard. Al is an assistant to the president for economic policy and he also is the director of the White House's National Economic Council. He served in the administration of the previous President Bush and he also has held senior staff positions for a man who I once worked for, Senator Dan Quayle – Vice President Dan Quayle – former Vice President Dan Quayle.

Al is the White House point person on President Bush's call for expanding HSAs, and in this process he is one of the key proponents of greater price and quality transparency. Al has an extensive background in business in Indiana. He has a number of degrees. Probably most important for us he has his BA from Vanderbilt, so he spent time in Nashville, where many of you are from, and he will take questions at the end of his remarks, so will you all give a nice welcome with me to AL Hubbard from the White House?

(Applause.)

ALLAN HUBBARD: Thanks very much. Thanks for this kind invitation. Wow, you all got a great turnout. I'm delighted to be here. I'm delighted to hear Nashville, Tennessee is important to all of you. I grew up in Tennessee – Jackson – and believe it or not, I know HDA is – a number of representatives are here, and one of the co-founders was best man in my parents' wedding: Bill Frist's dad, Tom Frist – Tommy Frist, who was a fantastic man, and actually was a physician for my granddad and grandmother. But I'm delighted to be here and I'm delighted to have the opportunity to talk to you about the president's vision when it comes to healthcare, and what I'd like to do is spend about 15 minutes just sort of giving you an overview of where the president wants to go with healthcare and then open it up for questions. And obviously I'm happy to answer questions about anything that I know anything about.

I particularly want to talk about this transparency issue because that's where you all could be incredibly helpful to us. Needless to say, I mean, healthcare is a huge crisis in America, and it's a crisis in a number of different areas. I mean, obviously there is the 46 million uninsured, there is the escalating costs of Medicare and Medicaid that are not sustainable, but there is also a crisis when it comes to the traditional private side of healthcare that's provided through – where you have health insurance provided through employers. When you look at polling today – and the president doesn't look at polling – and by the way, he literally does not look at polling – but we do look at polling, and when you ask the American people, what's the biggest problem facing our country, at the top will be terrorism in Iraq, but the number-one domestic issue will be healthcare.

And it's easy to understand – and I know you all understand – why. Again, I'm talking about in the private sector where people are getting their healthcare for the most part through their employer-bought insurance. And what's happened is the escalating costs are just creating enormous problems in our country. The cost of healthcare – I mean, you all know all this, but the cost of healthcare in today's dollars has tripled over the last 17 years – more than tripled. And if you look at what the employer pays, what the employee pays, for each of them it's tripled, but for the employee it's much worse than that because his deductible or her deductible has gone up. Co-pay has also gone up. But furthermore – and this is often not recognized because the employer is paying more for the premiums, there is less money left over for wage increases. And the cost of healthcare, particularly for those in the lower half of the income range, their wages have been retarded because of the escalating costs of healthcare, because a bigger portion of overall compensation has been going to healthcare as opposed to wages.

And the result is there is an enormous amount of angst on the part of the American people, and we're at a point in time – and the president has talked about this – I mean, we're at a point in time where I think we're approaching a tipping point where we're either going to go one way or the other. We're going to go to a single-pay system where everything is going to be like Medicare is, and I think I'm confident that you folks wouldn't like that any better than the president or I would like that.

And then the other approach is to get the consumers of healthcare more involved in the whole process. If you look at why do we have these escalating costs, there are numerous reasons. I know you all are on the front line. Certainly technology contributes to it, but I think anyone looking at it objectively would have to agree the third-party pay system is a major cause of the escalating health costs. I mean, if you think about it, because the vast majority of Americans get their insurance either through their employer or through the government, through a third party, they truly feel like it is free. And we know they think it's free because they don't insist that you provide pricing, because there is nothing else in America that's consumed, where pricing is not made available, but if you think it's free, you don't care what the price is and you're going to always insist on the absolute gold-plated delivery. And the result has been that we've had a price-insensitive consumer, and the result of that is you have over-consumption and you have a price-insensitive consumer. And I think that has very much contributed to the escalating costs of healthcare.

