



Covering America: The US Health Care System and the 2008 Election

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- The United States spends 16 percent of its gross domestic product on health care services, yet 47 million Americans lack health insurance coverage. Individuals without health insurance go without needed care, while the care they do manage to receive results in higher insurance costs for other Americans.
- The current American health care system is experiencing rapid cost growth, which inhibits business development, reduces the nation's economic competitiveness, and places families at financial risk.
- Presidential candidates have offered health care reform proposals that seek to control costs and expand coverage. The two major approaches feature either public program expansions combined with subsidies for private insurance, or a move from employment-based coverage to individually-purchased coverage, combined with fixed-dollar tax credits to partially cover premiums.

Over the last 18 months, voter anxiety over health care issues and reform has grown, making health care a pre-eminent domestic issue in American voters' minds as the United States heads into the 2008 presidential election. And for good reason – health care represents a large and growing part of the US economy, while health care costs threaten families' financial security and America's global competitiveness.

Many of the presidential candidates have offered their own prescriptions for how the US health care system can expand cover-

age and control escalating costs – but understanding their approaches requires a basic understanding of the fragmented American health care system.

Overview of the US Health Care System

In 2006, the United States spent \$2.1 trillion on health care services, which represents 16 percent of the country's gross domestic product (GDP). This spending covered hospital care, physician visits, rehabilitation therapies, long-term care services, prescription drugs and more – everything that Ame-

ricans spent on health care. Spending was financed by both public and private sources, including public insurance programs, individuals' out-of-pocket spending on goods and services, and reimbursements by health insurance plans.

A Hybrid System

While the US health care system is typically described as a "private" system, in reality it is a hybrid that draws on both public and private sources to finance health care coverage for the American people. The majority of people – 53 percent – are covered by health insurance that is offered by either their employer or the employer of a family member, whereas 26 percent have health coverage through public insurance programs, including Medicare, Medicaid, and the State Children's Health Insurance Program (SCHIP). Another 5 percent of the population purchase coverage on their own, without help from either an employer or the government, and 16 percent do not have health coverage of any kind.

Though public revenues directly support public insurance programs, tax policy in the United States also provides a significant subsidy for the employer-based insurance system. Employer premium payments on behalf of employees and dependents are not considered taxable income for the employee. In addition, employers can subtract health care spending when calculating net income for purposes of corporate income tax. The various tax policies related to employer-sponsored insurance result in foregone Federal tax revenues of more than \$200 billion a year – an indirect public subsidy that helps support employer-based coverage.

The US-American health care system is also a hybrid of public and private sectors when it comes to spending. Medicare, the public insurance program for individuals who are either over age 65 or permanently disabled, and Medicaid, the public insurance program

that is managed through a partnership between the Federal government and the states for low-income families, children, people with disabilities and elders, pay for approximately 40 percent of all health spending in the United States. Private sources – employers and households – pay for roughly 60 percent of all health spending, including through premium payments. The public programs pay for disproportionately more services because their enrollees tend to be individuals with higher health care needs, whether because of age, disability, or historically-limited access to primary and preventive care.

Employers and individuals rely on private insurance plans to spread financial risk, design benefit packages, organize provider networks, and pay claims. To a great degree, Medicaid programs also turn to private insurance plans to assemble networks, pay claims and manage program costs. People with Medicare coverage can choose to enroll in a private health plan, which will receive premium payments from the Medicare program. However, roughly 80 percent of Medicare beneficiaries continue to enroll in the traditional Medicare program, which uses administrative vendors to pay claims, but is generally managed by the Federal government. The one exception is the Medicare drug program, which relies on stand-alone private drug plans and comprehensive insurance plans to manage this benefit.

Cost Crisis

The US health care system faces significant cost pressures. From 2000 to 2005, health care spending grew, on average, 8 percent per year. This growth rate is nearly twice the rate of growth in the nation's gross domestic product, and nearly three times the average annual inflation rate over the same period. The growth in health spending is fueled by rising costs for certain services or products, such as prescription drugs and inpatient hospital care, and increased utiliza-

tion of health care services, in part driven by the prevalence of expensive chronic conditions, such as obesity or heart disease.

