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Peter G. Peterson Foundation Releases Study Showing Current House Health Care Reform Proposal Would Lead to Expanded Coverage and Higher Costs

NEW YORK (September 9, 2009)--A mixed picture emerges from a new study commissioned by the Peter G. Peterson Foundation on America's Affordable Health Choices Act of 2009 (H.R. 3200). The study, conducted by The Lewin Group, provides a critical look at longer-term cost implications of a major comprehensive health care reform proposal, estimating the impacts through the year 2029, making it the first analysis of health care reform costs beyond 2019. The study examines the House legislation as amended by the Energy and Commerce Committee.

By extending beyond the traditional 10-year budget projection period, the study provides important insights into the key issue that must be addressed in health care reform—that is, how to keep health care costs from growing faster than the financing available to support them, while also assuring adequate access to quality health care.

"This nation needs to engage in comprehensive health care reform that will include some level of universal coverage. At the same time, this study shows that the top priority needs to be reducing total health care costs and the rate of increase in future costs. For health care reform to be fiscally responsible, it must not just pay for itself over 10-years and beyond, it should also result in a significant reduction in the tens of trillions of dollars in the federal government's unfunded health care promises," said David M. Walker, President and CEO of the Foundation.

The Lewin Group study, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009,* finds that the legislation would expand health insurance coverage and reduce the number of people who are uninsured. However, the analysis also shows that overall health care costs will increase, not decrease, as a result of expanded coverage and other provisions in the legislation. From the perspective of the federal budget, the study shows the Act would nearly achieve President Obama's goal of paying for itself over the next 10 years. In the second 10 years, however, the proposal would add an estimated $1 trillion to the federal deficit.

Key findings include:

1. The net federal cost of the Act over the 2010 through 2019 period would be $39 billion (excluding debt service costs) and, thus the Act would be nearly fully funded as reforms phase in during the first ten years. The net federal cost of the Act over the following ten years (2020 through 2029) would be $1.01 trillion (excluding debt service costs) due to rapid growth in health care costs that will outpace the growth in incomes and revenues over the longer-term.

2. The study estimates that under the Act (assuming full implementation and mature enrollment) almost 30 million people would gain insurance coverage in 2011, a reduction of 60 percent in the ranks of the uninsured.

- 41 million people would obtain health insurance through newly-created health insurance exchanges, including 21 million in the public plan. Enrollment in the Medicaid program would grow by 10 million.

- Families in which all members currently have insurance would save an average of about $176 under the Act, while families with one or more uninsured members would, on average, see an increase in family health spending of $1,410 per family.

- Overall, employer health spending would increase by an average of $305 per worker. Employers that currently offer insurance would see an increase in health spending of $123 per worker, while employers that do not now offer coverage would see an increase in health spending by an average of about $813 per worker. (However, most economists believe that employers would eventually offset the increases in costs through slower wage growth. As a result, families and individuals would ultimately bear the burden of higher health care costs, which is reflected in the bullet immediately above.) Small businesses currently providing insurance would save up to an average of $811 per worker due to a tax credit.

- The number of people covered in employer-sponsored plans (outside of the health insurance exchanges) would fall by 11 million, and overall enrollment in private plans would decline by about 900,000.

3. The Act would result in a net savings to state and local governments of about $62.6 billion over the 2010 through 2019 period, primarily due to savings in safety-net programs that currently serve the uninsured. States would save about $125.7 billion over the 2020 through 2029 period.

Highlights of the Study

Impact on the Federal Deficit (Billions of current dollars)			
	2010 -2019	2020 -2029	2010 -2029
New federal spending (net)	+530	+1,877	+2,407
New federal revenues (net)	+491	+868	+1,359
Net impact on the deficit	+39	+1,010	+1,048

SOURCE: PGPF analysis of The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009 (September 9, 2009).* Does not include debt service costs. Totals may not add due to rounding.

