Concerned Actuaries Group

AMERICAN HEALTH CARE

Rethinking the Challenges, Opportunities and Possibilities

A series of expert briefings on how the American Health Care economy affects the nation's overall economic wellbeing.

Big Numbers

A collaborative initiative of the Committee for a Federal Budget and the Concerned Actuaries Group

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American Health Care

Rethinking the Challenges, Opportunities and Possibilities

Big Numbers

A look at the numbers and why they make a difference

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Background

The Concerned Actuaries Group, Inc. (CAG) is a 501(c)(3) organization that grew out of a conviction on the part of a number of prominent actuaries that the nation’s social insurance and public pension programs were not being financed or managed in a sustainable manner and were, as a result, creating significant generational equity concerns.

Dedicated to addressing these concerns, the CAG focuses on activities that increase the likelihood, “…that the nation's public finance and social insurance programs are designed and managed with the actuarial discipline and transparency such programs deserve and should require.” In pursuit of that effort, the organization strives to encourage responsible change by developing and strategically disseminating, “…full, accurate, and easily understood analyses of the financial realities affecting the funding and security of our nation's public finance and social insurance programs.”

In mid 2016, CAG directors concluded that furthering the organization’s mission in an age of misinformation and polarized politics would require a more concentrated and collaborative effort. To that end, the CAG decided to:

- focus on a high profile issue that had already captured policy maker, public and media interest and that demonstrated the validity of our concerns;
- establish a formal working collaboration on that issue with another non-partisan organization that enjoys standing and reach with policy makers and the major news media; and
- over time broaden that collaborative effort to include others affected by and/or interested in and/or with special skills related to the issue.

Since that time, the CAG has:

- identified as its major issue of focus the fiscal and operational challenges, opportunities and possibilities facing American health care;
- entered into a formal collaboration agreement with the Committee for a Responsible Federal Budget (CRFB), a highly regarded 501(c)(3) organization that grew out of the 2010 National Commission on Fiscal Responsibility and Reform (often called the Simpson-Bowles Commission) that provides respected analysis of national fiscal policy; and
- designed, in collaboration with the CRFB, a public information outreach initiative called Rethinking the Challenges, Opportunities and Possibilities of American Health Care.

This article is one part of a portfolio of materials that includes: 1) a video presentation on Big Numbers; 2) this article; 3) an article by Mr. Marc Goldwein of the Committee for a Responsible Federal Budget; and 4) a pdf of all of the charts and graphs used in this article and the video. The CAG is responsible for the content and comments in this article and the video. The CAG is responsible for the content and comments in Mr. Goldwein’s article. All the materials referenced can be found at both www.concernedactuaries.org and www.crfb.org.
Introduction

The current national discussion about health care in America is not really about health care. It is about paying for health care.

As a result, the dialogue is concentrated on questions related to the structure and cost of public and private insurance coverage and the subsidies related to that coverage. In this narrowly defined arena, attainment of health insurance coverage is portrayed or seen as the solution to the nation’s health care needs.

Policy makers, however, are not focused on how to improve the quality, availability, and management of health care. They are arguing instead about how many people are insured, whether people with pre-existing conditions are protected, the cost of premiums and the level of out-of-pocket expenses.

Coverage is, of course, one of the issues that must be addressed. But we cannot find the answers we seek and need, by addressing coverage in a vacuum that ignores the many challenges facing our health care system; the demographics driving both the usage and the cost of health care; the economic realities related to individual and institutional ability to pay and the economic implications of the policies currently already adopted; and a host of equity issues including the shifting of costs amongst current populations and to future generations. In short, as this two-dimensional debate rages, broader strategic and operational questions central to our health care needs are being ignored; our understanding of the system is distorted; unintended adverse effects are obscured; and we are encouraged to ignore important actuarial, economic, and accounting principles.

In an effort to enhance public awareness and understanding, the Concerned Actuaries Group and the Committee for a Responsible Federal Budget are co-hosting a series of expert presentations and conversations on the broader and more complex spectrum of issues that must be considered in the search for an equitable, sustainable American health care system.

The series, American Health Care: Rethinking the Challenges, Opportunities and Possibilities, begins with an this examination of the dynamic interaction between national demographics and finances and American health care.

The first program focuses on the interaction between population demographics, cost of care, and the impact on the payment for and delivery of health care; the second program looks at the relationship between benefits, usage, and costs; and, the third program examines the allocation and management of public and private costs and payments.

In all of these presentations, we will highlight the conclusions we think critical to informed discussion of health care in America and share examples of the data and research findings that support those conclusions.
Key Take Aways

It is critical to recognize the magnitude of the numbers involved in American health care and understand how that magnitude affects both the nation’s physical and financial health. To that end, we will be talking about five major research driven, data-based conclusions, including:

1. Health care cost numbers are really big, and represent a very large percentage of the US economy, household budgets and federal government expenditures.

