



Health Care Economics

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September 28, 2016

One of the most contentious economic issues of our day

Is the Affordable Care Act good policy?

- Good for health?
- Good for the economy?



“Since March of 2010, the American people have had to suffer under the incredible economic burden of the Affordable Care Act—Obamacare.”

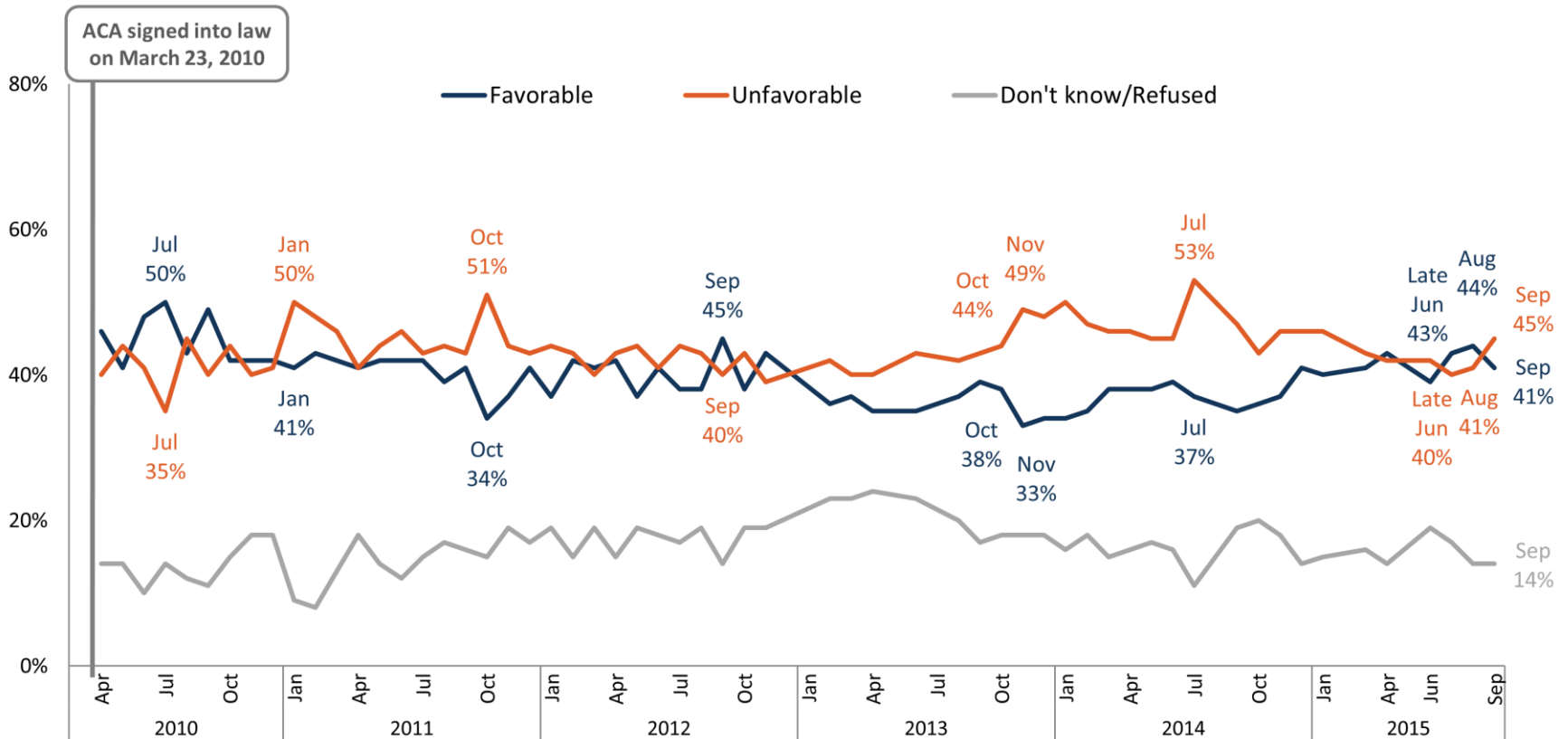


“Hillary will stand up to Republican-led attacks on this landmark law—and build on its success to bring the promise of affordable health care to more people.”



Public's View Of The Law Remains Divided

As you may know, a health reform bill was signed into law in 2010. Given what you know about the health reform law, do you have a generally favorable or generally unfavorable opinion of it?



NOTE: Data not collected for Dec 2012, Jan 2013, May 2013, Jul 2013, Aug 2014, Feb 2015, May 2015, and Jul 2015.
 SOURCE: Kaiser Family Foundation Health Tracking Polls

What is reform about?

- Need to understand health care.



