



JOHN CHIANG
California State Controller

September 23, 2009

California Congressional Delegation
United States Congress
Washington, D.C. 20515

RE: Cost Containment in Health Care Legislation

Dear Members of the California Congressional Delegation:

As you consider the health reform bills before you, I want to express my strongest support for the inclusion of prevention and wellness provisions in the Senate and House health reform bills. These provisions include the development of a national prevention and health promotion strategy, funding for prevention and wellness research, and a Prevention and Public Health Investment fund that allocates funds for state and local community-based prevention efforts. All are a win-win for the health of individuals and their communities, as well as the nation's fiscal health.

As State Controller, I am interested in prevention and wellness because the costs of health care in California are unsustainable. We must slow down the health care cost trends. The annual average growth of health care in California in 1994-2004 was 5.9 percent. California's inflation rate during that same period was 2.6 percent.¹ In 2008, 22 percent of the State's general fund spending was on health care.² California's health care spending accounts for approximately 8 percent of U.S. health care costs – more than \$169 billion annually.³ Our state is facing at least a \$48.2 billion OPEB (other post-employment benefits) obligation to pay for the health benefits of future retired state employees assuming that the state continues to pay the obligation on a pay as we go basis.⁴ This amount is also based on the actuarial assumption that the health care trend rate would be decreasing over the next seven years until the ultimate rate of 4.5% is

¹ California Health Care Foundation, California Health Care Spending quick reference guide, 2009 edition.

² Ibid

³ Prevention for a Healthier California, Trust for America's Health, October 2008, p. 1.

⁴ State of California Retiree Health Benefits Program, GASB Nos. 43 and 45 Actuarial Valuation Report as of June 30, 2008, California State Controller.

reached. The prevention and wellness provisions in the bills before you will help California reach this goal.

It is critical to look for cost containment in the delivery side of health care, such as through comparative effectiveness, Health IT and other innovations proposed. But it is just as critical to look at the demand side. Keeping people healthier is one of the most effective ways to reduce health care costs down the road. A recent study by the Trust For America's Health and the Prevention Institute found that an investment of just \$10 per person per year in proven community-based programs to increase physical activity, improve nutrition and prevent smoking and other tobacco use could save California more than \$1.7 billion in annual healthcare costs within five years.⁵ This is a return of \$4.80 for every \$1 invested. Of the \$1.7 billion annual savings, the state and federal government could each save more than \$84 million in Medi-Cal costs, private payors in the State could save more than \$1 billion, and federal Medicare savings would be more than \$468 million. Given that CalPERS is by far the largest private payor in the state, much of those savings will accrue to PERS, thus helping to address the state's OPEB obligation.

A study on the cost of obesity released last month by the California Center for Public Health Advocacy found that the costs of rising obesity and physical inactivity rates in the State have doubled to \$41 billion in just the last six years.⁶ To put that in perspective, \$41 billion is nearly what the State spends on health care (\$20 billion), social services (\$10 billion) and corrections (\$10.2 billion), combined. It is slightly more than the \$37 billion the State spends on K-12 education. Worse, the costs to the state of obesity and physical inactivity are projected to rise to \$52.7 billion by 2011. Heart disease, cancer and diabetes resulting from obesity and physical inactivity – the major contributors to rising health costs – represent a preventable drain on California's troubled economy. The study shows that cutting obesity and physical inactivity by just 5 percent could save the State \$2.4 billion a year. Simply from a pocketbook perspective, doing nothing to curb rising obesity is far more expensive than supporting and promoting policies that focus on prevention.

There is no denying that each of us should take personal responsibility for our health. However, it is fiscally irresponsible to ignore the role our community has in supporting healthy options. Every successful public health movement – from sanitation to air pollution, from drunk driving to tobacco use – has shown that people can only be healthy if public policies are in place to support them in making healthy choices. When grocery stores are replaced by fast food outlets, the ability of families to make healthy choices becomes more difficult. When vending machines are stocked with sugar-packed snacks and beverages, we further that challenge. When parks and other open spaces are closed off or developed, people are less likely to be physically active.

Even in tough economic times, smart business people consider their return on investment. Developing walking paths to neighborhood grocery stores and playgrounds

⁵ TAH prevention report, p. 4

⁶ California Center for Public Health Advocacy, The Economic Costs of Overweight, Obesity and Physical inactivity among California Adults -2006,

and opening city parks to farmers' markets and other community activities may cost more in the short term, but these healthy steps will be instrumental in not only improving the physical health of Californians, but also the State's long-term fiscal health. The Prevention and Wellness provisions in the health reform bills are key to putting California and the nation on the path to a healthier fiscal future.

If you would like any further information please do not hesitate to contact my Deputy for Health and Consumer policy, Ruth Holton-Hodson, at (916) 445-8551.

Thank you for your consideration.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller