National Center for Policy Analysis

BRIEF ANALYSIS
No. 127
For immediate release:
Wednesday, August 24, 1994

How Much Will the Mitchell Bill Really Cost?

One reason why there is so much uncertainty about the real cost of health reform proposals before Congress is that in most bills the costs are hidden. For example, in Senator George Mitchell's (D-ME) health care proposal:

- For every $1 in direct taxes, at least another $2 and possibly as much as $4 in indirect costs would be imposed on the private sector.
- The private sector would experience these indirect costs primarily as higher health insurance premiums, caused by government's moving Medicaid recipients into private health insurance and underpaying their premiums.
- The private sector also would face higher hospital charges and physician fees, caused by government's expanding Medicare benefits while reducing total Medicare payments to providers.
- In addition to cost shifting from Medicaid and Medicare, the private sector would have to make up the loss of federal revenue caused by the negative impact of the plan on the economy.

Let's take a brief look at each of these costs.

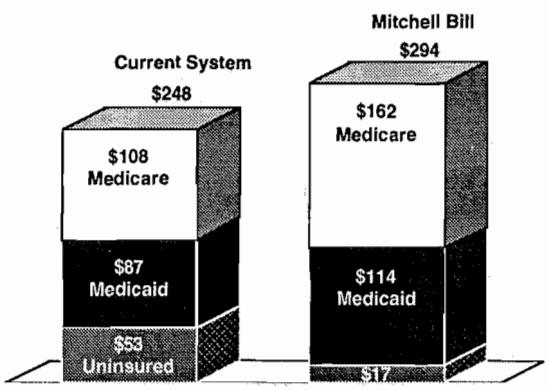
The Mitchell Bill: Direct Taxes. The bill would impose 17 new taxes on the private sector in an attempt to raise as much as $42 billion per year by 2003. These taxes would fall mainly on the middle class. But their impact would be regressive, taking a larger share of family income, the lower the family's income happened to be. For example, the tax on health insurance premiums would take about $100 a year from the average family, regardless of income. Since smoking is inversely related to income, the 46-cent increase in the tax on a pack of cigarettes would be even more regressive. Currently, about 54 percent of tobacco taxes are paid by families who earn less than $30,000 a year.

The Debate Over Cost Shifting. "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 year.
- Based on CBO assumptions, we estimate that figure will reach $53 billion by the year 2007 without health care reform. [See Figure I.]

FIGURE I

Cost Shifting Under the Mitchell Bill
($ billions; year 2003)



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

Source: Calculations by Gary Robbins and Aldona Robbins, using the National Center for Policy Analysis/Fiscal Associates Health Care Model. (These estimates are static, and do not take into account the behavioral changes that would result from changed incentives.)

A more important source of cost shifting is the low rate of reimbursement by Medicare and Medicaid. 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.

- According to the CBO, Medicare payments to hospitals and doctors are only 70 percent of private patient payments.
- Medicaid payments to hospitals and doctors are 63 percent and 45 percent of private payments, respectively.

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- Based on the CBO assumptions, we estimate that, without health care reform, by the year 2003 about $108 billion will be shifted to the private sector from Medicare and $87 billion from Medicaid. [See Figure I.]

Not all health economists agree with the CBO. In a study produced for the American Enterprise Institute, Professor Michael Morrisey argues that there is very little cost shifting. When the government underpays for Medicare and Medicaid patients, Morrisey says, those patients tend to receive lower-quality (less costly) care.

The Mitchell Bill: Cost Shifting by Providers. If more people were insured, Mitchell and others argue, there would be fewer costs to shift from the uninsured. For example, using CBO assumptions, we estimate that this type of cost shifting would fall from $53 billion to $17 billion in 2003 as a result of the Mitchell bill.

But that is only half of the story. Because of increased benefits and reduced funding, Medicare cost shifting would grow by $54 billion in 2003 as a result of the Mitchell bill. Thus, the cost shifting caused by cuts in Medicare funding would more than offset the reduction in unpaid bills caused by insuring the uninsured. On balance, *medical bills for paying patients would go up, not down, as a result of the Mitchell bill.*

The Mitchell Bill: Cost Shifting in Health Plans. Even if Morrisey is right about the inability of providers to shift costs, there is no doubt that, under the Mitchell bill, cost shifting within private insurance pools would be enormous. That's because Mitchell would put all Medicaid enrollees in private health plans, where they could see any doctor or enter any hospital.

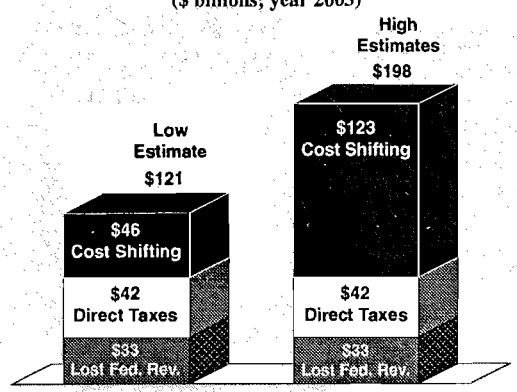
Because Medicaid patients use about twice as much health care as other people, they are much more expensive to insure. And under the Mitchell bill, they would receive more benefits (e.g., recipients of Aid for Dependent Children would pay only one-fifth the deductible paid by others). Nonetheless, the government would pay insurers the same premium other enrollees pay. We predict that this underpayment of premium would cause the private sector to be overcharged by $114 billion in the year 2003.

The Mitchell Bill: Loss of Federal Revenue. The Mitchell bill creates health insurance subsidies for low-income families. But these subsidies are phased out at higher income levels in a way that would create extremely high effective marginal tax rates. Indeed, the CBO notes that some workers would keep only 15 cents out of an extra dollar of earnings.

FIGURE II

Cost of the Mitchell Bill for Middle-Class Families

($ billions; year 2003)



Source: Calculations by Gary Robbins and Aldona Robbins, using the National Center for Policy Analysis/Fiscal Associates Health Care Model. (These estimates are static, and do not take into account the behavioral changes that would result from changed incentives.)

These high marginal tax rates would lead to less work and less production, lowering national income by $65 billion in the year 2003. Even if we attribute this loss of income totally to those who reduce their work effort, the rest of society would still be worse off. That is because, with less national income, government would collect about $33 billion less in taxes, and general taxpayers would have to make up the revenue shortfall.

Cost of the Mitchell Bill: Low Estimate. Assuming the CBO is correct about the ability of health providers to shift costs, we estimate that:

- The Mitchell bill would increase costs for middle-class families by about $121 billion in the year 2003. [See Figure II.]
- This equals a cost of more than $1,000 per household per year.

Cost of the Mitchell Bill: High Estimate. Figure II also shows the cost of the Mitchell bill assuming that providers were unable to shift Medicaid costs to paying patients and could shift only one-half the costs of government underpayment for Medicare patients and the uninsured. Under these assumptions, we estimate that:

- The total cost of the Mitchell bill for middle-class families in 2003 would be almost $200 billion.
- This equals a cost of almost $2,000 per household per year.