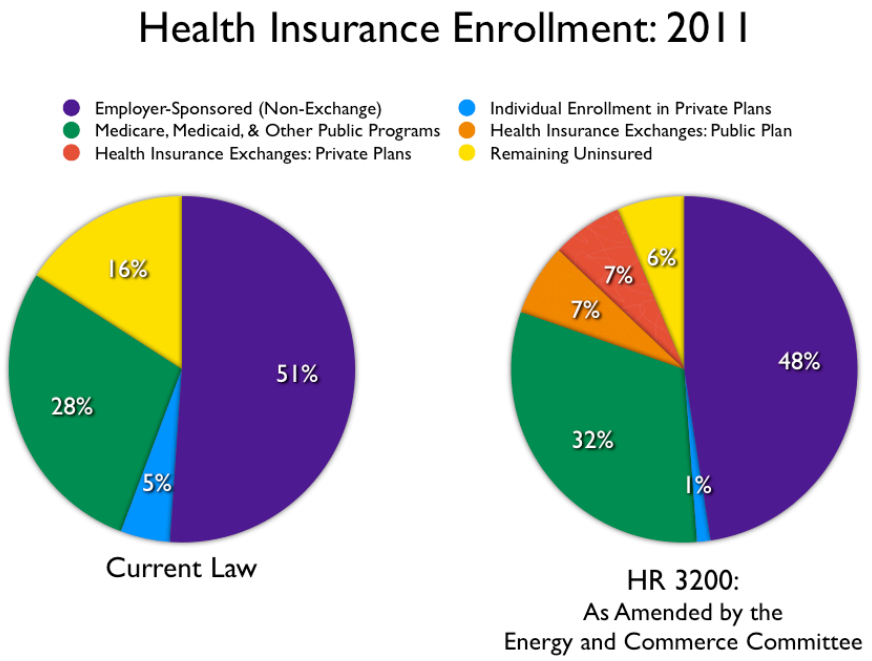
Impact on the Number of People Without Health Insurance: 2011 (In millions)			
	Without H.R. 3200	With H.R. 3200	Change (Newly Insured)
Number uninsured	49.2	19.5	-29.6
Percentage of population	15.9	6.3	-9.6

SOURCE: PGPF analysis of The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009 (September 9, 2009).* Projections are illustrative and show coverage assuming full implementation and mature enrollment. Totals may not add due to rounding.

Health Insurance Coverage

The study estimates that without the reforms proposed by the Act, 49.2 million people, or nearly 16 percent of the population, would lack health insurance in 2011. Under the Act, almost 30 million people would gain insurance coverage, a net reduction of 60 percent in the ranks of the uninsured. Using 2011 as an illustrative year and assuming full implementation and mature enrollment, the study estimates:

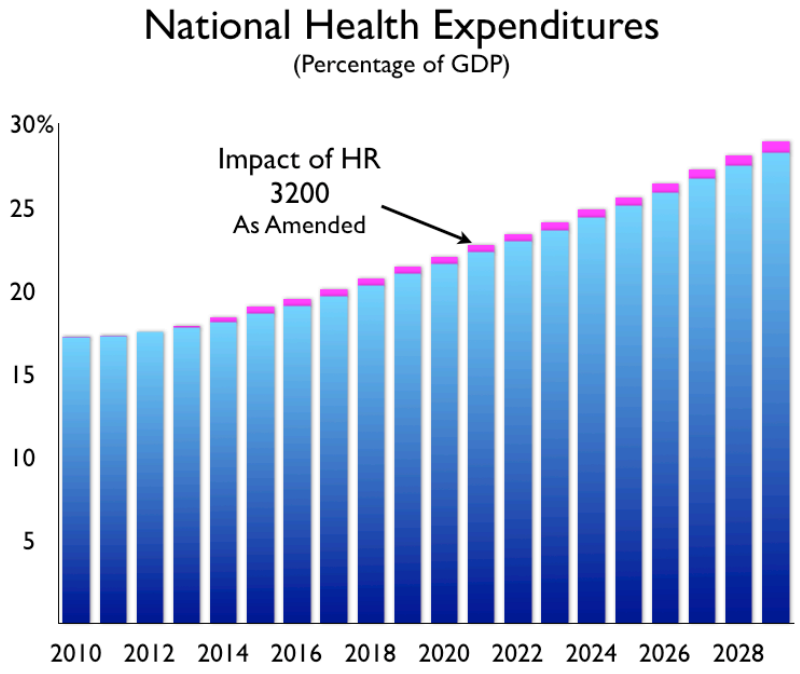
- 14 million of the uninsured would obtain health insurance through newly-created health insurance exchanges, including 11 million in the public plan;
- Nearly 11 million of the uninsured would be eligible to enroll in the Medicaid program.
- Employers would extend new coverage to about 7 million employees and dependents.
- About 2 million more people would become uninsured primarily because as employers drop coverage employees would fail to enroll in other plans.
- In total, public insurance programs would cover a larger share of the population--38 percent of the total (including enrollees in the public plan) as compared to 28 percent without reform.
- Employer-sponsored coverage outside the exchanges would fall from 51 percent to 48 percent. However, because employers would contribute to the cost of premiums for employees who enroll in plans offered through the exchanges, the percentage of employer-sponsored coverage would dip only slightly to 50 percent.



