



FACING UP TO THE Nation's Finances

A nonpartisan project on the long-term challenges of the federal budget

America's Health Care Challenge How can we best contain costs, increase access and maintain quality?

A Choicework Discussion Guide

America's overall health care bill has risen to about \$2.3 trillion, 16 percent of our total economy (and twice what we spend on food). Spending has been rising much faster than overall inflation -- by 7 to 8 percent a year and at twice the rate of economic growth. By 2040, overall health care spending is projected to double as a proportion of gross domestic product, accounting for more than one-third of all the goods and services that the United States produces.

Nearly half of the nation's current health care spending is paid for by the government through federal programs that cover more than one-third of the U.S. population—particularly those who are most in need—and have transformed health care for retirees, the disabled and low-income Americans. These programs include:

- Medicare (37 million Americans, aged 65 and over, and more than 7 million Americans with disabilities)
- Medicaid (about 60 million low-income Americans)
- The State Children's Health Insurance Program (SCHIP) for children who do not qualify for Medicaid but whose families cannot afford private health insurance (11 million, under the reform signed by President Obama in February 2009)
- The military, veterans' and civil service employees' health care systems (26 million) -- dramatically improving health and well-being for countless Americans.

Additionally, tax breaks to corporations to subsidize employer-sponsored health plans cost the government about \$225 billion.

Budget experts from across the political spectrum agree on two points: One is that the biggest long-term problem for our nation's federal finances is Medicare, which will require huge funding increases as the baby boom generation retires. The other point of agreement is that controlling federal health expenditures cannot be divorced from reforming our nation's overall health care system, which is prone to inflation and among the world's most expensive.

So far, we've been able to support Medicare through a combination of employee and employer Medicare taxes and additional government revenues from the general tax base. We've also increased federal and state Medicaid spending, in part by cutting other spending. Unfortunately, several powerful trends spell potentially enormous financial problems for Medicare and Medicaid over the next 20 years. Medicare and Medicaid, together with Social Security, now consume about 40 percent of federal spending. But this would rise to 100 percent by 2040 if these programs are not reformed *or* overall taxes and spending are not dramatically increased. The looming costs of Medicare over the coming decades, if reforms are not enacted, are a staggering \$30 to \$40 trillion.

Soaring Medicaid costs have also squeezed state finances, making it harder to spend on schools, roads and other local needs. Cost growth has adversely affected U.S. businesses' global competitiveness and has consumed a larger portion of employee compensation, leaving less room for wage growth. And individuals' health care expenditures—while only 15 percent of the nation's total outlays for health—have risen sharply and are a prime cause of household debt and bankruptcy.

There are many reasons for America's exploding health-care costs. Individuals and health care providers largely don't know or pay the real bill for health care, because most costs are paid for by private insurance or government. Some of the reasons for rising health care costs include the development of new medical technologies and drugs, an aging population, and the curtailing of health care benefits by employers. This combination of public and private health care also has built-in inefficiencies. Administrative costs are five times higher than the average in Europe and Japan, and the United States lacks the tools, such as a national database of patient records and best practices for treatment, that might reduce red tape

Of course, health care in the United States faces many challenges. Not only are costs high and rising, but about 47 million Americans lack health insurance. The quality of care can range widely. While the United States does have some of the world's best health care, our nation consistently falls behind more than 30 others in the quality of health outcomes for its people, according to the World Health Organization. On the one hand, our life expectancy has expanded enormously—

from about 46 in 1900 to nearly 80 today—yet along with infant mortality and other health indicators, it lags behind many other countries that spend much less per person.

Any change in our health care system raises fundamental questions that are as much about values as they are about money or public policy. Should we consider "rationing" health care by limiting total annual government health spending and focusing on the most essential care? Countries like Great Britain and Canada ration care as part of their national health systems, but is that right for the U.S.? Should we expect people to take greater responsibility for their own good health? Should we reward those Americans who engage in healthier behavior and are more diligent about receiving preventive care?

If there is consensus about anything among Democrats and Republicans, and businesses and individuals, it is that America's patchwork system of health care is broken.

This guide suggests three different approaches to the challenges facing the health care system and the nation's budget:

- *Using free market competition to maximize personal choice while achieving greater efficiency*
- *Building on our existing public and private programs to fix many major problems without the risks of radical change*
- *Creating a national health care system to make sure everyone is covered.*

These are merely intended to be discussion starters. You should not think that you need to adopt every idea under one approach over another. You can mix and match ideas from different approaches and toss other ideas into the mix. *What do you think are the best courses of action to meet the challenges facing America's health-care system and why?*

Option One: Use free market competition to maximize personal choice while making the system more efficient

The main problem with America's health care system is that costs keep going up. The best way to solve this is to reduce regulation and use free market competition to help more Americans get health insurance at a lower cost. Individuals should take greater responsibility for both their personal health and their health care. We should also embrace managed care, which tracks expenses and, for a time during the 1990s, slowed cost increases. By moving further in the direction of managed care and adopting medical savings accounts, which encourage individuals to save and shop around for health care, we'll be able to bring down costs and cover more people. Overall, we should minimize the government's role in health care and let the private sector do as much as possible.

What Should Be Done?

