HEALTH CARE SAILS INTO A PERFECT STORM:
Will Obama Come to the Rescue?

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HEALTH CARE SAILS INTO A PERFECT STORM:
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I. THE 2½ PERCENT RULE IN U.S. HEALTH SPENDING

A. Past growth in U.S. health spending
REAL NATIONAL HEALTH SPENDING IN 2007 DOLLARS
1965-2007

SOURCE: CMS Data & Statistics
$y = 1014.5e^{0.0443x}$

$R^2 = 0.9934$

Implies 4.4% annual growth

SOURCE: CMS Data & Statistics.
REAL GDP PER CAPITA 1965-2007

$y = 16575 \cdot e^{0.0198x}$

$R^2 = 0.9932$

Implies 2\% annual growth

SOURCE: CMS Data & Statistics.
IMPLICATION

Over the past four decades, the growth of health spending has exceeded the growth of GDP on average by over 2% to 2½% points.

If that differential persists for the foreseeable future, then health care will sooner or later force us to make do with less of everything else.
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I. THE 2½ PERCENT RULE IN U.S. HEALTH SPENDING

A. Past growth in U.S. health spending

B. Projected growth in U.S. health spending
PROJECTED U.S. HEALTH SPENDING AS PERCENT OF GDP

Health spending grows 2.5% point faster than the rest of GDP.
Recently the U.S. Congressional Budget Office came out with a very similar projection.
Figure 4.
Projected Spending on Health Care as a Percentage of Gross Domestic Product

(Percent)

Source: Congressional Budget Office.

Note: Amounts for Medicare are net of beneficiaries’ premiums. Amounts for Medicaid are federal spending only.


Orszag errs by 2%
Health spending grows 2.5% points faster than the rest of GDP

Health spending grows 1% point faster than the rest of GDP
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I. THE 2½ PERCENT RULE IN U.S. HEALTH SPENDING

II. U.S. HEALTH SPENDING: THE GOOD
What happened to the great American economy, that darling of the Wall Street Journal editorial page?
Consumers maxed out on credit

That alone would have triggered a sharp recession in the U.S. and in the rest of the world, notably in Asia.
FRACTION OF TOTAL U.S. NATIONAL **INCOME** RECEIVED BY INCOME GROUP

- **TOP 1%**: 17%
- **NEXT 4%**: 15%
- **NEXT 5%**: 11%
- **NEXT 10%**: 15%
- **TOP 20%**: 58%
- **4TH 20%**: 20%
- **3RD 20%**: 12%
- **BOTTOM 40%**: 10%

FRACTION OF TOTAL WEALTH (NET WORTH) HELD BY INCOME GROUP

- **TOP 1%**: 34%
- **NEXT 4%**: 25%
- **NEXT 5%**: 12%
- **NEXT 10%**: 13%
- **TOP 20%**: 85%
- **4TH 20%**: 11%
- **3RD 20%**: 4%
- **BOTTOM 40%**: 0.2%

**SOURCE:** Edward N. Wolff, Recent Trends in Household Wealth and Income (May 2007)
Consumers maxed out on credit

But In addition to a consumer-driven recession, we now have ...

A banking sector in deep do-do

Deep do-do? How could this happen in a free market?

The Economy
GDP = C + I + G + (X – M)

G = gov’t spending on operations + gov’t spending on investment
Health care is part of the GDP and should be part of any stimulus package that increases G, government spending.
FRACTIONS OF GROWTH FROM PRIOR YEAR IN U.S. GDP THAT IS ACCOUNTED FOR BY GROWTH IN U.S. HEALTH SPENDING AND PRIVATE INVESTMENT, 2000-2004

SOURCE: President’s Economic Report 2006 and Health Affairs, Jan/Feb 2006.
What's Really Propping Up the Economy

Health care has added 1.7 million jobs since 2001. The rest of the private sector? None.

