

# **THE FUTURE OF HEALTH CARE IN AMERICA**

**Whither the Middle Class?**

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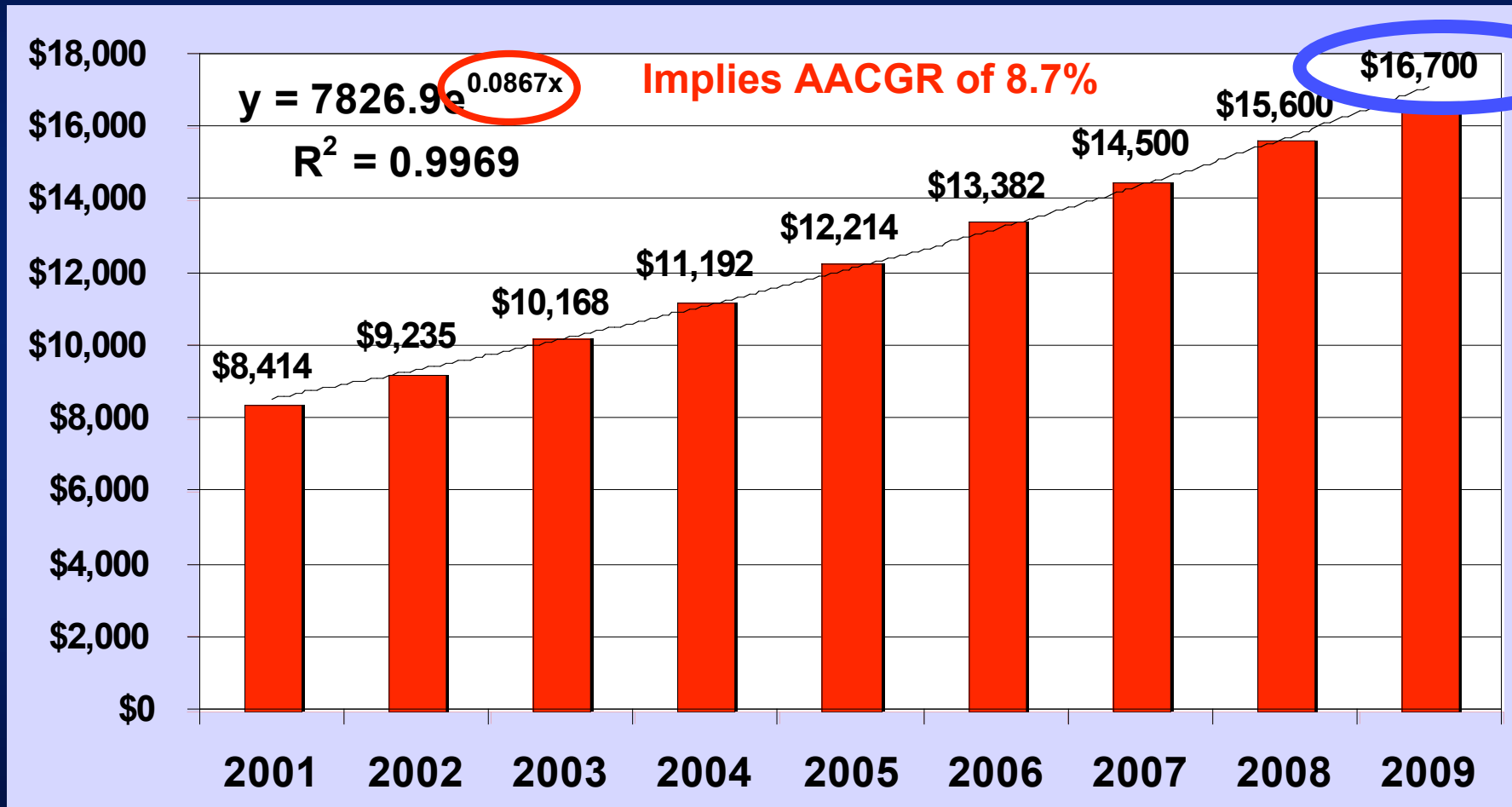
***POLICY FORUM***