- Outline

1. The economics of health care
2. What is health care reform about?

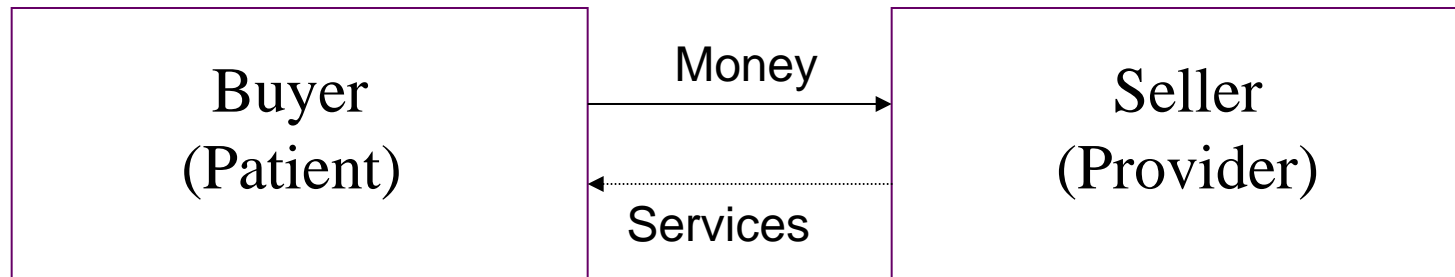


Takeaway points

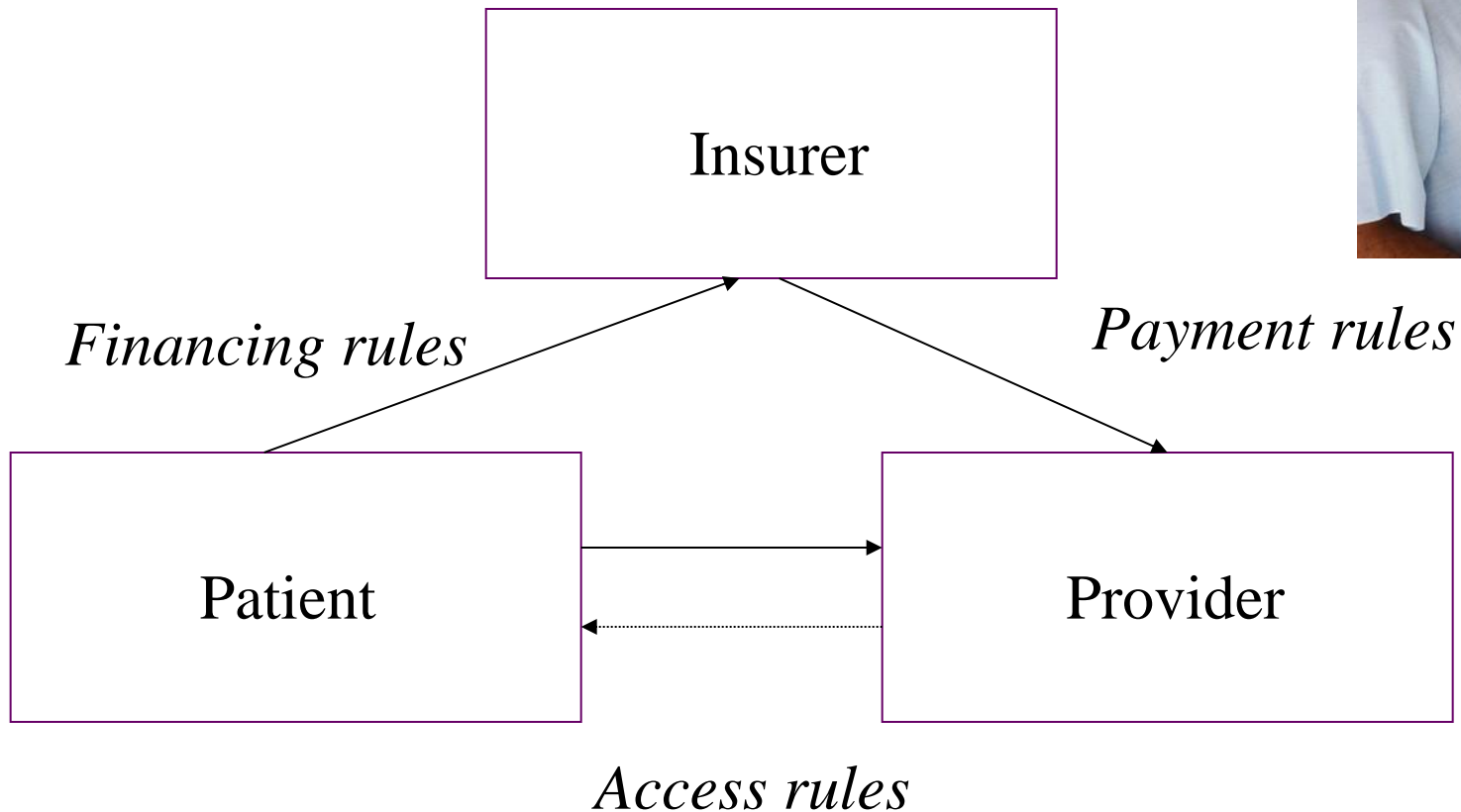
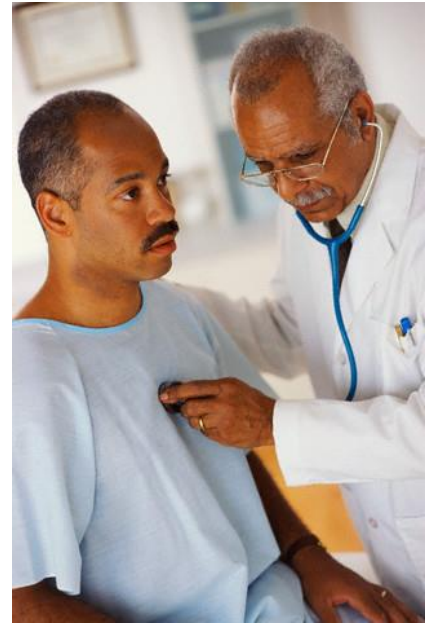
1. Market failures are rampant in health care
 - The government must be, and is, involved.
2. Medical care delivery is extremely inefficient
 - Different theories about why
3. Financing care for the poor is a major issue
 - It's an exercise in optimal taxation.