In 2017, citizens, employers and governments will spend more than three and a half TRILLION dollars of their family wealth, corporate income, and tax-payer dollars on health care. That makes health care expenditures about 18% of the entire Gross Domestic Product of the nation. And, if we spread that number across the entire US population of 327 million, we discover that’s an average of nearly $11,000 per person in the country.

2. Current growth projections indicate that without any changes, future health care spending will require a significantly larger, and arguably unmanageable, share of both individual household and government budgets.

3. The complexity of managing American health care is exacerbated by the large number of people affected and by the way in which they interact with the system as beneficiaries, tax payers and consumers

4. The options being considered for changing the Affordable Care Act do not adequately address the needs, complexity of, or financial stability required by American heath care.

5. The country cannot find the answers we seek and need, without considering the demographics driving both the usage and the cost of health care; the economic realities related to individual and institutional ability to pay; the economic implications of the policies currently already adopted; and a host of equity issues including the shifting of costs to future generations.

1. **Health care cost numbers are really big, and represent a very large percentage of the US economy, household budgets and federal government expenditures.**
2. The magnitude of the numbers and current growth projections indicate that without any changes, future health care spending will require a significantly larger, and arguably unmanageable, share of both individual household and government budgets.

The Bureau of Labor Statistics reports that in 2016, average household health care expenditures were just over $4,600 which would suggest that health care expenditures are the sixth most expensive item in our budgets, behind housing, taxes, transportation, food and personal insurance/pensions.

The truth, however, is that when all consumer costs are calculated, average households across the country spend MORE on health care than on anything else, including housing and taxes. These BLS statistics only count a household’s “out of pocket” health care costs. A large chunk of the “taxes” column goes to health care (to pay for Medicare, Medicaid and the ACA). In addition, the money that employers pay for health care, which is really both earned and paid by the employees and their households (since it is part of their pay package), is not reflected in these BLS’ numbers.

A better way to measure “average” health care spending is to simply take the average health care costs of almost $11,000 per person and multiply it by the average number of people per household (which, in the BLS study, is 2.5). Average household spending in total, then, is really nearly $28,000, making it the largest household expenditure.

With our household budgets in mind, let’s now take a look
at our national budget. These 2017 budget allocations tie into the latest CBO estimates, and as you can see, federal health care expenditures for Medicare, and for Medicaid, ACA and CHIP rank second and fourth in total expenditures.

![Bar chart showing federal budget allocations for various programs.](https://example.com/chart)

If we combine the two, health care expenditures rank number one. And account for more than 1 of every four federal dollars spent. These already big numbers are projected to grow even larger, which raises questions about what such growth means for personal and governmental budgets.

Rising health care costs are a reflection of rising enrollments in the nation’s two major health care programs, Medicare which primarily serves those 65 and over regardless of income and
Medicaid which serves those in financial need. As the Baby boomer generation grew older, Medicare enrollment increased 26% between 2008 and 2017. Medicaid enrollment increased 56% during the same timeframe for a combined increase of more than 40 million people which raised public health care costs by about $541 Billion dollars or 66% over the past decade. It is these large numbers of people affected both as beneficiaries and as taxpayers and consumers that make health care reform a very difficult process.

These costs combined with estimated increases in private expenditures are projected to grow even faster over the next decade. Medicare and Medicaid expenditures, for example, are projected to nearly double, with Medicaid costs increasing 66% and Medicare costs growing by 85%, while private Insurance is projected to increase by 50%

The combined projected cost increases will raise the annual cost of health care expenditures from $2.55 TRILLION to $4.17 TRILLION or an extra $1.62 TRILLION a year by 2026. What all of this underscores is that both the enrollment numbers and the financial numbers are so large that any change in benefits, pricing or usage will have a massive impact on the population as a whole and on governmental and private sector budgets.
Let’s start with the fact that both the enrollment numbers and the financial numbers are so large that any change in benefits, pricing or usage will have a massive impact on the population as a whole and on governmental and private sector budgets.

Medicare covers 59 million people. Medicaid covers another 74 million people, which means that when the 11 million “dual eligible” are deducted, approximately 122M are covered by those two programs. Add the 176 million people with private insurance plans and there are about 298 million people whose interaction with the health care system can and does affect the cost of health care in America.

Suppose the cost of paper or aspirins or electricity or band-aids goes up by just a dollar per person…the volume turns that one dollar per unit cost into more than a quarter of a billion dollar system-wide cost.

And, the question then of course becomes what happens to household budgets if health care costs go up faster than income?

Suppose, for example, that over the next decade health care costs go up about 5% a year – a reasonable estimate based on current government and private projections – at that rate the household health care costs shown would increase from $4,612 to $7,155 a year.

Now suppose that all other household costs, including taxes, would increase by about 3% a year, increasing from $70,000 to a little over $91,000. And finally assume that wages also go up at about 3% a year, rising from $74,644 to nearly $97,000.

When you put all of that together what you discover is a growing gap driven by
health care costs that rise faster than wage growth…a gap that in this example would cost each household more than $5,000 between now and 2027, which would cost America’s 130 million households more than $667 BILLION.

