

Health Care Reform in US From a Business Perspective

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Plan of talk

- Review the role “business” played in the debate (political economy).
- Discuss what stake business had in the debate (real economics)
- Speculate about the future of health reform (your guess is as good as anyone’s)

What just happened?

- The President/Congress plan was impossible because you cannot simultaneously:
 - Cover a lot of the uninsured with subsidies
 - Leave health insurance and care alone for the middle class
 - And only raise taxes on a few rich people.
- My partisan interpretation: voters figured this out.

My ideal reform

- Make subsidies available to lower income households for basic insurance.
- Finance those subsidies with explicit surcharge to the income tax (possibly progressive).
- Limit the subsidy to high income workers.
- Stop.

The economic paradox (which business does not understand)

- Profit seeking general businesses do not have a Big Dog in the debate, despite “paying” for 94% of private insurance
- Because almost all payments for insurance come out of worker wages.
- With only small costs imposed on firms that are small (high cost) or not offering insurance (Herring/Pauly, NEJM)

Business positions on reform

- FOR:
- Business Roundtable
(Big Business)
- Provider groups
- Drug industry
- NCHC
- AARP
- AGAINST(eventually)
- Chamber of
Commerce
- AHIP
- NFIB

The most important problems in health reform

- Covering the uninsured “efficiently” is hard because they are heterogeneous.
- Controlling spending growth is hard because higher spending provides positive benefits that are “worth it.”
- Improving insurance markets is hard because insurers already do what pays, not what is evil.
- Solving Medicare’s long term financing problems is impossible.

Individual Insurance Status by Ratio of Income to FPL, All Individuals Under 65

(From: M. V. Pauly, “Individual Insurance in Health Reform,” Table 1. Forthcoming, 2009.)

Poverty Level (povll)		Uninsured	Government	Private	Total
<100%	n	11.4	17.0	5.7	34.1
	%	33.4%	49.8%	16.8%	100.0%
100-125%	n	3.6	4.5	3.1	11.2
	%	32.2%	40.5%	27.3%	100.0%
125-150%	n	3.7	3.8	4.0	11.5
	%	32.6%	33.1%	34.3%	100.0%
150-175%	n	2.8	2.9	4.7	10.5
	%	26.8%	28.1%	45.0%	100.0%
175-200%	n	3.0	2.4	5.5	10.9
	%	27.3%	21.9%	50.8%	100.0%
200-300%	n	8.8	7.0	27.9	43.7
	%	20.1%	16.0%	63.9%	100.0%
300-400%	n	4.6	3.8	28.3	36.7
	%	12.5%	10.4%	77.1%	100.0%
>400%	n	7.0	7.1	89.5	103.6
	%	6.8%	6.8%	86.4%	100.0%
Total	n	45.0	48.5	168.7	262.2

Notes :

1. Individuals reporting both government and private insurance are included in government insurance.
2. Income is measured by household income, not by income of the “insurable unit,” because evidence indicates that household income strongly affects the likelihood of coverage.

Source: U.S. Census Bureau, Current Population Survey, March 2008 Supplement.

Percent Adults Uninsured by Household Income Relative to Poverty Line and Establishment Size, Households with Full-time Worker

(From: M. V. Pauly, "Individual Insurance in Health Reform," Table 2. Forthcoming, 2009.)

Income as % of Poverty Line	Establishment Size	
	< 50 workers	≥ 50 workers
Below 300%	25.8 %	13 %
Above 300 %	7.9 %	2.3 %

Note: excludes unknown or other income categories.

Source: Centers for Disease Control and Prevention, National Center for Health Statistics,
"National Health Interview Survey," 2008.

Covering more of the uninsured

- The challenge: the uninsured cover a wide range of incomes and insurance settings.
- The strategy: beef up Medicaid for the poor uninsured, enact mandates with targeted subsidies with for the rest.
- Making insurance free for all, or making subsidies available fairly, would cost too much.
- Still will cost several thousand dollars per taxpaying household, only cover about half.

The biggest problem: where to get the money

- Medicare “savings” taken from Medicare for seniors and devoted to under 65s (half of financing)
- Nuisance taxes on tanning salons, employers, rich uninsured.
- 40% excise tax on Cadillac insurance policies: not as fair as capping the exclusion but better than nothing, and contributes to cost containment.

Bending the cost curve

- Spending rises because of beneficial new technology and raises for nurses.
- Reform avoids both, is targeted at care delivery process, information technology, comparative effectiveness information
- Problems: a cost containment FDA would approve none as safe and effective, and almost all will take a long time.
- Congress unwilling to reduce quality growth. But that is the only permanent solution.

Insurance reform

- Goal uncertain: cover the uninsured, help high risks, or find a scapegoat?
- Insurer profits less than 4% of total revenues, most are nonprofit.
- The real issue: insurers are mean to save employers and insureds money.

Insurance reform: the worst way to do a good thing (NEJM website)

- Goals: Equity (fairness to high risks) and Efficiency (protect against reclassification risk and rescissions). Only for 6% of the market.
- Community rating and no exclusions incentivizes low risks to avoid insurance and insurers to avoid high risks.
- So you need lots of regulation to plug holes.
- Exchanges: how many small dogs make a Great Dane?

The better ways

- Wait until you get sick to get insurance?
Need to deter by...
- Not-too-nice high risk pools financed by general revenue taxation.
- Guaranteed renewability at class average rates: prepay against reclassification risk.
- The law so far only envisions limited enrollment periods. Needs more incentives to consumers to buy insurance when well.

Medicare's problems

- Unfunded Medicare liability under current law is \$60 trillion plus.
- There were some moderate changes that would have made the future less dire.
- But they have been used up by health reform, so now there is no hope for Medicare
- Short of means testing and limiting coverage for new technology

Conclusion: What makes sense next?

- Enhance Medicaid for the poor to cover poor categorical ineligible (able bodied adults)
- Cap or limit the tax exclusion.
- And use the second to pay for the first.
- Drop employer mandates and federal insurance regulation.
- Reduce uncertainty.