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The President's Health Reform Proposal: More Like $2.5 Trillion

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President Barack Obama released an updated health care reform plan this week. The Congressional Budget Office (CBO) has not yet had an opportunity to review and assess this latest offering. However, Administration officials have claimed that it would cost $950 billion over a decade, is "fully paid for," and would cut the deficit in the short and long term.

Each of these claims, which were made also about the House- and Senate-approved bills, rests on highly questionable assumptions. A closer look at the President's plan shows that:

- Its costs are likely to come in well over $1 trillion over 10 years,
- Ten full years of implementation would cost closer to $2.5 trillion, and
- The plan would make the nation's budget outlook much worse, not better.

The Missing "Doc Fix." Both the President and congressional leaders have signaled that they will not allow a scheduled 21 percent reduction in Medicare physician fees to go into effect in 2010 or later years. But the President did not include a permanent fix in his health care plan.

This is ironic, because the plan includes scores of other Medicare provisions, touching on just about every possible feature of the program. The only provision seemingly left out of the package is a long-term fix for physician fees, perhaps Medicare's most pressing problem and one that all sides acknowledge must be addressed soon.

Of course, the reason the so-called "doc fix" is not in the President's plan is cost. The Administration and Democratic leaders have said they want to pass a physician fee reform—but in a separate bill that does not provide any offsetting spending reductions or tax increases. In other words, their "doc fix" solution would require additional federal borrowing of at least $200 billion over the coming decade.

But it does not matter to taxpayers whether the Democratic health care agenda is passed in one bill, two, or even three. The total cost is the same. And when a permanent solution for the "doc fix" is properly included in the accounting of the President's health care plan, the total costs are pushed up to at least $1.15 trillion. Moreover, the added spending is enough to wipe out entirely all of the claimed deficit reduction between now and 2019.

Non-Coverage Spending in the Senate Bill. When the President placed a $900 billion limit on the total amount of spending in the health care bills, he did not say it was for a "net" number, with tax increases offsetting part of the cost. Nor did he say it was a limit for only some of the spending in the health care bills.

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In the Senate-passed legislation, CBO said the cost of the coverage expansion would be $871 billion between 2010 and 2019. The Administration says it has made changes adding another $75 billion. In addition, the Senate bill included about $90 billion more in non-coverage spending, not counting closing the "donut hole" in the Medicare drug benefit, which would add billions more to the cost of the non-coverage provisions of the bill.

Adding 2020 to the Cost Estimate. Last year, CBO assessed the Democratic health care plans over the 2010–2019 time period. However, in January, the agency extended its baseline projection out to 2020. That means that any assessment of the Obama health plan should now go from 2011 through 2020.

Adding one more year to the cost estimate will substantially increase the 10-year price tag. CBO estimated that the coverage provisions of the Senate-passed health care bill would cost about $200 billion by 2019. If those costs were to increase by 8 percent each year, as CBO estimated, that would put the 2020 cost at $216 billion.

The CLASS Act Gimmick. The President's health care proposal picks up the Community Living Assistance Services and Supports Act, or CLASS Act, which was in both the House- and Senate-passed bills. The CLASS Act would stand up an entirely new entitlement program for long-term care services. Eligible participants would be required to pay premiums well in advance of receiving any benefit payments.

Consequently, starting this new program from scratch would produce one-time "savings" from premium collections before any cohort of beneficiaries starts drawing benefits. But the premium collections would be needed later to liquidate entitlement obligations, which means the premiums are being double-counted. The premiums are set aside in a fund to pay future claims, but they are also counted by the bills' sponsors as an offset for expanding health coverage. The CLASS Act premiums total $72 billion over 10 years in the Senate bill.

The True 10-Year Window. The President argues that expeditious enactment of his plan is necessary to provide better services to the uninsured, but none of the key provisions to expand coverage would go into effect until 2014. Meanwhile, many of the spending reductions, such as the cut in Medicare Advantage payment rates, would kick in much earlier, as would the tax increases. Consequently, the President's plan has 10 years worth of spending and revenue "offsets" paying for only seven years worth of spending.

