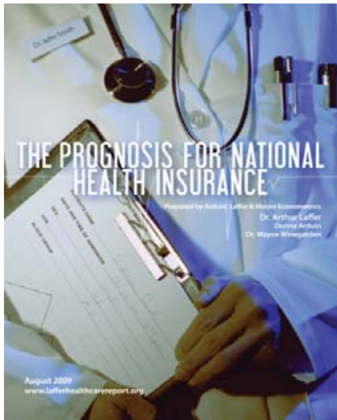

THE PROGNOSIS FOR NATIONAL HEALTH INSURANCE

A VIRGINIA PERSPECTIVE

The Effects of Proposed National Health Care Reform on Virginia

"In 2009, health care reform is not a luxury. It's a necessity we cannot defer. Soaring health care costs make our current course unsustainable. It is unsustainable for our families … It is unsustainable for businesses."

– President Barack Obama

President Obama is correct when he says that "soaring health care costs make our current course unsustainable," but his plan will increase rather than decrease costs, and will either bankrupt governments or lead to the rationing of health care services.

Adjusting for the growing U.S. population, the dollar level of expenditures on health care has exceeded the growth in overall consumer prices in the economy every year for nearly the past 50 years. Such a trend cannot continue forever. In 1960, the private sector funded over three-quarters of the nation's health care expenditures. Individuals paid nearly one-half of the total national health care expenditures through out-of-pocket expenditures.

Beginning in 1967, the way health care is purchased in the U.S. began to completely reverse itself.

- The private sector has been slowly funding less and less of the total national health expenditures; as of 2007 less than 54 percent of total national health care expenditures are paid for by the private sector.

- Reciprocally, the public sector has been slowly funding more and more of the total national health expenditures; as of 2007 public expenditures at the federal and state levels now fund nearly one-half of the total health care expenditures in the U.S.

- Total out-of-pocket expenditures have been plummeting as a share of total health expenditures at an even faster rate; today only a bit more than $1 out of every $10 spent on health care is being funded by individuals through out-of-pocket expenditures.

This has resulted in a large and growing government *health care wedge*—an economic separation of effort from reward, of consumers (patients) from producers (health care providers), caused by government policies.

Rising government expenditures on health care are the main factor driving the growth in the wedge. The wedge is a primary driver in rising health care costs, i.e., inflation in medical costs.

President Barack Obama's principles to drastically alter U.S. health care policy—a public health insurance exchange, mandated minimum coverage, mandated coverage of preexisting conditions, required purchase of health insurance—do not address the growing wedge and its role as the fundamental driver of health care costs. In fact, they will further increase the wedge, and can thus be expected to increase medical price inflation.

Specifically, the planned $1 trillion increase in federal government health subsidies over 10 years based on President Obama's principles will have the following national consequences:

- Overall, total federal expenditures will be 5.6 percent higher than otherwise by 2019, adding $285.6 billion to the federal deficit in 2019.

- An increase in national health care expenditures by an additional 8.9 percent by 2019.

- An increase in medical price inflation by 5.2 percent above what it would have been otherwise by 2019.

- Higher medical price inflation and overall expenditures will ultimately lead to government expenditures that exceed $1 trillion in expenditures on health subsidies.

- The net present value of all additional federal government expenditures through 2019 that will occur as a result of federal health care reform is $1.2 trillion, or a $3,900 bill for every man, woman, and child in the U.S.

- Despite the additional $1 trillion in expected health care subsidies by the government, 30 million people would remain uninsured. The cost to reduce the number of uninsured by 16 million people is $62,500 in subsidy expenditures per person insured.

- Reduced U.S. economic growth in 2019 by 4.9 percent compared to the baseline scenario.

Consequences for Virginia

- Virginia would see reduced economic growth in 2019 by 4.5 percent compared to the baseline scenario.

- In addition to federally-funded expenditures, the net present value of all Virginia state government expenditures through 2019 that will occur as a result of a federal health care reform is $2.1 billion, or a $275 bill for every man, woman, and child in Virginia.

- The current net present value of funding health care reform based on President Obama's priorities will be $4,176 for every person in Virginia. This comes to a total net present value of $32.4 billion in total costs that Virginia residents will have to bear.

- The source of funding for Medicaid expansion will have a major impact on the Virginia state budget. Because Virginia does not have the option to run trillion dollar deficits, the cost of the additional $0.5 billion in health care expenditures as a percentage of total tax revenues would increase as well. Virginia's tax collections would have to be 0.9 percent larger in order to cover the additional $0.5 billion in health care expenditures in 2019. This number does not include the additional cost to Virginia of expanding Medicaid if the federal government fails to pick up the tab.

- The cost on Virginia could be higher, and the national cost lower, if the federal government pushes the financial responsibility for covering the expansion of lower-income individual's health insurance coverage off to the states. While the federal costs will decline, Virginia's costs will increase by a total of $6.8 billion (the net present value being $5.2 billion).

Solutions

Reforming the problems with the current U.S. health care system is too important to do incorrectly. Rather than expanding the role of government in the health care market, Congress should implement a patient-centered approach to health care reform. A patient-centered approach focuses on the patient-doctor relationship and empowers the patient and the doctor to make effective and economical health policy choices. A patient-centered health care reform would:

- **Begin with individual ownership of insurance policies.** The tax deduction allowing employers to own your insurance should instead be given to the individual.

- **Leverage Health Savings Accounts (HSAs).** HSAs empower individuals to monitor their health care costs and create incentives for individuals to use only those services that are necessary, while benefitting from the protection of a high deductible insurance plan.
- **Allow interstate purchasing of insurance.** Policies in some states are more affordable because they include fewer bells and whistles; consumers should be empowered to decide which benefits they need and what prices they are willing to pay.
- **Reduce the number of mandated benefits that insurers are required to cover.** Empowering consumers to choose which benefits they need is effective only if insurers are able to fill these needs.
- **Reallocate the majority of Medicaid spending into simple vouchers for low-income individuals to purchase their own insurance.** An income-based sliding scale voucher program would eliminate much of the massive bureaucracy needed to implement today's complex and burdensome Medicaid system. It would also produce considerable cost savings.
- **Eliminate unnecessary scope-of-practice laws and allow non-physician health care professionals to practice to the extent of their education and training.** Retail clinics have shown that increasing the provider pool safely increases competition and access to care—empowering patients to decide from whom they receive their care.
- **Reform tort liability laws.** Defensive medicine needlessly drives up medical costs and creates an adversarial relationship between doctors and patients.

By empowering patients and doctors to manage health care decisions, a patient-centered health care reform would directly address the distortions weakening our current health care system and would simultaneously control costs, increase health outcomes, and improve the overall efficiency of the health care system.

Conversely, any health care reform based on President Obama's priorities would worsen the current inefficiencies in the health care system due to incorrect diagnosis of the problems with our health care system. If implemented, the President's reforms would significantly harm the health care system, patient welfare, and the economy overall. ✯

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Dr. Laffer was noted in *Time Magazine's* cover story "The Century's Greatest Minds" for inventing the Laffer Curve. He was listed in "A Dozen Who Shaped the 80s," in the *Los Angeles Times*, and in "A Gallery of the Greatest People Who Influenced Our Daily Business," in *The Wall Street Journal*. Dr. Laffer received a B.A. in economics from Yale University in 1963. He received a MBA and a Ph.D. in economics from Stanford University in 1965 and 1972, respectively.

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The full report can be downloaded at: **www.lafferhealthcarereport.org** and/or **www.virginiainstitute.org.**