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## **Ask the Experts: The Obama Health Reform Proposal Kaiser Family Foundation October 8, 2008**

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**LARRY LEVITT:** This is Larry Levitt from Kaiser Network.org. Welcome to a special two part series of "As the Experts," our regular interactive web show that provides in depth discussion of current health policy issues.

There is now less than a month until the election and one remaining public debate between the candidates for president. While the financial crisis has understandably been dominating the discussion on the campaign trail lately, the last few days we've witnessed a renewed focus on how the nation's health care system should be changed. And we have invited advisors to the major presidential campaigns to sit down with us to help dissect the differences between the candidates on health care.

Today we are joined by David Cutler, a professor of economics at Harvard, and a health advisor to the Obama campaign. Next week we will talk with a representative from the McCain camp. As always, you can submit questions at any time during the show by e-mailing them to [ask@kaisernetwork.org](mailto:ask@kaisernetwork.org). David, thanks for joining us.

**DAVID CUTLER:** It's a pleasure to be with you.

**LARRY LEVITT:** I think it's probably a consensus that if any health care reform plan is going to pass congress over the next several years that it won't pass fully intact, based on what a president proposes. So, stepping back from some of

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the details of Senator Obama's plan, what would you say are its aims? I mean what are the principles that underlie the plan that would be the senator's bottom line?

**DAVID CUTLER:** There are really three principles that underlie it. The first is that we need all Americans to have access to quality, affordable health care, for moral and economic and all sorts of reasons, we need to do that. Second, is we need to modernize the health care system, so that it gets people the medical care they need and it does it at the lowest cost possible.

We are wasting estimates upwards of \$700 billion a years, roughly the size of the financial rescue package, on care that isn't providing any good. And third is we need a public health system that actually works, it works to prevent big outbreaks of diseases and it works with the medical care system to help improve our health and save money.

**LARRY LEVITT:** Focusing on the plan itself, one of the criticisms of previous plans, for example the Clinton Health Security Act in the early 90s, was that it was overly complicated, that you couldn't explain it easily to the American people. If you had to explain Senator Obama's plan in two to three sentences, how would you do that?

**DAVID CUTLER:** If you like the medical care that you have, you should be able to keep it and the only thing you will see is that it costs less. At the same time, by undertaking

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investments, investments in how the system works, investments in setting up new organizational structures, create something that works for the millions and millions of people who don't have anything good now.

**LARRY LEVITT:** You know, in Washington there's always a focus on cost, and that will inevitably be true no matter who gets elected, what is your best estimate of what the net of federal cost, the net cost to the federal government, would be under Senator Obama's plan?

**DAVID CUTLER:** We have estimated that in the short run, the net cost to the federal government of Senator Obama's health plan would be \$50 to \$65 billion a year and Senator Obama has proposed paying for that by not extending the tax cuts that President Bush enacted for people earning over \$250,000 a year. He has been very clear that he thinks a better use of that money would have been to guarantee health care coverage for everybody.

At the same time, we believe that the investments that we propose in making the medical system work better in prevention and information technology will lower the cost of medical care for typical families and our estimate is that the typical family will save about \$2,500 in medical care a year because of the various things that we've proposed.

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**LARRY LEVITT:** So, typical family, for example, a family insurance premium now costs \$12,000 to \$13,000 a year, do you think you can lower the cost per family by \$2,500?

**DAVID CUTLER:** Families are also paying an enormous tax bill for Medicare and Medicaid. All total medical spending is about \$7,000 per person in the United States so a typical family of four is currently paying about \$28,000 in health care. What we've said is that we believe that the health care plan in the principles that he has put forward can work to reduce medical costs by about 8-percent for the typical family. That doesn't strike us or any of the large number of experts as being an unreasonable estimate.

**LARRY LEVITT:** You talked about one of the aims being coverage for everyone, what is your best estimate in the short term how many people would gain coverage, or net, under Senator Obama's plan?

**DAVID CUTLER:** If you look at why people don't have insurance coverage now, the two things that people tell you are one, health insurance is not affordable, and second, health care is not accessible. And so if you want to address the problems of the uninsured and the underinsured and the people who are in and out of insurance, you have to make it affordable and you have to make it accessible.

