

## BRIEF ANALYSIS

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## Is Universal Coverage in Everyone's Self-Interest?

The reason to pass the Clinton plan — or its latest iterations, the Gephardt and Mitchell bills — we are told, is that we will all be better off. When uninsured people don't pay their medical bills, those costs are shifted to the rest of us through higher medical bills and higher taxes. If the uninsured had insurance, health care would consequently be cheaper for everyone else.

One problem with that argument is that we also pay higher fees because Medicare and Medicaid do not pay the full cost of the services their beneficiaries receive. And the primary way the administration proposes to pay for insurance for the uninsured is through deep cuts in those two programs.

As Figure I shows, the increase in cost shifting caused by cuts in Medicare and Medicaid funding will more than offset the reduction in unpaid bills caused by insuring the uninsured. On balance, *medical bills and insurance premiums for paying patients will go up, not down, as a result of health care reform — even if reform achieves 100 percent universal coverage.*

The estimates depicted in Figure I do not include the effects of direct taxes and unfunded subsidies. Indeed, Martin Feldstein (former chairman of the President's Council of Economic Advisors and professor of economics at Harvard University) estimates that the *total cost of health care reform will exceed \$100 billion at*

1994 prices — an amount equal to \$1,000 per year for every U.S. household.

**How much cost shifting is caused by patients who are uninsured?** "Cost shifting" occurs when one group of patients pays less than the true cost of their medical care. In order to stay solvent, providers must cover these losses by overcharging everyone else. No one knows precisely how much cost shifting there is, and its magnitude is open to debate.

The Congressional Budget Office (CBO) estimates that the uninsured pay only about 30 percent of the cost of the health care they get each year. As a result:

- The CBO estimates that in 1991 the uninsured received about \$15.2 billion in "uncompensated" hospital care, and another \$10.2 billion in "uncompensated" physician services.

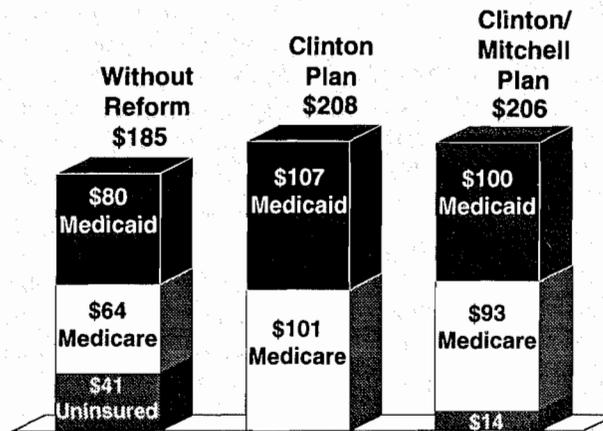
- After making some adjustments, the CBO estimates that the uninsured caused \$20.3 billion in costs to be shifted to paying patients.

- That figure is predicted to grow to \$41 billion by the year 2000.

Although the 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. Considering that bad debts for the economy as a whole are 2.4 percent of sales, the numbers for the health care sector certainly do not suggest we are facing a crisis.

**How much cost shifting is caused by Medicare and Medicaid?** A more important source of cost shifting is the low rate of reimbursement by Medicare and Medic-

FIGURE I  
Cost Shifting With and Without Health Care Reform  
(\$ billions; year 2000)



Note: The figure shows the amount of underpayment of medical bills and health insurance premiums by Medicare, Medicaid and the uninsured in the year 2000.

Source: Calculations made by Gary and Aldona Robbins, using the National Center for Policy Analysis/Fiscal Associates Health Care Model.

aid. These two programs routinely pay less than the real cost of the services their beneficiaries receive. Yet hospitals and doctors must either accept their rates or be excluded from the programs. This type of cost shifting is considerably larger than the cost of free care received by the uninsured.

- According to the CBO, Medicare payments to hospitals and doctors are only 70 percent of private patient payments. [See Figure II.]
- Medicaid payments to hospitals and doctors are 63 percent and 45 percent of private payments, respectively.
- Thus the biggest sources of uncompensated care in our health care system are Medicare (33.0%) and Medicaid (42.6%), not unreimbursed care for the uninsured (24.3%).

