

Healthcare in America

Costs, coverage, and solutions

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9 December 2008

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Why Should You Care

The issue of healthcare in America could:

- severely impact your physical and mental health
- severely affect your economic security
- constrain your lifecycle choices (employment, marriage, kids)
- decrease your lifetime standard of living

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In tough economic times...

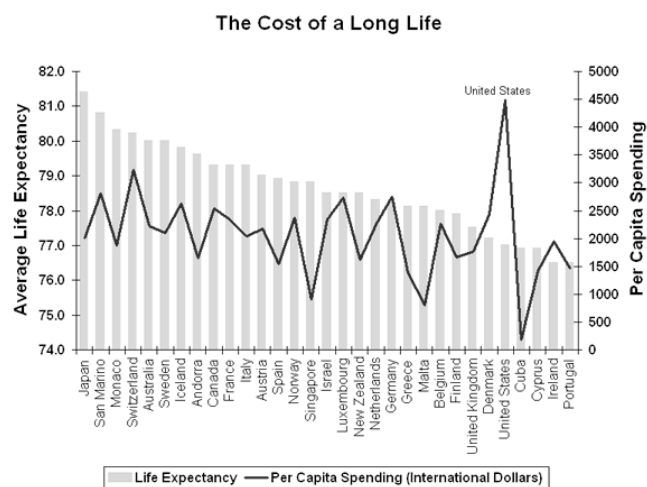
The National Bureau of Economic Research, the arbiter of U.S. business cycles, declared that the United States entered recession in December 2007.

1 December 2008

As the old adage goes, "at least we have our health..."

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But do we have our health?



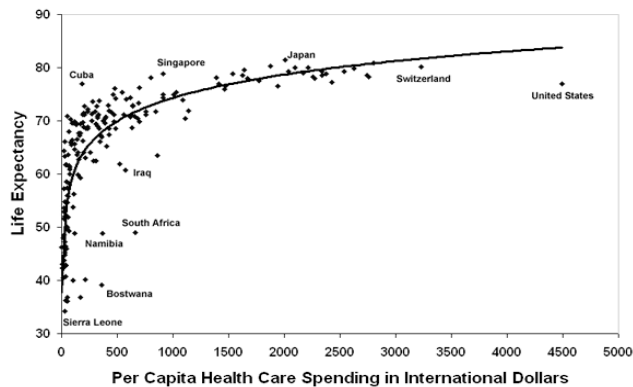
Year 2000 data.

Source: <http://ucatlas.ucsc.edu/spend.php>

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Do we get our money's worth?

Life Expectancy vs. Spending



Of course, this diagram shows averages, which masks inequality within nations. Example: life expectancy in US is 76.8 years for whites, 70.2 for blacks. Why? Year 2000 data.

Source: <http://ucatlas.ucsc.edu/spend.php>

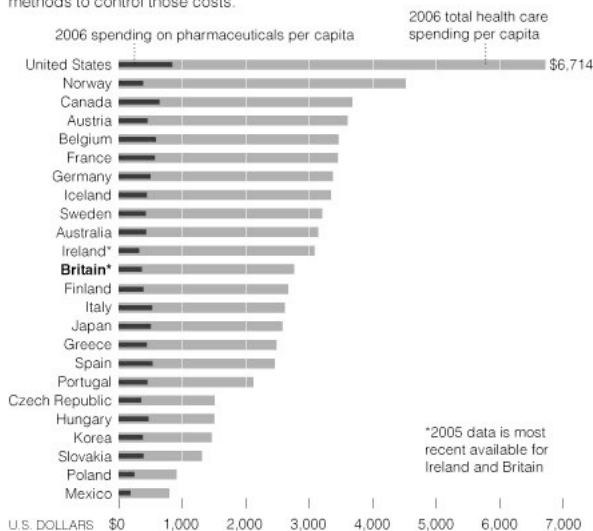
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The New York Times

December 3, 2008

The Cost of Care

The United States spends more per capita than any other country on health care and on drugs in particular. However, drugs make up a greater share of overall health spending in many other countries, some of which are considering British methods to control those costs.

