



The Economic Condition of the US and its Relation to Healthcare Reform

Institute of Management Accountants

San Antonio Chapter Meeting

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The Economic Condition of the US and its Relation to Healthcare Reform

- Purpose
 - Provide **economic context** for healthcare reform
 - Background
 - Current status
 - Future options
 - Summarize **healthcare reform** key features
 - Program
 - Financial



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- Background
 - The aging *Western* world
 - Death rate exceeds birth rate
 - USA: < 2 Babies / family
 - Western Europe: 1.5 Babies / family
 - Japan: 1 Baby / family
 - Populations growing through immigration
 - 7 US Workers per retiree dropping to 3 by 2020
 - Delay due to retirement funds lost in market crash
 - Medical / Hospital / LTC Utilization escalating
 - 1/3 of US Population on Medicare by 2030
 - Present Value of future US Federal post-retirement health & other obligations at current benefits levels = **\$48.7 Trillion**

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- The growing *developing* world
 - Rapidly accelerating population growth
 - 4 to 6 Babies / family
 - Increased demand for *costly* services
 - Healthcare
 - Education
- International Healthcare Crisis
 - The same regardless of country or social system
 - Increasing, *unlimited demand*, in the face of
 - *Limited resources*, combined with
 - Rapidly *escalating costs*

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- **Deficits**—the government’s net income or loss **for a year**
 - “Off-budget”—Social Security & Post Office
 - “On-budget”—all else
 - Definition changes, per the Congress
 - “Surpluses” of late 1990’s
 - Unexpected extra SSI tax collections
 - » All off-budget
 - » Refunded to taxpayers instead of SSI Trust Fund

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- **Debt**—money the government **borrow**s
 - **Public debt**—loans from
 - General public
 - Foreign governments
 - **Government debt**—loans from
 - Other US government agencies
 - Medicare Trust Fund
 - Social Security Trust Fund
 - **Spent** on programs
 - Expected to be repaid from future tax collections

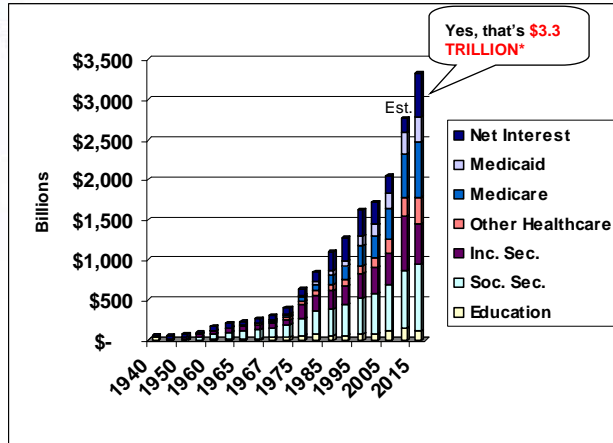
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Real US Federal Social Services Expenditures

GDP Price Index Adjusted
(Base Year = 2010)



* Note: Inflation adjusted. Actual nominal dollars are \$3.6 trillion.

Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

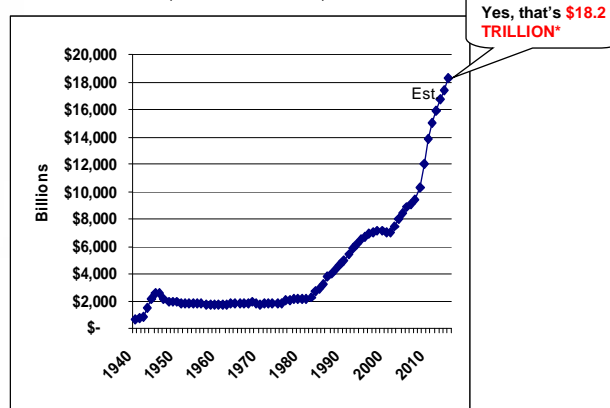
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Real US National Debt

GDP Price Index Adjusted
(Base Year = 2010)



* Notes: Inflation adjusted. **Actual nominal dollars = \$19.7 tr.** Nearly 58% of the publically-held debt was loaned by foreign investors in 2009—mostly China (23%). Does not include the additional \$8.5 tr. in debt-financed financial institution, automaker and other bailout costs (less recoveries), or the est. \$0.950 tr. in healthcare reform costs.

