

The Economic Impact of Healthcare Reform



Vivian Ho

**Baker Institute Chair in Health Economics
Professor of Economics, Rice University
Professor, Baylor College of Medicine**



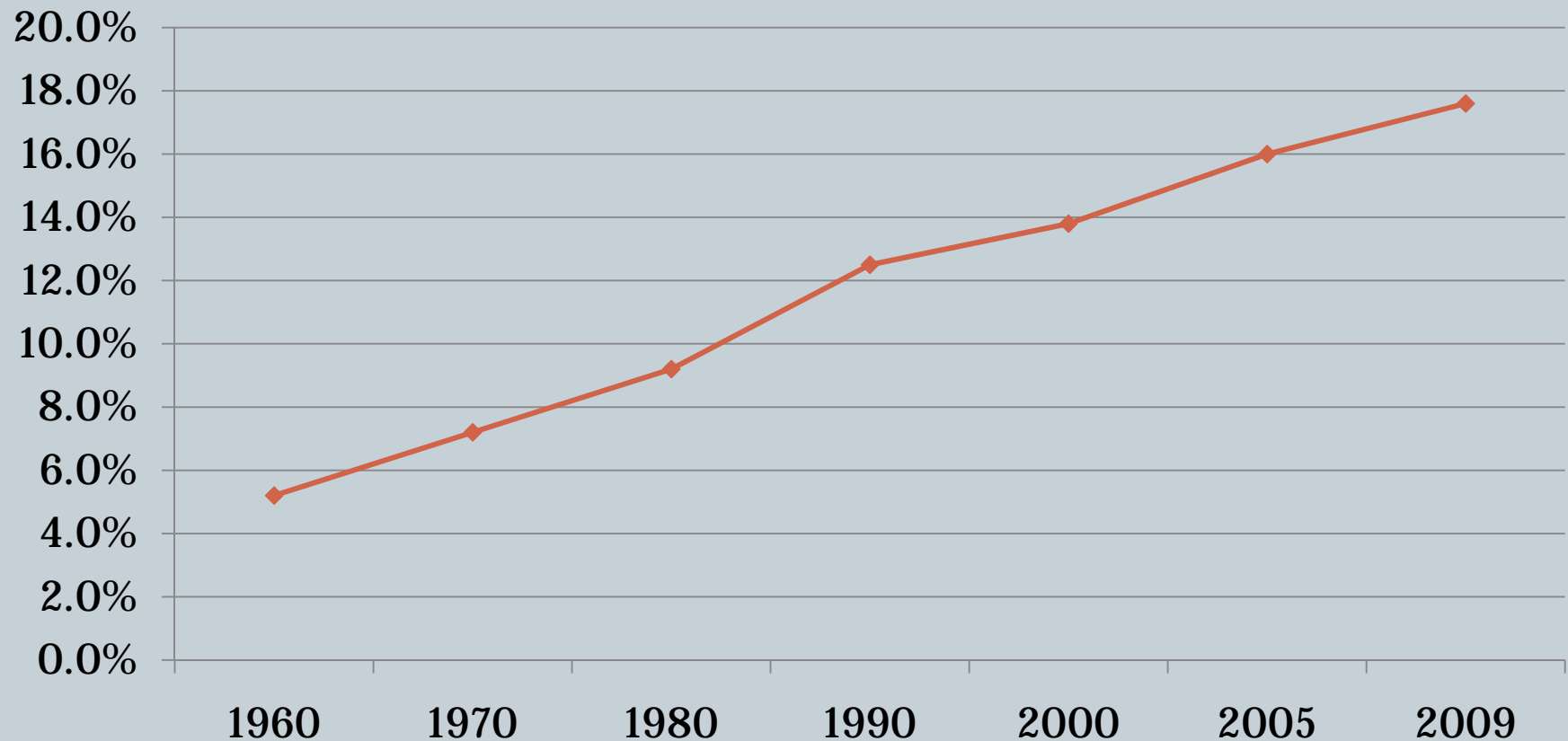
**JAMES A. BAKER III
INSTITUTE FOR
PUBLIC POLICY
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Healthcare costs are now >17% of GDP

2

Percentage of GDP



Source: National Health Expenditures, Center for Medicare and Medicaid Services

Do healthcare costs hurt employment?