We do both by lowering the overall cost of medical care, as we were talking about, by providing income related tax

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credits for people so that low income people and middle income people can afford care by setting up a place where people can buy it, a model like what the federal government does with its employees or what large employers do with their employees. We think that the combination of those factors will lead to about 98- to 99-percent of Americans having coverage under Senator Obama's plan.

**LARRY LEVITT:** And do you have a sense of how long that would take?

**DAVID CUTLER:** A lot of it really depends on the speed with which tax credits are enacted and the speed with which other kinds of system reforms are made. So it's very difficult to give a specific timing in the absence of that.

**LARRY LEVITT:** Turning to politics for a moment, no matter who gets elected president or what happens in the congressional races, there will likely be a split, a partisan split in congress between democrats and republicans, it's difficult to imagine any plan passing on a purely partisan basis, what do you think is in Senator Obama's plan that might appeal to republicans in congress?

**DAVID CUTLER:** Actually I'm quite encouraged because in congress there are a number of bipartisan efforts on health care. Now in terms of covering people and system reforms, Senators Wyden and Bennett have a bill that's drawn a lot of

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support. Senator Snow and Durban, a republican and a democrat, have come together on health care.

There have been a number of bipartisan bills on things like information technology, on comparative effectiveness research, on performance based payment systems, so I actually think the center of where most analysts, not just democrat analysts, not just republican analysts, but where most analysts, where most of the health policy world is, is coalescing around those kinds of principles, around covering everybody, around modernizing the health care system, around having a functioning public health system.

And I think of Senator Obama's proposal as really hitting right in that middle area. Senator Obama has made clear many times that he doesn't view the ideas that he has put forward as his or even as democratic ideas. They are good ideas and he wants to work with everybody to turn good ideas into practice.

**LARRY LEVITT:** You mentioned health information technology and we had several e-mail questions on that, is that an area where Senator Obama and Senator McCain agree?

**DAVID CUTLER:** They have both spoken a lot about the need to have an electronic medical record and other kinds of health information technology systems, and so at a very broad level the two agree on that. We have proposed to have the federal government put up a very substantial amount of money,

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\$50 billion, to help really provide the starting point for health information technology.

Senator McCain hasn't put forward any money for it but it's clear that his heart is in that, is in the electronic medical records system so I look at that as an area where between those two candidates in specific and across the spectrum in general that is an area where I believe we really can make some progress.

**LARRY LEVITT:** And what do you think the money is needed for in this area?

**DAVID CUTLER:** There are a lot of providers that just don't have the money to invest in those kinds of systems. You think about very small physicians groups, you think about community health clinics, you think about struggling hospitals, when you say to them okay, wouldn't it be a good idea to invest in electronic systems? They say absolutely yes, we would love to do it if only we could.

And what we need to do is make it be possible that they can do it. You know, lots of the big providers are spending billions and billions of dollars on these kinds of systems. They will do that. We need to make them interoperable. We need to make sure the standards are set. We need to deal with the privacy issues. A lot of the providers that are really struggling, we're going to have to help out to make it be a universal system.

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**LARRY LEVITT:** You mentioned privacy. We had a follow-up question about how you protect people's privacy in an electronic medical or health record system. How would you go about that?

**DAVID CUTLER:** Privacy is a very clear issue in any kind of electronic system and there are a number of different proposals. We haven't specified any particular one because what we really want to do is work with people across the spectrum, not just in congress but outside of that.

If you just look at some of the proposals that have been out there, people have proposed opt-out systems where you can opt-out of it if you want. People have proposed systems where individuals control exactly which physicians or under which circumstances their records can be viewed. There are various issues about where the data are physically stored that get into things that I am certainly not an expert on.

It is my conversations with a lot of the groups of providers that have done this and the patients' groups about it suggest that people believe we can get to a point where we really do address the privacy issues and that's not a fundamental stumbling block to do it, although it is certainly something one needs to be cognisant of and make sure it's done correctly.

**LARRY LEVITT:** I want to switch gears a little bit. We had a lot of questions, not surprisingly, about the current

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economic and financial crisis and what affect that might have, and I will read you one, if your candidate is elected, in what specific ways will he alter his health care reform strategy to account for the nation's economic situation? What will be scrapped or curtailed, what can be realistically achieved?