Understanding Medical Systems

Standard Economic Markets



The Medical Care System



Economic Issues I

1. Financing: paying for coverage

- ❑ Some people are too poor to afford medical care on their own.
- ❑ How can they get insurance?
 - ❑ This is really a question in taxation.

Financing rules

Insurer

Patient

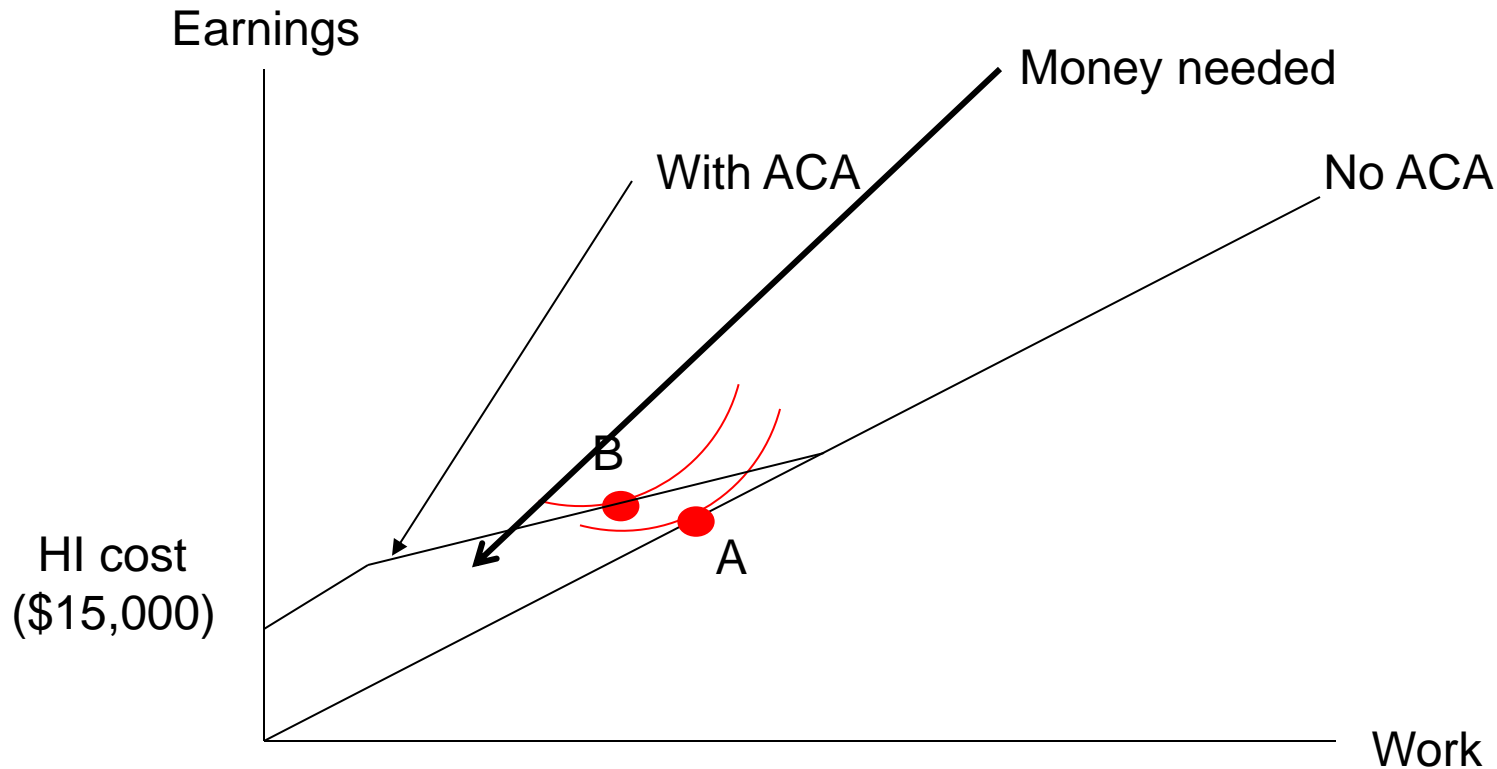
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graph LR; Patient[Patient] -- Financing rules --> Insurer[Insurer]
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Health care reform: cover the uninsured through income-based subsidies

Income range (% of poverty)	Family Payment (% of Income)	Typical payment
<133% (<i>Medicaid</i>)	0%	\$0
133-150%	3-4%	\$1,100
...		
300-400%	9.5%	\$7,400

Note: The poverty line is about \$12,000 for an individual and \$24,000 for a family of 4.