3

- Total compensation for most workers = wages + benefits.
- If health insurance premiums rise, employers could pass costs on to workers as lower wages, or not offer health insurance to low-wage workers.
- What does research tell us?

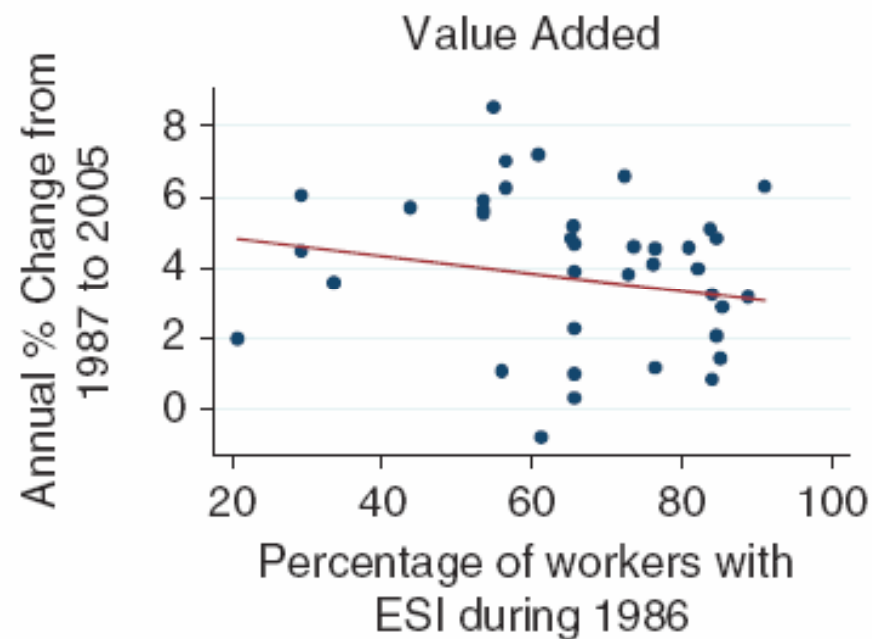
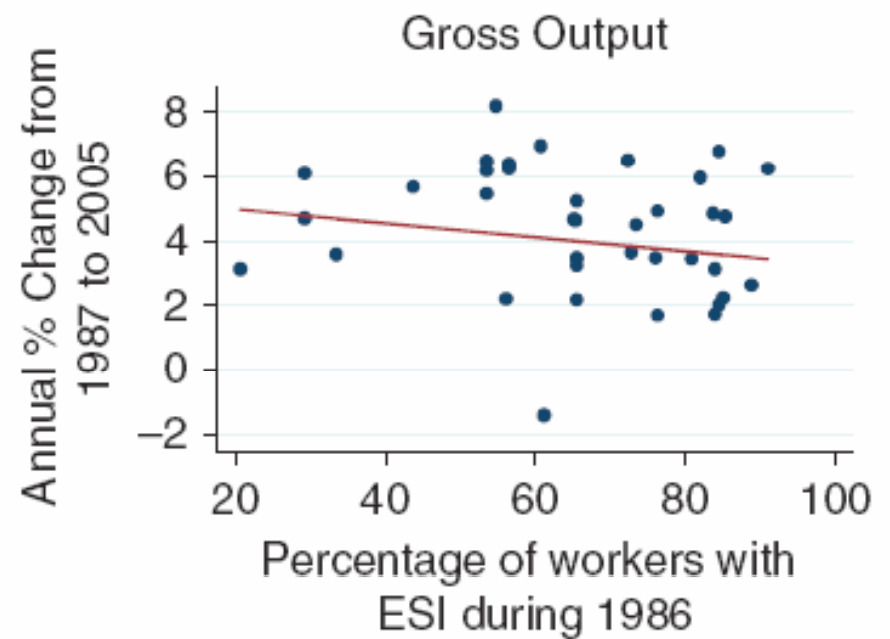
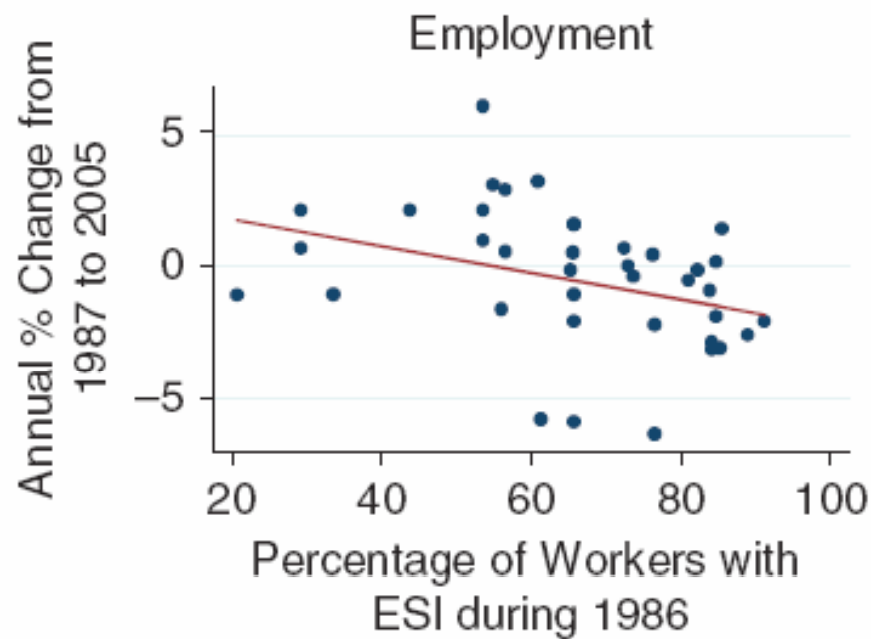
Do healthcare costs hurt employment?