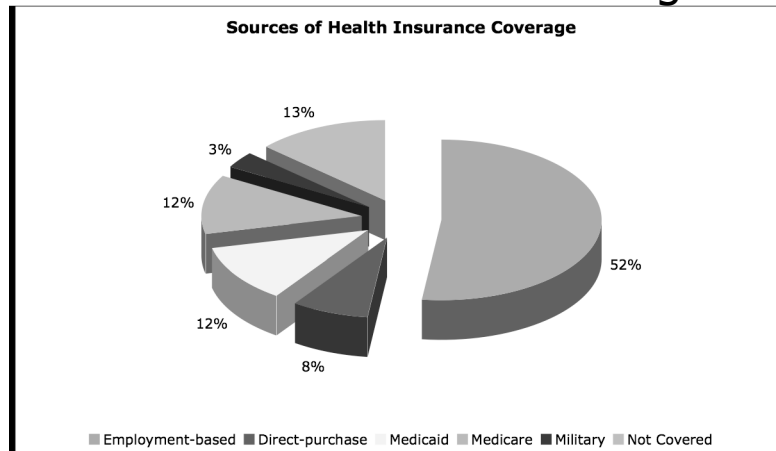


*2005 data is most recent available for Ireland and Britain

Source: Organization for Economic Cooperation and Development Health Data

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Where do Americans get their health insurance coverage?

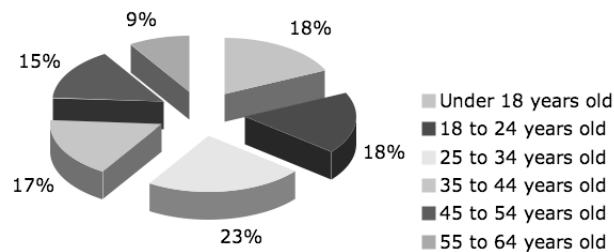


Source: US Census Bureau, 2007 numbers
<http://www.census.gov/hhes/www/hlthins/historic/hihist2.xls>

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1 in 7 Americans is Uninsured

The uninsured (about 47 million in 2007) are mostly working people.



Where do they get health care?
 Who pays for it and how?

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Medically-induced Bankruptcy

"Health insurance? That didn't protect 1 million Americans who were financially ruined by illness or medical bills last year.

Most of the medically bankrupt were middle-class homeowners who had been to college and had responsible jobs -- until illness struck."

- Elizabeth Warren, February 2005

Source:

<http://www.washingtonpost.com/wp-dyn/articles/A9447-2005Feb8.html>

Elizabeth Warren, professor of law at Harvard University, is an expert on bankruptcy.

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Insurance Primer

Insurance is a way to share risks which would be too much for any individual household or business to bear.

Example: suppose your car is stolen

- 2008 Honda Civic Hybrid, \$25,000
- Annual risk of being stolen: 1 in 100
- How about sharing that risk over 100 people?
- Cost: \$25,000 loss / 100 people = \$250 per person

(I made up all of these numbers to keep the example simple.)

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How to price insurance?

Community Rating:

Estimate total expected costs, divide by population.

- Everyone pays the same price

Experience Rating:

Estimate (as best possible) the amount of exposure an individual is expected to have. Price insurance accordingly.

- Low-risk people pay less
- High-risk people pay more

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Current Model: Private Insurance

In the US, private health insurance comes in 2 forms: employer-sponsored plans or direct-purchase plans.

- Employer-sponsored plans are subsidized by taxpayers generally.

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Current Model: Private Insurance

What's wrong with the current model?

Employment-based insurance is often unavailable, and always risky.

How and why?

Individual direct insurance is prohibitively expensive.

How and why?

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Confusion in Healthcare Delivery

- Wide array of providers
 - Emergency room doctors, primary care, nurse practitioners
 - No standard inter-provider communications
- Do I really need this test, or is it a waste of money?
- Second opinion?
- Is the doctor prescribing the right course of treatment?

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Confusion in Healthcare Financing

- Insurance Premiums
- Reimbursement Rates
 - e.g. 80% of “reasonable and customary”
- Deductibles
 - Insured pays first \$2000/year of treatment
- Co-pays
- Coverage limits

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Medicare and Medicaid

What about government insurance?

Medicare provides hospital insurance, outpatient, and prescription drug benefits to all Americans over age 65. (Universal coverage.)

Medicaid provides similar benefits to parents, seniors, or disabled people with low incomes.