**DAVID CUTLER:** Obviously this is an issue that is weighing on many peoples' minds. One thing that Senator Obama has said is that clearly not everything that has been proposed across the spectrum can be done right away or as best as one thinks, and he has been very open about that. He has also said that there are some areas that are so important that we really need to address them and if anything this reinforces our need to address them. Health care is one. Energy is one. Education is one.

The way that I look at it is what the past couple of months have taught us is that we now, as if it weren't apparent before him, but we now really understand the difficulties that the middle class and Main Street is having. Some of that was caused by the financial turmoil. A lot of that is more structural, has to do with energy, health care, education policies.

The financial situation we clearly had to deal with. It was threatening to turn a bad economic climate into a disaster, so we have partly dealt with that. We will still have to do more but we have at least partly dealt with that.

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We will not have finished or taken all the steps to make the economy fundamentally sound and work for people until we address health care and until we address energy and until we address education.

[Inaudible] a specific look at health care is absent the financial crisis, which is clearly a huge threat to economic growth, the biggest threat to economic growth over the next decade is the rising cost of medical care and the breakdown of the medical care system and to me, what this financial situation highlights, is not how costly it is to do something, but how costly inaction has been.

And if you look at all the economists, what they say is now is the time to make the investments in the economy, in the health system, in the energy sector that will pay off for the country, and that means that we have to redouble our effort to do this and the right issue is not how to slow it down but how to make sure that the momentum that's there for helping out in a very troubled economy extends beyond just the financial issues.

**LARRY LEVITT:** And that's a good transition to another e-mail question we got, which is exactly how can the plan help to reduce the massive growth of the national debt? In talking, I mean you talked about health care being a barrier to economic growth, you talked about how Senator Obama's plan for health

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care would improve economic growth and how it would affect the national debt more generally.

**DAVID CUTLER:** Yes. Rising health costs and the attendant problems of increasing costs, leading people to become uninsured or underinsured is affecting every part of society. It affects businesses. When you go talk to businesses they say well, our wage increases are slow or we have contracted out our low age workers or we have taken other steps to move overseas or whatever.

It affects households. It is a leading cause of people going bankrupt, what's going on in housing, so it is festering there and it affects governments where the projections are by the middle of the century the entirety of federal tax revenues would go to social security, Medicare and Medicaid, no money for defense, no money for interests, no money for education, or the environment, anything like that.

It would be one thing if we were getting all our money's worth and the system were working smoothly and everyone were in it, and so on, but we know we are not getting our money's worth. There is an enormous amount that we are spending that isn't doing much good. We know that people are being left out.

Increasingly about two million people a year lose their insurance coverage and in a good year they go on public programs and a bad year they don't. And so for the sake of all

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of those, for the sake of governments and their ability to do anything else other than health care, businesses and their ability to be in the U.S. and to employ low and middle income workers for the sake of families and their ability to afford the lifestyle that people really want to have, we have got to be able to say let's take the waste that's there, let's take the unproductive care, let's take the duplicative services, let's take all the administrative costs, let's find a way to get rid of those and at the same time get everybody in, and that will fundamentally transform what the fiscal situation is like in the government as well as what it's like for families and for businesses.

**LARRY LEVITT:** So, would you say that under Senator Obama's plan, government health spending by the federal government in states would also be lower over time?

**DAVID CUTLER:** Yes.

**LARRY LEVITT:** Ambition to saving money for families?

**DAVID CUTLER:** Yes and let me just highlight the magnitude of this. We spend about \$2 trillion a year on medical care. If you look at the studies in the professional literature, somewhere between 40- and 50-percent of that money is not buying any good. That is, you remember the \$700 billion in the rescue package that is \$700 billion a year or more of health care that is really not doing much good for patients. Well we have a lot of other uses for \$700 billion a year.

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And so we have got to be prepared to do the things that we need to do to free up that money. How do you do that? The kinds of things we were talking about, the IT investments, the payment system changes, covering everybody, getting individuals and small firms into pools, stressing prevention, just not treatment when people get very sick.