Health care cost increases pose significant opportunity costs for the United States' economy. In 2007, premiums for employer-sponsored family coverage averaged more than \$12,000. Workers may forego wage increases in order to maintain their health care coverage, and business struggle with the impact health care benefits have on their bottom line. General Motors, in an oft-quoted anecdote, notes that employee health care benefits represent a larger portion of the production cost of a new car than the steel used to build the car. Rising health care costs restrict the funds available to American businesses for infrastructure investments, new hires, and general business development.

The United States, according to some analysts, also overspends across a range of dimensions. The consulting firm McKinsey and Company has concluded that the United States pays for an "excessive" \$500 billion a year in health spending – that is, health spending that is not accounted for by the country's comparative prosperity. According to McKinsey's analysts, this excess spending pervades the American health care system and can be attributed to a wide variety of phenomena – how doctors, nurses and other health professionals are paid and deployed, process costs related to how the delivery system is structured, administrative complexity related to multiple health insurance companies and other payors, profits accruing to private providers and health plans, and other structural aspects of the American health care system.

The United States also faces long-range cost pressures related to the aging of the American population and the health status of many Americans. As the baby boomers begin to retire, they will turn to Medicare for the health coverage. More importantly, as they age, their health care needs are likely

to become more complex and more costly. As the population ages, more Americans will experience one or more chronic conditions, and more Americans will need long-term care services that provide help with the tasks of daily living.

Finally, at the individual and family level, rising health care costs put Americans in jeopardy. Nearly half of all personal bankruptcies are due, in part, to health care costs, while approximately 18,000 individuals a year die because they don't have health coverage.

Uninsured Americans

Forty-seven million Americans do not have health insurance. Individuals who lack health care coverage are more likely to postpone medical care, go without needed medical care, or go without prescription medicines. Individuals without health coverage are also more likely to use emergency rooms as their regular source of care. Although most Americans obtain health coverage through an employer, not all employers offer coverage, and not all workers enroll in health insurance. Subsequently, more than 80 percent of individuals without health coverage live in working families. Income is a key determinant of insurance status – nearly 36 percent of non-elderly poor Americans lack health insurance, a rate that is double the national average. Insurance status also varies by age, – children are most likely to have coverage, while young adults are particularly likely to be uninsured – race and ethnicity, and geographic region.

Individuals without health insurance pay approximately 35 percent of the cost of needed health care out-of-pocket. The majority of the balance is covered by individuals with health insurance, whose premiums reflect higher provider payments that cover uncompensated care costs. This phenomenon is known as "cost-shifting". In 2005, family health insurance premiums were \$922 more than they otherwise would have

been because of health care costs for those without health coverage.

Major Approaches to Reform

Early in the 2008 election cycle, Presidential candidates began to offer their prescriptions for fixing the US health care system. Major candidates in both parties released health care plans in 2007. While there were significant philosophical differences between Democratic and Republican proposals, within each party the candidates' proposals often shared a general approach and similar specific recommendations.

Democratic Proposals

Both Senator Clinton and Senator Obama seek to provide all Americans with affordable health coverage by building on the nation's current hybrid system of health coverage and financing. Their two-pronged approaches both rely on expanding eligibility for public programs and improving the affordability and accessibility of private health coverage.

Clinton proposes to expand eligibility for the Medicaid program to all individuals with incomes below the Federal poverty line (approximately \$10,400 per year for an individual, and \$21,200 per year for a family of four), and to expand eligibility for families with children under the SCHIP program. Senator Obama similarly proposes expanding Medicaid and SCHIP eligibility, although he does not provide an income range for this proposal.