**Making a bad situation worse: Insuring the uninsured by cutting Medicare and Medicaid.** The Clinton administration has proposed to fund health care reform, in large part, by cutting funds for Medicare and Medicaid. For example:

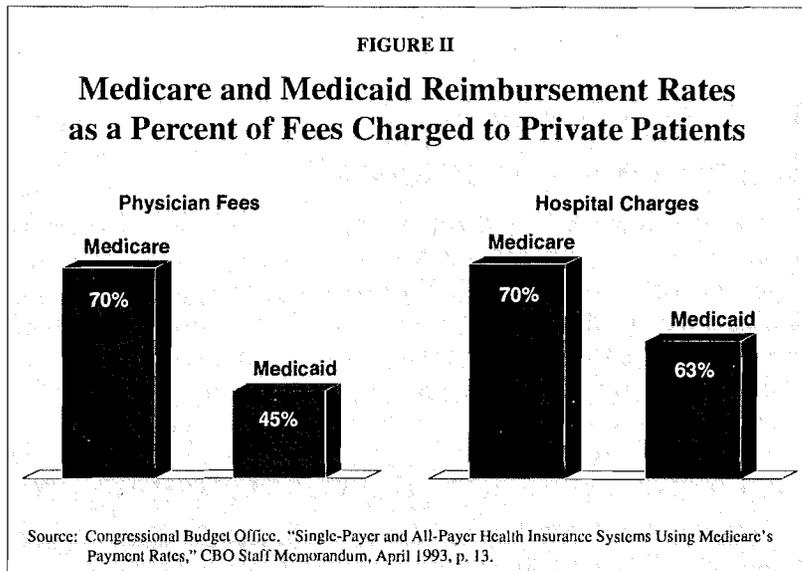
- The original Clinton health care plan proposed to cut Medicare and Medicaid spending by \$104 billion over the next five years and similar cuts are proposed in the Mitchell bill.
- More severe cuts are proposed in the Gephardt bill, and the amount of cost shifting would soar if Gephardt succeeds in creating Medicare Part C — a program that would enroll as many as 90 million new people.

**How costs will be shifted under health care reform.** The Clinton administration proposes to cut funding for Medicare even as it would expand Medicare benefits. As a result:

- Cost shifting from Medicare to private payers would increase by at least 50 percent.
- By the year 2000, the average medical bill would be at least 6 percent higher because of cost shifting from Medicare alone.

The Clinton/Gephardt proposal would make cost shifting from Medicare even worse. All told, about half the population would be in Medicare — shifting part of the cost of their care to the other half.

Under the original Clinton plan and under Clinton/Mitchell, however, the Medicaid population would be



enrolled in private health insurance plans. Yet even though Medicaid enrollees consume twice as much health care as other people, the government would not pay a higher premium. The CBO estimates that the Senate Finance Committee bill (the basis for the Mitchell bill) would increase premiums for individuals and small businesses by almost 13 percent, primarily because of cost shifting from Medicaid enrollees.

**Net Effect of Universal Coverage.** The Clinton plan and its Gephardt and Mitchell reincarnations attempt to solve a minor problem (eliminating uncompensated care for the uninsured) by making a major problem (uncompensated care under government programs) even worse. We estimate that:

- Without health care reform, cost shifting would increase medical prices by about 11.3 percent in the year 2000, and uncompensated care for the uninsured would contribute less than 3 percentage points to that amount.
- The total amount shifted at the end of the decade will be about \$185 billion per year. [See Figure I.]
- The goal of the Mitchell bill is to insure about two-thirds of the uninsured, reducing uncompensated care from \$41 billion to \$14 billion in the year 2000; however, increased cost shifting from Medicare and Medicaid will more than offset that gain.
- Even with 100 percent universal coverage, cost shifting would increase from \$185 billion to \$208 billion — even though there would be no uncompensated care for the uninsured.