Tax Policy for the Uninsured



Notes: The financing system has both income and substitution effects.

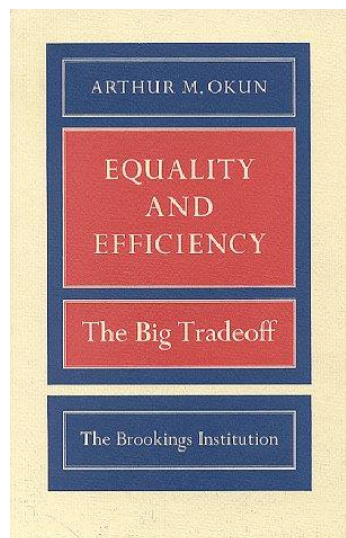
Equality vs. Efficiency

Efficiency

- Is the marginal tax rate too high (Pr. Mankiw)?
- Is the overall cost too high (Pr. Feldstein)?

Equality

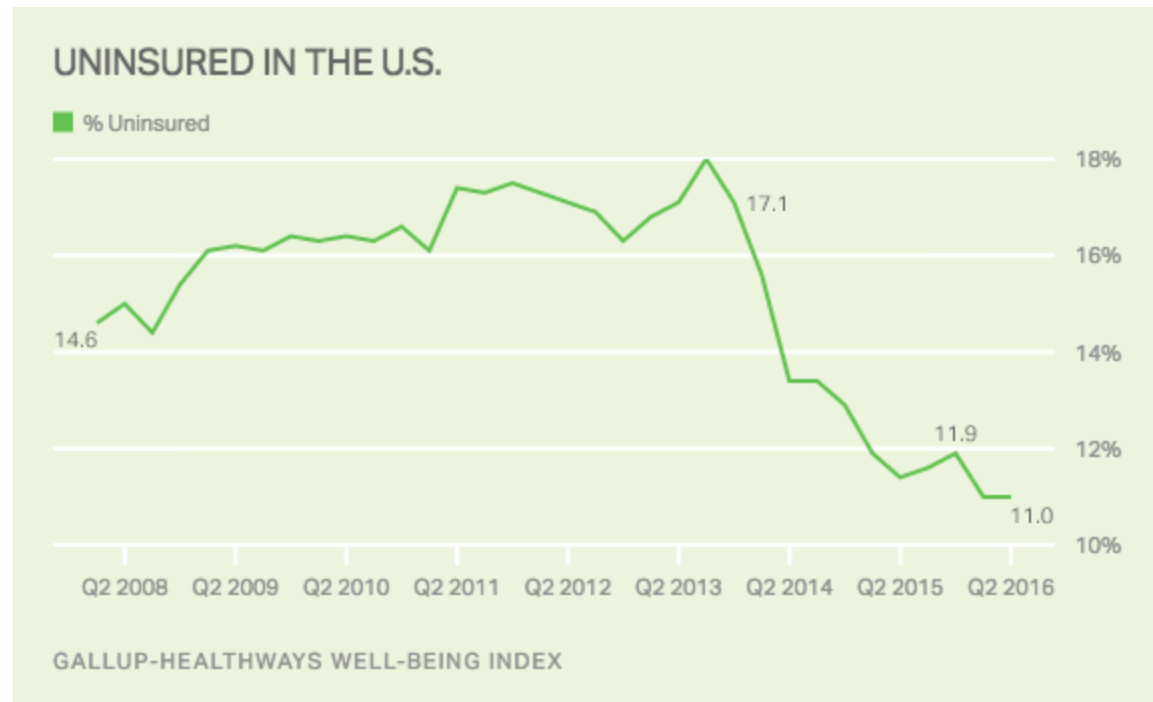
- How much is it worth to save 20,000 people from dying each year (Pr. Cutler)?



What has happened?

After an awful start, coverage has gone reasonably well.

