Rising Medical Costs

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The Problem

Health care costs are increasing.

- The United States spends 16% of its economy on health care costs, substantially more than any other country in the world.[1]
- National health care costs have been increasing nearly 3% faster than economic growth since 1970.[2]

Rapidly rising insurance costs are the leading cause of lack of insurance in America.[3] Uninsured Americans are significantly more likely to:

- Receive too little medical care, and receive it too late;
- Be sicker and die sooner;
- Receive poorer care when they are in the hospital even for acute situations like a motor vehicle crash.[4]

The soaring cost of health care is squeezing workers' wages and hurting the economic competitiveness of businesses both large and small.[5]

- The automotive industry, one of the largest in the country, must add at least $2,000 in health care costs to the cost of each car manufactured.[6]
- Similarly, it is now increasingly difficult for small businesses to extend coverage to their workers.[7]

The amount non-elderly families who pay out-of-pocket for insurance premiums has steadily increased over the past decade.

- The increase has been greatest amongst the poorest populations.[8]
- In 1996, the average family paid 16% of all medical expenses and premiums out-of-pocket; that value has increased to 19% in 2003.[9]
- Families below the poverty line paid 25% in 1993 and 33% in 2003.[10]

Catastrophic medical expenses account for half of all personal bankruptcies.[11]

- Health care costs are not distributed equally and are often sudden, unexpected, and large. Nearly half of all health care spending goes to just 5% of the population.[12].

Medicaid and SCHIP expansions have not kept up with rising costs, leaving many needy families and individuals without insurance.

- Rising health insurance and medical costs mean that many families above the Medicaid and State Children's Health Insurance Program (SCHIP) eligibility requirements may now need public assistance but do not qualify.

What has President Bush done?

President Bush passed the Medicare Modernization Act of 2003, which contained numerous flaws.

- Portions of Medicare Advantage were intended to subsidize private providers that took on Medicare patients. However, government payments to these providers are on average 13% higher than traditional Medicare. Subsidized fee-for-service providers receive 19% more than traditional Medicare.[13]
    - Medicare Advantage patients tend to be in significantly better health than traditional Medicare patients, meaning that they cost private insurers and providers less than traditional Medicare recipients cost.[14]
- Unlike the successful and efficient Veterans Affairs (VA) medical system and many private insurance groups, Medicare is not permitted to use its size to negotiate lower bulk drug prices due to specific restrictions in the 2003 Medicare Act. As a result, Medicare users pay 48.2% more on average for the 20 most common drugs compared to VA patients.[15]
- The prescription drug plan contains a controversial and unnecessary "doughnut hole" that specifies a high level of required out-of-pocket spending before full coverage begins. Beneficiaries thus are responsible for 100% of costs when they spend between $2,510 and $5,726 annually on prescription drugs. The doughnut hole affected approximately 30% of all Medicare Prescription Drug enrollees in 2006,[16] and this share is expected to grow as drug prices increase and more seniors enroll in the program.
- Though the doughnut hole was intended to reduce costs, it is only estimated to save the government $20 billion each year.[17] Permitting Medicare to negotiate with prescription drug companies would save approximately $45 billion each year, thus making the burdensome coverage gap unnecessary.[18]

An additional component of Bush's 2003 health care legislation created tax-favored health savings accounts (HSAs), another costly (nearly $156 billion over 10 years[19]), ineffective, and inequitable "solution" for rising health care costs.

- Though HSAs were designed to lower health care spending, they are unlikely to do so. The greatest health care costs are associated with major treatments stemming from grave illness or end-of-life care. These costs exceed the deductibles of HSA-based plans and thus would still be paid by insurance companies.[20]
- Furthermore, HSAs will undermine the structure of our health insurance system. HSAs weaken risk pooling by attracting away younger and healthier individuals, thus raising costs for existing insurance pools with the remaining less healthy individuals.[21]

- HSAs overwhelming benefit wealthier families and individuals, who use them as highly lucrative tax shelters.[22]

Bush vetoed a bill (HR 6331) that would use the savings from ending costly Medicare Advantage subsidies to reimburse doctors who treat Medicare patients.[23]

- The bill would reimburse doctors by using the savings from ending the double-payment of Medicare Advantage providers, and it would eliminate a Medicare Advantage fund that permits the Secretary of Health and Human Services to increase subsidization of private plans at a later date.
- The legislation would also ensure that private fee-for-service plans meet certain quality benchmarks and would restrict the predatory marketing of Medicare Advantage programs to seniors.

What has President Bush failed to do?

Ensure that Medicare is both effective and fair.

- Permit Medicare to negotiate prescription drug prices with pharmaceutical manufacturers to obtain significantly lower prices through bulk purchases. This practice is common to many private insurance companies and the Veterans Affairs health system. Savings to the government would conservatively total $332 million over the first eight years.[24]
- End Medicare Advantage subsidies, which pay insurance companies 13-19% more than traditional Medicare plans[25] and weaken the Medicare insurance system by attracting healthier individuals away from the public system, thus raising costs for the government, and ultimately, taxpayers.
- End HSAs, which threaten to destabilize the existing health insurance system, raise costs for sick and disadvantaged Americans, and serve as lucrative tax havens for the wealthy.

Create solutions that deal with the long-term accelerating growth rate of medical expenses by expanding public risk pools.

- Following the lead of industrial country peers that provide coverage at least as good at much lower prices, use the power of large risk pools in a public plan to reap savings through administration efficiencies and greater bargaining power with physician specialists, pharmaceutical companies, and medical device makers.
- Results from the Veterans Affairs and public Medicare systems demonstrate that government-operated insurance and care delivery are considerably more efficient than privately run alternatives. This is because public systems have considerably lower administrative and marketing costs, and can exploit much larger economies of scales.[26]
- These goals can be accomplished by opening existing and successful public insurance programs, such as the Federal Employees Health Benefits Program, to all citizens. Further details of such a plan can be found with the Economic Policy Institute's *Health Care for America* proposal: www.sharedprosperity.org/bp180.html.

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