

Economic Analysis of the Healthy California Single-Payer Proposal (HB-562)

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Dual Purpose of Healthy California

- **Provide decent health care coverage to all California residents**
- **Achieve decent universal coverage while also reducing overall healthcare costs**
 - California health care = ~ 14% of state GDP
 - US health care = ~ 18% of national GDP
 - 8 Comparison OECD economies = ~ 9% - 11% of GDP
- ***Can Healthy California accomplish these dual goals?***
 - **Short answer: “Yes.”**
 - More specifically: Healthy California is economically viable
 - There will still be major questions and challenges
 - These can be successfully tackled

**Table 2. Total Health Care in California
Personal Health and Administrative Expenditures, 2017 Estimates**

	Spending level (billions \$\$)	Share of total spending
1. Total Personal Care	\$328.2	89.1% <i>(= row1/row4)</i>
■ Hospitals	\$112.1	30.4%
■ Physicians/Clinics	\$97.4	26.4%
■ Pharmaceuticals	\$41.3	11.2%
■ Dental	\$18.4	5.0%
■ Nursing Home	\$14.3	3.9%
■ Home Health	\$13.5	3.7%
■ Other professional services	\$11.5	3.1%
■ Durable goods/equipment	\$3.6	1.0%
■ Other expenditure	\$16.1	4.4%
2. Administration and Private Insurance Profits	\$31.3	8.5% <i>(= row 2/row 4)</i>
■ Private Insurance Administration and Profits	\$15.8	4.3%
■ Medicare and MediCal Administration	\$12.4	3.4%
■ Other third-party payers	\$2.4	0.7%
■ Other health insurance	\$0.8	0.2%
3. Public Health Activity	\$9.0	2.4%
4. TOTAL HEALTH EXPENDITURES (= rows 1+2+3)	\$368.5	100.0%

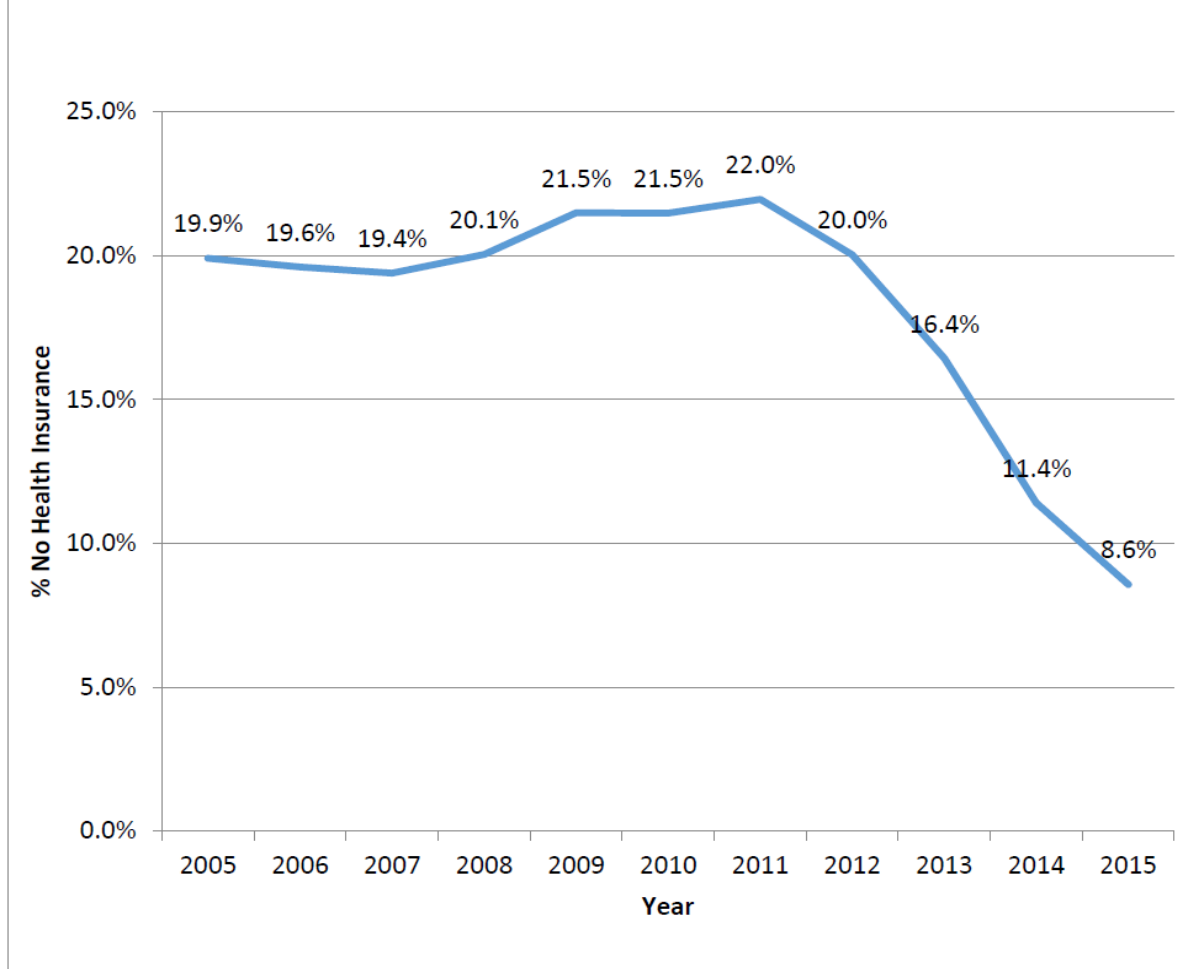
Sources: National Health Expenditure database; *Keehan, Sean P., Devin A. Stone,*