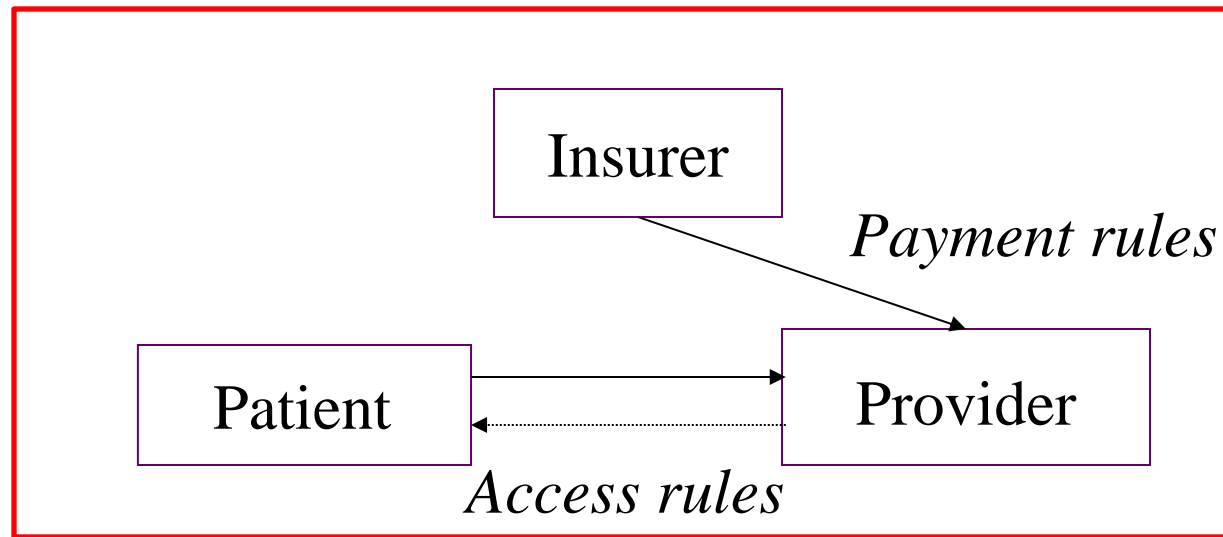
There have not been large, adverse labor supply effects.



Economic Issues II

2. Access rules and the demand side
3. Payment and the supply side

What care do people receive?



Market failures are rampant in medicine

Common Assumption

- People know what they need.
- People have full information.
- Peoples' actions affect only themselves.
- There is full ("perfect") competition.

Medical Care

- Need is unpredictable
- People are poorly informed (who is the best doctor to treat cancer?)
- There are many externalities (Ebola)
- We are unwilling to deny care to those without (ERs)
- Competition is limited (licensing, FDA)