About 60% of the poor are not covered by Medicaid. Coverage varies by state.

Source:
<http://www2.citizen.org/hrg/medicaid/assets/reports/2007UnsettlingScores.pdf>

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Demographic problem

Americans are living longer.

1900: <4% of Americans age 65+

2000: 12.4% of Americans age 65+

2030: 19.4% of Americans age 65+

Problem: Medicare is funded by a payroll tax. The ratio of retirees to workers is growing very quickly, and will be unsustainable as soon as 2030.

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What's wrong with Medicare?

- Benefits promised are too generous, no limits.
- Medicare benefits per beneficiary are growing at about 4% per year **
- Real wages have grown about 1.2% per year since 1975
- Result?

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The Coming Generational Storm

Who's going to pay for Medicare costs?

How much will this cost?

The present value of promises made to current and future retirees is about \$40 trillion:

- \$40 trillion is \$40,000,000,000,000
- US Economy as a whole is about \$13 trillion.
- What's your share? About \$175,000.¹

Source:

The Peter G. Peterson Foundation

<http://www.pgpf.org/issues/>

¹Includes explicit debt of about \$11 trillion, unfunded social security liabilities of about \$7 trillion, Medicare parts A & B of about \$26 trillion, Medicare part D of about \$8 trillion. Total US liabilities: about \$53 trillion. Other estimates place this north of \$66 trillion, or about \$225,000 per person.

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The Menu of Pain

Here are some possible solutions to the nation's unfunded liabilities:

<i>Policy</i>	<i>Percentage change if policy enacted in 2008</i>
Increase Federal Income Taxes	+74%
Increase Payroll Taxes	+103%
Cut Federal purchases	-115%
Cut Social Security and Medicare	-47%

Source:

Gokhale and Smetters, "Fiscal and Generational Imbalances: New Budget Measures for New Budget Priorities, Federal Reserve Bank of Cleveland Discussion Apaper, March 2002

Kotlikoff and Burns: The Coming Generational Storm

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Why is this so hard to fix?

- Healthcare is a big part of our economy
 - There are a lot of dollars and jobs at stake
- There are big conflicts of interest in policy making
 - Who writes the laws, anyways?

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Healthcare Sector of Economy

hospitals, doctors, nurses, insurance, pharmaceutical, and medical device companies.

While the rest of the economy was shedding nearly 600,000 jobs and the nation's once-proud automobile industry went begging for a bailout, the health care sector actually added 52,100 jobs last month.

Source:
<http://healthcare-economist.com/2008/12/08/health-care-sector-adds-jobs/>

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Healthcare Sector of Economy

- In 2007, health care spending in the United States reached \$2.3 trillion.
 - Projected to reach \$4.2 trillion by 2016
- Health care spending is 4.3 times the amount spent on national defense.
- In 2005, the United States spent 16 percent of its gross domestic product (GDP) on health care.
 - By 2016, it is expected to reach 20% of GDP

Source:
The National Coalition on Health Care
<http://www.nchc.org/facts/cost.shtml>

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Where do all the dollars go?

What's driving the rapid growth of healthcare costs?

- Incorporating the costs of the uninsured
- New medical technology and drugs
- Unrestrained growth of entitlement programs
- Company profits

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Beware of Drug Dealers

The cost of prescription drugs in particular are growing much faster than the economy as a whole (or wages).

- Direct-to-consumer marketing
- Drug companies rewarding doctors to write prescriptions
 - Move people to newly patented drugs
- Medicare part D prohibits negotiating with drug companies

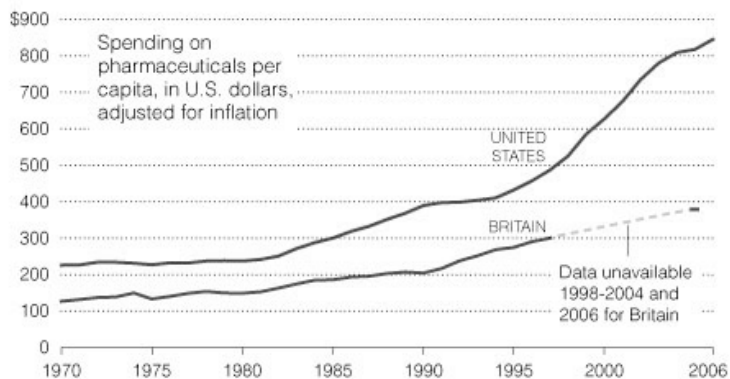
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We have a drug problem...