**June 26, 2009**

# MILLIMAN MEDICAL INDEX (MMI)

## Average Annual Medical Cost for a Family of Four

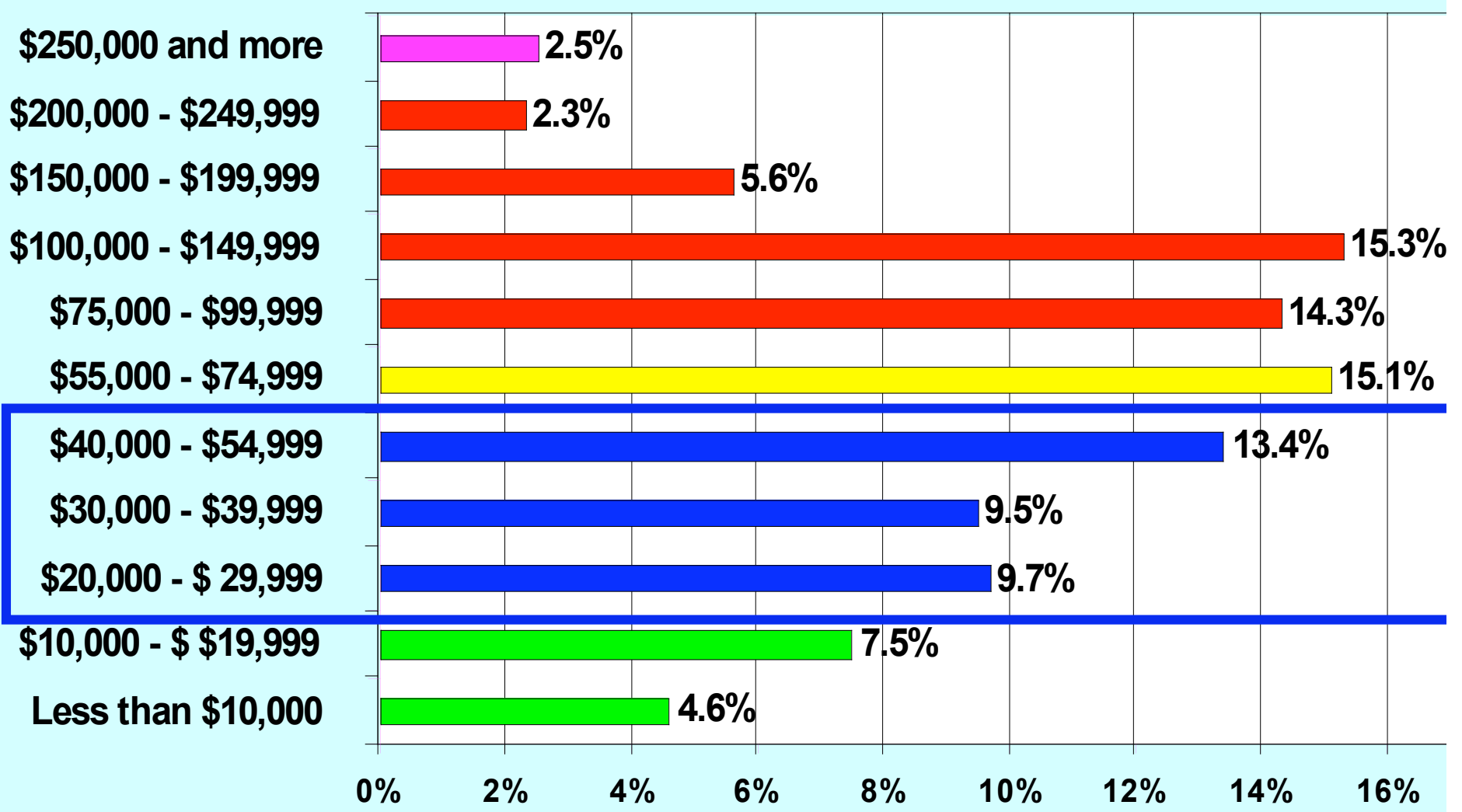
(Employers' and Employees' Premium + Out-of-Pocket Costs)



