Can We Afford Our Healthcare?

Robert B. Helms
Resident Scholar
American Enterprise Institute

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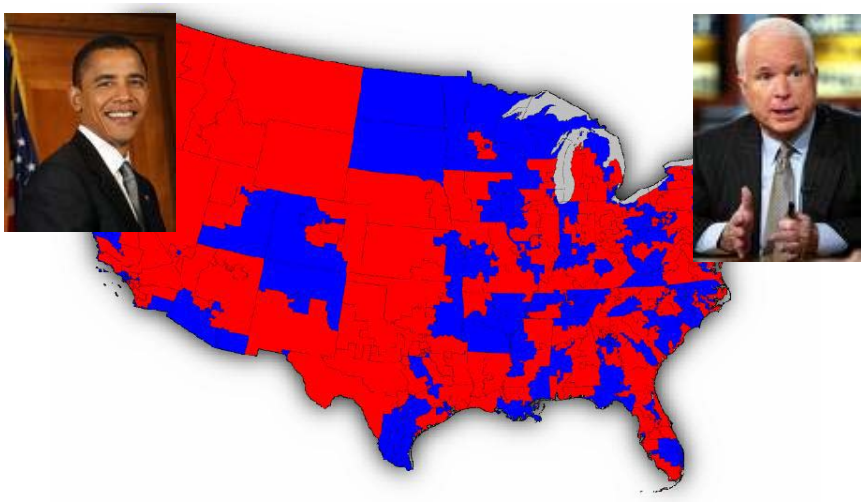
Can We Afford Our Healthcare?

- Maybe
- But it will require substantial reform in 3 areas:
  - Tax policy affecting private health insurance
  - Medicare payment policies
  - Medicaid financing

The Politics of Health Policy



Are the Stars Aligned for Health Reform?

DividedWeFail.org

AMA HELPING DOCTORS HELP PATIENTS

AHIP

Americans for Health Care

Senator Kennedy's Task Force

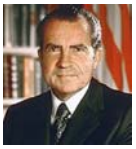
Public Opinion favors reform

Better Health Care Together

CED

Past Attempts to Reform Health Policy

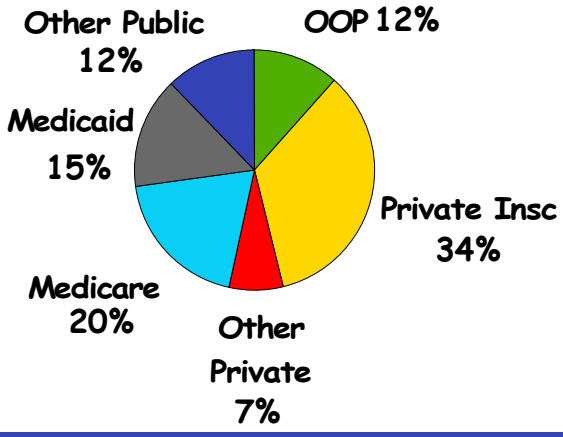
- President Truman and National Health Insurance
- President Nixon's offer
- The Reagan era
- President Clinton's Health Security Act



Health Econ 101

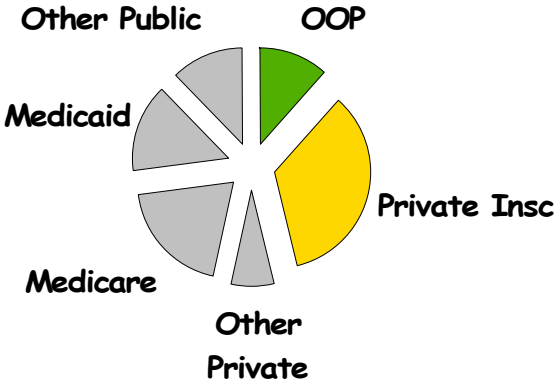
- Prices matter
  - To buyers
  - To sellers
- Insurance (Public or Private)
  - Lowers the perceived price to the consumer
  - Increases the volume demanded (moral hazard)
- Supply of health care
  - Mostly services -- Is very labor intensive (income to people)
  - Medical products – innovation constantly changing
  - Facilities – long-term capital investments make adjustments difficult
- Open-ended payment policies create strong incentives to increase spending
  - With weak incentives to seek value
  - Result is inefficient, flat-of-the-curve health care delivery