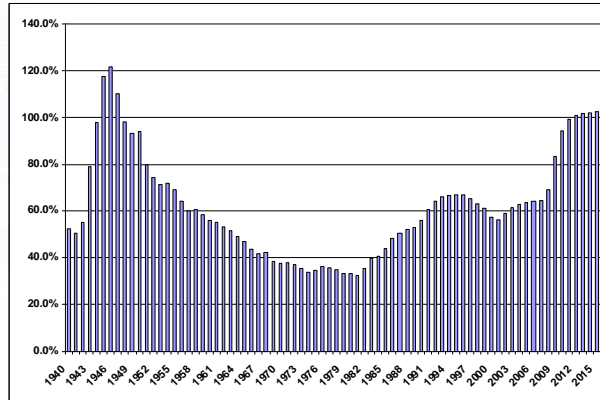
Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

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US Federal Debt to GDP

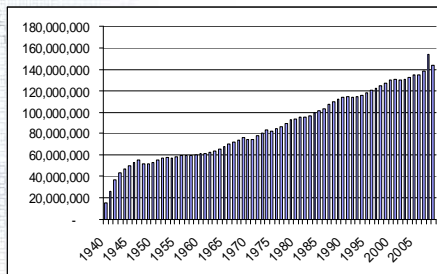


Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

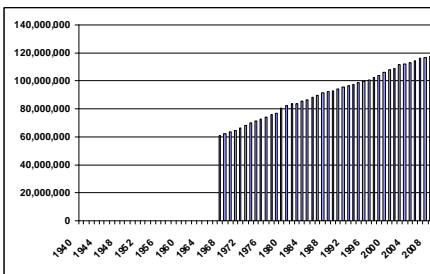


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Number of Tax Returns Filed



Number of Households

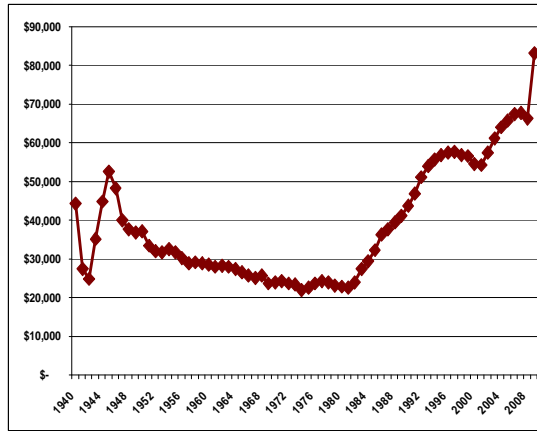


Sources: US Internal Revenue Service; US Census.



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Real US Federal Debt per Tax Return Filed
GDP Price Index Adjusted
(Base Year = 2010)

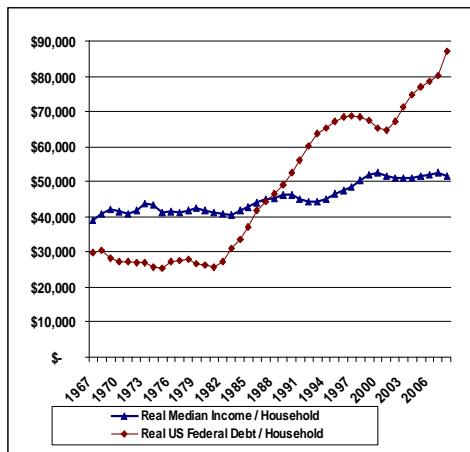


Source: US Internal Revenue service.



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GDP Price Index Adjusted
(Base Year = 2010)

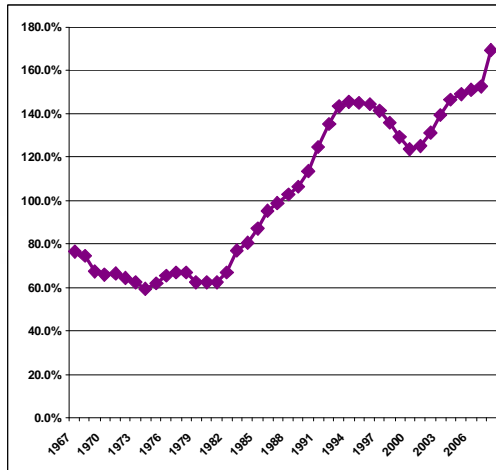


Source: Historical Tables, Budget of the US Government, Fiscal Year 2011; US Census.



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US Federal Debt / Median Income per Household



Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011; US Census.*



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**•Current Status
Obligation Analysis**

- \$ 19.7 tr. **US National Debt** (nominal dollars)
- 48.7 tr. Present value of **Medicare, Social Security and other Federal obligations** at current benefits rates
- 14.1 tr. Present value of **50 State Medicaid and employee pension, healthcare and other post-retirement benefits** obligations at current benefit rates
- 1.6 tr. Cost of renovating our 50+ year old **roads, bridges, levees and dams**
- 8.5 tr. Est. cost of **bailouts** (less recoveries)
- + 0.5 tr. Present value of Health Reform costs net of other prog. cuts
- \$ 93.1 tr. Obligations left to the next generation to repay** (less bailout recoveries)



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Obligation Analysis

Total household net worth before market crash = \$51.5 tr. \$93.1 / \$51.5 = **181%**.
 Total household net worth after market crash = \$38.6 tr. (est.) \$93.1 / \$38.6 = **241%**

That is, we **owe more than TWICE our total net worth** (including Bill Gates' and Warren Buffet's net worth). If we used **all of our wealth**, we would only be able to pay **half** of the obligations.

