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The Real Impact of the New Health Care Law

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Speaker Pelosi once told us that we would have to pass the law in order to find out what was in it. It has now passed, so we can now go back and find out a little bit about what's in it.

The main bill, the so-called Senate bill, was 2,409 pages long, about 477,920 words, or about \$1.2 million per word. We also had the reconciliation package, which added 153 pages and 34,000 words. As a result of all that work, here is the new American health care system. There are about 99 new boards and commissions and agencies that are established under the health care bill, but that's not all of it. A Congressional Research Service report found that it is impossible to estimate how many boards, commissions, and agencies will be created, because in many places they're authorized to create more agencies and commissions and boards: a sort of infinitely expanding federal bureaucracy.



Cato Institute senior fellow Michael D. Tanner heads research into a variety of domestic policies, with a particular emphasis on health care reform, social welfare policy, and Social Security. He spoke at a briefing on Capitol Hill in August.

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The driving force behind the health care debate was universal coverage. There are, according to the official numbers, 50 million Americans without health insurance. As the president said repeatedly, we have to get every American health insurance. If that's the standard by which to judge this law, then we have to question how successful it really is.

If you look at the number of insured under this law by the time you get to 2019, you haven't achieved universal coverage. You certainly have increased the number of people with insurance, and you've reduced the number of people without insurance, and that's a good thing. But you have not gotten universal coverage—in fact, you still have 23 million people without health insurance in 2019 after this bill passes. And that number is not going down. If you look at the trend line, it's going to continue to rise

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slowly beyond 2019, so that the 23 million who are still uninsured in 2019 become the floor of Americans without health insurance.

Another big point in the debates over the bill was “Can you keep your health insurance?” If you have a health insurance plan today and you like it, can you keep it? It's hard to remember a speech in which the president didn't come out and say, “If you have health insurance today and you like it, you can keep it.” Unfortunately, the more we've looked into this, the more it looks like you're not going to be able to keep the health insurance you have today.

For example, the individual and employer mandates are not just a question of being required to have insurance. That insurance must meet the government's requirements. There's a certain logic to this. If I go out and buy a policy with a million-dollar deductible that costs \$1.99 at Walmart, it probably isn't going to meet the requirements for the mandate. In fact, the bill spells out, at enormous length, what qualifies as insurance. It can't have deductibles of over a certain amount, it can't have co-payments for this service and that service, it has to provide certain benefits like mental health coverage and drug and alcohol rehabilitation and prescription drugs (which is one reason prescription drug companies love this bill so much), it can't have lifetime caps and annual caps, and all sorts of things.

A lot of people are going to have policies today that don't meet those requirements—particularly a lot of

business-provided policies. A memo that came out of HHS about a month ago indicated that as many as two-thirds of businesses will have to change their current insurance policy in order to meet the requirements, even if that new policy is more expensive or has benefits the employees don't want.

People who don't get their insurance at work, who have individual plans, are treated much better by the law than by the earlier drafts. The earlier drafts said that you'd have to switch if you had a plan today that didn't meet the requirements. This bill grandfathers people in. However, it also says that if you make any material change in your policy, then you have to switch over and meet the full set of government requirements. That means if you change benefits or deductibles or anything like that, you're going to have to switch.

How much is all this going to cost? I could just say, "A lot," and go home, but we need to walk through it in a bit more depth. We do know it won't reduce total health care spending. This shouldn't come as a surprise. If you're going to give more things to more people, it's probably not going to cost less. The Centers for Medicare and Medicaid Services projects that over 10 years we're going to spend about \$250 billion dollars more as a result of this bill than if Congress hadn't passed it.

There was a time when we had just gotten the CBO report and Harry Reid and others almost dis-

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located their shoulders patting themselves on the back because they had brought the cost down to \$950 billion over 10 years. I remember when \$950 billion was a lot of money. Now it's a rounding error in the latest bailout. But let's start with the idea that this is going to cost \$950 billion. There are a few problems. There are costs for hiring new bureaucrats and IRS agents, setting up state exchanges, and all sorts of things to put the bill in place. The Congressional Budget Office estimates that over 10 years that will cost about \$105 billion, which is not included in that \$950 billion cost.

Then, of course, there's the notorious "doc fix." In estimating that \$950 billion, the CBO assumed, because the bill said it would, that next year Congress would simply reduce Medicare spending by 21 percent by reducing the reimbursement rates to physicians and other providers. In fairness, current law said that those cuts were supposed to go into place. Those cuts have been supposed to go into place since 2002. Every year Congress, not being particularly suicidal,

postponed them. But CBO had to play by the rules given, and so it assumed those cuts would actually take place. At the same time that Congress was out there celebrating how these cuts were going to take place, they introduced an entire separate bill repealing the cuts. And then they said, “Hey, wait a minute—that’s a whole separate bill! That cost is not part of this bill. We don’t have to count that!” Imagine how much easier your household budget would be if your mortgage was a whole separate bill and you didn’t have to count it. Congress did what they always do and postponed the cuts to next January. Without the 21 percent cuts, the cost of the bill is about \$330 billion higher through 2020.