National Health Expenditures Projected to be $2.3T in 2007



Source: CMS, NHE

The Private Sector Projected to be $1042 B in 2007



Source: CMS, NHE

WWII Wage and Price Controls

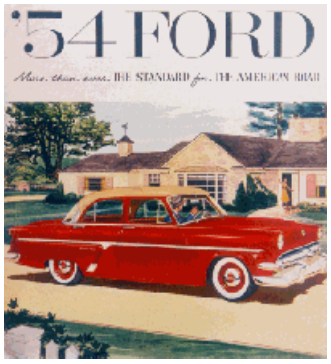
- Two programs to control wartime inflation
  - Office of Price Administration (OPA)
    - Price controls and rationing of consumer commodities (e.g., sugar, coffee, butter, tires)
  - National War Labor Board (WLB)
    - Control of wartime wages
    - Settlement of labor disputes to assure wartime production

National War Labor Board

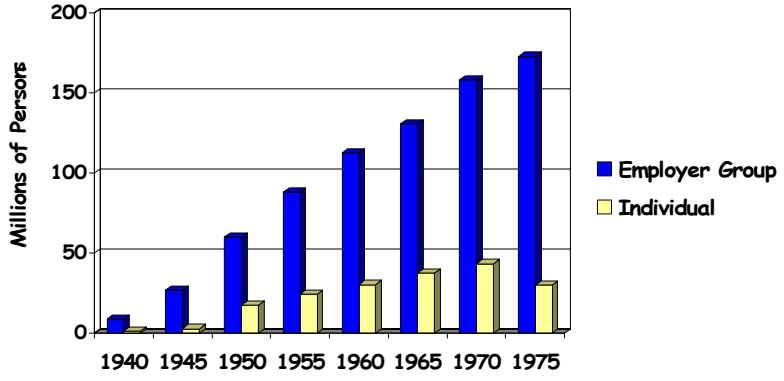
- 1943: War Labor Board and IRS ruling that employer fringe benefits did not count as taxable wages
- But could not exceed 5% of wages

The Post-War Period

- 1954: Exclusion of health insurance from taxable income confirmed by the Congress
- Post-war period
  - Medical advances increased cost of medical care and the demand for health insurance
  - Rapid growth in health insurance coverage



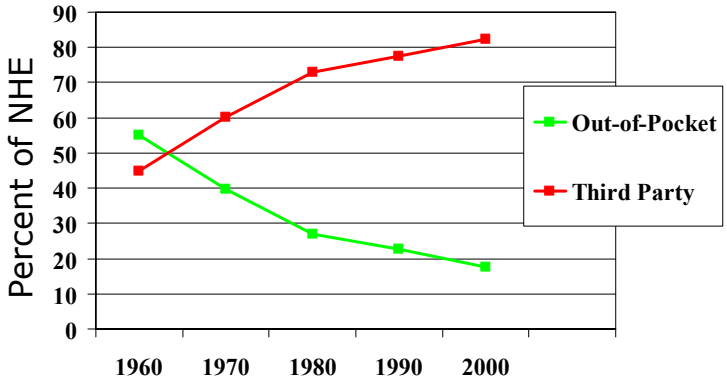
Private Hospital Insurance Coverage
Group versus Individual, 1940-1975



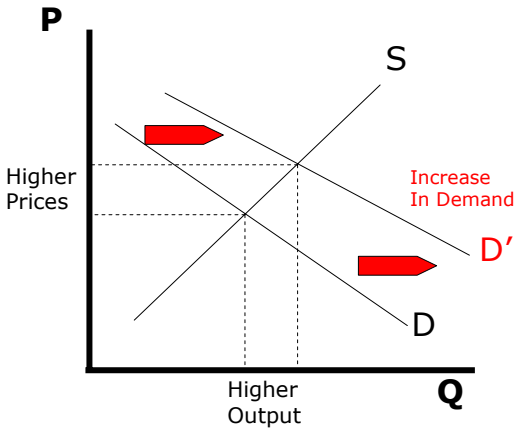
Note: Employer group is the total of persons covered by Blue Cross/Blue Shield plus insurance company group policies.