Divided over 117,181,000 households = **\$794,497 obligations per household**.
 Median household income = \$50,303. \$794,497 / \$50,303 = **16 years of income**.

That is, the government would have to **tax** away the **entire** median income of **every household** in America for the next **16 years** in order to pay off these obligations.

Or alternatively, since under a 100% income tax all of the taxpayers would die of starvation the first year, maybe a **50% income tax for the next 30 years** would work better.



But that **assumes all** of the tax revenues would go to **nothing else but paying off** these obligations...



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Obligation Analysis

Sources, adapted from:

- David M. Walker, Comptroller General of the United States
- Stephen C. Goss, Chief Actuary, Social Security Administration
- William Saunders, Deputy Director, Office of Information Services, Centers for Medicare & Medicaid Services
- Dean M. Mead, Research Manager, Governmental Accounting Standards Board
- Gary Previts, President, American Accounting Association
- American Society of Civil Engineers
- Sunnucks, M., (Jan. 7, 2009), "\$8.5 Trillion Bailout Tally Exceeds Costs of All US Wars," **Pacific Business News**, Accessed Jan. 8, 2009 at: www.bizjournals.com/pacific/stories/2009/01/05/daily35.html
- Budget of the US Government, 2011
- US Census
- US Congressional Budget Office
- US Department of Commerce
- US Internal Revenue Service



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•Future Options

– The economic options:

Most Likely

1. **Raise taxes** (health reform raises \$0.5 tr. over 10 yrs. in new taxes, fees & penalties—collectability is uncertain)
2. **Cut benefits** (politically tough, requires law changes)
 - Healthcare (reform cuts \$0.45 tr. over 10 yrs. out of Medicare Advantage prog.—admits prog. failure)
 - Social Security
 - Other Post-retirement programs
3. **Inflate the currency** (easy, just let bailout money ride, and raise interest rates slower than the rate of economic recovery. But entitlement programs benefits are indexed to inflation and de-indexing requires law changes.)
4. **Default on payments** (last resort)
5. **Grow the economy** (won't happen—would require sustained double-digit growth while 1/3 of pop. retires)

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*Patient Protection and Affordable Care Act (PPACA), (HR 3590), Public Law 111-148
Health Care and Education Reconciliation Act of 2010, (HR 4872), Public Law 111-152
—Signed March 30, 2010*

Healthcare Reform: Key Program Features

- Adds **32 million people** to the insured rolls
 - Gets them out of the Emergency Rooms and into primary care physician's offices
 - **Hospitals** *happy*
 - Less uninsured ER visits
 - Less bad debts
 - Less liability
 - **Physicians** *less happy*
 - Heavier work loads
 - Shrinking payment rates
 - More administrative issues

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- Coverage mandates
 - Play-or-pay penalties
 - Individual
 - Employer
- Eliminates
 - Pre-existing condition exclusions
 - Policy cancellation
 - Except for fraud
- Kids can stay on parents health plan until **age 26**
- Eliminates coverage limits
 - Annual
 - Lifetime
 - Except non-essential services

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- Requires coverage for
 - Preventative services
 - Immunizations
 - Screenings for women & children
- Prohibits discrimination in favor of **high-paid** individuals
- Hospitals required to publish **price lists**
- Numerous **reporting & compliance** requirements for health plans
- Health plans required to implement **appeals process for**
 - Coverage determinations
 - Claims

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- Requires **annual review** of unreasonable insurance **premium increases**
- **State risk-pool** insurance exchanges
 - Subsidized policy premiums
 - States can elect not to include abortion coverage
- Subsidizes
 - **Low income** individuals
 - **Small business**

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- Funding for
 - **Health IT**
 - **Anti-fraud** efforts
- Incentives to increase **quality** of care
- **Reforms insurance** industry
 - Mandated loss-ratio minimums
 - Regulated premiums
 - Higher costs

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- Insurance companies
 - Higher volumes
 - Lower margins
 - More regulation
- Possible insurance industry outcomes
 - May do well
 - May exit market
 - Leaving only a “public option”