Source: PGPF analysis based on The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009* (September 9, 2009). Illustrative, assuming full implementation and mature enrollment. Total may not add to 100 percent due to rounding.

Health Care Costs

Without measures to control the growth in costs, total health spending is projected to rise from 17 percent of GDP in 2010 to 28 percent in 2029. As a percentage of annual gross domestic product (GDP), the Act would cause a relatively modest increase in costs--less than 1 percent two decades from now. But that increase would be added on top of an already unaffordable level of health spending.



Source: PGPF analysis based on The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009* (September 9, 2009).

The study estimates that total spending for health care would increase for all payers except for state and local governments. However, depending on individual circumstances many families and businesses would realize savings under the Act's provisions, while others would see their costs increase.

Net Impact (Current dollars, in billions):	2019	2029	10-year Total: 2010-2019	20-year Total: 2010-2029
Federal Deficits	+31	+188	+39	+1,049
Percent of GDP	+0.1%	+0.6%	n.a.	n.a.
State and Local Governments	-10	-15	-63	-188
Private Employers*	[+58]	[+124]	[+299]	[+1,204]
Families	+71	+32	+548	+1,099
National Health Spending	+93	+205	+525	+1,960
Percent of GDP	+0.4%	+0.7%	n.a.	n.a.

SOURCE: PGPF analysis of The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009 (September 9, 2009).*

* Shows cost to employers in the form of higher benefits or "pay-or-play" payroll taxes. Amounts are bracketed because the study assumes that employers will eventually pass these higher costs through to workers in the form of lower wages, which will also lower federal and state income and payroll tax receipts. The impact of lower wages is allocated to families and the impact of lower revenues is included in the federal and state and local government categories.

Impact on the Federal Budget

- Under the Act, the federal government would provide new subsidies to help people afford insurance and tax credits to small businesses to help them afford coverage for their employees. Together with other changes, the federal government's health spending would increase by $530 billion over the next 10 years and $2.4 trillion over the 20-year period. By 2019, federal health-related spending would be 0.5 percent higher as a percentage of GDP. In 2029, the Act would increase federal health spending by 0.9 percent of GDP.

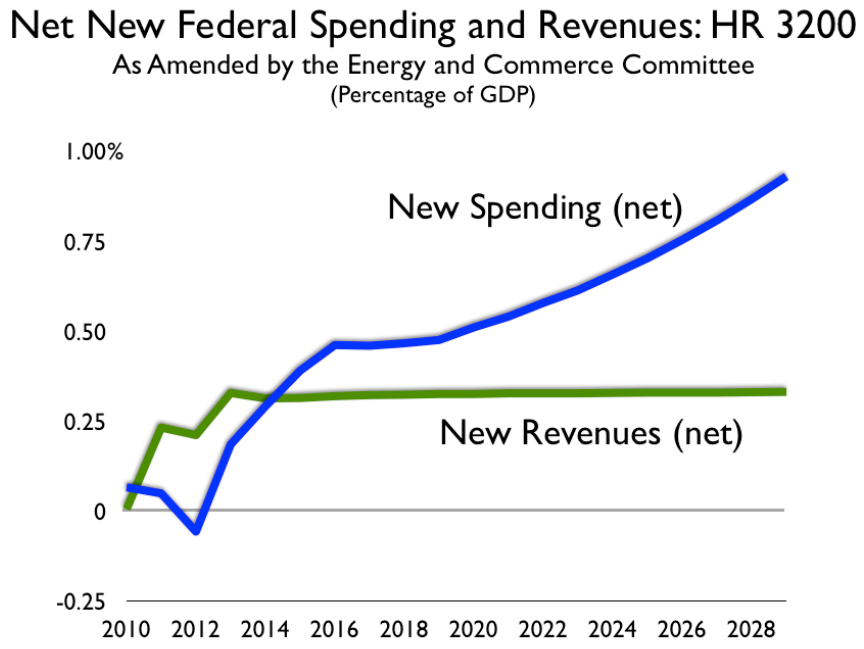
Changes in Federal Spending and Revenues

(Current dollars, in billions)