Through all of those together, we can lay the foundation for a health system that really works for people, that covers everybody and that then saves money down the road. In the short run it clearly costs, making investments in any business involves spending money up front. Where you see the benefits are as those start to take hold and as health care gets to be something that works better for people.

**LARRY LEVITT:** Obviously we have not made major progress federally on these issues and as the federal government has, actually the federal government of stalled states have moved forward, and we had questions about how Senator Obama's plan would affect state efforts, and one referred to Massachusetts as a state that sort of innovates successfully in health care issues.

Would the Obama plan allow that state level innovation to continue? There is not a lot in Senator Obama's plan about the relationship with states, how would you treat a state like Massachusetts that's already moved ahead?

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**DAVID CUTLER:** Let me start off first by agreeing with the premise of your question which is that over the last seven years we have seen inaction at the federal level and a lot of very constructive action at the state level and at the local level and at the level of particular providers. So, in Massachusetts, my home state, we have covered about three quarters of the uninsured.

In other states across the country, in other localities across the country, they are working to rationalize the health care system to modernize it through information technology and other kinds of changes so that the health system really works for people.

So, I think what we are trying to do in some ways is not reinventing something out of whole cloth, but taking the successful examples that are out there and saying you know what? These should not be confined to just some areas of the country, that everyone should have access to them. I think as you do that, there is then always an issue about how much do you do federally and how much do you do at the state or the local level? And I don't think either extreme is right, that is you don't have a single national plan and say there is no deviation from that.

On the other hand, you don't say look, you do whatever you want but we are putting up the money and we won't really have any say over what goes on. I think you need to be

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cognisant about it that is the issues in one part of the country may not be the same as the issues in another part.

You need to be cognisant about the burdens for big businesses about dealing with 50 states and countless localities, but you also don't want to stifle the innovation in places like Massachusetts where they say they are going to cover people or in Minnesota where they say we are going to work to hire quality care or in Detroit where they say we are going to work towards more efficient purchasing.

You need to be able to work with those and really what we want to do is work with everyone, work with governors, work with the congress, work with the businesses and say look, where can we be here where it really accomplishes all of this?

**LARRY LEVITT:** One of the issues governors focus a lot on are the Medicaid and SCHIP programs and there is reference to Senator's Obama's plan to expanded coverage in those programs. We had a question from a viewer about how these programs would fit in the broader context of Senator Obama's plan. Give us a sense of what kinds of expansions would he envision in these programs?

**DAVID CUTLER:** These programs have been enormously important and I should say it's a shame that last year we did not expand the SCHIP program. Senator Obama really wanted to do that. Senator McCain did not. Senator Obama really wanted to do that and it was a shame we were not able to do that.

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I think of what we want to do is expand those programs for those people for whom that is the best way to get care and create alternatives for people for whom that is not the best way to get care. Where that dividing line falls, I actually don't claim to know, and part of what we were trying to do in laying out a blueprint more than a detailed set of specifications is to say these are important, these are vital programs.

Many of them work very well. Let's have a discussion about what should happen through that kind of a model and what should happen through an employer type model or through a kind of purchasing exchange type model, so there is not a single answer I think is right. I think it's really going to be a subject of give and take.

**LARRY LEVITT:** You talked about mechanisms in addition to Medicaid and SCHIP, for example Senator Obama has the health insurance exchanges, how would people in those private insurance plans separate from Medicaid and SCHIP? A number of people asked how would Senator Obama's plan treat people with pre-existing health conditions, what would insurers be required to do in terms of covering them and what kind of premiums could they be charged?

**DAVID CUTLER:** Let me give you the short answer and then let me get to the basis of the question. The short answer is people with pre-existing conditions could not be excluded.

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The premiums could not be higher. They could not be dumped from coverage. All of the things that happen to people who are sick would not be allowed to happen. Let me give you the context for that.

If you think about the way that most big employers, a big employer or the federal government, state government, purchasing, the way that they run health care, they say look, we are going to set the rules of the road. We are going to say that we want a benefits package that looks like this and then they open it up to private insurance plans and they say if you are willing to play by the rules of the road, then you can be an option for our employees, and the rules are this is what you must cover and when you say you cover it, you actually have to cover it.