Finally, we have to consider the fact that CBO has to play within the four corners of the rules they’re given, one of which is a 10-year budget score. So, when they scored this bill, they went from 2010 to 2019. But the bill doesn’t actually spend any money until 2014. So, what we’re getting is a 10-year score of \$950 billion for six years of spending. What happens after 2019? It’s not as if it we’re going to

stop spending money at that point. What happens if you take that bill and add in the \$105 billion in implementation costs and the \$330 billion for the doc fix and, instead of starting in 2014, you take it out for 10 years from the start of the actual bill? Start in 2014 and go until 2023, instead of 2019. The actual cost through 10 years of imple-

mentation is not \$950 billion. It’s \$2.7 trillion.

There are almost \$600 billion of Medicare cuts in this bill. During the debate, the Democrats repeatedly said they were not cutting Medicare, and Republicans constantly beat up on them for cutting Medicare. Here’s the simple fact: yes, the law cuts Medicare. And thank God it does. The program’s \$100 trillion in debt. It was pure demagoguery for

Republicans to say, “Oh my God, we should never cut the Medicare program.” Of course we should. It was equally dishonest for the Democrats to pretend that they were doing anything to fix the \$100 trillion debt. They simply cut Medicare and spent the money somewhere else, which doesn’t do any good at all. But the whole idea that we should never cut Medicare



was disingenuous.

What about insurance premiums? According to the Congressional Budget Office, if we had not passed this health care law insurance premiums were going to double over the next six years. Think about that. Whatever you're paying now, it was going to double over the next six years if we did not pass this law. As a result of passing this law, insurance premiums are going to ... double in the next six years. It didn't change a thing. If you buy health insurance on your own, your premiums will go up 13 percent faster than if we had done nothing at all.

What does ObamaCare do to the size of government, overall? Right now federal government spends about 28 percent of GDP—more than one out of every four dollars produced in the United States. Without the health care bill, it will reach about 40 percent of GDP by the middle of the century. Under ObamaCare, the government will take over 80 percent of GDP by the end of the century. Throw in state and local spending and government will consume every penny produced in the United States. Obviously, that's not sustainable. It's worth considering that it's not just a question how to pay for the bill but also of the size of government.

One of the things that was missed in the health care debate was what ObamaCare was really about. The real question comes

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down to the basic question of politics: who decides? Who ultimately gets to make decisions about your life, about whether you're going to buy insurance or what kind of insurance you're going to buy, what benefits it's going to have, what doctor you're going to see, what treatment that doctor's going to prescribe for you, what hospital you're going to go to, and how you're going to pay for it? Are they going to be made by you, or do you cede the right to make those decisions to some expert who knows so much better about your life than you do? That's what politics is all about. Whatever the issue might be, it comes down to whether you make decisions about how you save for your retirement, what charities you want to support, where you want to send your kids to school, and who you want to marry. It's all about who decides. That was the question we should've been asking a lot more in the health care debate. Then we'd know a lot more about what's in the bill.



Cato Scholar Profile: **CHRIS EDWARDS**

CHRIS EDWARDS is the director of tax policy studies and a top expert on federal and state tax and budget issues. Before joining Cato in 2001, Edwards was senior economist on the congressional Joint Economic Committee examining tax, budget, and entrepreneurship issues. Edwards's articles have appeared in the *Washington Post*, the *Wall Street Journal*, the *Los Angeles Times*, *Investor's Business Daily*, and other newspapers. He is the author of *Downsizing the Federal Government*, now available as a free download from www.cato.org, and co-author of *Global Tax Revolution*.

What prompted you to write your book *Downsizing the Federal Government* and then expand it into Cato's new website, www.downsizinggovernment.org?

The nation is headed for a financial and economic disaster unless we cut federal spending. The Downsizing Government project informs policymakers and citizens about specific federal programs and agencies that ought to be terminated. It provides essays, charts, and a detailed list of budget cuts for each federal department.

Policymakers and pundits often say that the government spends too much, but they don't put much effort into identifying programs to cut. On downsizinggovernment.org, we've done the heavy lifting. We have found hundreds of federal programs that damage the economy, abuse individual liberties, or would be better carried out by state governments and the private sector. We target those spending activities that are counter to the limited purposes of the federal government under the Constitution.

It's true that politicians don't like to cut spending. But downsizinggovernment.org provides concerned citizens and voters the information they need to start demanding reductions to the most wasteful federal activities. Tea Party members and many other Americans understand that \$1 trillion deficits will lead us to ruin, and they are eager to hear solutions on how to reform the government and shrink its size.