<http://www.milliman.com/expertise/healthcare/products-tools/mmi/pdfs/milliman-medical-index-2009>

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# DISTRIBUTION OF FAMILY MONEY INCOME, UNITED STATES, 2009 (Median about \$60,500)



**SOURCE: U.S. Bureau of the Census, 2009 Annual Social and Economic Supplement, Table F10**  
<http://www.bing.com/search?q=Family%20Income%20Distribution&form=SOLTLB>

**Consider now a family headed by two lower-income workers each with a wage base of \$25,000, for a total family wage base of \$70,000 in 2010.**

**Let that wage base grow @ 3% per year for the next decade.**

**Let total health spending for the family grow at 8% per year for the next decade, from a base of \$18,000 in 2010.**

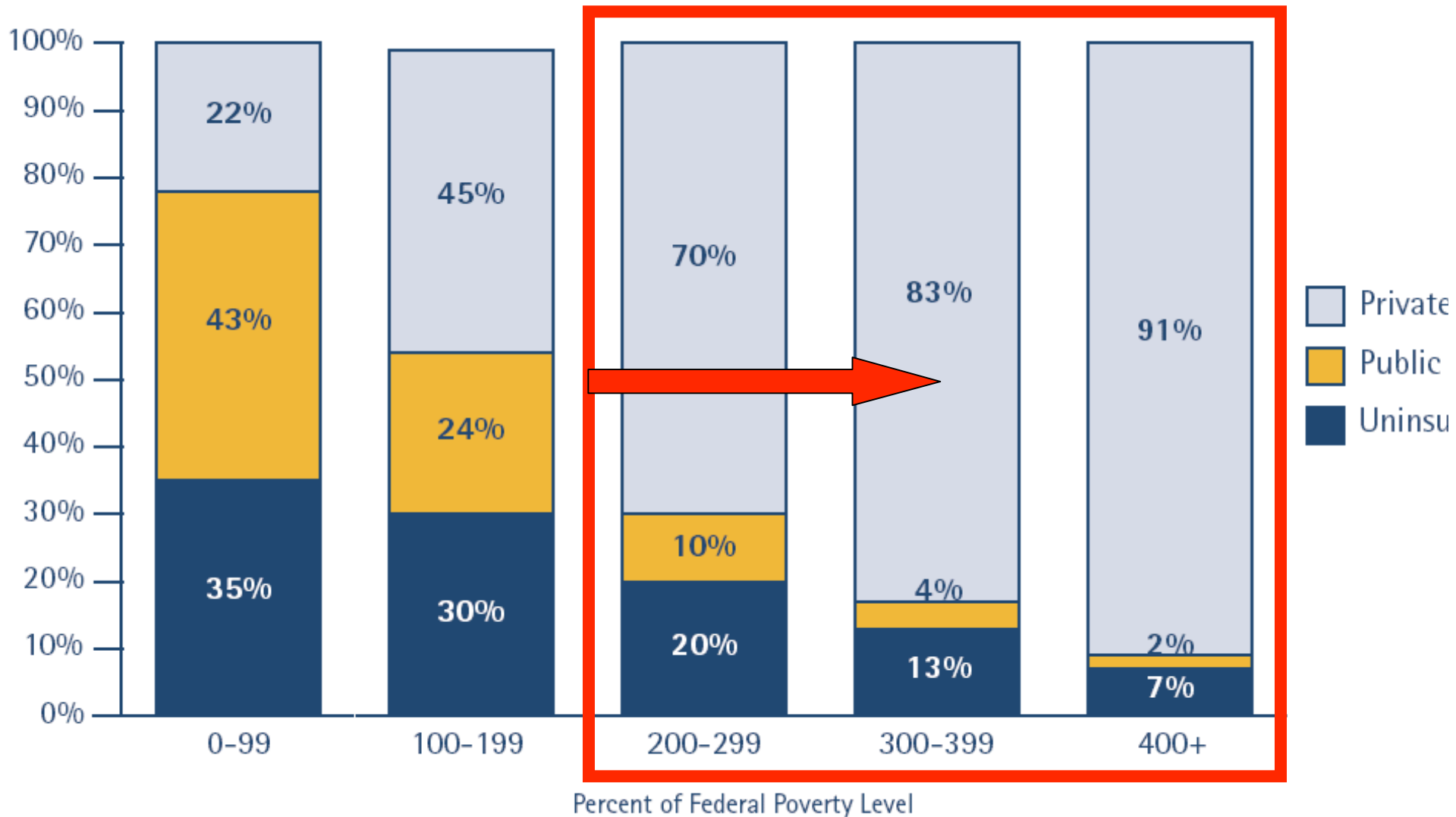
**Calculate what fraction of the family's wage base would go for health care alone in the years ahead.**