You can't turn people away because they are sick. You can't charge them more when they get sick. You can't exclude certain conditions. You have got to take people and make your money by helping them get the care they need. That is the spirit that we want to bring to individuals and small businesses is say why don't those people get the same benefits that the people in the large firms do, the people in the federal government do, that Massachusetts has set up.

In Massachusetts when we set up a functioning individual market, the rates for individuals buying insurance fell in half. The policies got better and the coverage choices

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improved as well. We want individuals to be in the driver's seat. People say when they want to have coverage not insurance companies deciding when they want to cover people and when they don't want to cover them.

**LARRY LEVITT:** Do you have any concerns about being able to make that work in the absence of an individual requirement that everyone get coverage, as it's been true in Massachusetts and was proposed in California?

**DAVID CUTLER:** In order for a system like that to work, you have to have essentially everybody in. That is, you can't have people jumping in and out of coverage and it comes back to the earlier issue we were talking about. We believe that once insurance is affordable and once insurance is accessible, the vast bulk of everybody will choose to buy insurance and if you look at the experience in Massachusetts, you don't see people jumping in and out.

If you look at the experience with Medicare and the Part D program and even the Part B program where your principle can jump in and out, you don't see people jumping in and out, but if you look at employer things, it's often harder to jump in and out but you don't see people doing that. Most of the experience that we have is that, all of the experience that we have is that when insurance is affordable and accessible, people will buy it.

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And so that is really the key to it. Now what Senator Obama has also said is if that turns out to be a problem, let's address that. So, another way to think about this is this isn't just a kind of once and for all, do it once and then everything is going to be fine, but health care is really going to have to be an issue that we deal with over a period of time and so we will see how things evolve. I personally am comfortable that it would work out right. There are people clearly who are more anxious and that is obviously an issue that one would need to be watching.

**LARRY LEVITT:** We have been talking a lot about money and insurance, let's turn to some delivery issues and we got a number of e-mail questions about that. First is prevention and you mentioned that earlier. We have an e-mailer who wrote it has been said that an ounce of prevention is worth a pound of cure. How would Senator Obama redirect the funding emphasis from treatment to preventing diseases and conditions such as heart disease, stroke, obesity, and other illnesses?

**DAVID CUTLER:** It's a great question. About three quarters of medical dollars are spent on treating conditions that could be prevented but we spend about one in every \$25 dollars preventing illness. We know there are successful models of prevention. If you look in what big physician groups are doing, particularly integrated physician groups, if you look in some of the best HMOs, they do a very good job

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preventing. How do they do it? Information technology is a key that is you have to know who needs services.

Also, getting the right comparative information, which drugs should you really be using, which drugs are more effective, how does the cost of new drugs compare to the benefits of them. In addition, there is use of different kinds of personnel. It's not just a single physician doing things out of her office, but it will often be a team approach and along with that will come a system of rewards that says doing a good job with prevention will pay you more, whereas in the current system preventing illness is a way to lose money.

You are providing services that aren't reimbursed and when the people don't come in when they are sick, you lose again. So, it is going to involve information. It is going to involve some changes in how physicians' view themselves and how they work with each other and it's going to involve reimbursement changes that say when you do a good job with this, we are going to be there to help you do it.

**LARRY LEVITT:** There has been some question lately as to whether investing in prevention actually pays off, does it save money on net, do you believe there is a case that can be made that it does?

**DAVID CUTLER:** Yes. That is not true about all preventive services and there are clear examples where it doesn't. There are many preventive services where it does save

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money and even in the cases where it doesn't save money, it still can be a very good idea.

It still is a very good idea because people live longer, healthier lives which are extremely valuable to them. So, I think of prevention as being one of the fundamental tenants of how one would judge whether health system reform is going in a good direction is do you see a lot of emphasis being put on prevention and chronic care management, not just treatment after people become very sick?

**LARRY LEVITT:** You talked about changing payment systems in order to reward certain activities, how under Senator Obama's approach, I mean you have multiple insurance plans still in the system, people getting coverage through Medicaid, SCHIP, private plans, employer plans, how do you move the system in that direction and what kind of changes do you make that make that happen?

