ECONOMIC POLICY INSTITUTE
1333 H STREET, NW • SUITE 300, EAST TOWER • WASHINGTON, DC 20005
PHONE: 202.775.8810 • FAX: 202.775.0819

Health Care for America Covers All for Less
Lewin Group Cost Impact Analysis: Executive Summary

Health Care for America, developed for the Economic Policy Institute by Yale University Political Science Prof. Jacob Hacker, calls for employers, individuals and the federal government to share responsibility for the health coverage of all U.S. residents. The coverage includes mental health care and prescription drugs.

Its centerpiece is a federally administered insurance pool similar to Medicare, the popular program for older Americans, which would be funded by user premiums and co-pays, employer contributions, and government subsidies.

Employers could still offer workers a private insurance plan, as long as the costs and benefits were comparable or better. The Lewin Group estimates that two-thirds of workers who currently get such plans through their employers would continue to do so.

This report offers the most detailed analysis of the reform proposal to date. The Lewin Group, a non-partisan consulting firm, has worked with state and local governments, federal agencies and nonprofit groups for 28 years, and is known as the "gold standard" in health policy analysis.

"What these results show is that by building on the best elements of Medicare and employment-based health insurance, Health Care for America can provide every American good affordable, guaranteed coverage for no more than we're spending for health care today – and with the promise of big savings and quality improvements down the road," Hacker said in response to the findings.

The Problem

Health costs are among the biggest drags on the U.S. economy, and the situation will deteriorate further unless the system is overhauled. A few facts illustrate the scale of the problem:

- Nearly 48 million U.S. residents went without health insurance last year. No other developed nation leaves such a large chunk of its population so exposed to the risks of illness and injury.

- Despite that poor coverage, the United States spends far more on health care per person than any other developed country. Relative to the average of the world's 20 richest nations, the United States spends a whopping 64 percent more of its GDP (Gross Domestic Product) on the health care sector.

- Health costs are growing faster in the United States than in the rich-nation average, crowding out space for growth in wages, profits and public investments. Over time, these rising costs cause an increasing share of residents to drop out of the health system – except to use already-overstretched emergency rooms.

-More-

The Plan

Health Care for America creates a large public insurance pool similar to Medicare – the federal program for older Americans. Administrative costs are much lower in Medicare than in private insurance.

The pool would be funded by user premiums (ranging from $70 per month for an individual to $200 per month for a two-parent family), contributions from employers amounting to 6 percent of payroll, and subsidies from the federal government. Annual out-of-pocket expenses would be capped at a maximum of $3,500 for an individual and $5,000 for a family, but would also be capped as a share of income, making out-of-pocket maximums generally lower than these amounts.

The federal government would subsidize premiums and co-pays for low-income earners on a sliding scale. Workers with family incomes below 200 percent of the federal poverty line would pay no premiums at all.

Every U.S. resident and employer would be required to participate. The current Medicaid program and the SCHIP program, which covers uninsured children through the states, would also be blended into the larger plan.

Like Medicare, Health Care for America would offer users a choice between a basic fee-for-service plan and one of several private HMOs.

Separately, employers could choose to offer private insurance, as long as the coverage and costs to workers are similar to the public plan or better. The Lewin analysis found that two-thirds of workers who currently receive private insurance through employers would continue to do so. One-third would choose the less expensive public plan.

The report's authors noted that simplified administration is one key to holding down costs. To that end, they devised a default enrollment system that assumes all U.S. residents are covered by the large public pool. Employers would automatically pay their 6 percent health care tab through payroll taxes, unless they opt to offer private insurance. Subsidies to individuals would also be handled through the tax code.

Using that system, the Lewin analysis found that Health Care for America could greatly expand coverage while lowering national health spending by about $100 million *in its first year of implementation*. Those savings would grow over time.

The greatest gains would be realized by the self-insured and by employers who currently provide insurance, particularly at small firms.

The federal government would spend an additional $49 billion on health care in the first year, but that amount would diminish over time. Meanwhile, state and local governments would save about $23 billion a year, largely through a reduction in emergency and safety net services.

Perhaps most important, Health Care for America slows the growth of health care spending and offers long-range security to the rapidly deteriorating U.S. system.

The Numbers

Counting all public and private costs, the United States currently spends about $2.26 trillion on health care. The Lewin Group estimates that under Health Care for America, total national spending would drop slightly the first year and continue to drop over time, even though the newly insured would cost an estimated $50 billion more. Over a 10-year period, the costs savings would amount to $1 trillion.

The bulk of the savings comes from the increased efficiency of serving millions of users through the public plan. Those administrative savings would amount to $25 billion in the year and would grow over time.

Prescription drug costs would be lowered by bargaining for volume discounts, bringing drug costs in line with the level paid by large HMOs. That would save about $8.8 billion in prescription drug spending.

A requirement that patient care be coordinated by a single provider, or a “medical home,” would save about $11.7 billion.

Payments to providers would be standardized, set at current Medicare levels. For doctors, that would mean an increase of 45 percent from Medicaid payment levels, and a drop of 17 percent from private insurance funding. Hospitals would see a 14 percent increase from Medicaid reimbursements, and a 26 percent drop from private insurance payments.

The reduction in payments would be offset by an increase in reimbursements for previously unpaid care. Changes in payment schedules would amount to $7 billion.

The Lewin Group estimates that total employer spending would drop by about $5 billion. That’s a result of two numbers coming together: Employers paying for insurance for the first time would contribute an extra $55 billion, while those who currently offer insurance would save $60 billion.

Similarly, individuals and families would save substantially – about $23.3 billion – as costs are shared by the entire population.