The New York Times

December 3, 2008

Drug Spending on the Rise



Source: Organization for Economic Cooperation and Development Health Data

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... and a lobbyist problem

Between 1998-2006, pharmaceutical companies spent over \$1 billion on lobbying.

- Twice as much as oil & gas industry
- Insurance companies ranked second

Why spend so much on lobbying?

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What must a solution include?

Coverage:

Who should be covered?

Standards of Care:

What are the best practices for providers?

What testing/treatment is (cost) effective?

Cost Controls:

How much should we spend on healthcare?

How fast should healthcare spending grow?

What care/treatment gets covered?

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Public-Private Model

The Massachusetts Healthcare for All plan, for example, was enacted in 2006.

- Requires every citizen to obtain health insurance, with subsidies for people earning up to 300% of Federal poverty level.
- Employer mandate
- Individual mandate

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Are mandates strong enough?

In the Massachusetts plan:

Employer mandate:

- Firms with more than 10 employees must provide "fair and reasonable contribution" to at least 25% of FTE, or pay \$295 per employee.

Individual mandate:

- Must have health insurance, or pay a penalty of up \$912 per year (assessed as income tax).

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Case Study: General Motors

In 2005, General Motors spent about \$1500 per vehicle on healthcare.

- BMW pays about \$450 per vehicle in Germany.
- Honda pays about \$150 per vehicle in Japan.

In 2008, GM fears it will pay \$2000/vehicle.

Healthcare is bankrupting American business.

Sources:

Healthcare Costs and U.S. Competitiveness, Council of Foreign Relations

<http://www.cfr.org/publication/13325/>

Daschle, p. 188

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Single Payer Model

Similar to Canada, Britain, Australia, etc.

Government entity makes payments to healthcare providers, financed by general tax revenues.

- Is this socialized medicine?
- Who decides what is covered care?
- Who benefits from such a program?
- Who loses from such a program?

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House Resolution 676

The United States National Health Insurance Act

- Introduced by Michigan Rep. John Conyers in 2003; currently has 93 co-sponsors.
- Calls for creation of a single-payer healthcare system.
- Provides a graceful transition path for current employer-based model, health insurance company employees, doctors, etc.

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HR 676

How would HR 676 be financed?

- Redirect existing government spending on healthcare
 - Medicare, Medicaid, and tax-expenditures for employer-sponsored plans
- Increase personal income tax on top 5%
- Modest and progressive tax on payrolls

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HR 676

How does HR 676 control costs?

- Reduce paperwork
- Replace hundreds of redundant payment systems
- Require bulk procurement of medications
- Eliminate investor profit from healthcare system

Administrative costs are currently about 31% of healthcare spending.

Source: www.nchc.org/facts/cost.shtml

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HR 676

How to decide standards of care?

Who defined covered treatment?

- Tom Daschle suggests a “Federal Health Board”

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Our Healthcare Dilemma

- Freedom versus Security?
- Is this a moral issue?

"The hottest places in hell are reserved for those who in a period of moral crisis maintain their neutrality."

-- John F. Kennedy quoting Dante

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Read More: Books

- Senator Tom Daschle, future Secretary of HHS:
Critical: What we can do about the health-care crisis
- Princeton Economist and Nobel Laureate Paul Krugman:
The Conscience of a Liberal
- Yale Political Economist Jacob S. Hacker:
The Great Risk Shift
- Boston University Economist Lawrence Kotlikoff:
The Healthcare Fix

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Read More: Websites

- The Peter G. Peterson Foundation
<http://www.pgpf.org>
- The National Health Insurance Bill
<http://www.hr676.org>

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Recent Articles

- (Generic) Drug Resistance
<http://www.nytimes.com/2008/12/10/opinion/10wed3.html>
- Uninsured Put a Strain on Hospitals
<http://www.nytimes.com/2008/12/09/business/09emergency.html>
- How to Take American Health Care From Worst to First
<http://www.nytimes.com/2008/10/24/opinion/24beane.html>

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