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

Projected Deficit, excluding Medicare and Medicaid and associated revenues

Projected Deficit, including all expenditures and revenues
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
The cut Medicaid and Medicare strategy won’t work

**Medicaid is already thin in many states**

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

Maximum value in year
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.