Table 3. Health Insurance Coverage in California and U.S. Total, 2016

	California		U.S. Total	
	Numbers of people (in millions)	Share of population	Numbers of people (in millions)	Share of population
Insured	33.4	92.5%	270.1	91.2%
Uninsured	2.7	7.5%	26.2	8.8%
Total	36.1	100%	296.3	100%

Source: Authors' analysis of March Supplement of Current Population Survey, 2016, U.S. Census Bureau.

Figure 1. Nonelderly California Residents with No Health Insurance Coverage (%), 2005-2015



Estimating “Underinsurance”

Table 5.
Measure of Underinsurance in the United States:
Share of U.S. adult population which went without needed health care because of cost

Figures are for 2014

Access problems in 2014	Percentage of population with access problem
Did not fill prescription	19%
Skipped recommended test, treatment or follow-up	19%
Had a medical problem, did not visit doctor or clinic	23%
Did not get needed specialist care	13%
<u>Inclusive measure:</u> Experienced at least one of four access problems because of cost	36%

Source: Collins et al. (2015). <http://www.commonwealthfund.org/~/media/files/publications/issue>

Table 6.
Total California Health Care Expenditures in 2017 under
Existing System with Full Universal Insurance Coverage

Current Expenditures	
1. Total 2017 Expenditures	\$368.6 billion
Current Insurance Coverage	
2. Number of insured	33.4 million (92.5%)
3. Total covered expenditures per insured (= \$368.6 billion/33.4 million people)	\$11,035
Full Coverage for Underinsured	
4. Percent underinsured	36%
5. Underinsured spending, as % of full access spending <i>(figure weighted by age distribution of underinsured)</i>	87%
6. System-wide cost increase for underinsured to receive full coverage	\$19.8 billion
7. Average expenditure if zero underinsured <i>(figure weighted by age distribution of underinsured)</i>	\$11,629
Full Coverage for Uninsured	
8. Number of uninsured	2.7 million (7.5%)
9. Current system-wide costs for uninsured health care provision <i>(= (\$5,814 x 2.7 million people)</i>	\$15.7 billion
10. System-wide cost increase for uninsured to receive full coverage <i>(= row 9 x 2)</i>	\$15.7 billion
11. TOTAL SPENDING WITH UNIVERSAL COVERAGE <i>(= rows 1 + 6 + 10)</i>	\$404.1 billion
PERCENTAGE INCREASE IN TOTAL SPENDING WITH UNIVERSAL COVERAGE <i>(= (row 11 – row 2)/row 2)</i>	9.6%

