

Budget Crisis?
Entitlement Crisis?
Healthcare Financing Problem?
Which Is It?
And why does it matter?

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A consensus has emerged...

- **The baby boom will soon be retiring**
- **Pension and health benefits will grow much faster than the tax base**

Therefore, it will be necessary to

...cut aid to the aged, disabled, and poor;

...reduce all other public spending;

...raise taxes;

...or do some combination of all three

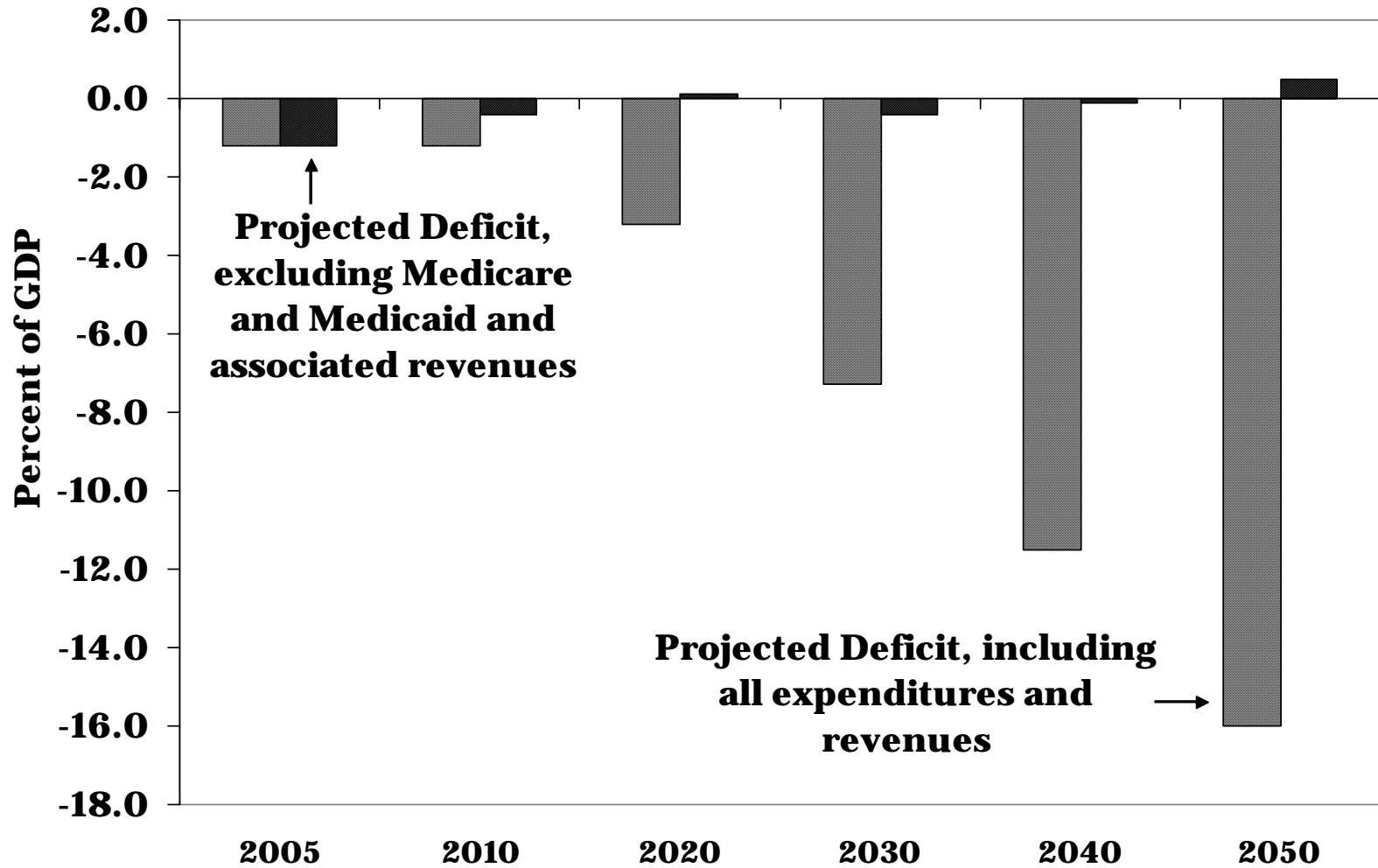
Simply put, our nation's fiscal policy is on an unsustainable course. ...[B]udget simulations ... show [that] over the long term we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. ... Nothing less than a fundamental reexamination of all major existing spending and tax policies...is needed

**David Walker,
Director, Government Accountability Office**

Such commentaries share three features...