Source: *Historical Statistics of the United States – Millennial Edition,* Series Bd294-305.

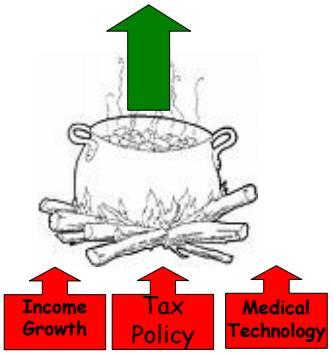
Growth in Third-party Payments, 1960-2000



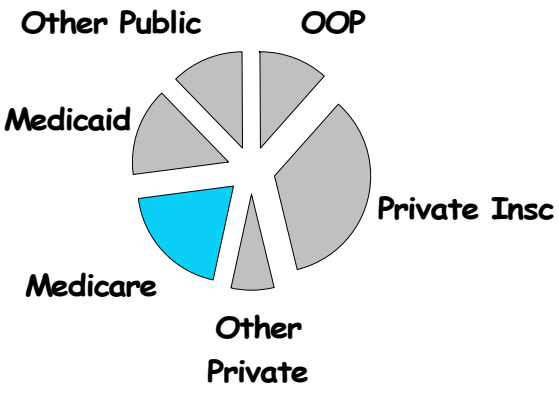
Effects of Tax Policy



- Higher prices
- Lack of access
- Winners & Losers

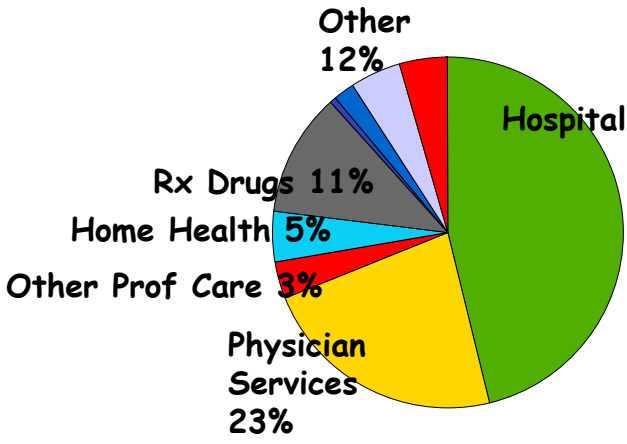


Medicare
Projected to be $448 B in 2007



Source: CMS, NHE

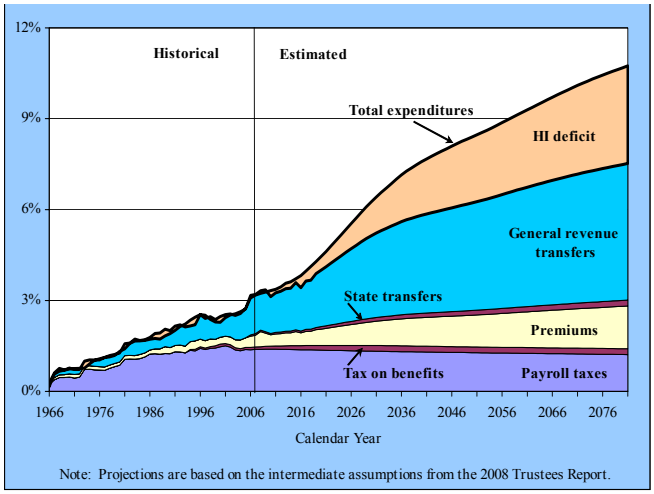
Medicare Expenditures 2007



Enrollment:
FFS 82.4%
MA 17.6%

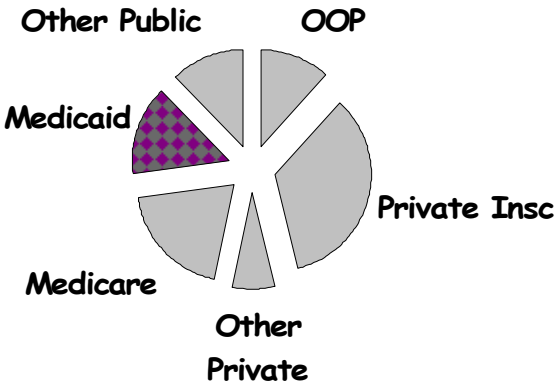
Medicare Income and Expenditures

Percent of GDP



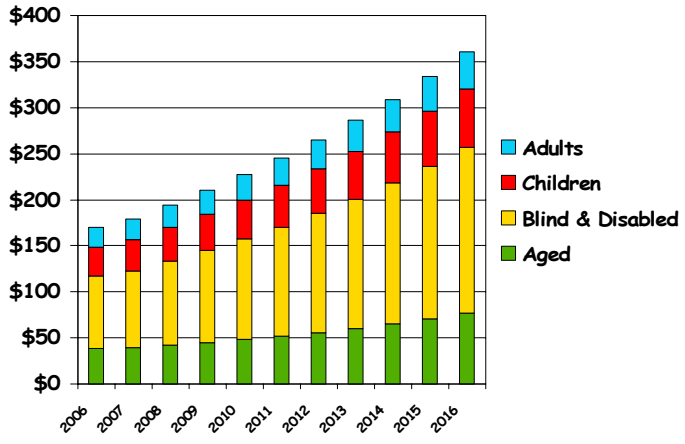
Source: 2008 Medicare Trustees Report, Figure II.D2

Medicaid - Projected to be $191 B Federal + $146 B State in 2007



Source: CMS, NHE

Four Types of Medicaid Benefits CBO Projections in Billions



Source: CBO, *Medicaid Spending Growth*, July 13, 2006, Table 4.

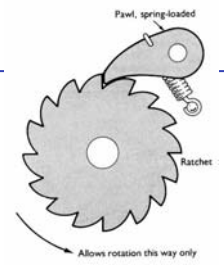
Medicaid State Matching Rates, FY 2008

- 13 States with 50% FMAPs
  - California
  - Colorado
  - Connecticut
  - Delaware
  - Illinois
  - Maryland
  - Massachusetts
  - Minnesota
  - New Hampshire
  - New Jersey
  - New York
  - Virginia
  - Wyoming

Source: KFF State Health Facts

- 10 States with highest FMAPs
  - Mississippi 76.3%