By Michael Mandel

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Therefore, judiciously targeted government spending on health care (for the uninsured, for health information technology and for cost-effectiveness research) could be a powerful part of any economic stimulus package in 2009-2012.
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I. THE 2½ PERCENT RULE IN U.S. HEALTH SPENDING

II. U.S. HEALTH SPENDING: THE GOOD

III. U.S. HEALTH SPENDING: THE BAD
The Long-Term Outlook for Health Care Spending

November, 2007
Figure 2.
Medicare Spending per Beneficiary in the United States, by Hospital Referral Region, 2005

$10,300 to $13,900
$8,600 to $10,300
$7,800 to $8,600
$6,900 to $7,800
$5,200 to $6,900

Figure 1.
The Relationship Between Quality of Care and Medicare Spending, by State, 2004

(Composite measure of quality of care, 100 = maximum)
Slowing the Growth of Health Care Costs — Lessons from Regional Variation

Elliott S. Fisher, M.D., M.P.H., Julie P. Bynum, M.D., M.P.H., and Jonathan S. Skinner, Ph.D.
## Inpatient Costs per Decedent during the Last two Years of Life

**Ratio of hospital’s data to U.S. average (1999-2003)**

<table>
<thead>
<tr>
<th>Hospital Name</th>
<th>Inpatient reimbursements</th>
<th>Hospital Days</th>
<th>Reimbursements per Day</th>
<th>CMS Technical Quality Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Michael's Medical Center</td>
<td>3.21</td>
<td>2.34</td>
<td>1.37</td>
<td>0.91</td>
</tr>
<tr>
<td>Kimball Medical Center</td>
<td>2.32</td>
<td>1.26</td>
<td>1.83</td>
<td>0.95</td>
</tr>
<tr>
<td>Raritan Bay Medical Center</td>
<td>1.86</td>
<td>1.85</td>
<td>1.01</td>
<td>0.81</td>
</tr>
<tr>
<td>Christ Hospital</td>
<td>1.83</td>
<td>1.83</td>
<td>1</td>
<td>0.59</td>
</tr>
<tr>
<td>St. Mary's Hospital Hoboken</td>
<td>1.75</td>
<td>1.72</td>
<td>1.02</td>
<td>0.74</td>
</tr>
<tr>
<td>Beth Israel Hospital</td>
<td>1.58</td>
<td>1.86</td>
<td>0.85</td>
<td>0.83</td>
</tr>
<tr>
<td>Overlook Hospital</td>
<td>1.27</td>
<td>1.36</td>
<td>0.94</td>
<td>0.90</td>
</tr>
<tr>
<td>Medical Center at Princeton</td>
<td>1.17</td>
<td>1.26</td>
<td>0.93</td>
<td>0.94</td>
</tr>
<tr>
<td>Atlantic Medical Center</td>
<td>1.11</td>
<td>1.12</td>
<td>0.97</td>
<td>0.89</td>
</tr>
</tbody>
</table>

**SOURCE:** Data supplied by John E. Wennberg, Dartmouth University
THE CHALLENGE AHEAD

At some point in the not-too-distant future, when the general economy has healed itself, the Obama Administration and the Congress must muster the courage to force physicians in the high-cost states to defend their high spending.

The Dartmouth group estimates that overall Medicare spending could be reduced by 30% without hurting patients, if it were done on evidence-based medicine.
Alas, similar inexplicable variations in health spending per capita occur also in the private insurance sector. Private insurers also will have to do their part.
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IV. U.S. HEALTH SPENDING: THE UGLY
   A. The future of employment-based health insurance
MILLIMAN MEDICAL INDEX (MMI)
Average Annual Medical Cost for a Family of Four
(Employers’ and Employees’ Premium + Out-of-Pocket Costs)

$8,414
$9,235
$10,168
$11,192
$12,214
$13,382
$14,500
$15,600

y = 7763.8e^{0.0892x}
R^2 = 0.9983

Implies AACGR of 9%


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DISTRIBUTION OF FAMILY MONEY INCOME, UNITED STATES, 2005
Average income $73,304 (Median about $56,000)

- $250,000 or more: 2.3%
- $200,000 - $249,999: 1.8%
- $150,000 - $199,999: 4.5%
- $100,000 - $149,999: 13.3%
- $75,000 - $99,999: 13.5%
- $55,000 - $74,999: 15.8%
- $40,000 - $54,999: 14.2%
- $30,000 - $39,999: 10.3%
- $20,000 - $29,000: 10.6%
- $10,000 - $19,999: 8.5%
- Less than $10,000: 5.2%

GROWTH IN HEALTH INSURANCE PREMIUM RELATIVE TO WAGE BASE, 2008 - 2017

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GROWTH IN HEALTH INSURANCE PREMIUM RELATIVE TO WAGE BASE, 2008 - 2017

Chart showing the growth in health insurance premiums relative to wage base from 2008 to 2017. The percentage growth increases steadily from 31% in 2008 to 55% in 2018.
<table>
<thead>
<tr>
<th>Annual Growth in Wage Base</th>
<th>- Assumed Annual Growth in Family Health Spending -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>1%</td>
<td>42%</td>
</tr>
<tr>
<td>2%</td>
<td>38%</td>
</tr>
<tr>
<td>3%</td>
<td>35%</td>
</tr>
<tr>
<td>4%</td>
<td>32%</td>
</tr>
<tr>
<td>5%</td>
<td><strong>29%</strong></td>
</tr>
</tbody>
</table>
FIGURE 3: COVERAGE TYPE BY FEDERAL POVERTY LEVEL  2006

Note: Persons reporting both private and public coverage during 2006 are classified as private. Percent may not sum to 100 percent due to rounding.

