

Financing Health Reform: What Are The Options?

Joe Antos* and Len M. Nichols**
 Periodic Partners in Truth Whispering

*American Enterprise Institute
 **New America Foundation

For Academy Health
 February 3, 2009

Overview

- This will not be easy
 - No pain, no gain
- Scale of financing needs
- Revenue options (and challenges)
- Delivery system reform savings opportunities (and challenges)

How Much Do We Need?

Goal	Joe	Len
Coverage Expansion	\$200-250 B per year, fully phased in, ignoring budget constraints	\$150-175B per year, fully phased in, 2011 dollars
Health Infrastructure (HIT, Comparative Effectiveness Program)	\$15-20B per year for 10 years, higher or lower after that depending on results	\$15-20B per year for 5 years, \$5-10B per year after that
Incentive Realignment (payment reform, malpractice reforms, etc)	\$10B per year for 10+ years	\$10B per year for 3 years

Revenue Options (and Challenges)

Option	Joe	Len
Income/payroll tax	2% surtax, earnings>250K; \$35 B per year, 2011 dollars, no recession	1% increase in all rates, \$40 B per year ; 5% increase in millionaire rates \$22 B per year (CBO)
Estate tax	\$20 B per year, 2011 or later ("Bush tax cut")	What Joe Said
Tax exclusion for ESI	\$25 B per year (CBO)	\$45 B per year (CBO)
Pay or Play	\$3-5 B per year (CBO)	\$ 10-20 B per year
Reduce DSH (with coverage expansion)	Up to \$10 B per year	\$15-20 B per year
Tobacco and Alcohol Taxes	\$15 B per year (CBO)	\$ 10-15 B per year
VAT for health	1%: Up to \$50 B per year	2%: up to \$100 B per year

Delivery System Reform Options (and Challenges)

Option	Joe	Len
HIT	Net additional cost thru year 10; savings after	
Payment reform	Higher quality, minor savings	Combined, these could save "lots" in years 5-10; enough for uninsured?
Comparative effectiveness information/dissemination	Modest savings after year 10 if not NICE	
Coordinated care/medical home	Net cost?	Some early results promising
Preventive services	Net additional cost	Net costs in short run
Change in personal behavior tied to incentives and information	Health habits – limited savings Purchasing decisions – greater savings	Value based designs effective in some employer settings, long run health gains worth

Options if All Else Fails (and Challenges)

Option	Joe	Len
Federal price controls	Short-term savings, but promotes utilization; take the system savings up front?	Can achieve growth rate target, at increasing social cost
Premium support	Limits federal exposure, permits additional private spending	Does little to actually reduce cost growth
Global budgets	Limits federal exposure, impact on access/quality	Rejected in 1994; as evaluation monitoring device ok

Challenges

- One person's excess cost is someone else's income
- Change is scary, and fear is paralyzing
- Not all participants in the debate want a "grand bargain" solution
- Change this large is believed to be politically "impossible," but economically necessary