- They characterize solely a public problem, not a private one
- None acknowledges that private and public health care spending are tightly linked
- None recognizes that if the health care problem is addressed responsibly, there is no long-term fiscal problem

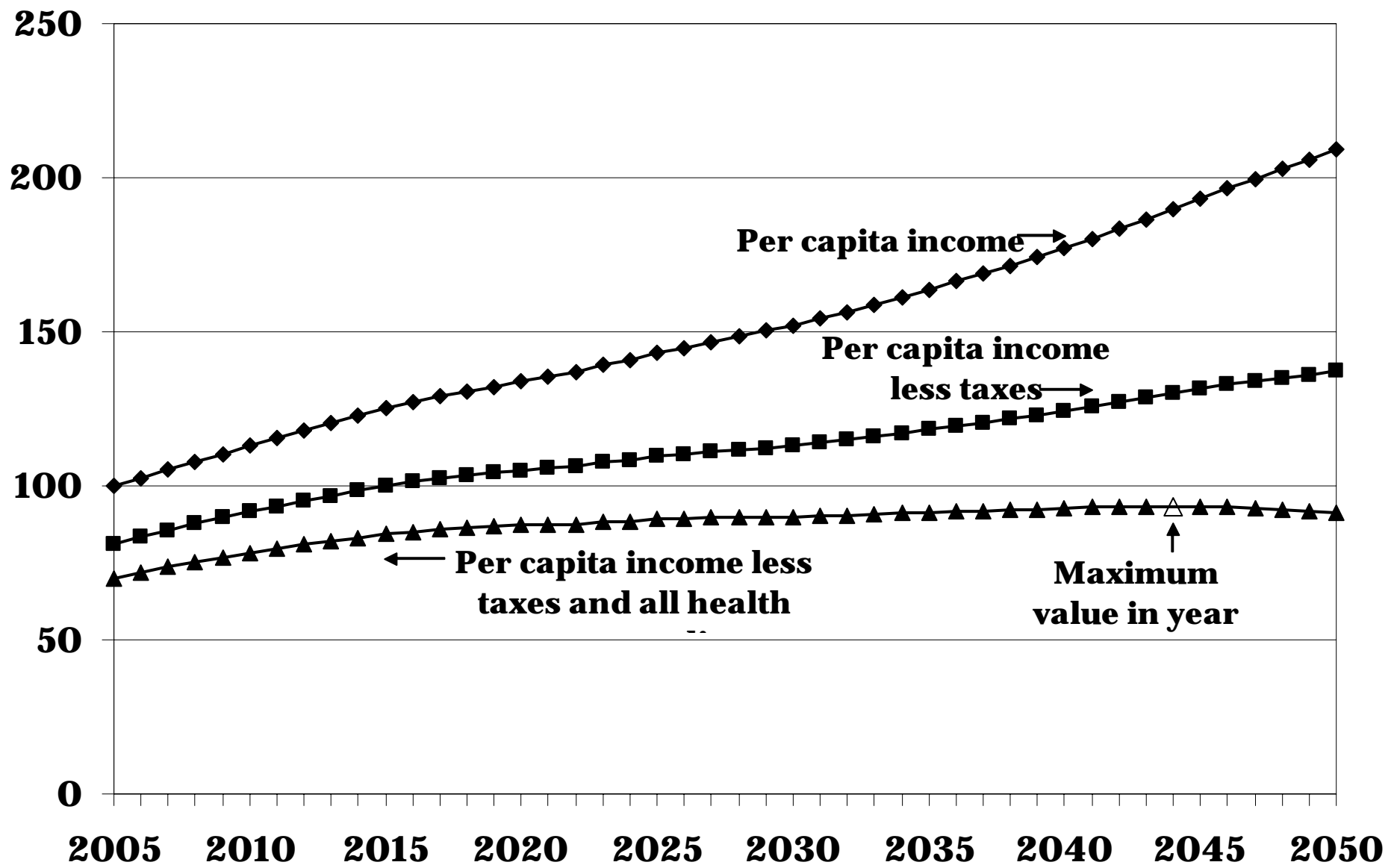
'Primary' Projected Budget Deficit (-) or Surplus (+): Including and Excluding Health Care Programs



□ **Three ways to close the fiscal gap**

- **increase taxes to finance government**
- **curtail Medicare and Medicaid benefits**
(there isn't enough in rest-of-government to solve the problem)
- **health system reform**

Real Per Capita Income, Per Capita Income less Taxes, and Per Capita Income less Taxes and All Health Care Spending, 2005-2050