**Wage base:  $\$70,000 \times (1.03)^{10} = \$94,0$**

**Health Spending:  $\$18,000 \times (1.08)^{10} = \$38,9$**

**Health Spending/Wage base 2020 = 41%**

FIGURE 3: COVERAGE TYPE BY FEDERAL POVERTY LEVEL **2006**



Note: Persons reporting both private and public coverage during 2006 are classified as private. Percents may not sum to 100 percent due to rounding.  
 Source: NIHCM Foundation analysis of data from the March 2007 Current Population Survey.

**SOURCE: National Institute for Health Care Management, *Issue Brief* (April 2008)**

## **Sometime during the forthcoming decade, America as a body politic will have to decide**

**1. whether they are willing to vote for a sizeable tax-and-transfer program in health care (now ~ \$125 b/year) to finance health care for families in the bottom half of the income distribution**

**or**

**2. formally embrace rationing health care by income class perhaps through reference pricing all around.**

# 2008 HEALTH SPENDING PER CAPITA OF PRIVATELY INSURED AND UNINSURED AMERICANS

FULL-YEAR  
UNINSURED

\$1,686 = 43% of Privately Insured

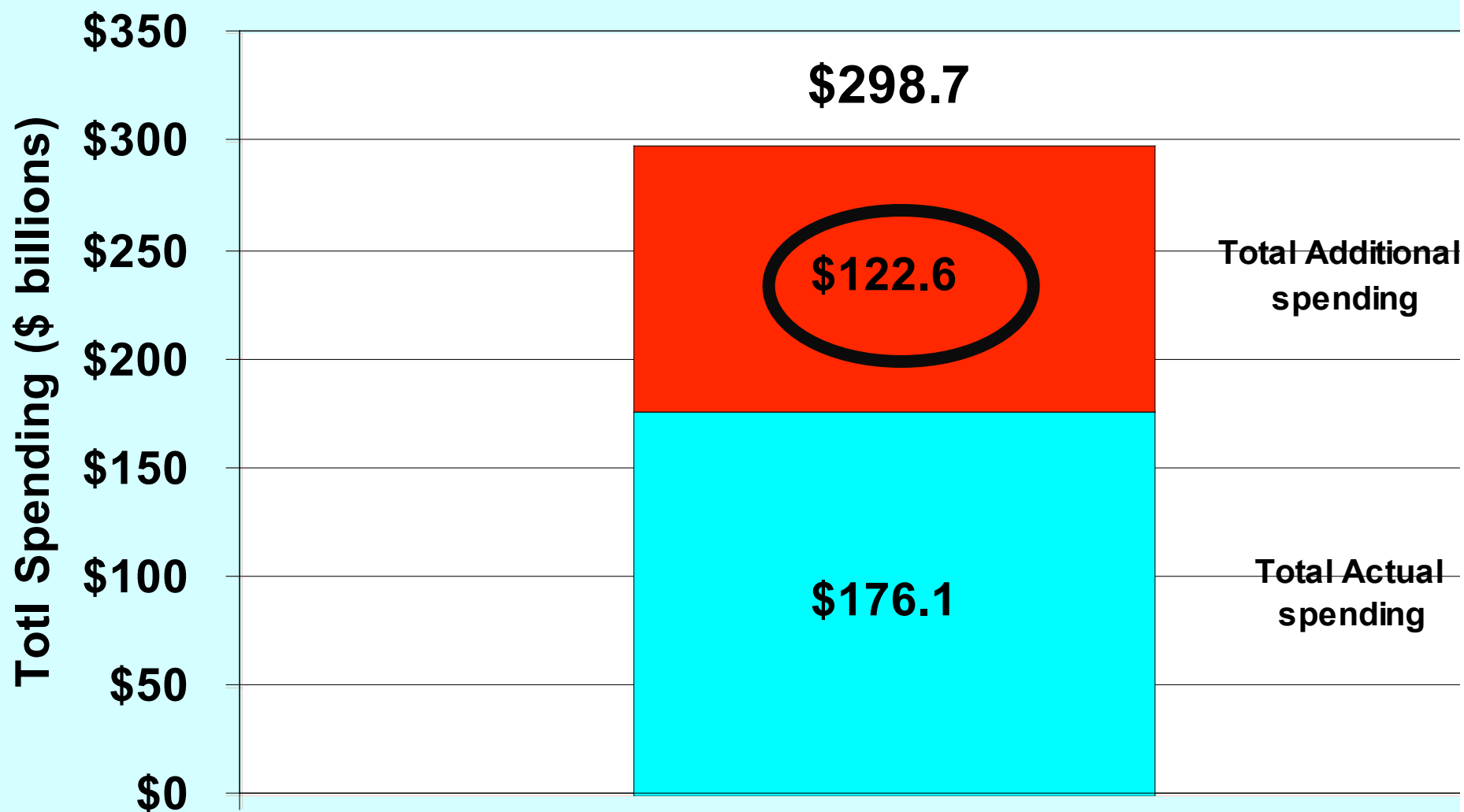
FULL-YEAR  
PRIVATELY  
INSURED

\$3,915

\$0 \$500 \$1,000 \$1,500 \$2,000 \$2,500 \$3,000 \$3,500 \$4,000 \$4,500

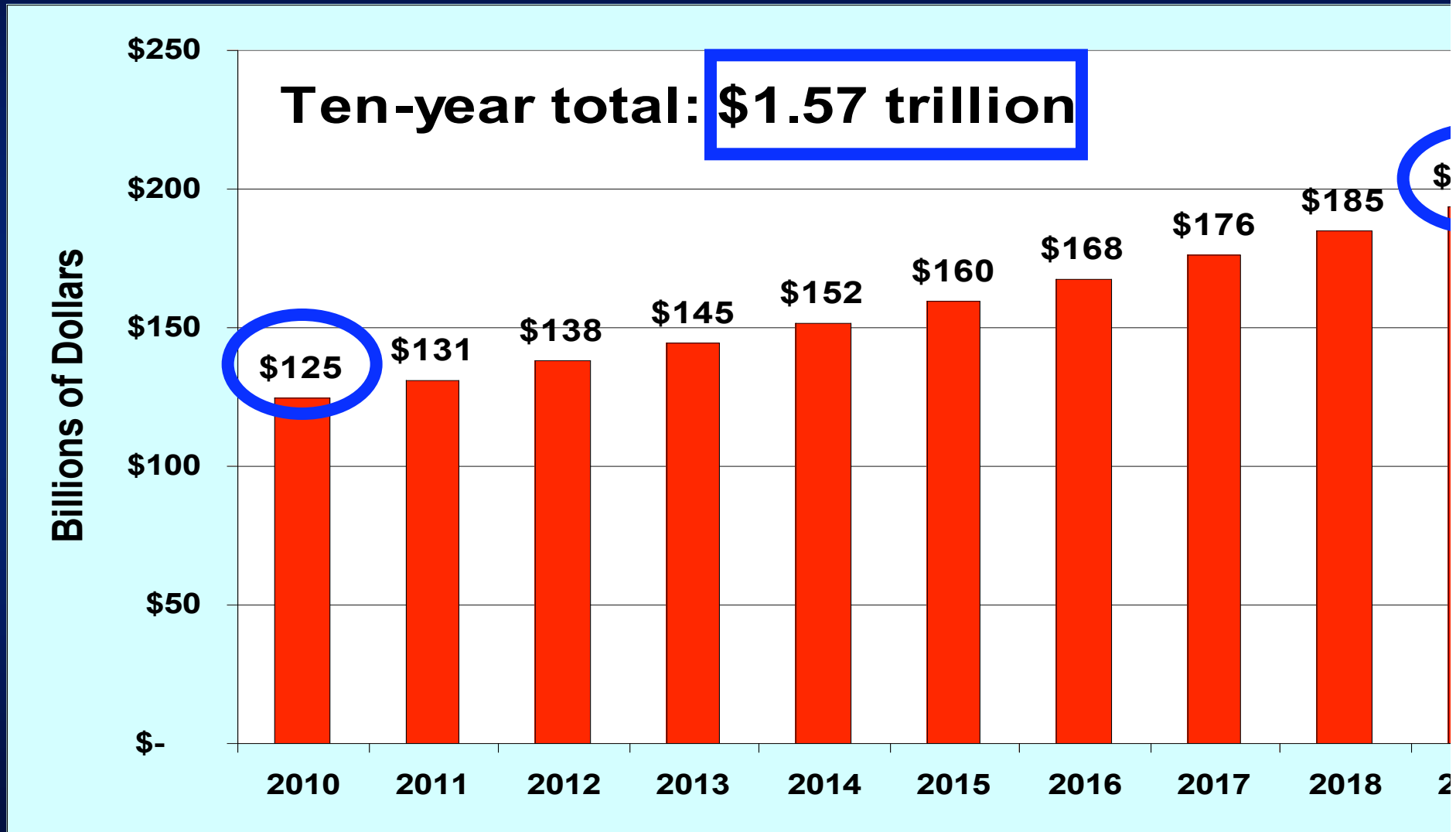
SOURCE: Jack Hadley et al., "Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs," *HEALTH AFFAIRS WebExclusive* (25 August, 2008): Exhibit 1.

# SIMULATED INCREASES IN TOTAL 2008 HEALTH SPENDING BY UNINSURED IF THEY WERE FULLY INSURED



SOURCE: Jack Hadley et al., "Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs," *HEALTH AFFAIRS WebExclusive* (25 August, 2008): Exhibit 5.

# Ten-Year Budget Cost for a Cohort of Uninsured that that Require \$125 Billion Federal Spending in in 2010 at 5% Cost Growth



**A preliminary estimate by the CBO of the Senate Finance Committee's draft health reform bill is said to have been \$1.6 trillion for the next decade.**

**That would be about 4% of currently projected national health spending of \$40 trillion for the next decade.**

**That health spending, incidentally, has grown at 6% to 7% PER YEAR in the past decade.**

**The \$1.6 trillion added spending would be about 1% of the \$150 to \$170 trillion of GDP we can expect to produce during the next decade.**

**Note that this 1% of GDP would not be lost GDP, because health care is part of the GDP.**

**Universal coverage would merely cause a reallocation of GDP from some other uses to health insurance and health care for the currently uninsured.**

**Only if these “other uses” had been investments in genuinely productive projects and the added health spending did not enhance the health of the uninsured would that reallocation of GDP seriously hurt future economic growth – as does ALL pure consumption.**

**Furthermore, any conceivable drag of added health spending for the uninsured on GDP growth is dwarfed by the loss of future GDP caused by the reckless mismanagement on Wall Street.**

**Not even to speak of the loss the rest of society suffers by financing the bailout of the very bankers who caused that GDP loss.**

**I leave you with these thoughts.**