The president believes that we need to do a number of things to address that. First off is we need to make information available to the American consumer so he or she can be a better consumer. You know, Americans are good at a lot of things, including being good consumers. That's why we drive down the costs and drive up the quality of virtually everything in America, and we need to give consumers the opportunity to do that in the healthcare sphere, which represents one-sixth of our economy – over \$2 trillion a year. And that's what I would like to ask you all to join us in doing, is making pricing and quality information available in a easily accessible way, in a user-friendly way so anyone can go in and figure out what it's going to cost to get a routine procedure.

Now, there is no question that in emergency situations people are in no position to shop, but most healthcare is consumed in non-emergency situations, and we should make it possible for people to shop based on both pricing and quality. And it's truly remarkable that in America, the sort of capitalist center of the world, that we have one-sixth of our economy that does not provide this kind of information.

The other proposals that the president has laid on the table for Congress – and we're working with Congress – and by the way, there is a lot of enthusiasm in Congress for these proposals – is to expand and enhance health savings accounts. We're extremely pleased with how health savings accounts are going, their popularity. A year ago there were a million folks who had health savings accounts; today there are over 3 million. Anecdotally, when I talk to businesses, particularly large businesses, virtually every one of them are seriously considering if not implementing health savings account options. And here is what the president wants to do to enhance those:

Number one, as you know, you can contribute up to the deductible today. He wants to allow you to contribute up to our out-of-pocket max so, again, there is not a bias towards buying healthcare with insurance. You get the same tax break if you buy it out of your own pocket, which you would be doing through the health savings account as you do if you buy it from insurance. And by the way, this is a little tweak but we want to make it where the payroll taxes associated with the contribution to the health savings account are an exclusion off your income taxes. So, again, we're leveling the playing field.

The second thing he wants to do – and this is incredibly important – it's remarkable that this is true in America. Right now we discriminate against individuals who buy health insurance. They do not get the tax benefits that people get when they get their insurance through their employers. When you get it through your employer, your insurance is both on a pre-income – the cost is paid for with pre-income tax, pre-payroll tax dollars. If you work for an employer that does not provide insurance and you go out and buy insurance for yourself, you use after-tax dollars, which means you're paying 30 to 50 percent more for that insurance than if your employer actually bought the policies. The president wants to change that so when you buy an HSA as individual you'll get the tax deduction off your income taxes and the payroll taxes will be excluded from your income taxes. So, again, leveling the playing field so there is not a – so people who buy it themselves are not discriminated against. And again, this is going to encourage people – because of the tax benefits it's going to encourage people to purchase insurance.

Let me just make sure I'm covering everything. The third area the president is very interested in is giving employers and insurance companies the option of creating portable HSAs. You know, unfortunately in America if your employer provides you with insurance and you have some serious illness in your family, you're often reluctant to leave your place of employment, even if you're unhappy, because you're afraid of losing your insurance and not being able to get affordable insurance. The president – you know, this is not good for the individual; this is not good for the economy. And job lock needs to be addressed and the president wants to give insurance companies and employers the

option of creating policies that you can take with you that will not be underwritten for health reasons, and you can keep with you and you can take it anywhere in the country. And we've talked to a number of insurance companies about this and we think this is very realistic. And if you want to get into the details of it, I'd be happy to.

Another little tweak in the health savings account area that we've proposed – the president has proposed – is to allow – right now, you know, employers have to treat every single employee exactly the same way. This would allow employers to contribute more to the health savings account of the chronically ill. We all know that the chronically ill are a very big challenge in the healthcare area. And we think this will, again, allow employers to tailor their health insurance to meet the needs of their employees.

And finally, the president is going to continue to promote the policies that he's been promoting over the last five years. Association health plans, which means giving the small employers the same kind of buying power that big employers have. Health information technology, which I know Senator Enzi talked to you about earlier today. That's so important. You all know how important it is. You all would appreciate it even better than I. But it's truly remarkable that in America today with all our technology that we don't have health information technology and that we can't carry around all our health records on some little disk. Medical liability reform – extremely important. You all appreciate it every bit as much as we do, if not more so. The president is totally committed to that. The ability to buy insurance across state lines we think is very important – again, creating more competition. Continuing to expand community health centers, in particularly rural areas. And finally, a low-income tax credit. The president's proposal on HSAs is for low-income people, for them to be able to get a \$1,000 tax credit for individuals and a \$3,000 tax credit for families.