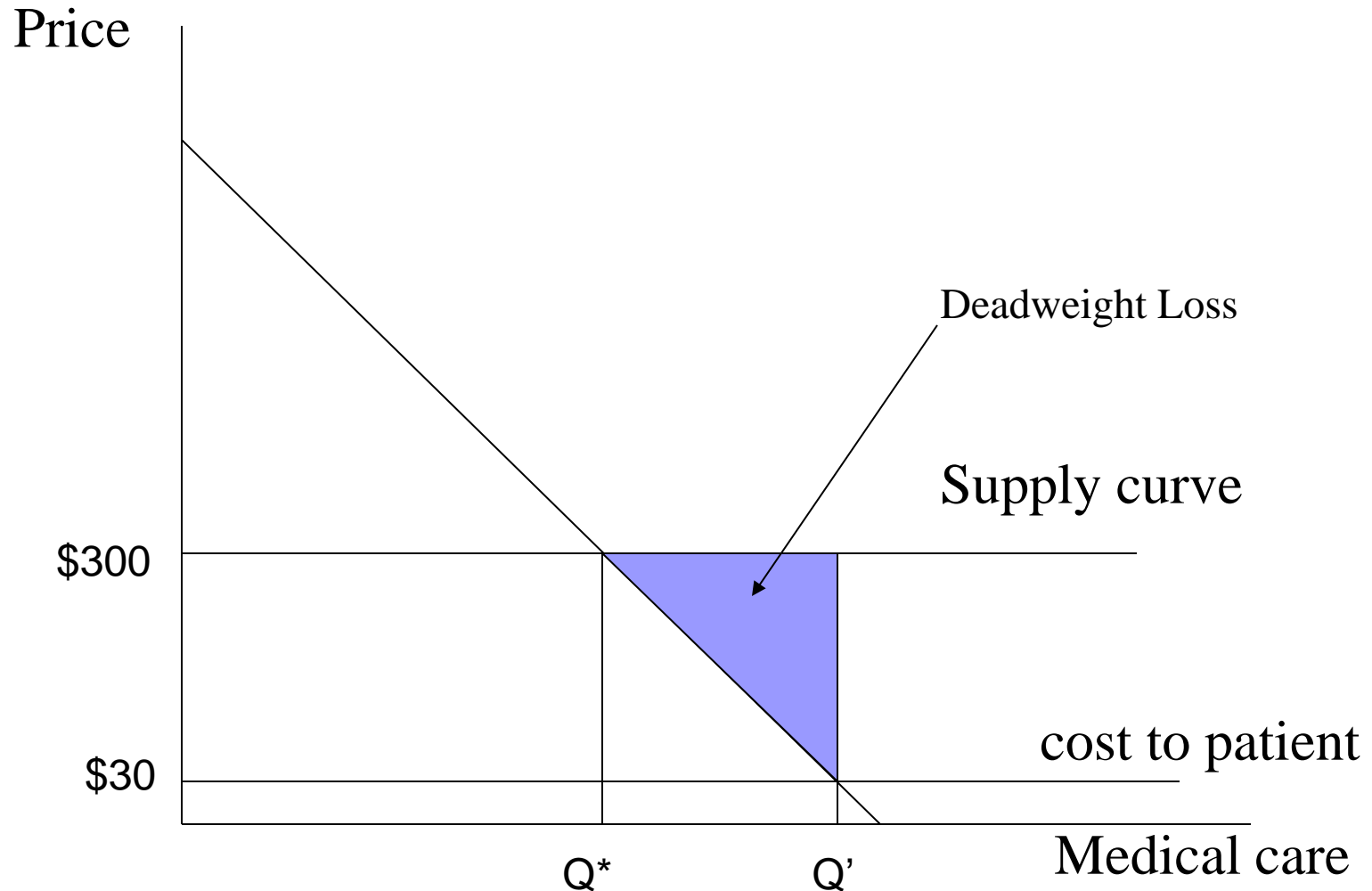
→ *Insurance is valuable.*

Insurance is valuable... But

- Because people do not pay for all the care they receive and providers are paid well, more care is provided than is optimal.
 - *Moral hazard*



How many annual MRIs should a person receive in the remission phase of cancer?



The policy issue

- Some moral hazard is valuable (because insurance is valuable) and unavoidable.

- But there might be too much.

- Money paid as wages is taxed to employees. Money paid as health insurance is not.

- \$1 cash → 30% marginal tax rate → \$.70 of HI
- \$1 to HI → ... → \$1 of HI

Line	Description	Amount
1	Wages, salaries, tips, etc. (attach Form W-2)	24,000
2	Taxable interest (attach Schedule D if required)	0
3	Unemployment income (do not report on this form)	0
4	Ordinary dividends (attach Schedule B if required)	0
5	Qualified dividends (see page 20)	0
6	Capital gains and losses (see page 20)	0
7	Business income or loss (attach Schedule C or C-EZ)	0
8	Other gain or loss (attach Schedule D if required, if not required, attach Form 4797)	0
9	Rental and royalty income, partnerships, S corporations, trusts, etc. (attach Schedule E)	0
10	Retirement or annuity income (attach Schedule R if required)	0
11	Other income (do not report on this form)	0
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Economists: limit the exclusion of employer-provided health benefits from taxation

- Reform I: premiums of high cost plans are taxed, but the tax is put off a number of years (2019) and only some plans are taxed ('Cadillac tax')
- *Is this too little reform?*

Economists: limit the exclusion of employer-provided health benefits from taxation

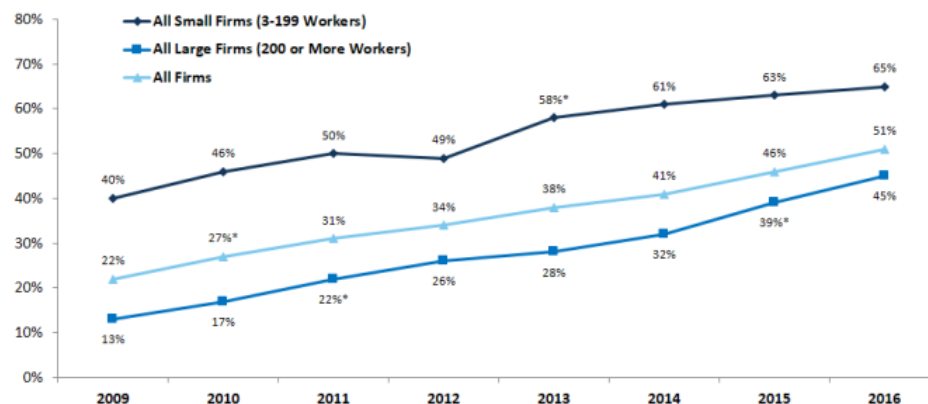
- Reform II: allow pre-tax contributions for cost sharing in high deductible health plans

- Evidence on the effectiveness of changes in use is mixed.

- *People eliminate valuable as well as less valuable care*

Exhibit 7.10

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of \$1,000 or More for Single Coverage, by Firm Size, 2009-2016