Sources: See Table 2 and references in text

Sources of Potential Cost Saving through Single-Payer

- **“Structural” saving**
 - Administration
 - Hospitals
 - Physicians/clinics
 - Insurance provision
 - Pharmaceutical pricing
 - Medicare rates for hospitals and physicians/clinics
- **Service Delivery**
 - Unnecessary services—“physician-induced demand”
 - Insufficiently delivered services
 - Missed prevention opportunities
 - Fraud

Table 7. Potential Cost Savings through Single-Payer 1:

■ *Administration*

■ *Pharmaceutical Pricing*

■ *Establishing Medicare Rates for Hospitals, Physicians/Clinics, and Dental*

	1) Total sector spending as share of total health care spending	2) Spending in specific category as share of overall sector spending	3) Saving potential within specific spending category through single-payer	4) Cost saving within specific category as share of total health care expenditures (= columns 1 x 2 x 3)
Administration				
■ Hospitals	30.4%	8.5%	50%	1.3%
■ Doctors/clinics + Dental	31.4%	13.0%	50%	2.0%
■ Private and public insurance	8.5%	100%	40%	3.4%
Pharmaceuticals	11.2%	100%	30%	3.4%
--Medicare Rates for Hospitals and Physicians/Clinics				
--Dental rates reflect physician/clinic rate				
■ Hospitals	30.4%	Blended by Medicare, MediCal, and private insurance rates	22% relative to Medicare; 40% relative to MediCal	1.0%
■ Physicians/clinics ■ Dental	31.4%		22% relative to Medicare; 35% relative to MediCal	1.9%
TOTAL SAVING POTENTIAL	---	---	---	13.0%

Sources: References cited in text

Table 8. Potential Cost Savings through Single-Payer 2:

- *Unnecessary Services;*
- *Insufficiently Delivered Services;*
- *Missed Prevention Opportunities;*
- *Fraud*

<i>Category</i>	<i>Sources</i>	<i>Excessive Costs as Share of U.S. Health Care Spending</i>
Unnecessary Services	-- Overuse beyond evidence-established levels	8.4%
	-- Discretionary use beyond benchmarks	
	-- Unnecessary choice of higher-cost services	
Inefficiently Delivered Services	--Mistakes—errors, preventable complications	5.2%
	--Care fragmentation	
	--Unnecessary use of higher-cost providers	
	--Operational inefficiencies at care delivery sites	
Missed Prevention Opportunities	--Primary prevention	2.2%
	--Secondary prevention	
	--Tertiary prevention	
Fraud	All sources—payers, clinicians, patients	3.0%
Total Savings Potential from all four categories		18.8%

Source: Yong et al. (2010), Box S-2, p. 52.

Table 9. Overall Cost Saving Potential through California Single Payer Health Care System

Categories of Spending	Cost Saving within Spending Categories as Share of Total Health Care Expenditures
Structural Categories	
Administration	6.7%
Pharmaceutical pricing	3.4%
Medicare rates for all providers	2.9%
Service Delivery Categories	
<ul style="list-style-type: none"> ■ Unnecessary services ■ Inefficiently delivered services ■ Missed prevention opportunities ■ Fraud 	5.0%
Total Savings Potential	18.0%

Sources: See Tables 7 and 8.

Total Health Care Expenditures with Healthy California

Table 10.
Estimated Total California Health Care Spending under Provisions of Healthy California

Total health care expenditures with universal coverage and existing system	\$404.1 billion
Total saving potential through Healthy California provisions	18.0%
Total health care expenditures with universal coverage and Healthy California provisions	\$331 billion (= \$404.1 billion x 0.82)

Sources: See Tables 7-9.

