



Health Care Reform: A Modest Proposal

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Inspiration for this Talk

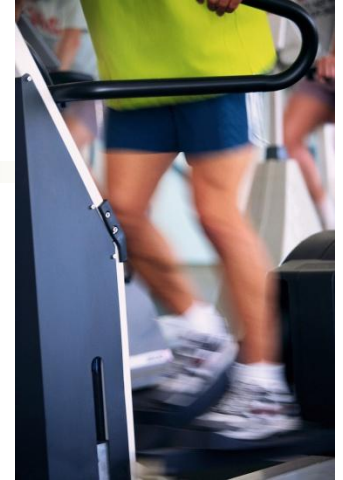
“A Modest Proposal: For Preventing the Children of Poor People in Ireland from Being a Burden to Their Parents or Country, and for Making them Beneficial to the Publick,”

by Jonathan Swift (1729)

- Concept: Children born into poverty should be sold to the rich as food

[A Modest Proposal 2008

- Require the Elderly to be Net Producers of Energy
- If they are unwilling or unable to be net producers of energy, eat them
- Use the resultant dramatic reductions in energy and health care costs to provide universal coverage for all



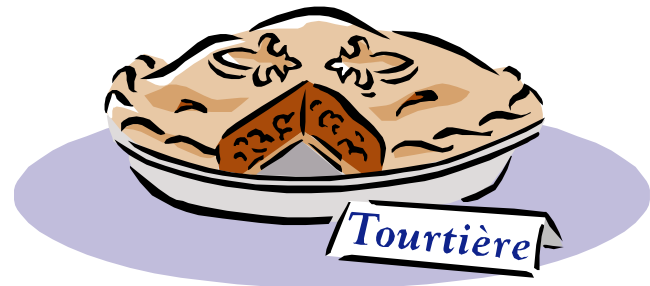
[Justifications



- Strong incentives to remain healthy
- It is fair and just
 - Gives a choice to the elderly
 - Equitable
- Addresses a number of problems
- It is the Best Option
 - There are no reasonable alternatives
 - We are headed in this direction anyway

Swift had some deliciously antiquated notions...

“A young healthy child well nursed, is, at a year old, a most delicious nourishing and wholesome food, whether stewed, roasted, baked, or boiled; and I make no doubt that it will equally serve in a fricassee, or a ragout.”



My proposal is updated for the modern sensibility

- Target the Elderly
 - Not Innocent Children
- Principal problems addressed
 - Health care costs
 - Energy
- Secondary problems addressed
 - Environmental
 - Social

Agenda for the Remainder of My Talk

- The Problem of High Health Care Costs
- Why a Government Solution Will Not Work
- Why a Private Solution Will Not Work



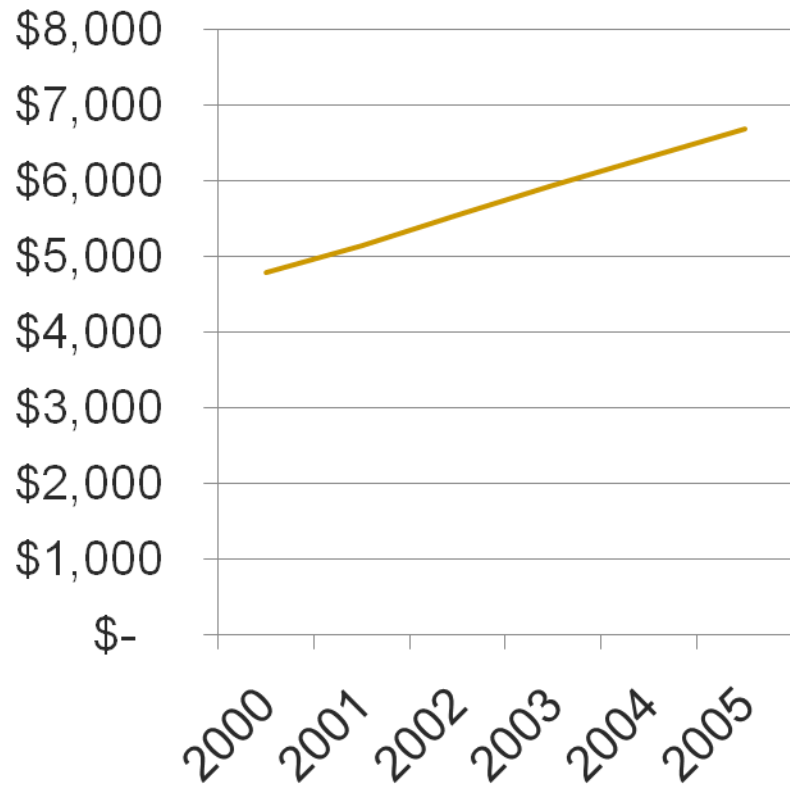
**THE PROBLEM OF HIGH
HEALTH CARE COSTS**