So this is sort of an overview of where the president believes we need to go. Again, we believe the whole key to addressing the healthcare challenges in America are, one, is for the consumer to be more engaged in the decision-making process in terms of choosing the provider, scrutinizing providers to make sure you're choosing the ones that provide the best quality at the most reasonable prices. And we believe the proposals that the president is talking about are important to accomplishing to that goal.

What I'd like to do now is really open it up. Again, I would love to talk – I'm sure there is some opposition out there with respect to transparency and pricing and quality and I would love to address those through the Q's and A's because you guys are on the front line – ladies and gentlemen, are on the front line when it comes to transparency. I think you're aware that there are four bills on Capitol Hill that would legislatively require transparency. The president's approach has been – he believes that through persuasion – because after all, none of us buy anything else without knowing price and quality – that through persuasion we can get the providers of this country to start providing accurate, easy-to-use information and we don't have to go to legislation, because, you know, legislation is a very crude tool to accomplish things and we would much rather let the free market, and you all individually, coming up with the best way of approaching transparency as opposed to Congress and the federal government telling you

how to do it. But the president has also made it clear that if the provider community is not receptive to providing transparency that we will turn to Congress and ask them to support transparency.

And it is a bipartisan – I mean, there is bipartisan support. It would not be hard to get that kind of legislation passed. But, again, the president is reluctant to do that and we hope that we can get the cooperation of you all and the other providers to do this without using the blunt instrument of federal legislation.

So, let me open it up for questions. (Pause.) There have got to be some questions out there. Yes, sir.

Q: Hi, Al. Thanks; I'm glad to hear that you took the time to come over, number one, for those of us here in the room, but secondly, it appears that there does seem to be a growing wave of support for both individual health insurance plans and long-term care insurance pools. And while you spoke about the HSA program, I would like you to consider and take back a message on both, because I think there is a fundamental issue that it is affordable and it needs to be considered.

One of the things we've seen in the past month or so – as the year has changed we've seen individual premiums coming back to the individuals at increases on annual and monthly premiums at 27 to 40 percent.

MR. HUBBARD: Right.

Q: And clearly that's going to not allow people to afford these as they go forward. So there needs to be a capped cost process for these insurances so that it's not just allowable to pass on the costs and then exclude people from the pool for cost.

So the message I would have in the question is, do you support the HSA individual tax deduction for both HSAs and long-term care?

MR. HUBBARD: Okay. Hey, well, thanks. Again, there is no question long-term care is a huge challenge in our country. And, by the way, it represents – two-thirds of the cost of Medicaid today is long-term care for the retired, and it's just a huge challenge. Again, we haven't addressed long-term care in these proposals that I've talked about, so the tax deductibility is for HSAs only. By the way, in terms of price caps, that's – you know, when you start having price caps – and by the way, if you moved to a single-payor system, then what you're going to have is the same situation that we're reading about every day or every other day now in Canada. There is a piece in today's paper about a lady who needs a new hip and she's been waiting 18 months, and she's finally given up and she's going to go mortgage her house and raise \$10,000 from a mortgage on her home where she can get a hip replacement in the private sector.

The result of price caps and single-payor system will be rationing, and I'm confident that the American people will never tolerate that, but I hope we don't

experiment with it and then find out that we have the same results that Canada has where you literally wait months and years to get elective surgery.

Yes, sir.

Q: Good morning.

MR. HUBBARD: Good morning, sir.

Q: How are you?

MR. HUBBARD: Fine, thanks.

Q: Actually I'm glad the Canada thing came up because recently I've seen TV and articles about the globalization of healthcare –

MR. HUBBARD: Right.

Q: – in countries like India, doing very good work apparently – 10 cents on the dollar – and people going from the U.S. privately and paying 10 cents, 15 cents on the dollar and getting very, very, very excellent care, from what I understand. And one of the things that I hear, that it's tort reform over there because you can't sue anybody.

MR. HUBBARD: Right.

Q: So we all keep hearing about tort reform here, but for some reason can never get it through, can never happen, and that astounds me. I don't understand that.

And the last one is, I'm from California and we are buried with illegal aliens, unfortunately, taking up free healthcare –

MR. HUBBARD: Right.

