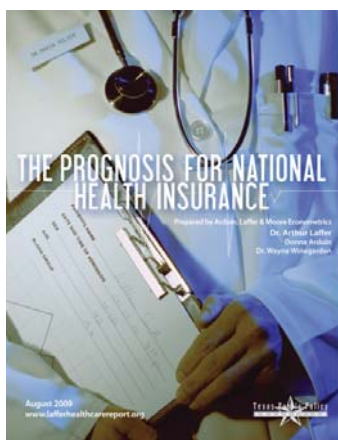


THE PROGNOSIS FOR NATIONAL HEALTH INSURANCE

Key Facts from "The Prognosis for National Health Insurance"
Prepared by Dr. Arthur B. Laffer



All sides of the current health care debate acknowledge that American health care can be improved. But current proposals based on President Obama's policies would:

- worsen the system;
- drive costs up;
- increase health care cost inflation more than doing nothing;
- add more than \$285 billion to the deficit over the next 10 years; and
- still leave more than 30 million people uninsured.

According to a recent *CNN* poll:

- Most Americans like their current health care coverage but are not happy with the overall cost of care.
- More than 80 percent say they're satisfied with the quality of care they receive. *page 6, column 2, line 4*

Reforms therefore need to focus on costs and not break the parts of the system that currently work.

WHY COSTS ARE SO HIGH

Fifty years ago, almost \$5 of every \$10 spent on health care was paid through patient out-of-pocket expenses. Since then, total out-of-pocket expenditures have plummeted—today, only about \$1 of every \$10 is funded by individual patients through out-of-pocket expenses. *page 4, column 2, line 28*

"Health care reforms based on President Obama's criteria fail to address the fundamental driver of health care costs—the health care wedge. The likely impact from the combination of generous federal subsidies and a new public insurance option is a significant reduction in people's incentives to monitor costs and a significant increase in the costs of administering the public program. The growing health expenditure is strongly correlated with inflation in medical costs. Reforms based on President Obama's priorities can thus be

expected to weaken the health care system and increase medical price inflation." *page 5, column 1, line 24*

"Waste, fraud, and abuse created a large health care bill of \$700 billion in 2007. On a per capita basis, \$700 billion in waste, fraud, and abuse imposes a bill of over \$2,300 per legal resident in the U.S. The possibility that 30 percent of total health care spending is waste underscores the President's contention that reform is needed." *page 16, column 2, line 39*

EXPECTED COSTS AND ECONOMIC IMPACTS OF CURRENT PROPOSALS

According to the non-partisan Congressional Budget Office (CBO), the present value of the total additional federal spending that would occur based on the President's health care reforms would be \$1.2 trillion or \$3,900 for every man, woman and child in the country. *page 22, column 1, line 8*

Assuming that the proposed plan would provide an additional \$1 trillion in federal subsidies over 10 years and offer incentives to move current Medicaid recipients into a new federal health insurance program, the program would:

- increase national health care expenditures by an additional 8.9 percent by 2019;
- increase medical price inflation by 5.2 percent above what it would have been otherwise due to the higher national expenditures by 2019;
- pressure the federal and state budgets due to the increased expenditure levels and increased medical inflation:
 - the current net present value of funding health care reform based on President Obama's priorities would be \$1.3 trillion, or \$4,354 for every man, woman, and child in the U.S. These figures include:
 - a net present value of all additional federal government expenditures through 2019 of \$1.2 trillion, or \$3,900 per capita; and

continued on back

- a net present value of all state government expenditures through 2019 of \$138 billion, or \$454 per capita.
- reduce economic growth in 2019 compared to the baseline scenario by 4.9 percent for the nation as a whole. *page 5, column 2*

CURRENT REFORM PROPOSALS DO NOT SOLVE THE PROBLEM OF THE UNINSURED

A \$1 trillion plan based on President Obama's criteria would still leave 30 million people uninsured even though an additional \$1 trillion on net will be spent by the government before the higher medical inflation impacts are even taken into account. The cost to reduce the number of uninsured as estimated by the CBO is \$62,500 per each additional person insured. *page 6, column 1, line 7*

SOLUTIONS

"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:

- **Begins with individual ownership of insurance policies.** The tax deduction that allows employers to own your insurance should instead be given to the individual;
- **Leverages Health Savings Accounts (HSAs).** HSAs empowers individuals to monitor their health care costs and creates incentives for individuals to use only those services that are necessary;
- **Allows interstate purchasing of insurance.** Policies in some states are more affordable because they include fewer bells and whistles, consumers should be empow-

ered to decide which benefits they need and what prices they are willing to pay;

- **Reduces the number of mandated benefits insurers are required to cover.** Empowering consumers to choose which benefits they need is only effective if insurers are able to fill these needs;
- **Reallocates the majority of Medicaid spending into simple voucher for low-income individuals to purchase their own insurance.** An income-based sliding scale voucher program would eliminate much of the massive bureaucracy that is needed to implement today's complex and burdensome Medicaid system and produce considerable cost savings;
- **Eliminates unnecessary scope-of-practice laws and allow non-physician health care professionals 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 and empowers the patient to decide from whom they receive their care;
- **Reforms 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 directly address the distortions weakening our current health care system and will simultaneously control costs, increase health outcomes and improve the overall efficiency of the health care system. Conversely, the health care reform based on President Obama's priorities worsens the current inefficiencies in the health care system because it incorrectly diagnoses the problems with our health care system. If implemented, the President's reforms will significantly harm the health care system, patient welfare, and the economy overall." *page 24, column 2*

The full report can be downloaded at: www.lafferhealthcarereport.org.

The report was prepared for the Texas Public Policy Foundation by Dr. Arthur Laffer.