  - West Virginia 74.3%
  - Arkansas 72.9%
  - Louisiana 72.5%
  - Utah 71.6%
  - New Mexico 71%
  - District of Columbia 70.0% (set by law, not by formula)
  - Idaho 69.9%
  - South Carolina 69.8%
  - Kentucky 69.8%
  - Montana 68.5%

Two Types of Ratchet Effects

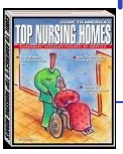


- **Total Budget Effect**
  - Expand Medicaid relative to other state programs
- **Interstate Effect**
  - Wealthier states expand Medicaid relative to poorer states
- **Subject to Two Constraints**
  - Each state's budget capacity – taxing authority
  - The federal bureaucracy's rules and regulations – NASHP's "Tug of War"

The Medicaid Commission's Recommendations

- Did not address FMAP reform or financial gaming
- Recommended greater state flexibility and simplified waiver process
- Emphasis on LTC
  - Especially care coordination for dual eligibles
- Recommended a new Medi*caid* Advantage proposal
  - Consolidate present funding sources – states receive a risk-adjusted capitated payment
  - Allow states to set up state or private coordinated care plans
  - Optional state participation
  - Beneficiaries could opt out of state system

Payment for Dual Eligibles: Current FFS Policy



Go to Hospital or Nursing Home

Stay at home
Go to Physician

No Coordination of Care

Payment from:

Medicare Part A

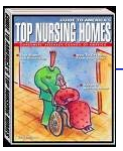
Medicaid

Medicare Part B

State $

Federal Match

Payment for Dual Eligibles: Seeking a Better Way



Go to Hospital or Nursing Home

$

Stay at Home
$ Go to Physician

State or Private Health Plan
Provides Coordinated Care And Payment

$

$

$

$

Medicare Part A

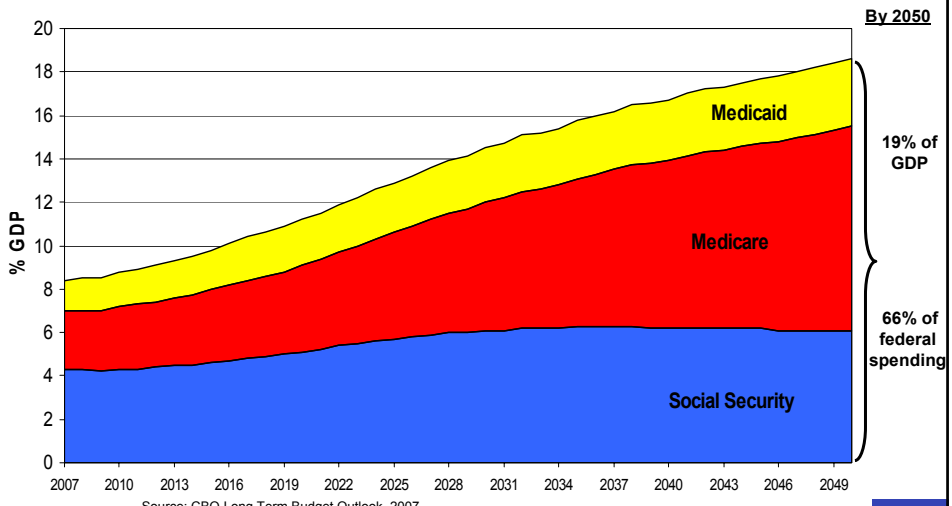
Medicaid

Medicare Part B

State $

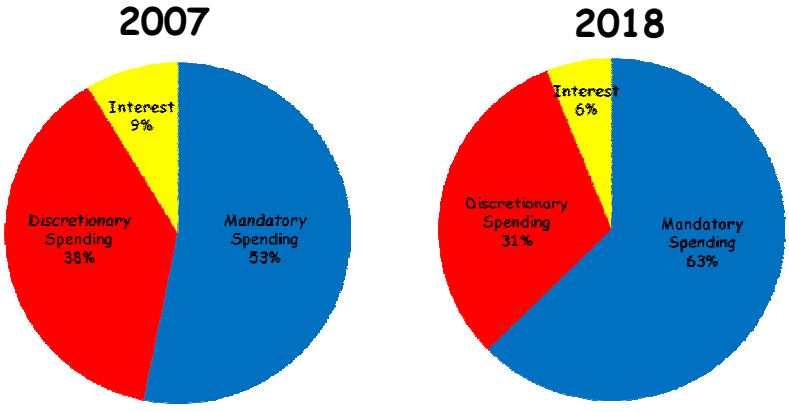
Federal Match

Cost of Entitlement Programs

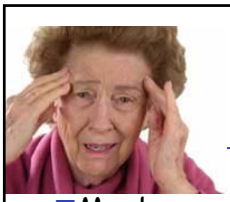


Source: CBO Long Term Budget Outlook, 2007

Entitlement Growth Will Force Political Change



Source: CBO Budget Projections, 2008



Can We Afford Our Healthcare?

- Maybe
- But only if we reform the distorted incentives we now have in public and private markets
- We have to create pervasive incentives:
  - For consumers to seek value in medical consumption
  - For providers to compete on the basis of quality and cost-effectiveness
  - For everyone to invest more in prevention and IT
- Mandating coverage will not assure access to effective coverage:
  - look at the UK, Canada, and Medicaid

Are the Stars Aligned for Health Reform?

PhRMA

"All the players in health care reform . . . came to the political process with strong convictions in support of their first-choice proposal. For each of these groups, their second-favorite choice was the status quo."
Stuart Altman, as quoted in *Health Affairs,* 2001.

AMA

NCPA

American Hospital Association

NFIB The Voice of Small Business.

AFL-CIO America's Union Movement

ANA NursingWorld American Nurses Association

AHIP

FamiliesUSA The Voice for Health Care Consumers

AAMC