Health Care and the U.S. Economy

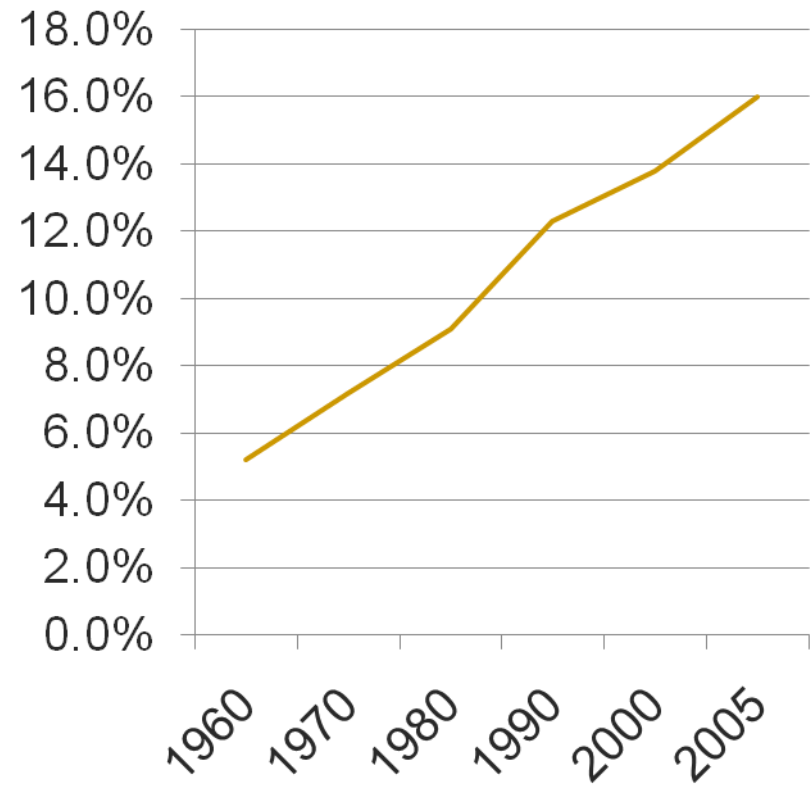
- GDP \$13.8 trillion (2007)
- Health Care: \$2.2 trillion
 - About 16% of GDP
 - CMS projects Health Care will consume 19.6% of GDP by 2016
- From 2000 to 2005, health care costs inflated at 8.0% annually, versus 4.9% annual inflation for the economy as a whole
 - From 1975 to 2005, 9.8% versus 7.4%

[U.S. Health Care Cost Trends]