	2010-2019	2020-2029	2010-2029
Spending Changes			
Medicaid Eligibility Expansion	375	1,086	1,461
Premium Subsidies	667	2,228	2,895
Employer pay or play payroll taxes	-291	-693	-984
Public Plan Start-up	2	0	2
Retiree Reinsurance Program	10	0	10
Medicare and Medicaid Payment Reforms	-231	-735	-966
Changes in Other Federal Programs	-3	-8	-12
Total changes to spending	530	1,877	2,407
Revenue Changes			
Taxes on High Income	588	1,148	1,735
Employer Tax Credit	-64	-165	-228
Penalties for Uninsured	67	135	202
Taxes on Changes in Wages	-100	-250	-350
Total changes to revenue	491	868	1,359
Total impact on federal deficit	**39**	**1,010**	**1,048**

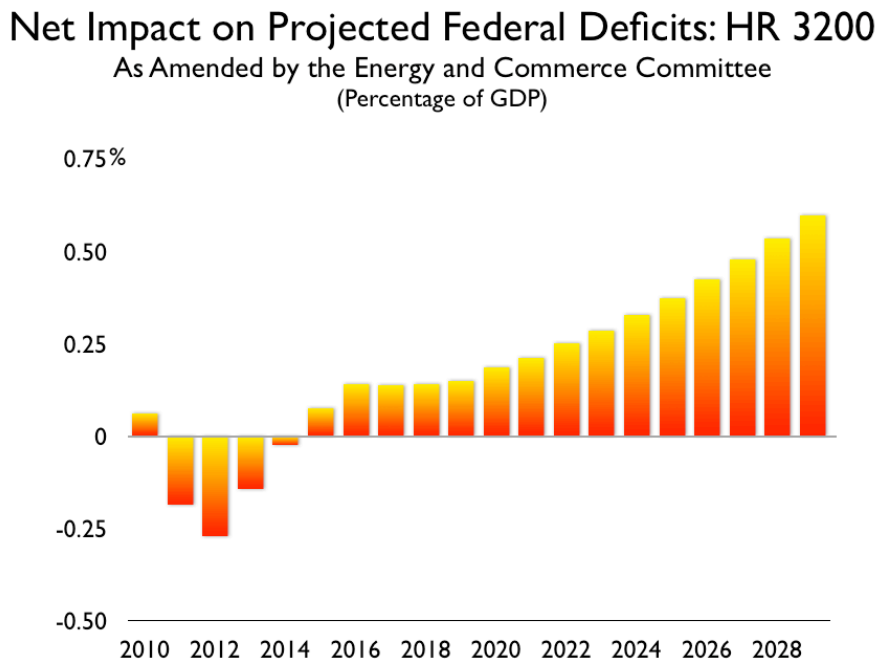
SOURCE: PGPF analysis of The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009 (September 9, 2009)*. Totals may not add due to rounding.

- New revenues would offset almost all new spending in the first 10 years, leaving a projected increase in the deficit of $39 billion between 2010 and 2019.



Source: PGPF analysis based on The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009* (September 9, 2009). Excludes debt service costs.

- But even after reform, the study estimates that health care costs would grow faster than revenues, causing the gap between new spending and new revenues to widen. Between 2020 and 2029, the deficit would increase by $1 trillion compared to current law and baseline budget projections. If interest costs were added, the overall cost to the federal government would be considerably higher.



Source: PGPF analysis based on The Lewin Group, *Long-Term Cost of the American Affordable Health Choices Act of 2009: As Amended by the Energy and Commerce Committee in August 2009* (September 9, 2009). Excludes debt service costs.

Impact on State and Local Governments

- State and local governments would achieve net savings in health care spending over the next 20 years. Although they would be required to pay 10 percent of the cost of an expanded Medicaid program beginning in 2015 and would have to sponsor health insurance for their own part-time and temporary workers, they would pay less to providers for the health care of patients who formerly lacked insurance. Those savings would more than offset new health care costs.

- Over the first 10 years, the study estimates that state and local governments would save $63 billion. Over the 20-year period, their total savings would reach $188 billion.

The discussion below on the projected impact of the Act on private employers and families assumes, for illustrative purposes, that the Act's provisions would be fully implemented and that enrollment would fully mature in 2011.

Impact on Private Employers

- Private employers would be required either to sponsor coverage or pay a payroll tax of 8 percent on wages for the workers they do not cover. However, most economists assume that the additional benefit costs will eventually be passed through to workers in the form of lower wages and, as a result, individuals and families will bear the ultimate cost of new health care spending. In addition, federal and state governments will collect less in income and payroll taxes due to reduced growth in incomes.