For other individuals and families, both candidates propose income-based subsidies to help pay for private insurance. Americans could use these subsidies to purchase coverage at group rates, instead of in the individual market. Senator Clinton would permit individuals and employers to purchase coverage through the Federal Employees Health Benefits Program (FEHBP), the program that offers employee benefits to more

than 8 million Federal workers, while Senator Obama would create a national Health Insurance Exchange that would broker insurance purchases for individuals. Both approaches would also create a publicly-managed insurance plan, which would be available through the FEHBP or the Insurance Exchange, respectively.

Both candidates propose a range of insurance industry reforms aimed at improving industry practices and reducing discrimination against people with health problems, and both candidates offer a menu of long-term cost-reduction strategies, including new investments in prevention, health information technology, and comparative effectiveness research, which explores which treatments, drugs and devices are best for a given health condition. They both argue that by providing health coverage for all Americans, they will be reducing cost-shifting to people with coverage, hence improving affordability for all.

Finally, both candidates would require employers to either provide coverage for their workers, or contribute to the costs of their coverage. Senator Clinton would also require individuals to hold health coverage, while Senator Obama would only impose a similar mandate on parents, requiring them to have coverage for their children.

McCain Proposal

In contrast to the Clinton and Obama proposals, which would maintain the current hybrid structure of the US-American health care system, and retain employer-based coverage as one of the pillars of the system, Senator McCain offers a proposal that relies heavily on market theory and would shift coverage to the individual market.

The McCain plan would eliminate the current exclusion of employer-paid premiums from taxable income and end employers' ability to deduct health care costs as a business expense. He would substitute a fixed-

dollar tax credit of \$2,500 per individual and \$5,000 per family to help with the purchase of health coverage. Individuals and families could use this credit either to help cover their share of an employer-sponsored plan or within the individual market. However, since McCain's proposal would raise the employers' cost for offering coverage, it is likely that many people who have employer-sponsored coverage today would need to use the credit in the individual market.

McCain would also require Medicaid to supplement the tax credit for its enrollees, effectively replacing Medicaid coverage with private insurance. In an effort to improve affordability within the individual market, McCain proposes significant deregulation of insurance markets, which are currently regulated by the states. His proposals including allowing membership groups to market insurance, and allowing health plans to offer coverage in all states as long as they meet the rules of a single state.

To control costs, McCain would rely on expanded use of health savings accounts and high-deductible health plans, a coverage approach which seeks to control health spending at the patient level by requiring consumers to pay more of their health care costs out-of-pocket. He also emphasizes greater transparency in prices, outcomes and quality for given procedures or a course of treatment as a method for giving consumers greater control over health care spending. Like the Democratic candidates, McCain would make new investments in health information technology. He also proposes reconfiguring payments for chronic conditions and improving disease management.

Prospects

While it is difficult to predict whether Congress will enact comprehensive reform early in the next president's term, it is possible to forecast which political interests will need to be engaged in the reform debate in order for

this undertaking to succeed. First, American businesses will need to actively advocate for reform, and small business, in particular, will have an important voice. Second, health care industry stakeholders – including doctors, nurses, other health care workers, hospitals, insurance companies and the pharmaceutical industry – will be a particular challenge. Efforts to curb cost growth will ultimately affect these stakeholders, so the degree to which their concerns can be addressed, or their objections can be sidelined by other political players, will influence the likelihood of success. Third, sustained public support will be important. It is too soon to know whether voters will prefer a market-based proposal or efforts to build upon the current hybrid coverage system, but it is clear that health coverage and health costs will be on their minds in November. If voters remain activated in 2009, the prospects for reform will be brighter.

Most importantly, though, health reform will require the commitment and attention of the new president. Without leadership from the executive branch – in the person of a president who is committed to working with Congress, reaching consensus and brokering needed compromises – it will be nearly impossible for the United States to overhaul such an important aspect of its national economy.

Clearly, the United States cannot sustain high rates of growth in the health care sector without sacrificing global economic competitiveness, investments in other national priorities, and families' financial security. At the same time, America should confront the crisis of having 16 percent of the population without a way to pay for their health care needs. At this point, the 2008 presidential election appears to provide the nation with the clearest path towards reform since 1994.

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