Sometime during the forthcoming decade, Americans as a body politic will have to decide

1. whether they are willing to vote for a sizeable tax-and-transfer program in health care (~ $125 b/year) to help finance health care for families in the bottom half of the income distribution

   or

2. formally embrace rationing health care by income class, perhaps through reference pricing all around.
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IV. U.S. HEALTH SPENDING: THE UGLY
   A. The future of employment-based health insurance
   B. The federal budget cost of universal coverage
2008 HEALTH SPENDING PER CAPITA OF PRIVATELY INSURED AND UNINSURED AMERICANS

$3,915

$1,686 = 43% of Privately Insured

FULL-YEAR PRIVATELY INSURED

FULL-YEAR UNINSURED

SOURCE: Jack Hadley et al., “Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs,” HEALTH AFFARIS WebExclusive (25 August, 2008): Exhibit 1
SIMULATED INCREASES IN TOTAL 2008 HEALTH SPENDING BY THE UNINSURED IF THEY WERE FULLY INSURED

Ten-Year Budget Cost for a Cohort of Uninsured that Required $125 Billion Federal Spending in 2010 at 5% Cost Growth.

Ten-year total: $1.57 trillion
Ten-Year Budget Cost for a Cohort of Uninsured that Required $125 Billion Federal Spending in 2010 at 8% Cost Growth.

Ten-year total: $1.8 trillion
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IV. PRESIDENT OBAMA’S VISION

A. Promises made during the campaign
Basically, President Obama’s vision for health reform is to

1. Build upon the existing system by filling gaps in it, i.e., expanding it here and there.

2. Offering all Americans the choice of a government-run health insurance plan like Medicare.

3. Streamlining the existing delivery system to make it more cost-effective and affordable.
## SOURCES OF THE $634 FUND FOR EXTENDING HEALTH INSURANCE

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing taxes</td>
<td>$318</td>
</tr>
<tr>
<td>From health care:</td>
<td></td>
</tr>
<tr>
<td>- From health insurers</td>
<td>$177</td>
</tr>
<tr>
<td>- From hospitals</td>
<td>$63</td>
</tr>
<tr>
<td>- From others</td>
<td>$116</td>
</tr>
<tr>
<td>TOTAL FUND NEXT 10 YEARS</td>
<td>$634</td>
</tr>
</tbody>
</table>
## SELECTED SOURCES FOR HEALTH REFORM RESERVE FUND 2010-2019

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create hospital quality incentive payments</td>
<td>$12.0</td>
</tr>
<tr>
<td>Reduce hospital readmissions</td>
<td>$8.4</td>
</tr>
<tr>
<td>Bundled payments for hospital inpatient and post-acute care</td>
<td>$18.8</td>
</tr>
<tr>
<td>Reallocate Medicare and Medicaid Improvement Funds</td>
<td>$23.9</td>
</tr>
<tr>
<td>Improve Medicare Home Health payments to align with costs</td>
<td>$37.1</td>
</tr>
<tr>
<td>Address conflicts of interest in physician-owned specialty hospitals</td>
<td>$18.8</td>
</tr>
<tr>
<td>More cost effective purchasing of prescription rugs</td>
<td>$19.6</td>
</tr>
<tr>
<td>Competitive bidding for Medicare by Medicare Advantage Plans</td>
<td>$177.0</td>
</tr>
</tbody>
</table>

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IV. PRESIDENT OBAMA’S VISION

A. Promises made during the campaign

B. The *Pièce de Résistance* in the plan
After watching the debacle in the private sector, seeing their 404(K) savings melt away and seeing their promised retiree health benefits melt away, the American people under age 65 may well yearn for the same permanent and secure deal that Medicare beneficiaries have.

Candidate Obama had promised such a deal.

The private health insurance industry and its friends on Capitol Hill strongly resist the very idea.

QUESTION: Will the President keep his promise?
THE END