Q: – burying the emergency rooms, burying the birthing areas, and huge costs coming out of our system every year, and don't see any movement on that either. So I'm wondering what the administration is planning on doing on that.

(Laughter.)

MR. HUBBARD: I can tell you this: The immigration issue is a – fortunately – I mean, I'm somewhat involved but – I mean, it is very, very difficult. And so I – and again, I don't know what the rules and regulations are in California, but I'm going to jump back to something I know something about, which is medical malpractice. And it amazes me – I mean, it truly amazes me – it's been stopped in the Senate ever since the president has been in office, and the president will continue to push for it. I do not see any defense for not passing medical liability reform. To be perfectly honest, my

experience in politics is that the true way to get things done in Congress is it takes the grassroots, it takes people like yourselves going up there and talking to your senators and congressmen, but – the Senate is the problem – but talking to your senators, and that’s a way we could actually get it accomplished.

But it’s a huge cost; it’s a huge burden. The president was just in New Orleans about six weeks ago – he’s going there tomorrow again – and he was sitting down with some local folks and a lady was there who is an OB/GYN, and she was just saying that the first \$60,000 of revenue goes for her malpractice insurance. I mean, is that not outrageous? I mean, and I know it’s even higher in other places. There are 1,500 counties in America that do not have an OB/GYN physician. It’s just indefensible. But anyway, I hate to put the burden back on you but we need your help to get this done, and I can assure you the president is totally committed to it.

Yes, sir.

Q: Transparency is an issue I don’t think anybody in this room would deny is a great opportunity. The question is, why stop at transparency just for the providers? Why not include the payors in that, especially with the pre-tax margins we’re seeing in the payor community and a consolidation in the payor community? So what would be the administration’s response to transparency for that sector?

(Applause.)

MR. HUBBARD: Well, again, most of them are public companies, are they not, so they have to disclose their margins and – there is no question that they’ve had unusually large margins the last several years. I honestly think that with transparency where their – and by the way, we’re talking to insurance companies about making available – and I know Aetna is doing it in Cincinnati on a pilot basis, and Humana in Milwaukee, and I think CIGNA is thinking of doing it as well – but we have talked to the leaders of the insurance companies, that they need to make pricing and quality information available to their customers.

I think the result of that will be that it will have a big impact on – it will increase competition in that sphere as well and I think will have a positive impact. But I’m a little confused about what you mean by transparency beyond – I mean, in terms of the markup I think you can look at their financial statements and figure out what percent of their premium income actually goes to providers, and you can see what percent of their premium income goes to their profits. So I think as far as I – again, I’m confused about what additional transparency you would want.

Yes, sir.

Q: Kind of on a related issue with providers versus payors, we have a private healthcare marketplace – I’m assuming that the Bush administration wants to continue to protect that private role in healthcare.

MR. HUBBARD: Absolutely. In fact, we want to enhance it, we want to protect it, we want to make sure that's where we're going to be in the next 10 or 20 years as opposed to moving to a single-payor system. And by the way, you know, there is a lot of movement out there by employers to say, let's just turn it over to the government.

Q: Well, let me get back then. If we have a private marketplace out there, we're providers, we have a service to sell, the purchasers tend to be insurance plans.

MR. HUBBARD: Right.

Q: The insurance plans negotiate a price dependent upon the market they control and the volume that they can deliver to the providers.

MR. HUBBARD: Right.

Q: So I'm a little unclear about, when you say you want price transparency, exactly what price it is you think we need to be transparent with, and also why it wouldn't be the insurance company who is administering the HSA and providing the high-deductible plan who would be the best source of information for a consumer to go to and find out exactly what they would be paying out of pocket for a particular service.

MR. HUBBARD: That's a very good question. First off, we need both of y'all to be providing information. Obviously the insurance company needs to do it based on the negotiated pricing information and the quality information they have on the providers. But the hospitals and doctors and the other providers need to do the same. Right now if I go to an orthopedic surgeon and he says, you know, you need an MRI on that knee, it would be nice if I could call around to hospitals and stand-alone MRI facilities to price it.

Q: Why wouldn't you call your insurance company and ask them?