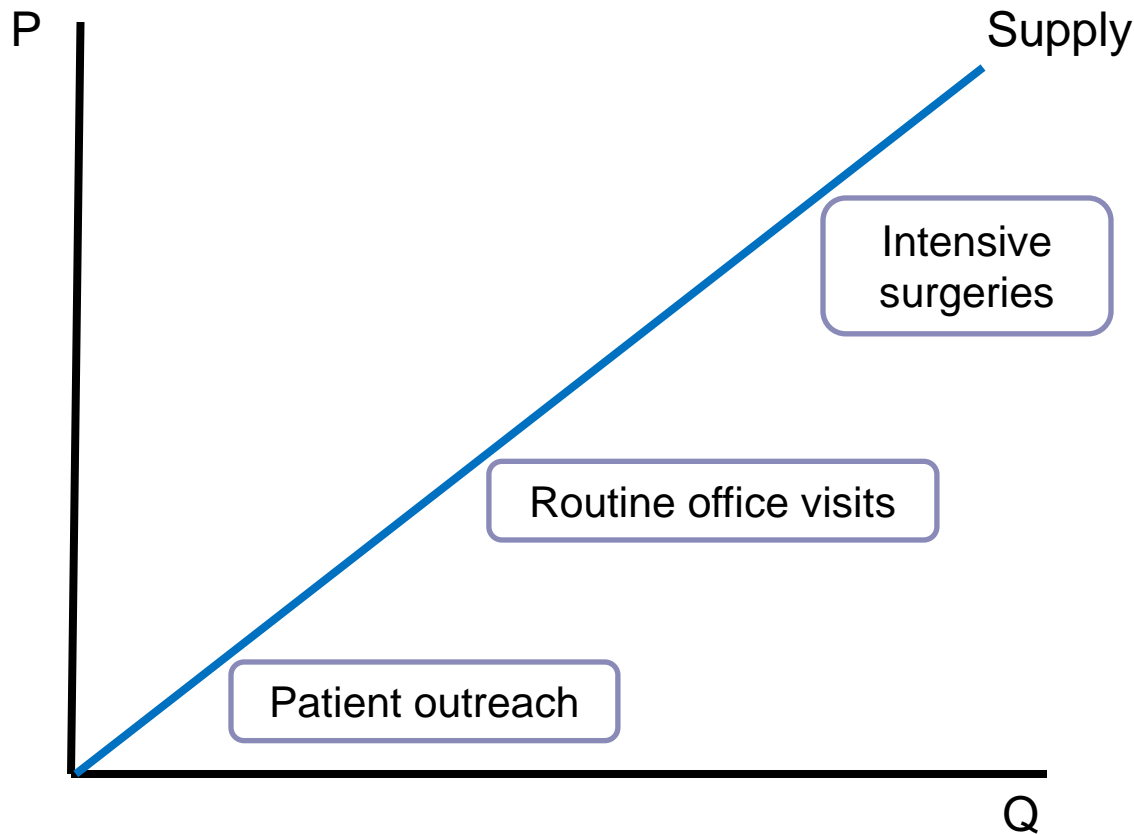


* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

NOTE: These estimates include workers enrolled in HDHP/SO and other plan types. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2009-2016.