- Employer costs would vary depending on the size of the firm and whether or not they currently provide coverage. In 2011:

  - Employer health spending would increase by an average of $305 per worker. Firms that currently sponsor insurance would see an increase of $123 per worker, while costs for firms that do not currently sponsor insurance would grow by $813 per worker.

  - Small firms that currently sponsor insurance would save up to $811 per worker, reflecting the small employer tax credit.

Impact on Families and Individuals

- The Act would impose an individual mandate, requiring all individuals to obtain and maintain health insurance. To help lower-income people fulfill that requirement, the Act would expand eligibility for the Medicaid program and create a new insurance premium subsidy program.

- The study assumes that employers would eventually pass their higher benefit or tax costs through to workers in the form of lower wage growth. As a result, average after-tax wages would decline by $180 per family. Those effects are captured in the impact on families and individuals. On average, families would see health care spending increase by about $120 in 2011 as more people gain coverage and some people obtain better coverage.

- Under current law, families will spend an average of $4,193 on premium payments and out of pocket expenses in 2011. The impact of the proposed changes would vary widely depending on family circumstances:

  - Families who already have insurance would save an average of $176. Those with incomes under $10,000 would save $415 on average, while those with incomes of $150,000 or more would pay an average of $461 more for health care.

  - Families with one or more uninsured members would see an average increase in health spending of $1,410. Those with incomes under $10,000 would save $180 on average, while those with incomes of $150,000 or more would pay an average of $4,072 more for health care.

  - Although generally healthier, younger families would see their costs increase more than older families for two main reasons: younger families are more likely to be uninsured; and the proposed legislation would restrict the amount of variation in premiums due to age. Families headed by someone age 25-34 would see the largest increase in costs relative to current law--and average of $420, while families headed by someone age 55-64 would see the greatest savings--and average of $324.

  - People facing high health care expenses would realize savings while families with low health care needs would spend more. For example, families with total health spending of $10,000 or more under current law would save about $2,927. Families with spending of under $1,000 would spend an average of $867 more.

Conclusion

In summary, the analysis by The Lewin Group indicates that America's Affordable Health Choices Act of 2009, as amended by the Energy and Commerce Committee, would expand health insurance coverage, but it would also increase the nation's total health spending. Although the Act would nearly pay for the expanded coverage in the first 10 years as new provisions are put into place, over time, the sources of financing do not keep pace with the expected growth in new costs.

Existing federal obligations and benefit promises already exceed the resources designated to pay for them by an estimated $56.4 trillion.[1] Although the Act would achieve modest savings in Medicare, it would add significant new federal benefits without providing sufficient financing for them over time. As a result, it could further threaten the nation's long-term financial stability. Access to adequate, affordable health care is an important goal, but more must be done to control the growth in health care costs, or else the country must acknowledge expected costs and be willing to pay more for those additional health benefits.

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[1] This figure is based upon data contained in the September 30, 2008 *Consolidated Financial Statements of the U.S. Government* and represents total liabilities and unfunded promises (Medicare and Social Security benefits, principally) over the next 75 years. Unfunded Medicare promises represent almost two-thirds of the total.

About the Peter G. Peterson Foundation:
Founded by the Chairman Emeritus and Co-founder of The Blackstone Group with a commitment of $1 billion, the Foundation is dedicated to increasing public awareness of the nature and urgency of several key economic challenges threatening America's future and to accelerating action on them. To address these challenges successfully, the Foundation will work to bring Americans together to find sensible, long-term solutions that transcend age, party lines and ideological divides in order to achieve real results. For more information, see www.PGPF.org.

About the The Lewin Group:
The Lewin Group is a national health care and human services policy research and management consulting firm with nearly 40 years' experience finding answers and solving problems for leading organizations in the public, nonprofit, and private sectors. We have over 25 years of experience in estimating the impact of major health reform proposals. The Lewin Group is committed to providing independent, objective and non-partisan analyses of policy options. In keeping with our tradition of objectivity, The Lewin Group is not an advocate for or against any legislation. The Lewin Group is part of Ingenix, Inc., which is a wholly owned subsidiary of the UnitedHealth Group. To assure the independence of its work, The Lewin Group operates with editorial independence and has editorial control over all of its work products. For more information on The Lewin Group, visit www.lewin.com.

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