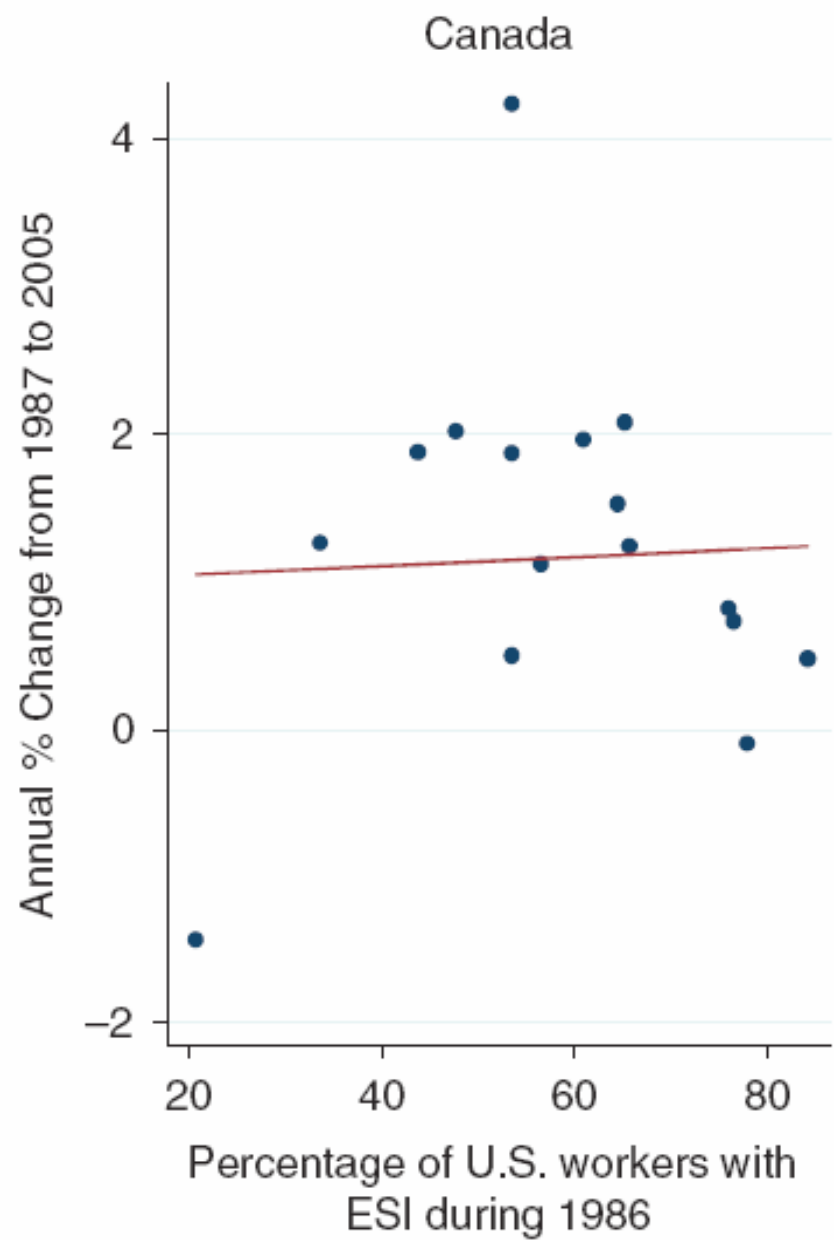
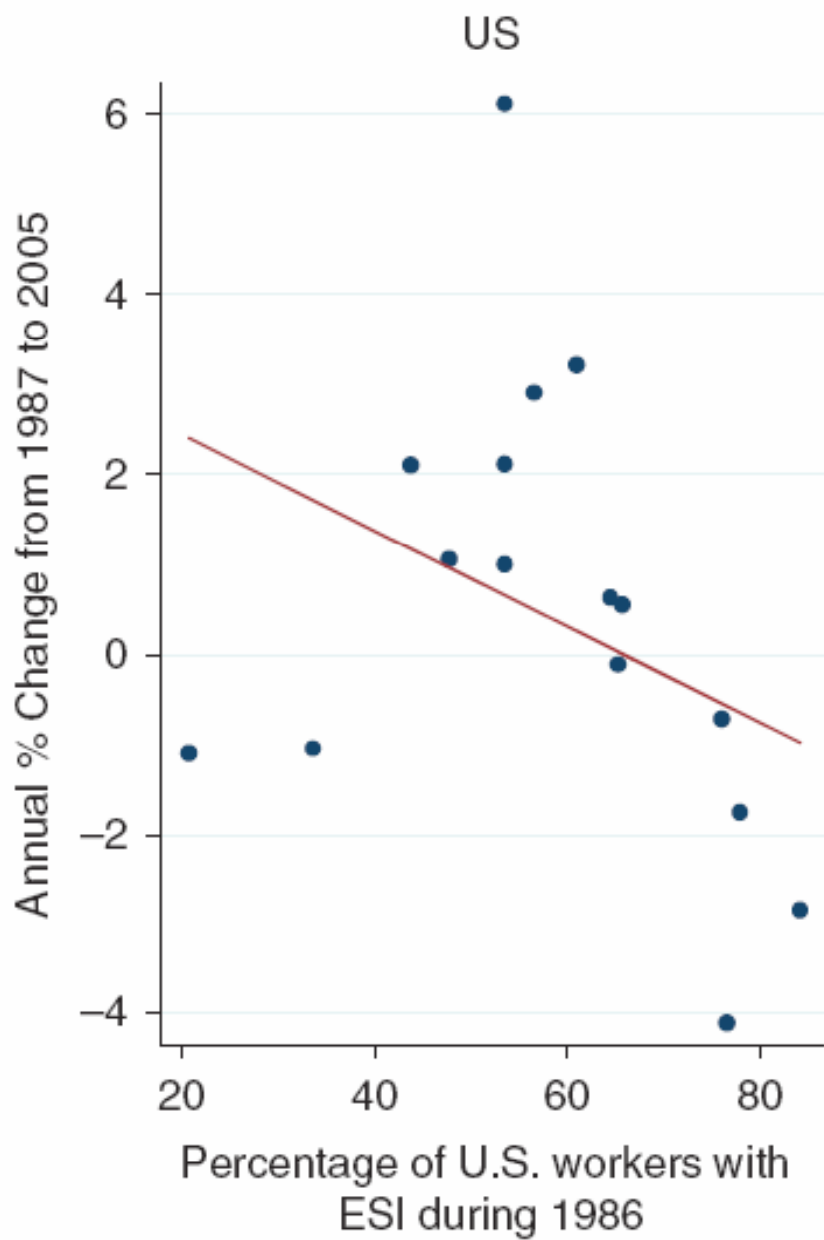
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- Comparison of employment growth across U.S. industries with varying levels of employer-sponsored health insurance (ESI)