What are the prospects for federal budget reforms and spending cuts?

I am optimistic—the federal budget will be overhauled and many programs will be terminated in the years ahead. Official projections show that without reforms, federal, state, and local govern-

ments in the United States will consume more than half of the entire economy within a few decades as so-called entitlement programs explode in size. But Americans will never agree to anywhere near the levels of taxes needed to support such spending, and financial markets could not sustain such spending by deficit finance.

There will be giant battles over taxing and spending in coming decades, but ultimately the federal government will be radically overhauled. Other countries, such as Canada and New Zealand, cut the size of their federal governments, and there is no reason why we can't do the same.

What can we expect from downsizinggovernment.org in the future?

We have completed website sections for seven federal departments. Next up are the Departments of Defense and Labor. We regularly update data to provide a resource for citizens and reporters to find out how much we pay for farm subsidies, housing subsidies, and other spending activities. We will be adding more videos describing spending cuts for each federal department.

Budget analyst Tad DeHaven blogs daily on the site. He ties the latest federal budget news to enduring lessons about government failure. The website also explores reform themes, such as fiscal federalism, that are applicable to every federal department.

Politicians often seek to expand spending programs based on their lofty visions of government effectiveness. But the essays on downsizinggovernment.org put aside the "bedtime stories" about how programs are supposed to work, and instead focus on how they actually work in the real world.



Bequests: Back to Basics

Bequests are a powerful and simple way of remembering Cato and other favorite charities. Making a bequest is simple: you need only insert a straightforward clause into your will that says you give Cato

- a specific amount of cash or specific assets. For example, “I give \$100,000 to the Cato Institute”; or
- all or part of the residue of your estate. Residue merely refers to what is “left over” after payment of expenses and gifts of specific sums. For example, your will might say, “I give the residue of my estate to the Cato Institute.” Or it could say, “I give 25 percent (or some other percentage) of the residue of my estate to the Cato Institute.”

In addition to providing vital support to Cato, a properly structured bequest benefits your estate in the form of an estate tax charitable deduction. One caveat: since estate taxes are not imposed on all estates due to a variety of limitations and exclusions, your lawyer can advise as to whether an estate tax charitable deduction would be helpful for you. You should also be aware that we are living through a brief anomaly, namely the one-year repeal (2010 only) of the estate tax. However the estate tax is scheduled to come back with a vengeance in 2011 and, although there are calls for reform or repeal of this

“death tax,” most pundits predict that the estate tax will be around in some form for years to come.

So, going forward, bequests will continue to provide a lifeline for Cato and other charities, as well as shielding many estates from the imposition of estate taxes.

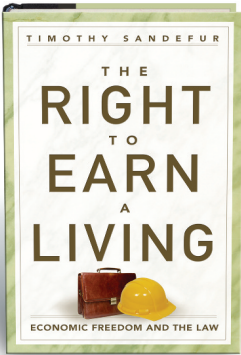
You may be thinking that you would like to be more precise about how Cato should use your bequest. Our examples so far have assumed that that your bequest will simply make a gift to “Cato,” allowing us to decide how best to put your funds to work. Be assured that we welcome your input and directions. For example, you might prefer to specify that your bequest be used to support the work of a particular Cato Center or program.

These are exciting times at Cato as we begin our \$50 million capital campaign. That campaign will position Cato for the future—or, as we like to say, “Liberate the Future.” With your support, we can continue to stem the tide of statism. Your support need not be limited to current contributions. We welcome bequests as well as bequests designated for our capital campaign.

For more information about bequests or other planned gifts, please contact Cato’s director of planned giving, **Gayllis Ward** at (202) 218-4631 or gward@cato.org.

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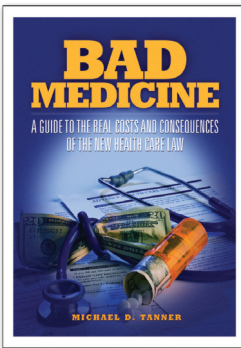


The Right to Earn a Living: Economic Freedom and the Law

By Timothy Sandefur

For many people, owning a business is the American dream, but attaining that dream has grown increasingly difficult due to laws and regulations that interfere with an individual's right to earn a living. Timothy Sandefur charts the history of this fundamental right and its prospects for the future.

HARDBACK: \$25.95 • E-BOOK: \$14



Bad Medicine: A Guide to the Real Costs and Consequences of the New Health Care Law

By Michael D. Tanner

For better or worse, President Obama's health care reform bill is now law and its length and complexity has led to massive confusion about its likely impact. This incisive report provides an authoritative explanation of the law's provisions, showing that it is likely to make Americans less healthy, while placing huge burdens on our economy.

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Available at bookstores nationwide, online at www.cato.org, or by calling toll-free (800) 767-1241.

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