



The True Cost of Insuring the Uninsured

By Robert Huebscher

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Let's say your spouse sends you out to buy a quart of milk and you take along a bag of soda cans to return. You use the deposit from the cans to buy the milk. Was the milk free?

Of course not. But that's the logic the government uses when it says the Senate health care bill can provide insurance to 31 million previously uncovered individuals and still have money left over.

The Christmas Eve passage of the health care bill by the Senate carried with it the promise of reducing the Federal budget by \$132 billion over the next decade. The Obama administration and prominent economists, among them Paul Krugman, have argued that this proves we can provide universal coverage while reducing the deficit.

The goal of universal insurance is laudable, but a key question that must be answered is at what cost. The Senate bill could indeed save \$132 billion – although that would require a number of aggressive assumptions to prove realistic – but there is a substantial and inescapable cost to providing universal coverage.

That cost is obscured by the budget estimates produced by the Congressional Budget Office (CBO).

On December 19, the CBO published its analysis of the Senate bill showing the \$132 savings. The CBO estimated that the Senate bill would cost \$871 billion in subsidies, offset by \$149 billion in savings from taxes on "Cadillac" health care plans and \$108 billion in other savings, bringing the net cost to \$614 billion.

That \$614 billion would be offset by \$747 billion in savings, consisting of \$483 billion in Medicare spending reductions and \$264 billion in increased federal revenue, most of which is from excise tax on the Cadillac plans.

The difference between the \$747 billion in savings and the \$614 billion in costs yields the \$132 net savings.

The game that is being played is the inclusion of the \$483 billion in Medicare savings – the soda cans you returned to pay for the milk. These have absolutely nothing to do with providing universal coverage, and could be achieved



independently, whether the Senate bill passes or not. Those savings come primarily from reducing Medicare Advantage overpayment and reducing the market-basket adjustment for hospitals.

Once you back out the Medicare savings, the real cost of providing universal coverage over the next ten years, based on the CBO estimates, is \$351 billion, not a \$132 billion savings.

I spoke with Jonathan Gruber, a well-known health economist at MIT. He did not deny this point, but said that this is really a political question. He said that those Medicare savings would never have been enacted if Congress had not bundled them with a program, such as universal coverage, where they could be effectively deployed.

Gruber is a paid consultant to the Obama administration, advising it on the costs of health care legislation.

At best, it could be this was the only way the bill's drafters could conjure up enough savings to make the legislation palatable. At worst, this is a sad commentary on the lack of Congressional support for fiscally prudent measures.

Much of the criticism of the CBO estimates has been directed toward the fact that tax revenues from the bill kick in several years before universal coverage is provided and costs are incurred. Critics claim that this timing difference hides the true cost of the plan.

Gruber told me that, on the surface, this is "absolutely true." What makes the first 10 years work, though, according to Gruber, is that the second ten years work even better. In the tenth year, 2019, the plan is a budget reducer.

In the second decade, the Medicare savings and the Cadillac excise taxes grow faster than the spending, producing the increase in projected overall savings.

Accelerated savings are often packed into proposed legislation, and I agree with Gruber that the timing difference is a red herring, at least if one is inclined to believe the CBO estimates. The CBO, by the way, is a non-partisan entity that grinds out savings calculations based on assumptions they are provided. Claims that the CBO calculations are distorted by political bias are another red herring.

Let's look at the question of whether the assumptions behind the CBO estimates are reliable. One of the assumptions the CBO uses – one that is key to achieving projected Medicare savings – is in the sustainable growth rate (SGR) of payments to doctors. The SGR is the mechanism by which Medicare payments to doctors are reduced over time.



The history of SGR reductions provides little comfort to those who hope for cost reductions. For many years now Congress has routinely overridden proscribed SGR reductions.

Gruber, however, says the SGR concern is really another political issue, since it was a problem before this legislation was proposed and it would be a problem if this legislation never existed. Nonetheless, the history of the SGR illustrates the tenuousness of the CBO estimates.

Another key assumption in the CBO estimates is that overall Medicare spending will grow at 2% annually on an inflation-adjusted basis, instead of its historical 4% annual growth. This reduction in growth is attributed to improved efficiency and new technology in the health care industry, among other causes. Gruber said he does not know how significant this assumption was and that there is no simple way to recalculate the CBO estimates based on the historical 4% growth.

Assuming something closely resembling the Senate bill ultimately becomes law, Americans will pay at least \$351 billion over the next 10 years for the privilege of universal coverage. For that sum, we get some meaningful benefits.

As a whole, according to Gruber, we will be a healthier nation. The health benefits, however, are not the big gain, because health depends less on insurance and more on factors such as genetics, smoking and reckless activities. "The real gain is in economic security," Gruber said, "because people won't be forced into bankruptcy because they can't pay their medical bills, and people won't fear changing jobs because of losing their insurance."

The larger question, which I will not attempt to answer, is whether these benefits are worth their \$351 billion cost.

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