Y The cut Medicaid and Medicare strategy won't work

Medicaid is already thin in many states

Seven states limits doctors visits
to 12 a year

Five states cover 4 or fewer prescriptions
a month

Wisconsin limits substance abuse services
to 15 hours a year

Medicaid patients have negligible capacity
to pay cost sharing

Medicare can be cut in some places, but needs 'beefing up' in others

Hospital deductible is higher than in most
private insurance

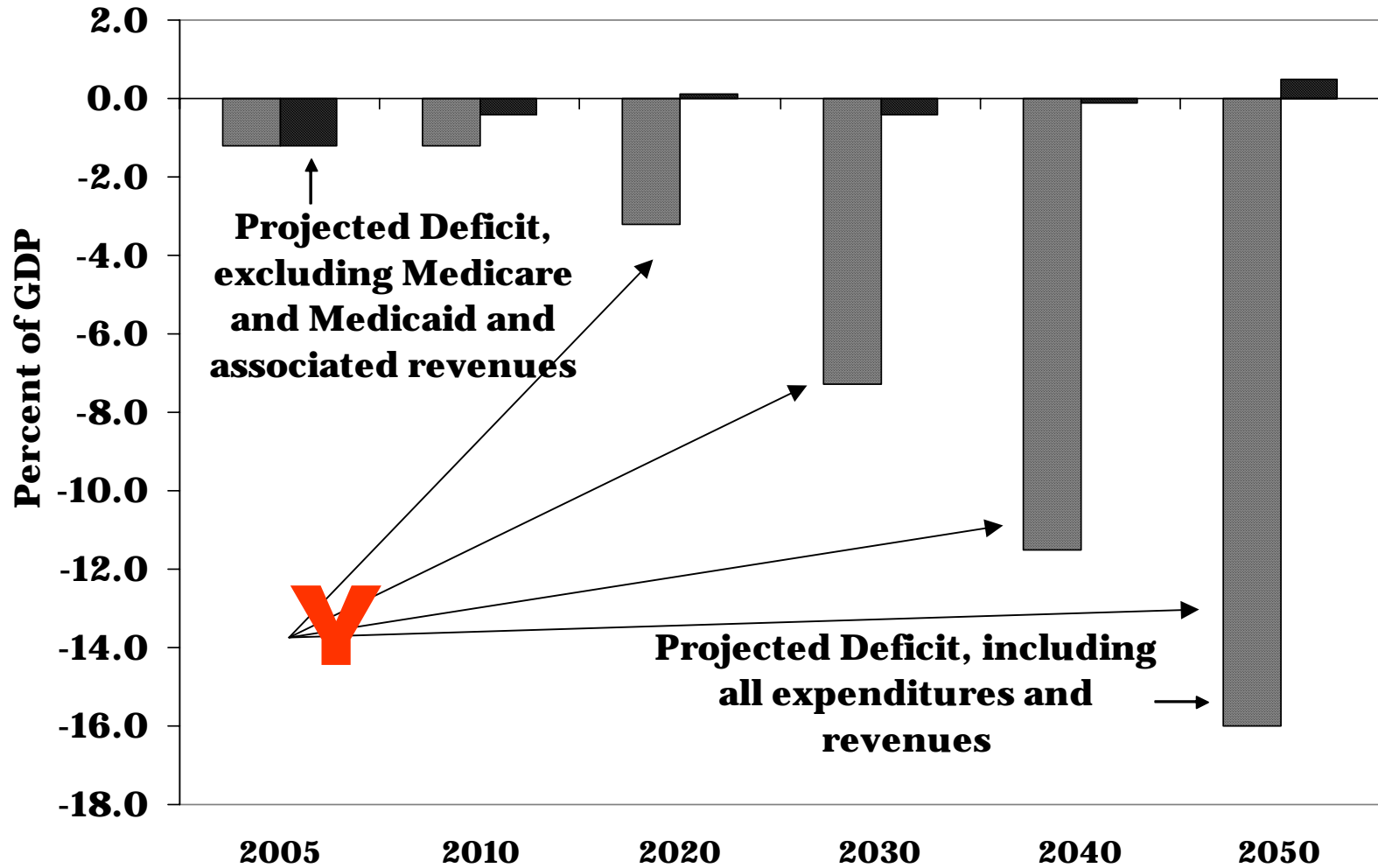
Negligible nursing home coverage

Drug plan problems: donut hole; liability for
nonformulary drugs is unlimited

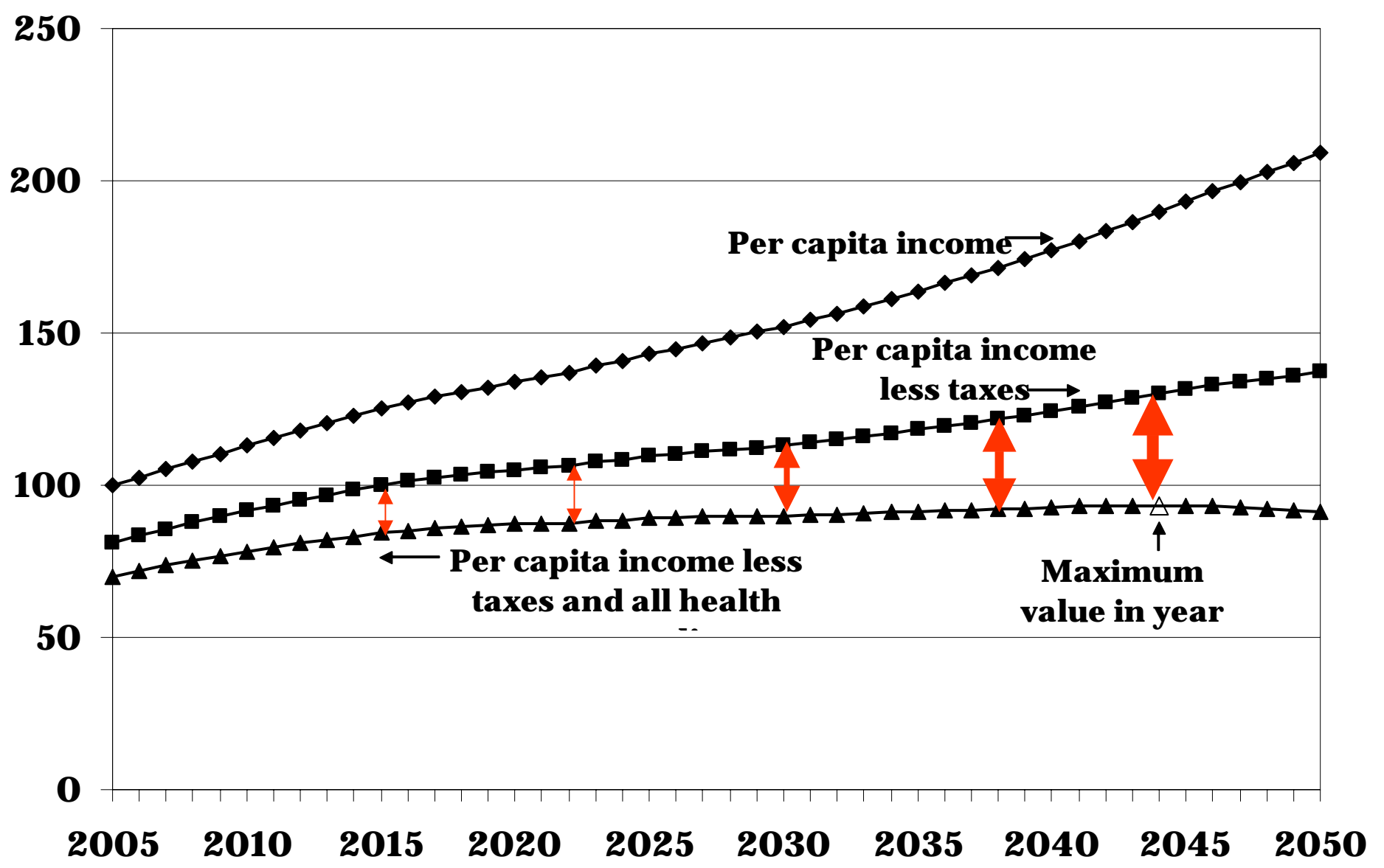
No stop-loss protection; total liability is
unlimited

Increased cost sharing ***is*** possible for some
beneficiaries, but median income of
those over age 65 was \$15,696 in 2005

'Primary' Projected Budget Deficit (-) or Surplus (+): Including and Excluding Health Care Programs



Real Per Capita Income, Per Capita Income less Taxes, and Per Capita Income less Taxes and All Health Care Spending, 2005-2050



★ That leaves health system reform...

Liberal (single payer)

or

Conservative (high-deductible)

or

Federalist (separate state action)

=

Spending limits

**Simplified
administration**

More cost sharing

Higher taxes

Which debate would you rather have?

- We need to cut pensions and health care for the elderly, disabled, and poor.
- We need to cut other government spending.
- We need to raise taxes to support what is left.
- Let's decide how much of each?

or

- All Americans want, and should have, affordable health care
- Reforming health care will close the long-term budget gap *entirely*
- Additional taxes will be necessary; how much depends on how much cost control we are prepared to accept.