Per Capita Health Care Costs



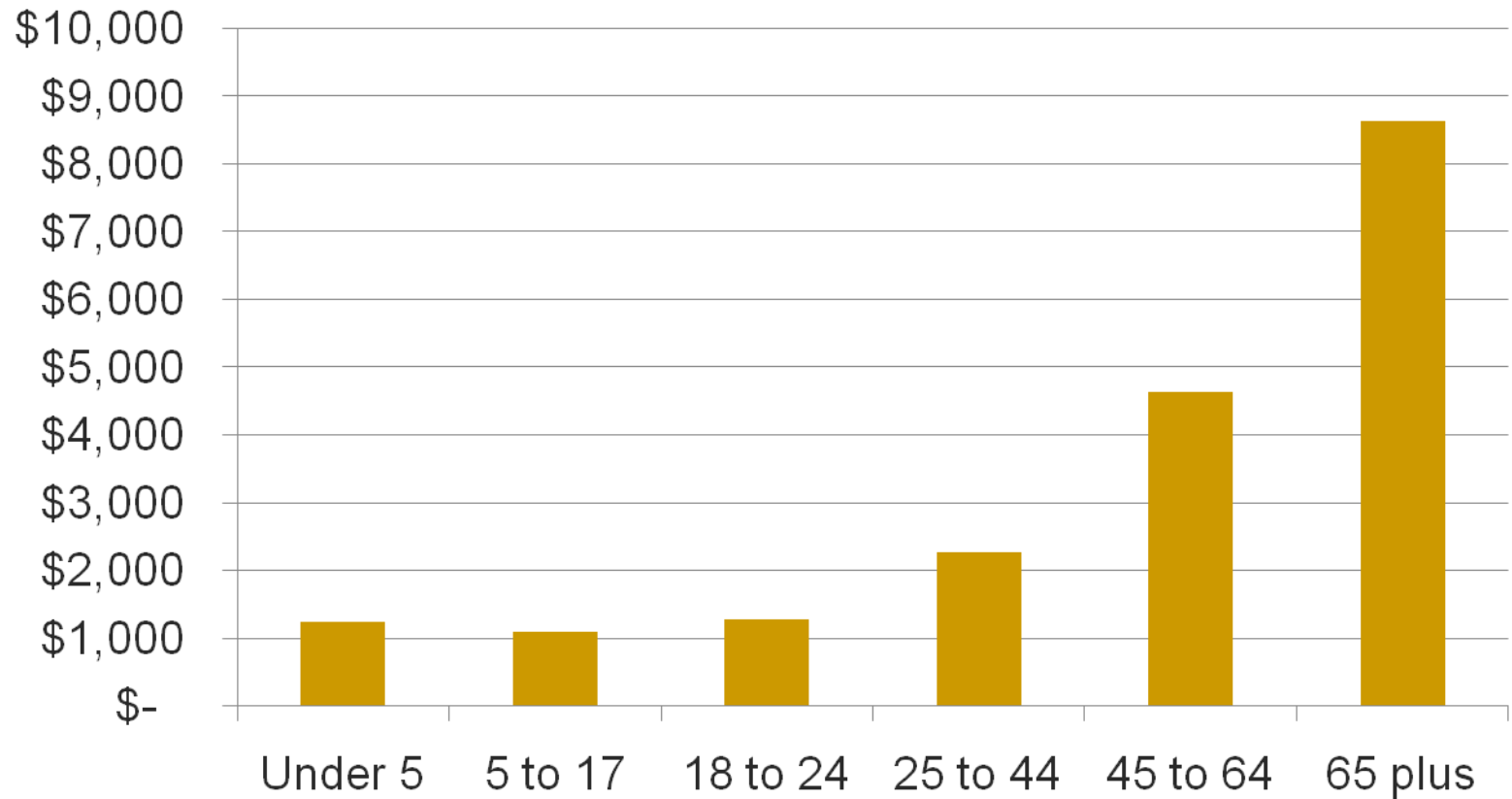
Health Care as Percent of GDP



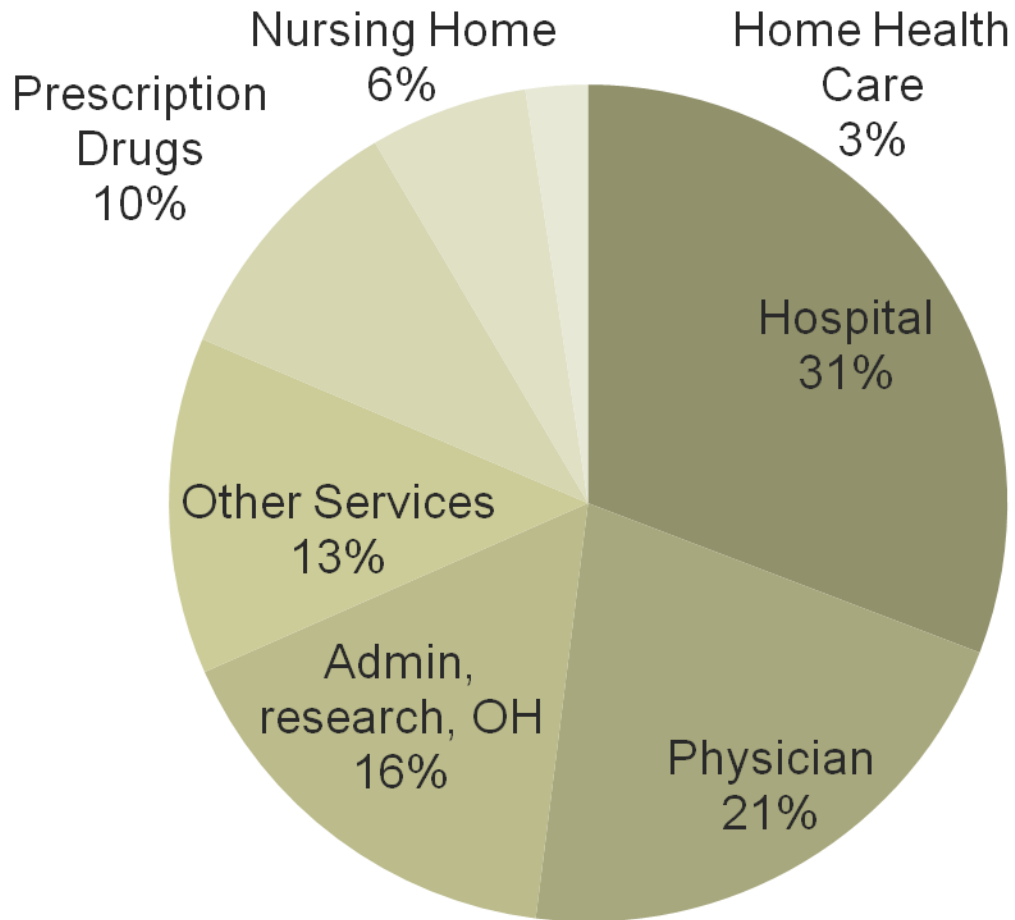
More Facts about Health Care Costs

- Health care spending is highly concentrated
 - Top 1% consume 22.5% of health care
 - Top 5% consume 49.0% of health care
 - Top 10% consume 64.1% of health care
- The elderly are the biggest users of health care
 - Adults 65 and over have per capita health care spending of about \$8,647 (2005)

[Per Capita Cost by Age (2004)]



Health Care Expenditures (2005)



How Health Care is Financed (2005)

- Government: 45%
- Private Insurance: 36%
- Out-of-pocket: 15%
 - (Was 40% in 1970!)
- Other: 4%

Health Care is becoming unaffordable

- In 1996, 26% of those at or below the federal poverty level spent 10% or more of their budgets on health care
- In 2003, 33% of the poor spent 10% or more of their budgets on health care
- In 1996, 7% of Americans at 400% of FPL spent 10% or more on health care
- In 2003, 10% of Americans at 400% of FPL spent 10% or more on health care

Health Costs are an Economic Drag

- Insurance premiums rise faster than wages
 - Since 2000, premiums up 8% to 14% annually, versus 3% to 4% for wages
 - Means less disposable income
- Employer-sponsored health insurance is a form of employment tax
 - Countries without employer sponsored health care have a competitive advantage

Waste and Inefficiency

- Administrative overhead of third party payment
 - Adds 20% to 30% to health care costs
- Distorted demand
 - Lack of cost to patients leads to wasteful choices
- Distorted supply
 - Providers deliver services based on reimbursement rather than value

[Declining Service and Quality]

- Procedural-based reimbursement
 - Shift away from serving unique individuals towards serving average needs
- Integration
 - Clinical best practices, P4P, EHR
 - Shift away from professionalism towards process management

[Impending Supply Crisis]

- Aging Population increases demand
 - 2000: 16.6MM over age 75
 - Overall demand: 2.8 physicians/1000
 - 2020: 22MM over age 75
 - Overall demand: 3.1 physicians/1000
- Aging Physician workforce
- U.S. will have 7.9% too few physicians in 2020



WHY A GOVERNMENT SOLUTION WILL NOT WORK

Government Spending

- All Government annually
 - Collects about \$4 trillion
 - Spends about \$4.2 trillion (30.4% of 2007 GDP)
- Federal Budget (2008 est.)
 - Collect \$2.5 trillion
 - Spend \$2.9 trillion (21.0% of 2007 GDP)