Keep in mind that the numbers in this example are all based on the $4,612 household cost rather than the considerably larger and more complete cost that includes health care costs incurred by households but financed through third party payers – especially employers and the government.

The larger cost estimates are based on Bureau of Economic Analysis data indicating that health costs amount to about 20% of gross household income, a number consistent with the BEA’s generally accepted conclusion that health care accounts for 18% of GDP.

We will address these additional income and expenditure amounts and their sources in more detail in another article, but in the meantime, it is worth noting that a projection based on BEA data suggest that the impact on households would be in the TRILLIONS.
These projections clearly indicate that people, households, governments, and employers face significant challenges if health care costs continue to rise faster than wages and other costs, driving consumer spending to health care at the expense of other goods and services.

To put this in some perspective, in early 2017 the Kaiser Family Foundation polled the 29% of American households who said they or a member of their household had problems paying medical bills in the past 12 months. Here are the kinds of things those households had to do to make ends meet – they cut spending, postponed vacations and medical care, used their savings, and increased debt.

![Bar chart showing various actions taken to pay medical bills](image)

While these massive numbers underscore the size of the issue, they also tend to cloud the complexity of the challenges, which may explain why the options being considered for changing ACA do not adequately address the needs, complexity of, or financial stability required by the American health care.

3. **The complexity of managing American health care is exacerbated by the large number of people affected and by the way in which they interact with the system as beneficiaries, tax payers and consumers**

Consider, for example, the different types of consumers and needs we expect our health care system to address. We have populations diversified by age and gender; populations affected by being urban, suburban or rural. We distinguish populations as being covered by different sorts of payors and insurance or welfare mechanisms, and all of these differentiations are further complicated by the type of usage and challenges requiring attention.
4. The options being considered for changing the Affordable Care Act do not adequately address the needs, complexity of, or financial stability required by American health care.

The size of the numbers involved and the complexity of the demands being placed in the health care system make clear that the options being considered for changing ACA do not adequately address the needs, complexity of, or financial stability required by American health care.

We can see the complexities and the costs, but when we look at the options being proposed, we see limited adjustments that revolve around, on the one hand, more or less benefits being
discussed in the context of restricting or expanding subsidies and on the other hand, a debate over increasing or decreasing taxes or increasing or decreasing deficits.

This limited definition of the issues focuses the discussion on an artificially narrow debate over federal (and to a lesser degree State) budgets and deficits rather than on a broader discussion of what is working and what’s not working and how to achieve the financial and managerial discipline required to support a sustainable, equitable health care system.

Achieving that financial and managerial discipline is essential because the numbers have grown so big that they now clearly threaten our ability to provide adequate funding for other governmental and private economy needs. Consider, for example, that in 2017 health care expenditures account for 27% of the entire federal budget.

Consider, also that these health care expenditures are projected to grow by almost $1 trillion over the next decade, raising the per capita cost per citizen above $18,000 and in 2027 accounting for 30% of the federal budget.

Now look at the relationship between all health care expenditures and the Gross Domestic Product. With current spending at $3.5 TRILLION, health care expenditures account for 18% of gross domestic product. Once again ask yourself what happens if the current growth in health care expenditures increase as projected.

Assuming 2% inflation and 2.5% real growth, by 2027 GDP grows to $28.4 Trillion and $6.02 Trillion in Health Care expenditures would account for 21% of the GDP.

Finally, we should not forget that all of these big health care numbers we have been talking about are likely to increase the national debt. That debt stood at $5.8 Trillion in 2001, but as a result of budget deficits – driven in part by growing health care costs – the national debt grew by another $10.1 Trillion between 2002 and 2017 due to deficits…. and other interest payments not included in the annual deficits, along with other federal financing, added yet another $4.3 Trillion to what is now a total national debt in excess of $20 TRILLION – a staggeringly large number that amounts to a debt of nearly $62,000 per American citizen.
5. The country cannot find the answers we seek and need, without considering the demographics driving both the usage and the cost of health care; the economic realities related to individual and institutional ability to pay; the economic implications of the policies currently already adopted; and a host of equity issues including the shifting of costs to future generations.

As the two-dimensional debate referenced above rages, broader strategic and operational questions central to our health care needs are being ignored; our understanding of the system is distorted; unintended adverse effects are obscured; and we are encouraged to ignore important actuarial, economic, and accounting principles.

More specifically, we cannot find the answers we seek and need, by addressing coverage in a vacuum that ignores

- the many challenges facing our health care system;
- the demographics driving both the usage and the cost of health care;
- the economic realities related to individual and institutional ability to pay;
- the economic implications of the policies currently already adopted;
- and a host of equity issues including the shifting of costs amongst current populations and to future generations.

Conclusion

We can not solve these massive health care challenges without systemic solutions that recognize and address the challenges in a far more holistic fashion, solutions that at a minimum are based on a fair assessment of need, appropriate incentives, and fiscal capacity.