Looking at these bills over a true 10-year window of full implementation reveals much higher costs. The Senate bill's provisions—even excluding the "doc fix"—would total $2.3 trillion over the period 2014–2023, with the coverage provisions fully in place.[1]Adding the "doc fix," the Obama team's admitted $75 billion add-on, at least $90 billion in non-coverage spending, and $72 billion for the CLASS Act, the true 10-year cost of the President's plan is almost certainly over $2.5 trillion.

The Certainty of Future of Entitlement Expansions. The President's plan assumes that the new entitlement spending for coverage expansion can be held in check with so-called "firewall" provisions. These are the rules that essentially preclude many tens of millions of individuals from gaining access to premium subsidies. If an employer offers "qualified" insurance coverage to a worker, the employee really has no choice but to take it if he wants to avoid paying the penalty for going uninsured. They could not go into the so-called "exchanges" to get insurance subsidized with federal tax support.

These firewall rules would create large disparities in the federal subsidies made available to workers inside and outside the exchanges. Under the Senate-passed bill, a family of four with an income of $60,000 with employer-sponsored health care (and thus not qualified for the exchange) would get $4,500 less in federal support than a similar family inside the exchange would get in 2016.[2]

1. Press release, "Budget Perspective: The Real Deficit Effect of the Health Bill," Senate Budget Committee Republican Staff, December 19, 2009, at *http://budget.senate.gov/republican/pressarchive/2009-12-22BudgetPerspective.pdf* (February 24, 2010).
2. Eugene Steurle, "Health Care Reform: Implications of a Two Subsidy System," American Enterprise Institute, December 4, 2009, at *http://www.aei.org/docLib/Eugene%20Steuerle-%20AEI%2012-4-09.pdf* (February 24, 2010).

And, according to CBO, there would be many tens of millions more families outside the exchange than in it. Today, there are about 127 million Americans under the age of 65 with incomes between 100 and 400 percent of the federal poverty line, but CBO expects that only about 18 million people will be getting exchange subsidies in 2016.

If the bill is enacted as currently written, pressure would build to treat all Americans fairly, regardless of where they get their insurance. One way or another, the subsidies provided to those in the exchanges would be made more widely available, driving the costs of reform much higher than CBO's estimates currently indicate.

Highly Questionable Tax Increases and Medicare Cuts. The President proposes to pay for his expensive health care program with a series of tax increases and Medicare spending cuts. But these tax increases and spending reductions are far less likely to occur than the entitlement expansions that are promised.

For instance, the President has proposed a new excise tax on "high cost" insurance plans, but he would not start the tax until 2018, well after any potential second term for his Administration. Yet he and his aides claim that hundreds of billions of dollars in revenue will come from this tax in the second decade of the program, thus more than offsetting the exploding entitlement costs that the bill would provide. But if the President is unwilling to impose this tax during his term, it is hard to see that another President or another Congress would be willing to do so later.

Similarly, the President's plan relies on deep cuts in Medicare payments to hospitals and other institutional providers. But the chief actuary of the Medicare program has said repeatedly that these cuts are not realistic because they would push many institutions into serious financial distress. Still, the Administration claims that hundreds of billions of dollars from these cuts will materialize from 2020 to 2030, thus justifying its claim of large deficit reduction during that time. But it is far more likely that the Medicare cuts and tax increases will never be sustained, even as the entitlement costs from the Obama plan soar.

Making Matters Worse. The President has said that he wants a health reform bill in large part because it is necessary to get better control of the federal budget. But his plan has evolved into a large entitlement expansion effort and not much more. The offsets are unrealistic, and the entitlement promises will grow with time. If enacted, the President's health care program would make a very dire federal budgetary outlook much, much worse.

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