Federal Expenditures 2008

Social Security	\$ 615.3	20.6%	20.6%
National Defense	\$ 580.7	19.4%	40.0%
Medicare	\$ 396.2	13.3%	53.3%
Income Security	\$ 388.4	13.0%	66.3%
Health (excl. Medicare)	\$ 284.5	9.5%	75.8%
Interest	\$ 240.6	8.1%	83.9%
Education	\$ 93.4	3.1%	87.0%
Veterans Affairs	\$ 86.6	2.9%	89.9%
Transportation	\$ 80.2	2.7%	92.6%
Justice	\$ 46.2	1.5%	94.1%
Natural Resources & Environment	\$ 35.6	1.2%	95.3%
International Affairs	\$ 33.7	1.1%	96.4%
Science, Space & Technology	\$ 27.6	0.9%	97.4%
Community & Regional Development	\$ 27.6	0.9%	98.3%
Agriculture	\$ 20.9	0.7%	99.0%
General Government	\$ 19.7	0.7%	99.7%
Commerce and Housing	\$ 7.4	0.2%	99.9%
Energy	\$ 3.0	0.1%	100.0%
2008 Budgeted Federal Outlays	<u>\$ 2,987.6</u>		

[Social Security]

- Covers
 - 40.5 million under Old Age and Survivors Benefits
 - 8.6 million disabled
- Benefits worth \$555.5 billion in 2006
- Consumes
 - 4.2% of GDP in 2006
 - 6.2% of GDP by 2030

[Social Security]