- Require that all Americans who aren't already covered to buy their own insurance, but let them make their own choices in the marketplace. Offer tax credits and tax-free medical savings accounts to make it easier for people to buy individual coverage.
- Allow private insurers to create basic policies that would cover the most common problems and make coverage affordable for small businesses and individuals.
- Encourage more employers to provide coverage through HMOs and other forms of managed care to ensure competition.
- Encourage small businesses to join together in insurance pools to negotiate for better rates.
- Encourage the use of lower-cost generic drugs and allow people to buy approved drugs from Canada and Europe. Charge patients more if they insist on brand-name drugs.

Arguments for:

- This approach emphasizes personal responsibility and choice, private competition and limited government – basic values America has embraced throughout its history.
- The free market is the best way to keep health costs down, and if the health care system becomes more efficient, we can provide more services for more people, without spending more money.
- The only way to control costs is by allowing insurers, health care professionals and patients to make decisions about what they really want and need. That means empowering patients to set aside money tax-free for medical care and allowing them to seek out cheaper alternatives, like drugs from other countries.
- If Americans paid a larger share of health care, they would be more likely to limit their consumption of care.

Arguments against:

- Under managed care, decisions about treatment are often made based on what's cheapest, not necessarily the best.
- This will require people to make critical, complicated choices when they're sick and at their most vulnerable.
- This approach undermines our commitment to community and belief in government's role in taking care of low-income children, older adults and people with disabilities – basic values America has embraced throughout its history.
- The economy has just tanked, and millions of people have lost their jobs and their health care. Government programs like Medicare, Medicaid and the State Children's Health Insurance Program provide a critical safety net in a damaged economy.

Option Two: Expand on the current system to fix many major problems without the risks of radical change

We don't need to completely start over. We already have many high-quality physicians, medical centers and insurance plans that cover most Americans. We can just extend these programs, public and private, to cover more people. We should require employers and individuals to have health insurance and offer them financial incentives to make it affordable. The federal government already has effective health programs for the elderly (Medicare), the poor (Medicaid), low-income children (SCHIP) and its own employees. If we expand eligibility for those plans and require employers to offer coverage, we'll be able to cover more uninsured people with the least disruption to those already covered. Gradually expanding the current system is the most practical way to cover more people without breaking the budget.

What Should Be Done?

- Require employers to offer health coverage to all their workers, even low-wage and part-time employees. Offer tax incentives to businesses to cover the cost.
- Lower the Medicare eligibility age from 65 to 55.
- Extend the Children's Health Insurance Program cutoff age from 18 to 25.
- Increase Medicaid funding and raise the income cutoff to cover the working poor.
- Make insurance "portable" so people can keep the same policy if they change jobs, rather than be totally dependent on what their employer provides.
- Open up the federal employee health insurance program to allow individuals to buy coverage at favorable rates.

Arguments for:

- By expanding existing programs and employer-provided insurance we can cover most of the uninsured.
- This is the least disruptive way of attacking the problem – it won't require massive changes in how the health care system operates or how people get their insurance.
- People will still be able to pick their own doctors and health plans and get the same quality of care.
- This makes our most vulnerable citizens, children and older adults, a priority. This helps children grow up to be healthy, productive adults and ensures frail, older Americans get the care they need.

Arguments against:

- This will be expensive at a time when the federal government already has a budget deficit, and we may still not be able to insure everyone.
- Medicare is already at risk and will likely go broke as it deals with aging baby boomers. Adding more people to Medicare will just cause the program to collapse more quickly.
- This will do nothing to control health care costs, which are rising at an outrageous rate.
- Requiring employers to provide coverage will be expensive, and even if the government helps with the cost, we'll still impose a huge paperwork burden on businesses.

Choice 3: Create a national health care system to make sure everyone is covered

Decent health care ought to be a basic right, not something that depends on the job you hold. Our patchwork health care system of private insurance and government programs simply isn't working. It's time to try what Canada and most European countries already have: a national, government-run health care system. The system would work much like Medicare, except that everyone would be entitled to coverage, regardless of age, income or job status. Like Medicare, you'd still pick your own doctor, but the government would get the bill. We've debated what to do about health care for years, but so far we haven't come up with a solution. This is the only way to solve the problem of the uninsured, once and for all.

What Should Be Done?

- Create a Medicare-style 'single payer' system, where the government provides health insurance for everyone.
- Allow patients to get a standard list of covered health services from any doctor or hospital in the program.
- Raise taxes or repeal existing tax cuts to fund the program.
- Impose stricter government controls on the prices that health care providers can charge.
- Tie the new health insurance system into existing government programs to promote good nutrition, mental health awareness and exercise.

Arguments for:

- Health care should be a right, not a privilege for those lucky enough to have a good job or be a certain age. This approach is the only way to guarantee that everyone gets medical care.
- Countries with national health care systems often have good health care at a lower cost because the government can make bulk purchases of drugs and control costs.

- This will actually reduce paperwork. Doctors and hospitals will only have to deal with one set of forms and one government agency, rather than dozens of private companies and government agencies, all with different rules.
- Any new taxes will be offset by the savings earned when employers and workers no longer have to pay insurance premiums.

Arguments against:

- Under this plan, a government bureaucracy tells you what health care you can have and when you can have it. In Canada and other countries it's common to wait months for elective treatments or surgery.
- This will require steep tax increases. All health care costs now paid by private industry would be taken on by taxpayers.
- The Canadian and European health care systems are expensive and those nations struggle to cover their costs without breaking the budget.
- Health costs will still be a burden to businesses, which will trade a health insurance plan they can control for a health care tax they can't.

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