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- Does relatively little to
 - Reduce administrative costs
 - Increases HHS and IRS implementation costs by \$50 billion over 10 years
 - Reduce cost of care
 - Improve efficiency of care
 - These are where reform is still very much needed
- Plus 28 pages in *small print* of more bullet points!
- See attached Democratic Policy Committee (DPC) , *Key Provision Implementation Dates*, document for timing of plan features

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- **Healthcare Reform: Key Financial Features**
 - **\$857 billion cost** over 10 years
 - 60% paid for by cuts in other programs, such as Medicare Advantage plans
 - 40% paid for by taxes, premiums, fees and penalties



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**Health Reform “Income Statement”
(Billions)**

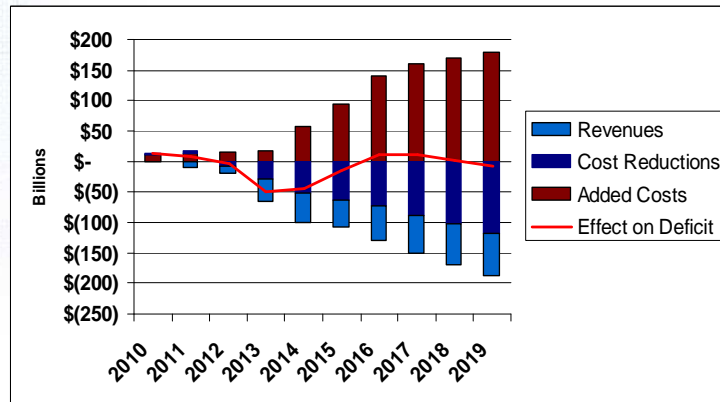
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Revenues	\$(1)	\$9	\$12	\$38	\$48	\$45	\$57	\$62	\$66	\$68	\$404
Less:											
Program Costs	\$3	\$7	\$9	\$10	\$49	\$87	\$132	\$154	\$164	\$172	\$787
HHS & IRS Impl. Costs	5	5	5	5	5	5	5	5	5	5	50
Other Program Auth. Costs	2	2	2	2	2	2	2	2	2	2	20
Total Costs	\$10	\$14	\$16	\$17	\$56	\$94	\$139	\$161	\$171	\$179	\$857
Gross Margin (loss)	\$(11)	\$(5)	\$(4)	\$21	\$(8)	\$(49)	\$(82)	\$(99)	\$(105)	\$(111)	\$(453)
Add:											
Cuts (incr.) in Other Progs.	\$(3)	\$(3)	\$7	\$28	\$52	\$63	\$72	\$88	\$103	\$119	\$526
Net Income (loss)	\$(14)	\$(8)	\$3	\$49	\$44	\$14	\$(10)	\$(11)	\$(2)	\$8	\$73

(Source: Adapted from US Congressional Budget Office)



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CBO Estimates of Costs and Effect on Annual Deficits



(Source: Adapted from US Congressional Budget Office)

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- Collectability of penalties and premiums is questionable
 - Low income individuals and small businesses may lapse
 - Patients end up back in the ER
 - Limited recourse
 - Withhold penalty from Earned Income Credit on tax return?
 - Small businesses may split to reduce number of employees?

(Source: US Congressional Budget Office)

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- Costs will undoubtedly escalate over time
 - In 1965, Medicare projected to cost \$8 billion by 2002
 - Actually cost \$250 billion
 - Now up to \$450 billion
 - 56-times escalation over 40 years
- Projected \$73 billion reform surplus highly uncertain

(Source: US Congressional Budget Office)

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CBO Notable Quotables (Emphasis added)

“...estimates of the effects of comprehensive reforms are extremely uncertain.”

“...most of the money will pay for new programs and will not enhance the government’s economic ability to pay Medicare benefits.”

“...the health reform legislation maintains and puts into effect a number of policies that might be difficult to sustain over a long period of time.”

Speaking of Medicare cost reduction:

“It is unclear whether such a reduction can be achieved, and, if so, whether it would be through greater efficiencies in the delivery of health care or through reductions in access to care or the quality of care.”

(Source: US Congressional Budget Office)

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- **Post Script...**
 - **19 States** have filed lawsuits challenging constitutionality of Federal mandates in the reform legislation
 - AL, AZ, CO, FL, ID, IN, LA, MI, MS, ND, NE, NV, PA, SC, SD, TX, UT, WA
 - VA has filed separate suit
 - State mandate for risk pool insurance exchanges
 - Individual mandate to buy insurance coverage

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- Economic meltdown has States financially strapped
- Suits may delay mandatory
 - Implementations
 - Expenditures
- Would likely require overturning 40 years of legal precedents to succeed
 - Possible
 - Unlikely

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Any Questions? ☺

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