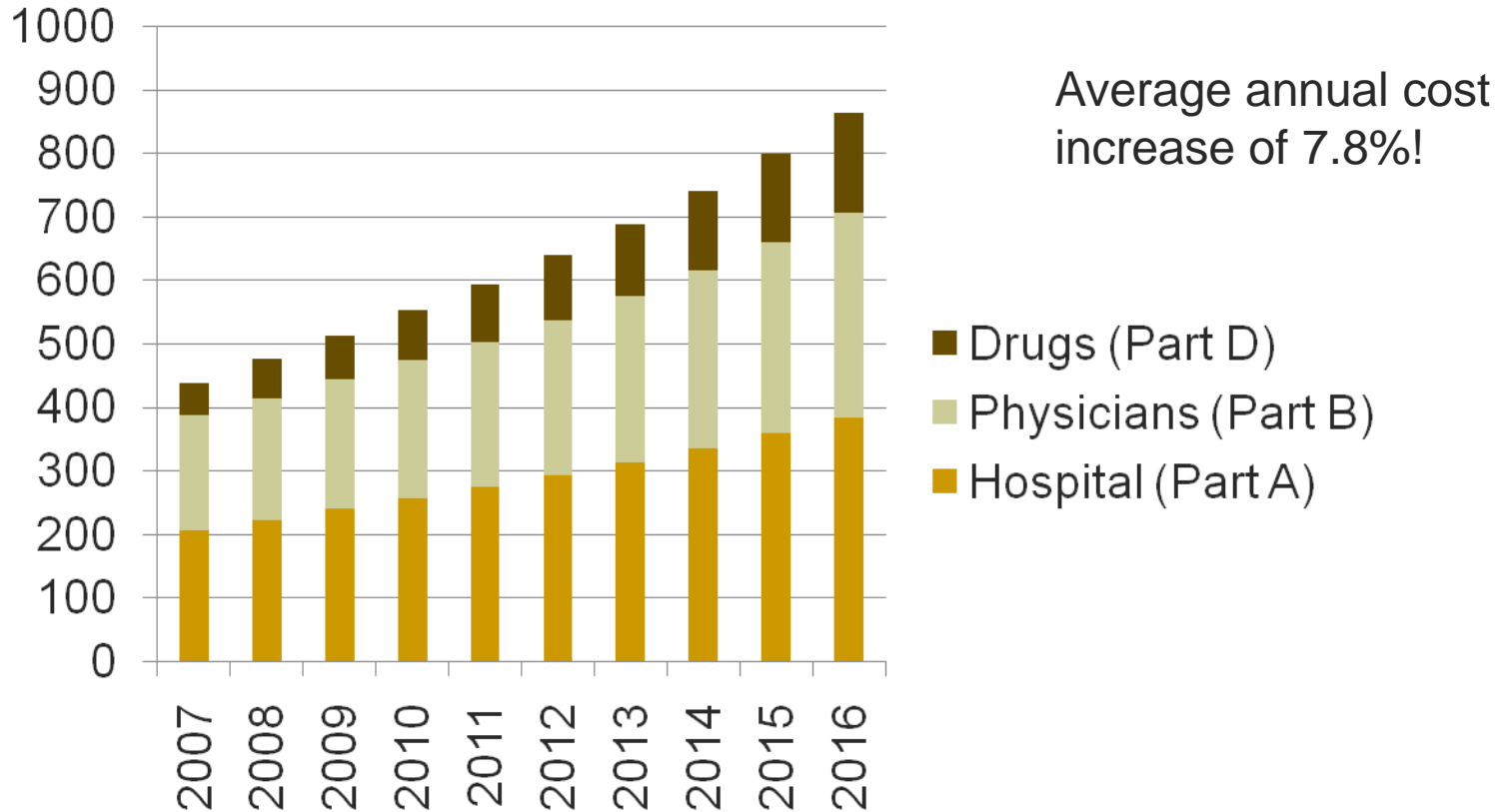
- Costs

- Running out of money
- Funding today would require:
 - 16% increase in payroll taxes, or
 - 13% reduction in benefits, or
 - Some combination of above

[Medicare]

- Covers 43 million
- Paid for through:
 - Tax on Wages: \$181 billion in 2006
 - Currently, 2.9% employment tax (half employee, half employer)
 - Premiums: \$49 billion in 2006
 - General Revenues and miscellaneous: \$207 billion

Projected Medicare Costs



Source: "Status of the Social Security and Medicare Programs: 2007 Annual Reports", Social Security and Medicare Boards of Trustees

[Medicare and Social Security]

- Combined, consume
 - 7.3% of GDP in 2006
 - 10% of GDP in 2020
 - 12% of GDP in 2030

[Medicaid]

- Covers
 - 44 million low income families
 - 14 million elderly and disabled
- Federal Costs
 - \$216 billion
 - Grow to \$287 billion in 2013

Medicaid Spending

- 67% is for the aged and disabled
- High Cost Medicaid Populations
 - 100,000 preterm births
 - 800,000 foster children
 - 4.5 million Alzheimer patients
 - Nursing home care averages more than \$70,000 per year

Medicaid Cuts (\$17 billion over 5 years)

- Shift costs to state governments (\$10 billion)
- Reduce payments to managed care (\$2 billion)
- Shift some long-term care to private sector (\$1 billion)
- Reduce pharmacy coverage (\$1 billion)
- Reduce reimbursement for administration (\$4 billion)

Why a Government Solution Will Not Work

- Government cannot afford programs already promised
- Adding new entitlements would require drastic rationing
- Drastic rationing must focus on the most expensive care and most needy populations (i.e. services to elderly)
- My proposal is morally superior



WHY A PRIVATE SOLUTION WILL NOT WORK

Components of a Private Solution

■ Structural Reform

- Third party payment limited to catastrophic: the unpredictable and unaffordable
- Everything else out-of-pocket
- Tax policy and direct assistance to help with affordability
 - e.g., for acute chronic conditions, for the poor

■ Program Reform

- Medicare and Medicaid overhaul
- Shift from employer-sponsored to individual
- Address universal catastrophic coverage

Private Solution Opposed by the Public

- Shifts responsibility to individual
- People with chronic health needs will suffer financially (in addition to their personal suffering)
- Universal catastrophic coverage an unwelcome responsibility

Other Opposition to a Private Solution

- Physicians and hospitals
 - Would need to persuade patients that their services have value
- The Pharmaceutical Industry
 - Would need to persuade patients of value
- The Insurance Industry
 - Reduced role as money launderers
- The Government
 - Reduced role as benefactor and protector

A Private Solution Will Not Work

- Opposition would be virtually universal
 - Eating the elderly more likely to be supported
- Benefits too ephemeral
 - Lower taxes
 - Lower health care costs
 - Better quality
 - Better service
 - Restoration of doctor-patient relationship

[Summary]

- The health care system is failing
- The promise of government universal health care is immoral because it cannot be fulfilled
- The potential of a private solution to health care is unrealizable because everyone will oppose
- Eating the no-longer-productive elderly is the only moral and just option