**DAVID CUTLER:** You do a few different things. One thing you do is your encourage the professional societies as has already been going on to come up with the standards that their physicians should use, so let's be clear to everyone about how for many things we should be treating people and how we are going to judge good and bad. In addition, the federal government by not being willing to deal with Medicare and to make Medicare be a part of this has really been a great hindrance.

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Roughly half the dollars in medical care come from the government and have come from the private sector. There are all sorts of private sector initiatives to do a better job and they are hampered by the fact that even in the best of circumstances they can only affect half of the money flows. One of the things we are talking about areas of convergence between the candidates in this election.

Both Senator Obama and Senator McCain have said that they want to take the public programs and make them be more friendly to things having to do with prevention and primary care and chronic care management and that is true across the spectrums.

There is a lot of sense that we ought to do that and I think as part of this, the federal and state governments are going to have to work with the private sector because you can't have a situation where half of the money is doing one thing and providing incentives one way and half of the money is doing a different thing and providing in such a different way or even more fragmented than that.

So there is going to have to be a willingness of the federal government to be a leader and be a participant and to work with private sector and the willingness of the private sector to say you know what? We are going to do this as well. It's a transformation that you are not going to write down completely on the wall, that is none of what we are saying is

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going to be there is now a law that says "X" but it's got to be a willingness to do it and a laying the ground work, setting down the rules of the road so that is the way the system work.

**LARRY LEVITT:** What are some specific things you think, for example the Medicare program could do to move in that direction?

**DAVID CUTLER:** Let me just give you a couple of very specific examples. Currently there is no payment at all for a doctor reaching out to a patient and saying you know what, you haven't been in for awhile, you really should come in. There is no payment I believe for electronic communications between doctors and patients. There is no payment associated with doing a good job and making sure the patient got all the things that they were supposed to get, even if that involved more effort.

There is no payment for providers that say I am going to invest in an electronic system so that I've got a good handle on the patients, so it's all still about paying for services in the kind of era where the patients came in through the door and then the doctor dealt with them.

**LARRY LEVITT:** And do you think if Medicare made changes like that, the private sector would follow?

**DAVID CUTLER:** In many cases, the private sector is just waiting for Medicare to be involved and the private sector is saying we are there, where are you? And here's an example

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where what Senator Obama wants to do is come and say look, we are willing to work with people to figure out how to make this happen. Lots of folks have very good ideas. There are some in congress. There are some outside of congress. There are some by big businesses, by small businesses, by provider groups, let's talk about how we make this thing work. I am committed to it. I'm there. I now want to work with everybody to make it work.

**LARRY LEVITT:** Well we are coming to the end of our time, and you talked about working with everyone, as a final question, imagine Senator Obama is elected president, takes office in January, give us a road map for how you think health care plays out as an issue in the context of an economic downturn, potentially a recession, financial crisis, pressure on other issues, you know, what is the road map to dealing with health care?

**DAVID CUTLER:** I am not a political expert so I won't comment on the politics of things, let me just make a couple of observations though. One is we need to deal with health care in different ways than we have done in the past. Someone described insanity as doing the same thing over and over again and expecting a different answer. So, we can't do the same thing over and over again and expect a different answer.

Senator Obama wants a very open process where it's clear what's going on, where it's not in secret. He wants

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people to be represented in the debate who have never been represented before, not just the traditional interest groups but big businesses who have not particularly been a part, physicians, big physicians, ordinary physicians who have not been a part, patients groups that have traditionally not been a very big part of it.

He wants a lot of discussion, a lot of consultation, everyone gets a seat at the table and we work through these issues together, and that's really the way that we are going to address them is by everyone coming together for dialog, for constructive give and take and figuring out how to do it where there is not a winning side and a losing side but what there is, is how do we make life better for middle class Americans?

**LARRY LEVITT:** I thought the definition of health policy was doing the same thing over and over and over again but [laughs] maybe not.

David, thanks for joining us and thanks to everyone for watching. You've been watching "Ask the Experts" on kaisernetwork.org and we will see you next time when we are joined by an advisor from the McCain campaign. Thank you.

[END RECORDING]

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