National Center for Policy Analysis

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# Is Universal Coverage Necessary to Control Health Care Costs?

The national health care debate has been reduced to a dispute over a few percentage points.

- Currently, about 85 percent of the population has health insurance.
- Republicans and Democrats alike agree that with carefully targeted subsidies for low-income families, that number could be increased to 92 or 93 percent.
- However, the Clinton administration argues for employee and individual mandates to reach a figure such as 95 or 96 percent.

Does it make sense to give the government control over everyone's health insurance in order to increase the insured population by a couple of percentage points? The Clinton administration says yes. The latest line from the White House is that the middle class will gain because "only with universal coverage can health care costs be brought under control."

**Previous White House Position.** Until very recently, the Clinton administration argued that it was inhumane to allow 39 million Americans to go without health insurance — implying that they also went without health care. Insuring the uninsured, the Clintons argued, is something every advanced nation agrees is the decent thing to do.

**New White House Position.** The administration is now arguing something very different. The uninsured get health care, after all, we are told. And when they get health care, they often don't pay for it — sticking the rest of us with their unpaid bills, which we pay for through higher taxes and higher insurance premiums. Far from deserving our sympathy, the uninsured are "freeloaders," says Hillary Rodham Clinton. It's in our self-interest to force them and their employers to buy health insurance whether they want to or not. To buttress this claim, the administration makes four unconvincing arguments. Let's look briefly at each.

**Unconvincing Argument No. 1: Health care costs for the uninsured will go down if they are forced to buy health insurance.**

As explained by health writer Adam Clymer in the *New York Times*, the uninsured cause health costs to be higher than necessary by "forgoing relatively inexpensive preventive care and then going to expensive emergency rooms when they get sick." The implication is that if the uninsured were insured they would seek care sooner, nip illnesses in the bud and save health care dollars.

The facts are otherwise. Health economists have amassed convincing evidence that for the vast majority of people more checkups and more diagnostic tests don't reduce overall costs; they simply add to total spending. Preventive medicine is an investment in health and is valuable for that reason. But except for special groups of people, preventive medicine does not save money.

Even if the uninsured are healthier than the rest of the population on the average, there is every reason to believe their spending on medical care would increase significantly if they became insured. The Congressional Budget Office estimates that their use of hospital services would increase by almost 30 percent and their use of physician services would almost double.

**Unconvincing Argument No. 2: Without universal coverage, the uninsured will shift costs to everyone else.**

Cost shifting occurs when one group of patients pays less than the true cost of their medical care. In order to stay solvent, providers cover these losses by overcharging everyone else. However, because hospital accounting is typically very imperfect, no one knows precisely how much cost shifting there is; and there is ample room for debate about its magnitude. A Congressional Budget Office (CBO) study estimated that in 1991 unpaid hospital and physician bills totaled $25.3 billion. After making some adjustments, the CBO concluded the uninsured cause about $20 billion in costs to be shifted to other patients.

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Although that number may seem large, the amount of "free" care the uninsured get is only a small fraction of the nation's total health care bill — about 2.9 percent in 1991. And in the future the number is likely to become even smaller, because in the increasingly competitive hospital marketplace, cost shifting will become impossible. Hospitals will become more diligent in collecting bills from former patients as they become less able to shift those costs to someone else.

But even if uncompensated care costs do not go down, the Clinton administration's solution will make this problem worse by cutting more than $100 billion out of Medicare (for the elderly) and Medicaid (for the poor) over the next five years even as it expands benefits in those two programs. On balance, the decrease in unpaid bills caused by more people becoming insured would be more than offset by the increase in underpayment of Medicare and Medicaid bills.

**Unconvincing Argument No. 3: If insurers have to take all applicants, they can eliminate administrative costs.**

The task of trying to figure out who is sick and who isn't and adjusting premiums and coverage on that basis is called underwriting. The Clinton administration claims that underwriting costs, estimated at 1 to 2 percent of health insurance premiums, would be eliminated if insurers accepted all applicants, regardless of health status.

One problem with the administration's argument is that it assumes there are no benefits to offset the costs of underwriting. Economic analysis says otherwise. As in other insurance markets, the function of health insurance is to accurately price risk. This allows people to make rational choices about how much risk to transfer to others (by insuring) and how much to retain (by self-insuring). If everyone is charged the same premium irrespective of individual risk — as the Clintons propose — then everyone's incentives will be distorted and people will routinely underinsure or overinsure depending on their circumstances.

There is an even more basic objection. Under the Clinton proposal, the desire on the part of health plans to underwrite will not go down. It will go up. Precisely because health plans would be forced to accept all applicants — even those with terminal illnesses — they would have a strong incentive to spend much more than 1 to 2 percent of premiums to make their plans attractive to the healthy and unattractive to the sick. The methods they would likely employ have been discussed at length in the health economics literature.

**Unconvincing Argument No. 4: The uninsured are freeloaders.**

As noted above, Hillary Rodham Clinton claims that the uninsured are getting a lot of free health care paid for by everyone else. But is this true? An often-overlooked fact is that *the uninsured pay more in taxes because they are uninsured.* Most Americans who are privately insured get their insurance through an employer, and employer-paid premiums are excluded from the employees' taxable income. By forgoing this tax subsidy, the uninsured and their employers pay a 15.3 percent FICA payroll tax and at least a 15 percent personal income tax on income that otherwise could have been used to purchase insurance. *It is not clear that this tax is less than the amount of free care the uninsured receive.*

**Bottom Line: Universal coverage means higher health care costs for everyone.** The Clinton plan and every other proposal for universal coverage tries to insure the uninsured and expand insurance coverage for everyone else. Since all economic studies show that the expansion of third-party payment leads to increased consumption of medical care, universal coverage necessarily will cause the nation's annual health care bill to rise unless system use is artificially restrained. The original Clinton plan proposed to push people into HMOs and other managed care organizations that have an economic incentive to underprovide care and to impose global budgets and price controls that would force providers to ration care. Neither constraint is likely to be included in any bill that wins approval on Capitol Hill.

**NCPA Forecast.** The National Center for Policy Analysis/Fiscal Associates Health Care Model predicts that:

- Universal coverage as proposed in the Clinton plan would add at least $1,000 per household to the nation's annual health care bill within five years.
- Attempting to meet the demand for more health care services would cause the economy to lose $300 billion per year in other goods and services by the year 2005.
- The inefficiencies caused by attempting to expand health care output, combined with the impact of higher taxes, would harm the economy as a whole and lead to 783,000 fewer jobs by the end of the decade.