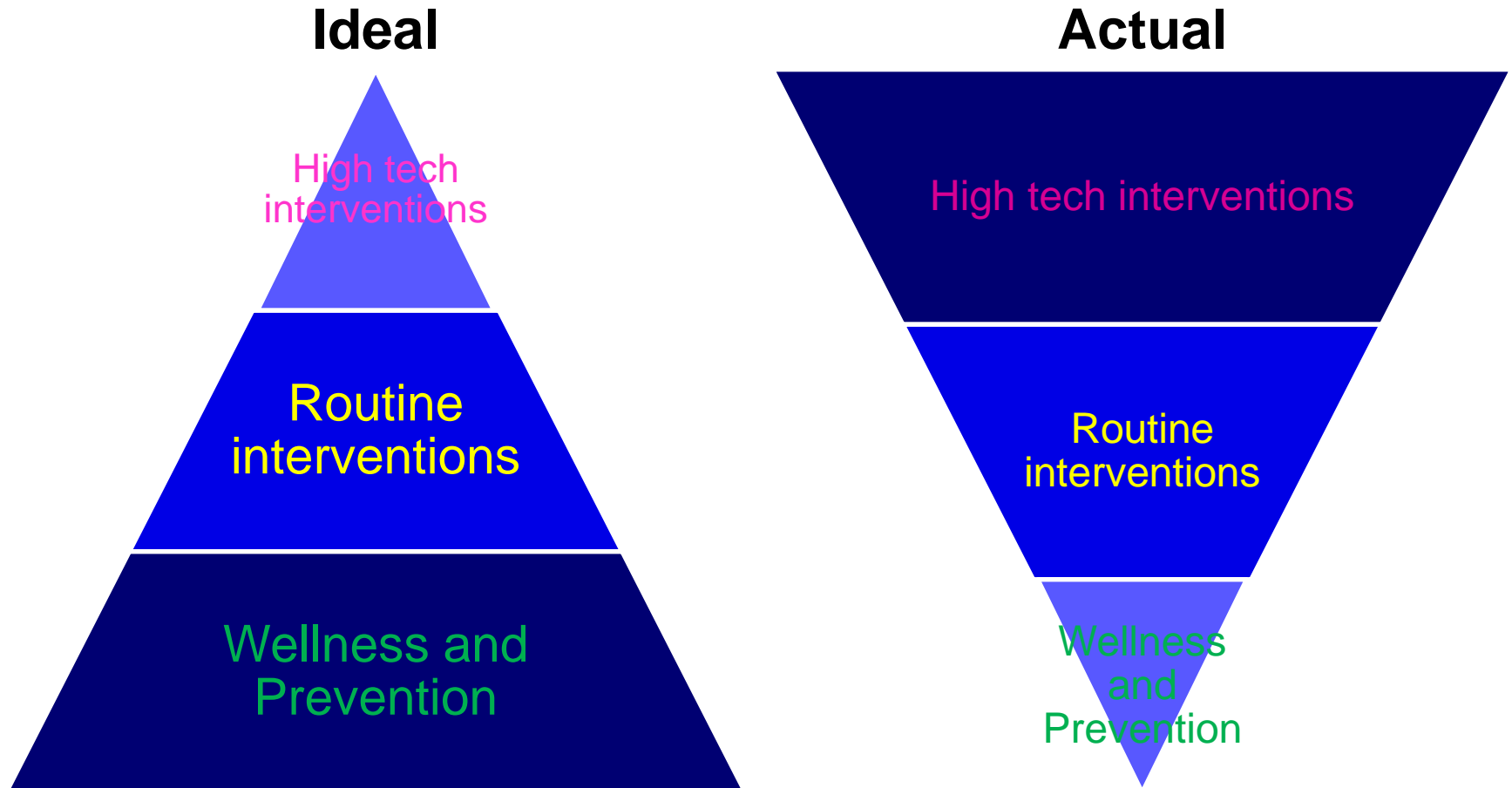
The supply side and payments



Doctors are paid for doing more stuff, especially more intensive stuff.

Doctors fear being sued for malpractice

The result: people don't get the right care



Economists: change the incentives that encourage excessive care

■ Reform:

- Large investment in health IT
- Numerous changes in Medicare payments designed to reward value of care, not volume of care

Current (cancer)

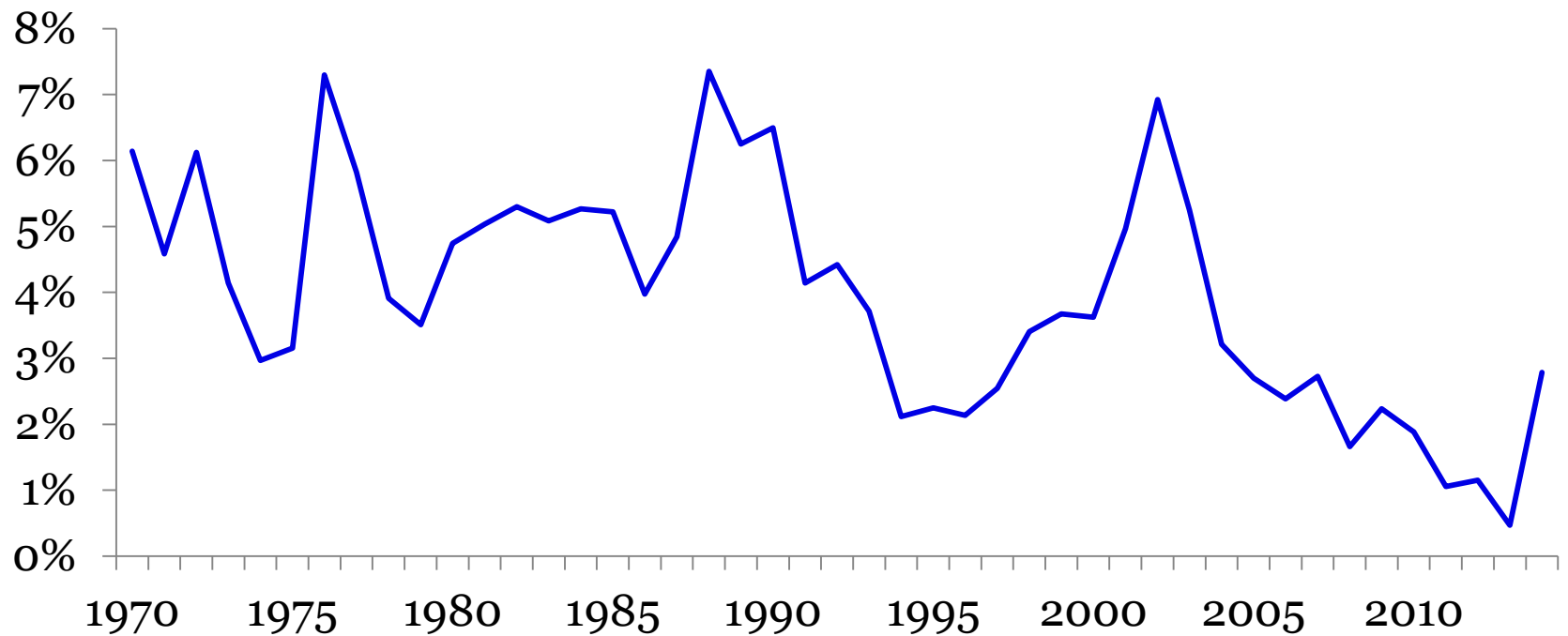
- Oncologist consult
- Outpatient MRI(s)
- Hospital stay
- Follow-up visits
- Medications
- Radiation

Alternative

- One price for treating the cancer (180 days of all services)

Costs: Medical spending increases have been very low in recent years

Annual real, per capita medical spending growth (1970-2014)
Percent





Where Does This Leave One?

The Left

- Reform will cover people and has efficiency-improving changes
- If it doesn't work, we need a Canadian-style system

The Right

- Reform is weak on the most meaningful component of reform – the tax treatment of HI
- The marginal tax rates created by reform are too big
- We can't afford the coverage increase now