(N. Sood et al, Health Services Research 2009)

- 38 industries, 1987 – 2005
- Bivariate analyses & multivariate regressions relating $\%ESI_{t-1}$ x $\ln(\text{Health Expenditures}/\text{GDP})$ to:
 - Employment
 - Gross Output
 - Value Added





ESI and Economic Outcomes

7

- Sood et al's analysis suggests that a 10% increase in growth rate of "excess" healthcare costs (>GDP growth rate) leads to:
 - 120,000 fewer jobs.
 - \$28b in lost gross output.
 - \$14b in lost value added.

The Affordable Care Act and Cost Growth

8

- Hospital readmissions reduction program
 - saves Medicare \$8.2b thru 2019.
- Medicare payment penalties for hospital acquired conditions
 - saves Medicare \$3.2b over 10 years.
- Bundled payments for renal disease patients
 - saves Medicare \$1.7b over 10 years.
- Accountable care organizations
 - saves Medicare \$5b over 10 years.

Accountable Care Organizations

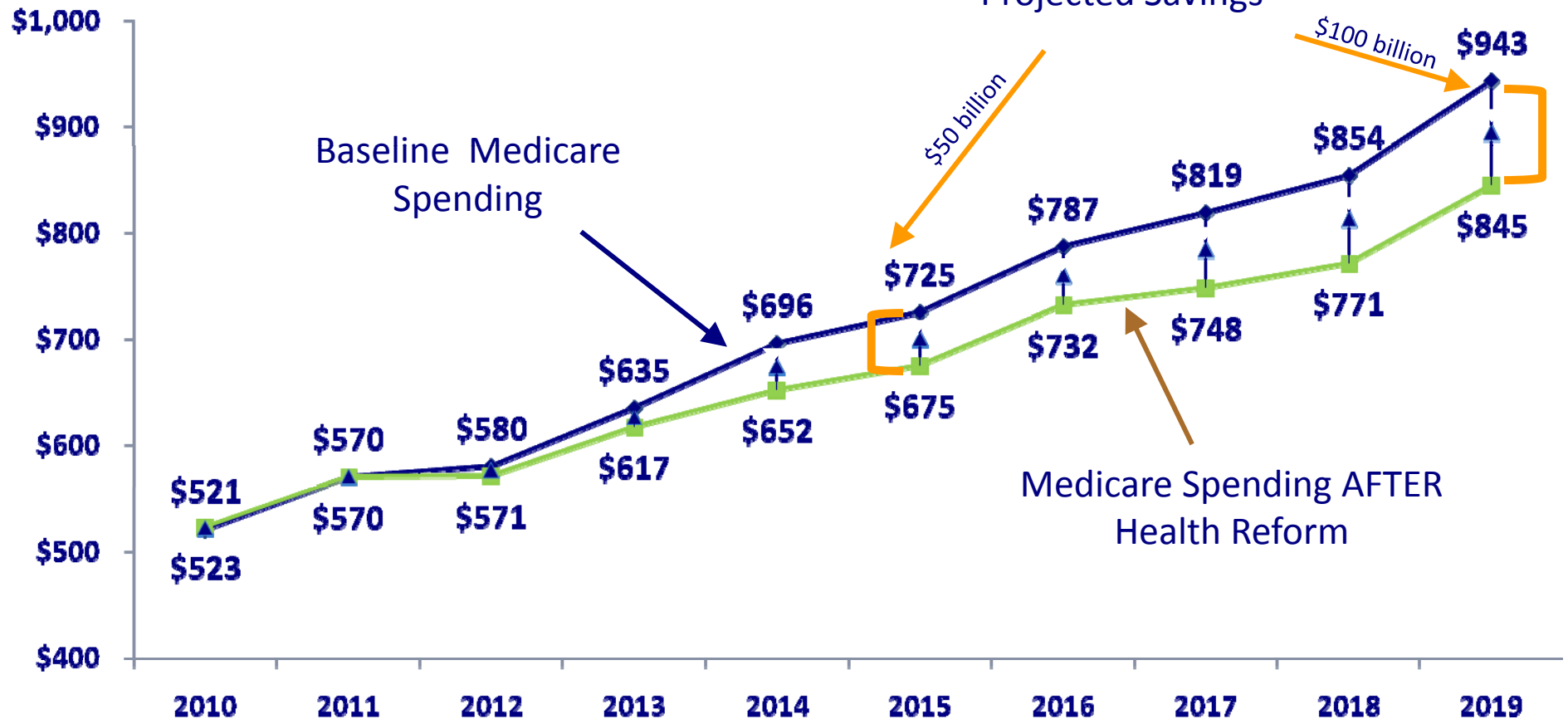
- An ACO is a network of doctors and hospitals that shares responsibility for providing care to patients.
 - Must manage all care for >5000 Medicare patients for 3+ years.
- Medicare's current FFS payment system rewards doctors and hospitals for doing more tests and procedures, driving costs up.
 - ACOs pay providers more for keeping their patients healthy and out of the hospital.
 - CMS will offer bonuses to providers for keeping costs down and meeting quality benchmarks.