MR. HUBBARD: Well, maybe it's part of my – number one is maybe I don't have insurance. Number two is maybe it's within the deductible because I have a high-deductible policy, an HSA plan. So –

Q: Which you would have access to the negotiated – almost in every case have access to the negotiated pricing through your high-deductible plan because probably there is a linkage between them administering your HSA as well. So most HSAs have access to negotiated rates and –

MR. HUBBARD: Right, but I would also like to be able to call around and just see if there's better pricing than what my insurance company is getting.

Q: I think we just have to realize that – and I look forward to working with –

MR. HUBBARD: No, but what's wrong with my having the opportunity to – you know, just like if I'm going to get on an airplane or do anything else in our society that represents five-sixths of our economy, I can call around and get pricing as opposed to, you know –

Q: It's just that it would be difficult for me as a hospital for a consumer to just call me and say –

MR. HUBBARD: You're absolutely right. You're absolutely right. (Cross talk.) It is absolutely impossible for a consumer to call you and get pricing, and that is indefensible – absolutely indefensible. Honestly, how can y'all – would you go purchase anything – I mean, anything other than healthcare – and not ask what the price is and expect to get the price? But that is exactly the problem. That is exactly the problem.

Q: Well, I think we all look forward to working with you to make sure that we have a system –

MR. HUBBARD: I'm not sure you do. (Laughter.) I mean, what is wrong with your making pricing easily available?

Q: Because unless I know your plan and –

MR. HUBBARD: Well, no, no, I'm off the street. Let's assume I don't have insurance.

Q: So we're talking about just a small percentage –

MR. HUBBARD: Five percent of the people – so they shouldn't be accommodated?

Q: No, I just think we've done a lot in this industry and we have a lot –

MR. HUBBARD: No, but shouldn't those 5 percent of the people – should they be able to get pricing easily?

Q: As part of this whole concept that we're talking –

MR. HUBBARD: No, no, but what's the answer? What's the answer?

Q: As part of this whole concept we're talking about, yes. We would deal with those 5 percent of the people who would be calling up and would be coming in as a self-pay patient to give them what they would be likely to pay coming in as a self-pay patient.

MR. HUBBARD: So is that easy?

Q: That's a very small –

MR. HUBBARD: Is that easy to do at your hospital? You told me it's not possible.

Q: I'd love to come in and talk about how we could make that happen in the context of also addressing the issues of insurance transparency and a workable system where consumers get the information from the best, most reliable source for that information.

MR. HUBBARD: Well, I would think it would be you.

Q: Well, that I think, not on the issue of transparency -- that's where we differ about how you best create an educated consumer.

MR. HUBBARD: So if I don't have -- well, again, y'all can see I feel strongly about this. (Laughter.) I can't understand -- I just can't understand -- I don't see how you can look at yourselves in the mirror and say, I should not provide pricing and quality information to perspective customers. (Applause.) And that's what we're asking you to do. And, you know, it's the American way. And I'm sorry to be so emotional about it but I find it very frustrating. You know, Kaiser -- there was a gentleman from California -- but Kaiser did a study about how hard it was to get information from hospitals. It's very difficult -- about pricing. It's very -- I'm sure about quality as well. It's very difficult. And that's not serving, you know, our country well. And I just hope you all will go back and think about this.

And by the way -- and I hate to use this blunt club as a threat -- if you don't, it's going to be imposed upon you. It is going to be imposed upon you. And I can't -- I mean, even the gentleman there that said it would be very hard to do can't give me a reason why he shouldn't do it. I mean, we don't consume anything in our society without knowing price, and particularly with the developments in technology we have a great ability to find out quality. But the one area where we don't -- which represents one-sixty of our economy, is in healthcare, and it's the one area where we have enormous frustration -- enormous frustration. And by the way, I know that frustration exists not just by the consumers; by you guys, too. I mean, I know Medicare drives you crazy, Medicaid drives you crazy, and the insurance industry drives you crazy. And so -- I mean, the system is broken but it could be even worse if we go to a single-payor system, and that's why we need to move more towards a consumer-driven system as opposed to a single-payor system. And we can do that if you all will work with us.

Anyway, thanks for giving me this opportunity. It's good to see you.

(Applause.)

MR. KAHN: Thank you, Al, and thank you for your honesty and emotion and commitment to the issues. And we promised you a good program this morning and I think you're having it.

(END)