How to Finance 1: Existing Public Funds

Table 11. Public Health Care Expenditures in California, 2016
Figures reported by revenue source

Revenue Source	Percentage of Overall State-wide Health Spending
<i>Direct government expenditures</i>	
Medicare	20.3%
Medi-Cal/Healthy Families	
■ Federal share	17.1%
■ State share	10.2%
Other government programs	2.7%
County health expenditures	2.7%
<i>Government employer premium contributions</i>	
Federal Employee Health Benefits Program premiums	0.5%
CalPERS premiums	0.3%
TRICARE	1.1%
<i>Tax subsidies</i>	
Tax subsidies for employer-sponsored insurance	
■ Federal	9.0%
■ State and local	3.0%
Affordable Care Act subsidies	2.4%
Total public health care expenditures	71.0%

Source: Sorensen et al. (2016)

Total Funding from Existing Sources plus New Tax Revenues

- **68 percent of total expenditures**
 - *= \$331 million x 0.68 = \$225 billion*
- **Remaining 32 percent must come from new tax revenues**
 - *= \$106 billion*

New Taxes to Raise \$106 billion

- **Gross Receipts Tax of 2.3%**
 - Exempts first \$2 million of receipts
 - 80% of firms will pay no taxes
 - ***Raises: \$92.6 billion***
- **Sales Tax of 2.3%**
 - Exempts: housing, utilities, food at home, broad range of services
 - 2% income tax credit for MediCal families
 - ***Raises: \$14.3 billion***
- ***Total New Tax Revenue: \$106.9 billion***
- **Alternative tax measures also workable**
 - ***Payroll tax: 3.3% on employers and employees = \$92.6 billion***

Distributional Impacts of Single-Payer vs. Existing System: Middle-income Families

B) Middle-Income Families			
	<i>Underinsured</i>	<i>Individually Insured</i>	<i>Insured by Employer</i>
1. Income		\$62,300	
2. Wages/Salaries		\$43,000	
3. Non-exempt spending ■ Exemptions for food, housing, utilities, and various services		\$22,000	
<i>Health care spending under existing system</i>			
4. Health insurance premium	\$4,900	\$9,300	\$4,900
5. Out of pocket health care costs	\$6,230 (10% of income)	\$3,645	\$2,430
6. Tax subsidies	\$5,220	\$6,800	\$5,220
7. Total net spending (=row 4 + row 5 – row 6)	\$5,910	\$6,145	\$2,110
8. Total health spending as share of income (=row 7/row 1)	9.5%	9.9%	3.4%
<i>Health care spending under Healthy California</i>			
9. Sales tax (= 2.3% of non-exempt spending)		\$506	
10. Sales tax as a share of income (= row 9/row 1)		0.8%	
<i>Net impact of Healthy California</i>			
11. Change in net income through Healthy California (= row 7 – row 9)	+\$5,404	+\$5,639	+\$1,604
12. Percentage change in health care costs as share of income (= row 10 – row 8)	-8.7%	-9.1%	-2.6%

Table 14.
Impact of Transition to Healthy California on Households:
Summary Figures

	Health Care Spending as Share of Income		3. Change in Health Care Spending as Share of Income (= column 2 – column 1)
	1. Existing System	2. Healthy California	
Low-income families			
\$13,000 in income with MediCal	5.1%	-0.4%	-5.5%
\$35,800 in income, uninsured	2.2%	0.9%	-1.2%
Middle-income families: \$62,300 in income			
Underinsured	9.5%	0.8%	-8.7%
Individually insured	9.9%	0.8%	-9.1%
Insured by employer	3.4%	0.8%	-2.6%
High-income families			
Top 20 percent: \$227,600 in income	-1.0%	+0.6%	+1.7%
Top 10 percent: \$340,400 in income	-1.0%	+0.6%	+1.5%

Source: Tables 13A – C.

Table 16.
Impact of Transition to Healthy California on Businesses:
Summary Figures

	Health Care Spending as Share of Payroll		3. Change in Health Care Spending as Share of Payroll (= column 2 – column 1)
	1. Existing System	2. Healthy California	
Small businesses—0 – 9 employees			
No health benefits	0%	0%	+0%
With health benefits	22.0%	0	-22.0%
Medium-sized businesses			
10- 19 employees	17.6%	4.2%	-13.4%
20 – 99 employees	16.2%	9.4%	-6.8%
Large businesses			
100 – 499 employees	17.4%	11.7%	-5.7%
500+ employees	14.3%	13.7%	-0.6%

Source: See Tables 15A – C.

Further Considerations

- **Getting from here to there**
 - How long a transition?
 - How to manage transition in insurance markets?
- **Just Transition for Health Insurance Industry Workers**
 - *Includes:* Reemployment; wage insurance; retraining; relocation; pension guarantees