Rate of Medicare Spending Projected to Slow



Congressional Budget Office Projections

Medicare Baseline Spending
(in \$ billions)



NOTE: Estimates do not take into account future changes to the Sustainable Growth Rate formula to prevent reduction in fees.

SOURCE: Medicare Baseline Spending before reform from CBO, March 2009 Baseline: MEDICARE; after reform from Kaiser Family Foundation analysis of CBO cost estimates of health reform legislation, March 20, 2010.

The ACA and ESI

11

- Pay or Play
 - Large firms fined if no affordable coverage to FT workers & 1+ worker buys subsidized exchange coverage.
 - ✦ fine = \$2000/FTE, except 1st 30 workers.
 - Small firms (≤ 50 FTEs) are exempt.

The ACA and ESI

12

- Health Insurance Exchanges
 - Workers whose employer doesn't offer insurance, or where insurance is "unaffordable" can buy insurance thru state exchanges.
 - FTEs w/ income <400% of federal poverty level meeting certain criteria receive a voucher to buy insurance thru work or the exchanges.
- Medicaid expansion to non-elderly <133% of poverty level.

The ACA and ESI

13

Bloomberg

Health Law Needs Repeal: Douglas Holtz-Eakin and Michael Ramlet

By Douglas Holtz-Eakin and Michael Ramlet

Jul 29, 2010 8:00 PM CT

The ACA and ESI

14

AMERICAN ACTION FORUM

MAY 2010

Labor Markets and Health Care Reform: New Results

By, Douglas Holtz-Eakin, President & Cameron Smith

The ACA and ESI

15

“The Patient Protection and Affordable Care Act (PPAC) will have profound implications for U.S. labor markets...The PPAC is fiscally dangerous, raising the risk of higher labor (and other) taxes at a time when the job market is struggling. It provides strong incentives for employers – and their employees – to drop employer-sponsored health insurance for as many as 35 million Americans, perhaps leading to widespread turmoil in labor compensation and employee insurance coverage – and raising the taxpayer cost of the subsidies to \$1.4 trillion in the first 10 years.”

Errors in Holtz-Eakin Analysis

16

- Nondiscrimination rules require firms offering health benefits to offer them to *all* workers.
 - Firms would drop ESI only if the savings on low-income workers outweigh the costs of compensating all workers for the lost benefits.
- Holtz-Eakin claims that firms will find it worthwhile to drop ESI for workers earning $<250\%$ of the FPL.
 - 79% of workers with ESI have incomes $>250\%$ of FPL.
 - Firms have no incentive to drop coverage for these workers & would need to compensate them with higher wages if they did.

Errors in Holtz-Eakin Analysis

17

- Only 35% of ESI policy holders w/ income <250% of FPL select family coverage.
 - Holtz-Eakin's analysis assumes that all workers choose family coverage costing \$11,941.
 - Single policies predicted to cost employers \$5,100 in 2014.
 - So, much less incentive for firms to drop ESI.

Predicted Changes in ESI

18

	Without Reform	ACA
Total (millions)	151.6	151.2
<100 Workers	30.5	30.4
100-1,000 Workers	30.1	30.3
1,000+ Workers	67.3	68.8

Urban Institute, Health Insurance Policy Simulation Model 2010

Predicted Changes in Employer Spending

19

	Without Reform	ACA
Total (billions)	513.3	510.2
<100 Workers	114.6	104.8
100-1,000 Workers	99.0	110.6
1,000+ Workers	228.0	230.3

Urban Institute, Health Insurance Policy Simulation Model 2010

Estimated Overall Effects of PPACA

20

From Table 2: Estimated Effects of the Patient Protection and Affordable Care Act, as Enacted and Amended, on Enrollment by Insurance Coverage, in millions

Impact of PPACA	Calendar Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Medicare	—	—	—	—	—	—	—	—	—	—
Medicaid/CHIP	—	—	—	—	23.0	24.3	23.1	20.2	20.2	20.4
Other Public	0.4	—	—	—	—	—	—	—	—	—
Employer-sponsored Private Health Insurance	0.5	0.5	0.5	0.5	2.0	2.5	0.2	-1.5	-2.4	-1.4
Other Private Health Insurance*	—	—	—	—	-13.2	-13.7	-14.3	-14.9	-15.3	-15.7
Exchanges	—	—	—	—	16.9	18.6	24.8	29.8	31.4	31.6
Uninsured	-0.9	-0.5	-0.5	-0.5	-26.2	-29.5	-32.1	-32.4	-32.9	-33.8
Insured Share of US Population†	0.3%	0.2%	0.2%	0.2%	8.2%	9.1%	9.8%	9.8%	9.9%	10.1%

Source: Center for Medicare and Medicaid Services – April 22, 2010 Amendment

Estimated Overall Effects of PPACA

From Table 5: Estimated Increases (+) or Decreases (-) in National Health Expenditures under the Patient Protection and Affordable Care Act, as Enacted and Amended, in billions

Impact of PPACA	Calendar Year										Total, CY 2010-2019
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Total National Health Expenditures (NHE)	\$ 4.2	-\$ 4.3	-\$ 11.7	-\$ 24.0	\$ 33.4	\$ 64.4	\$ 76.7	\$ 71.9	\$ 54.3	\$ 45.8	\$ 310.8
Medicare	0.4	-4.8	-13.9	-29.4	-53.6	-50.0	-64.3	-79.1	-94.5	-113.0	-502.1
Medicaid/CHIP	-1.9	-1.5	1.0	4.3	63.4	74.8	82.8	76.8	79.2	84.7	463.5
Federal	-1.1	-0.5	1.7	5.6	60.4	71.4	83.2	75.7	79.2	84.2	459.9
State & Local	-0.8	-1.0	-0.8	-1.3	2.9	3.5	-0.4	1.1	0.0	0.5	3.6
Other Public	4.6	0.1	0.2	0.3	-4.9	-4.3	-1.9	-0.6	0.3	0.0	-6.1
Out of Pocket	-0.1	0.2	-0.3	-0.7	-26.7	-35.5	-44.4	-47.6	-41.3	-40.9	-237.3
Employer-Sponsored Private Health Insurance	1.2	2.0	2.0	2.3	14.3	24.0	4.8	-16.4	-45.9	-51.2	-63.1
Other Private Health Insurance*	0.1	-0.1	-0.4	-0.7	-44.5	-46.5	-49.1	-51.7	-54.3	-57.0	-304.2
Other Private†	-0.2	-0.2	-0.2	-0.1	-6.3	-5.9	-3.7	-2.6	-2.0	-2.7	-23.7
Exchanges	—	—	—	—	91.7	107.9	152.4	193.1	212.8	225.8	983.7
NHE as percent of Gross Domestic Product (GDP)‡	0.0%	0.0%	-0.1%	-0.1%	0.2%	0.3%	0.4%	0.3%	0.3%	0.2%	

Source: Center for Medicare and Medicaid Services – April 22, 2010 Amendment

Conclusions

22

- Rising healthcare costs are detrimental to U.S. businesses.
- The ACA devotes substantial resources to improving insurance coverage while restraining cost growth.
 - Cost per covered person falls, but costs as % of GDP the same.
- We must be more aggressive in cost control.
 - Reward providers for better quality, not quantity.
 - Reduce the tax advantage for ESI.